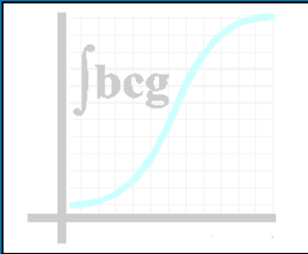

BCG Retirement News Roundup

July 2013, Volume 2, Issue 7

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Boomershine Consulting Group (BCG) has launched this monthly news roundup of highlighted significant articles from the retirement industry – for clients and friends. Retirement plan news has become increasingly pertinent for many audiences these days, including:

- **Retirement Plan Sponsors – addressing both private and public sector issues**
- **Employers – dealing with complicated decision making for their plans**
- **Employees – educating the Boomer generation that is nearing retirement**
- **Industry Practitioners - helping to understand and resolve today's significant challenges**

We review numerous industry news services daily and will include a collection of timely and significant articles each month concerning compliance, actuarial plan costs (including assumption debates), plan design change issues and benefit trends, as well as other related topics.

Inside This Issue

Public Sector/Government Plans

- Fight on Detroit Retiree Funds Looms
- U.S. public pensions weaken, but deterioration slowing
- Understanding New Public Pension Funding Guidelines and Calculations
- San Jose pension reform goes to court
- Maryland State Retirement Agency Reports Preliminary Return of 10.6% on Investments in FY 2013 Exceeds 7.75% Assumption

Private Sector

- Sheet Metal Workers pension fund latest to go to variable benefits
- Opening the Window Wider
- Risky Business: Living Longer Without Income for Life
- PBGC Proposes Rules on Premium Rates, Payment of Premiums, Reducing Regulatory Burden; Comments Due September 23, 2013
- Golden Years or Financial Fears? Decision Making After Retirement Seminars

Public Sector/Government Plans

Fight on Detroit Retiree Funds Looms

The Michigan attorney general could become an unlikely barrier to Republican Gov. Rick Snyder's hope for a speedy path through bankruptcy court for the city of Detroit based on cutting pensions.

Attorney General Bill Schuette announced over the weekend that he plans to represent city retirees in the bankruptcy case because he said their pensions are protected by the state constitution—setting up a battle between state law and the federal bankruptcy code.

"We're going to aggressively defend the Michigan constitution," Mr. Schuette, also a Republican, said in an interview Sunday "If anything, this puts the issue out there and facilitates the issue." He said the governor, who was briefed on the decision, didn't oppose his entry into the case. The governor's spokeswoman said "we appreciate and support efforts to get clarity" from the federal courts on the pension issue.

Mr. Snyder and emergency manager Kevyn Orr, who the governor appointed, have argued that reducing the estimated $3.5 billion in unfunded pension liabilities is necessary to help restructure Detroit's long-term debt estimated at more than $18 billion.

Detroit filed for bankruptcy protection on July 18, becoming the largest municipality to do so in U.S. history. Prospects for a federal bailout dimmed further Sunday as Treasury Secretary Jacob Lew suggested Detroit will need to solve its financial problems largely on its own.

"Detroit's got serious financial problems. They've been a long time in the making," Mr. Lew said on CNN, adding, "I think the issues that Detroit has in terms of problems with its creditors, it's going to have to work out with its creditors."

After some preliminary motions, the federal bankruptcy court in Detroit is expected to turn quickly to whether the cash-poor city of roughly 700,000 is eligible for bankruptcy protection. Unions and pension funds are expected to argue that Mr. Snyder improperly ignored the state constitutional protection for pensions when he authorized the bankruptcy filing, a position that could be bolstered indirectly by Mr. Schuette's entry in the case.

In an interview Friday, Mr. Orr said he based his analysis of pension obligations in part on his experience in the 2009 bankruptcy of Chrysler Group LLC. He said Chrysler was able to argue successfully that the need to cut dealerships trumped protections for dealers under state laws. The bankruptcy code "says that federal laws should be supreme," Mr. Orr said. "We managed to overcome some pretty strong arguments."

After taking over the city in March as receiver, Mr. Orr has insisted that unfunded pension obligations should be treated as unsecured debt similar to a contract, putting pensioners in the same category as some municipal bondholders. Under his plan unveiled last month, these creditors would receive less than 10 cents on the dollar to repay their debt.

Mr. Schuette said retired workers shouldn't be caught in the middle of the city's bid for financial restructuring. He added that he has concerns that the pension funds may have been poorly managed, a view shared by Mr. Orr, who ordered an investigation into their finances that is ongoing. "Frankly, they are getting stiffed in the process," Mr. Schuette said Sunday of city retirees. "They are not the ones who may have mismanaged the funds."

Michigan is among seven states that have some form of public pension protection outlined in state constitutions, according to a report last year from the Center for Retirement Research at Boston College.

Mr. Schuette said Sunday that Michigan's constitution is "crystal clear" in stating that pension obligations may not be diminished or impaired.

Mr. Schuette, 59 years old, was elected as attorney general in 2010 after previously serving in the U.S. House from 1985 until 1991. He also previously served as director of the state's agricultural department as well as in the state senate and on the state's Court of Appeals. He is running for re-election in 2014. Mr. Snyder, who is finishing up his first term, also is expected to run again next year.

Conflicts between Messrs. Snyder and Schuette are relatively rare but not unheard of. "We agree 95% of the time," Mr. Schuette said Sunday. His office still intends to represent the governor's interests in the bankruptcy case, he said.

Last year, Mr. Schuette opposed Mr. Snyder's bid to have the state create a health-care exchange under President Barack Obama's Affordable Care Act. The attorney general also pushed in 2012 for using part of the state's budget surplus to hire more police officials, a measure that wasn't a part of the governor's plans.

More recently, he issued an official legal position saying the entire collection of the Detroit Institute of Arts should be protected from any possible sale as part of the Detroit bankruptcy. Mr. Orr has said that all of the city's assets remain on the table for possible sale, but added there are no plans to sell off the city's world-class art collection.

Under Chapter 9—municipal bankruptcy protection—Detroit can't be forced by a judge to liquidate its assets. But the city and emergency manager have the authority to put city-owned assets up for sale to help meet its liabilities.

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U.S. public pensions weaken, but deterioration slowing

(Reuters) - The ability of U.S. public pensions to cover their liabilities weakened again, although the deterioration is slowing, two major rating agencies said on Tuesday.

Both Fitch Ratings and Standard & Poor's Ratings Service added that they expect improvements in pension finances in the near future.

Since most systems use an accounting mechanism known as "smoothing" to spread changes in assets over many years, losses related to the 2007-09 recession have persistently hurt pensions' funded levels, they said. Recent stock market gains will likely bolster improvements, but the agencies warned that public pensions still face large obstacles, namely state budget strains, an aging population, accounting rule changes and legal challenges to reforms.

The average funded ratio for all 50 states' pension plans was 72.9 percent in 2011, a drop of 1 percent from the previous year, and the median ratio was 69.8 percent, 2.2 percent lower than the year before, according to S&P. The funded ratio represents how much in assets pensions have to cover liabilities.

S&P said the declines in previous years were larger. The national average fell 1.6 percent in 2010 and 7 percent in 2009, according to the rating agency, which said 2011 was the latest year complete data was available.

The smaller declines could lead some "to believe that the worst is over and that pension funded levels have bottomed out," but the road to improvement "will be bumpy," it said.

Public pensions receive most revenue - more than 60 percent - from earnings on investments, which were devastated by the financial crisis. Over the last decade, funded ratios dropped from a peak of more than 100 percent in 2000, S&P said.

In its report, Fitch found states' median unfunded pension burden is equal to 3.6 percent of personal income. Wisconsin has the lowest unfunded pension obligation at zero percent of personal income and Illinois, considered the worst state for pension funding, had the highest at 19.1 percent. The agency uses personal income as a measure because it represents the "resource base that will ultimately cover the obligations."

"Pensions remain a growing pressure for numerous states' budgets. Nearly all states are pursuing reform and remain well-positioned to address these burdens. While the positive effects of reform for most are decades away, a proactive approach to managing pension challenges is a credit positive," said Douglas Offerman, a senior director at Fitch, in a statement.

Fitch said investment performance in 2012 "was relatively flat for most plans and well below their investment return assumptions," but that 2013 will likely show gains.

For the 100 largest public-employee retirement systems, cash and security holdings totaled $2.93 trillion in the first quarter of 2013, the highest on records going back to 1968, according to a U.S. Census report released last month. The previous peak was just before the financial crisis in the fourth quarter of 2007, $2.929 trillion.

For years, states had shortchanged their public pensions. When their own revenues collapsed during the recession, they pulled back further while laying off employees, effectively shrinking the pool of contributors to the pension system. Fearing public employees would not see retirement money and funds for key services would have to be diverted to pensions, almost all states rushed to reform their systems.

According to Fitch more than 38 statewide plans dropped their investment return assumptions, lowering funded ratios but reflecting "a more prudent approach to estimating the long-term asset performance of a plan."

"The vast majority of states have pursued reforms lowering benefits for future hires, which are much easier to enact, although the beneficial impact of such reforms will only manifest itself in pension metrics over decades," it added.

Meanwhile, the board overseeing governments' accounting is changing pension obligation calculations. Implementing the changes "will result in the reporting of a greater and more volatile unfunded pension liability," S&P said, especially because pensions will have to use a market valuation of assets.

The third major rating agency, Moody's Investors Service, took a slightly different tack while reviewing pensions, saying in a report last month that for more than half the states their pension liabilities are equal to at least half their annual revenue.

By Lisa Lambert
WASHINGTON, July 16 | Tue Jul 16, 2013 4:29pm EDT

Understanding New Public Pension Funding Guidelines and Calculations

The importance of properly financing state and local government retirement systems has never been greater. Sound pension funding policies not only help ensure costs and benefits remain sustainable, but also strengthen the financial position and credit rating of the sponsoring governments.

State and local governments soon will need to distinguish several separate pension calculations that will be derived in different manners for distinct purposes:

- Books – computing an annual position regarding pensions for financial statements
- Bonds – calculating how pension obligations affect a government's creditworthiness
- Budgets – determining the appropriate annual contribution to the retirement system for sound funding

The Governmental Accounting Standards Board (GASB) has released new standards for how governments should report pensions on their books or income statements. Some credit ratings agencies have announced that they will make new adjustments to governmental pension data for bond ratings. However, none of these computations is intended to determine the appropriate annual pension contribution a government should appropriate to ensure sound funding.

To guide lawmakers in reviewing the effectiveness of existing funding policies and practices, national organizations representing the nation's governors, state legislatures, state and local officials, and public finance professionals jointly formed a Pension Funding Task Force and released Pension Funding: A Guide for Elected Officials.

These guidelines urge policymakers to ensure pension contributions are actuarially determined within sound parameters. Doing so ensures that pension promises can be paid, employer costs can be managed, and the policy to finance pensions is clear to all stakeholders.

	Books	Bonds	Budgets
Purpose	Standardized financial reporting of pensions for accounting	Stress testing the degree to which pension obligations may affect a government's ability to repay bonded debt	Determining an annual pension contribution to properly fund benefits
Primary audience	Users of government financial statements	Ratings analysts	State/local policymakers
Source of calculation	Accounting standards set by the Governmental Accounting Standards Board (GASB)	Practices established by individual credit rating agencies	State/local statutory, administrative and procedural rules
Methodology	Pensions are accounted for through the computation of a Net Pension Liability, i.e., the difference between the market value of pension fund assets and benefit obligations as of a specific date	Varies by rating agency, as pensions are just one of many metrics used to determine a bond rating	Most governments make actuarially determined contributions, calculated within established parameters as a level percentage of payroll to fully fund benefits earned each year and to amortize unfunded liabilities
What's changing	The Net Pension Liability is a new figure that will be placed on basic government financial statements and is expected to create unprecedented volatility and, in some cases, could dwarf other items on the financial statement	Some ratings agencies have announced that in their credit analytics, they will adjust pension data using uniform, generally more conservative assumptions regarding amortization periods and investment returns	New GASB standards will no longer include parameters for calculating an annual required contribution. Although this does not necessitate a change to existing funding policies or statutes, governments are urged to follow recommended guidelines established by the Pension Funding Task Force

http://www.wikipension.com/images/5/51/BBBonepager.pdf
June 2013

San Jose pension reform goes to court

SAN JOSE -- The pension reforms that San Jose voters overwhelmingly approved just more than a year ago come to a key test with a trial starting Monday before a Santa Clara County Superior Court judge.

No one expects the weeklong hearing to be dramatic. There won't be celebrity defendants or star witnesses, nor the courtroom suspense of a whodunit, nor even a jury for lawyers to sway with theatrical performances. After bureaucrats and actuaries dissect fund figures and lawyers parse nuances of the city charter and case law, it could be months before the judge issues a ruling. And then there will be appeals.

But much is riding on the outcome. San Jose's current budget already relies on $20 million from parts of the Measure B pension reforms. A city win could add $48 million in yearly savings. Workers, though, want to keep the city from grabbing even more of their paychecks to pay for their pensions. More broadly, the judge's ruling will affect similar debates over government pensions throughout the state and across the country.

"There are a lot of eyes on this case," said Arthur Hartinger, the lead lawyer representing the city. "The stakes are high."

Added Gregg Adam, a lawyer representing the San Jose Police Officers' Association, one of several unions suing to block the measure: "It's the opening round, but opening rounds are important."

The core arguments remain unchanged from even before the city took its pension reforms to the ballot.

City employee unions say that under a "vested rights" doctrine, established through a series of court decisions dating back more than half a century, government employers cannot cut employees' pension benefits. They insist pension rates are protected both for work already rendered and for the rest of their careers.

The city is challenging that doctrine, arguing it has been stretched to extremes that voters never intended. City lawyers point to San Jose's charter language and argue it reserves the right of voters and their elected officials to make future changes to retirement plans.

San Jose's pension troubled are rooted in benefit increases, flawed assumptions and market losses for the city's pension fund. As a result, the annual cost to the city more than tripled in a decade, consuming more than a fifth of its general operating fund. City officials cut everything from police and fire department staffing to library and community center hours to cover growing costs. And with the retirement funds still $2.9 billion short of promised benefit costs, the bill continues to rise.

"At the time these benefits were enacted, did voters think they'd face this $2 billion-plus exposure and there's nothing we can do about it?" Hartinger asked. "We don't think that's right."

The stakes are huge for Mayor Chuck Reed, who championed the measure, and the City Council members who supported him. He and many of his council allies complete their last term in office next year, and a loss in court could sap political support for the controversial reforms as well as upend the budget.

"If we lose," Reed said, "we'll have to go right back into cutting services."

The case is being argued before Superior Court Judge Patricia M. Lucas. Before former Gov. Gray Davis appointed her to the court in 2003, Lucas specialized in litigating high-stakes intellectual property cases and headed the litigation department for Fenwick & West.

Lucas already has some familiarity with the Measure B case. Before it went to a vote, she ruled that a ballot argument against the measure slightly overstated concession offers from police and firefighters. But she dismissed a host of other complaints about the opponents' argument.

Measure B reduces pensions for new hires and makes current employees contribute up to 16 percent more of their pay toward their pensions unless they switch to a lesser benefit. Retirees could see annual 3-percent "cost-of-living" raises on their pensions suspended if the city declares a "fiscal emergency."

San Jose was one of two major California cities where voters overwhelmingly approved pension reforms in June 2012. San Diego's Proposition B called for replacing pensions for all new hires except police with 401(k)-type retirement savings accounts, and a five-year freeze on current employees' pay that would count toward their pensions. San Diego has since negotiated the five-year pay freeze and put new hires on 401(k)-type plans after defeating unfair labor-practice challenges.

San Jose's legal road is longer because the city is taking direct aim at the "vested rights" doctrine. Said Jack Dean, vice president of California Pension Reform: "all of the state's pension reform activists are watching this case with great interest."

By John Woolfolk
jwoolfolk@mercurynews.com
Posted: 07/21/2013 04:00:00 PM PDT
Updated: 07/22/2013 09:39:49 AM PDT

Maryland State Retirement Agency Reports Preliminary Return of 10.6% on Investments in FY 2013 Exceeds 7.75% Assumption

Baltimore, MD (July 16, 2013) — The Board of Trustees of the Maryland State Retirement and Pension System has been informed that its portfolio returned 10.6 percent on investments for the fiscal year ending June 30, 2013—exceeding the 7.75 percent assumed actuarial return rate. The 10.6% return is net of investment manager fees. The performance also exceeded the market benchmark for the total fund of 8.6%. The performance raised the assets of the system to $40.25 billion—a total gain of $3.2 billion for the year.

“We are happy to report preliminary returns for the year that exceed both the fund’s market benchmark and the actuarial assumed rate,” said Dr. A. Melissa Moye, Chief Investment Officer. “The strong performance was driven by public equities with significant value generated from active management.”

	Asset Allocation	Return
Public Equity	42.3%	19.1%
Private Equity	6.2%	11.7%
Fixed Income	16.2%	1.1%
Credit	8.4%	13.4%
Real Return	12.6%	1.5%
Real Estate	5.8%	12.6%
Absolute Return	7.3%	3.4%
Cash	1.2%	1.5%
Total	100%	10.6%

“The returns reflect both a healthy market environment on balance over the year and positive returns from active management,” said State Treasurer Nancy K. Kopp, Chair of the Maryland State Retirement and Pension System Board of Trustees. “The Board has adopted a very balanced and diversified asset allocation that should provide an attractive risk and return profile to plan beneficiaries.”

The Maryland State Retirement and Pension System is charged with the fiduciary responsibility for properly administering the retirement and pension allowances of more than 132,000 retirees and beneficiaries as well as the future benefits for more than 244,000 active and former members. These groups include state government employees, teachers, law enforcement personnel, legislators, judges and local government employees and fire fighters whose employers have elected to participate in the system.

Maryland State Retirement and Pension System
120 East Baltimore Street • Baltimore, Maryland 21202-6700

Private Sector

Sheet Metal Workers pension fund latest to go to variable benefits

The Fairfax, Va.-based union pension fund's move to a variable benefit approach is one of the most dramatic examples of tying pension benefits to the pension fund's returns.

Interest in the variable benefit plan, also known as an adjustable pension plan, is growing as defined benefit plans struggle to recover from market downturns. Some plan sponsors include benefit floors or ceilings, but the basic idea is that investment risk is shared by employee and employer, so when investment returns drop, benefit accrual targets can be adjusted downward the next year.

Another variation calls for traditional accrual and benefit formulas, but with part or all of the benefit fluctuating according to investment returns.

“Employers are looking for something that gives them a solution that's an alternative to 401(k) plans. Everybody knows that 401(k) isn't going to be enough. And if you put all the (defined benefit plan) risk on the sponsor, it will just collapse,” said Gene Kalwarski, founder, CEO and principal consulting actuary at Cheiron Inc., in McLean, Va.

Ron Palmerick, a management trustee for the Sheet Metal Workers pension fund, credits the plan's actuarial consulting firm, The Segal Co., and Segal actuary Lall Bachan for bringing the variable benefit idea to trustees.

“It's one of the few things that you can still use to try to stabilize the fund. You're trying to protect yourself from going backward. We try to take whatever opportunities present themselves,” said Mr. Palmerick.

It also helped that participants eventually understood the switch to a variable benefit was necessary for the fund, which as of March 31, had $6.4 billion in liabilities, making it 58% funded.

“We're very fortunate that the union understands that they've got to help us get rid of this liability and that the membership needs a pension,” said Mr. Palmerick.

To set each year's benefit accrual rate, staff and actuaries of the Sheet Metal Workers plan will use the average investment return of the preceding three years, once the actuarial valuation is made. If the three-year return average is 8.5% or better, most accruals don't change. Returns between 6.5% and 8.4% would trigger an accrual rate of 0.75% of contributions, anything below that would be 0.5%, and three years of zero or negative returns would mean no accruals. For 2014, based on preliminary investment

returns, fund officials are predicting a return of 8.22%, which would mean an accrual rate of 0.75%.

Adjustable pension plan

Newspaper Guild of New York President Bill O'Meara noted that new collective bargaining agreements with the New York Times and Consumers Union, Yonkers, N.Y., call for an adjustable pension plan with some other features. For example, they have a floor benefit and they spell out specific dollar amounts the employer will contribute to ensure adequate funding.

The change “took some selling” to employees and though not perfect, “it's as close as we can get to a defined benefit plan that mitigates risk,” said Mr. O'Meara.

“We view it as a plate of pancakes. Some years you get a bigger one; some years you get a smaller one. But in the end you get a plate of pancakes that you can keep eating for the rest of your life.”

With the multiemployer plan sector facing some of the most acute funding problems, “I think you will see a lot more (variable benefit plans) because they (multiemployer plan trustees) know they need to change” benefit levels, said Tom Cliffel, consulting actuary in the Cleveland office of Horizon Actuarial Services LLC, which has some clients using variable benefit plans.

Mr. Cliffel is an advocate of a variable benefit approach that combines traditional accrual formulas with a defined benefit that fluctuates according to investment returns. “It is the most efficient way to provide benefits for everybody,” said Mr. Cliffel, who is the consulting actuary for the Major League Baseball Players' Plan in Cleveland, which has more than $2 billion in assets.

The player pension fund set the assumed rate of return, called the hurdle rate, at 4.5%. Investment returns above the hurdle rate increase the unit value of the benefit.

“It's gone up and down over its lifetime,” said Mr. Cliffel. While 2009 “was certainly the biggest down, the trustees never wavered,” he said.

“The potential decline in benefits (when implementing a variable benefit) is something that you need to be aware of, but it's not a big negative. Most diversified portfolios come back in a few years.” said Donald Fuerst, senior pension fellow at the American Academy of Actuaries, a former Mercer consulting actuary and a big proponent of the variable benefit approach.

“For participants, it gives you the potential for an increasing benefit that will keep up with inflation.”

He points to some longtime believers in the approach, including The Aerospace Corp., El Segundo, Calif., a California non-profit sponsored and funded by the U.S. government with some $2 billion in pension assets, and many smaller professional associations, where participants are more likely to take lump sums at retirement.

Lifetime benefit

Multiemployer plans are considered the likeliest adopters of variable benefit plans because of the lifetime benefit it can offer union members, a key part of collective bargaining on their behalf.

A new survey of large multiemployer plan executives by Pyramis Global Advisors found that 80% of respondents are expecting to see major changes in multiemployer plan design, and roughly 28% of them are expecting to see some type of variable benefit plan within 10 years.

“Their biggest concern with the current system was companies withdrawing from the system, and the only way to get new (companies) is to hit the reset button,” said Steve Benjamin, Pyramis vice president for market and business intelligence in Smithfield, R.I. “There's going to be a lower benefit, with the potential for more upside, but it's still going to be a guaranteed benefit.”

Some actuarial and benefits consultants note that tying benefits to investment performance in defined benefit plans already has happened on an informal basis, particularly in recent years.

“In its truest sense, it's been around since the 1950s,” said Pete Sturdivan, a consulting actuary with Milliman in Portland, Ore. He cites variable benefit plans that adjust costs after retirement, but keep the longevity risk on the sponsor, and is now seeing a renewed interest among clients.

“We are definitely having (variable benefits) discussed at the board level” at union plans, said Mr. Sturdivan.

While he concedes that “the unknown is very unsettling to people,” careful funding and benefit policies, an all-important benefit floor, and an asset allocation carefully constructed to at least meet the hurdle rate can help allay fears. “If this is structured appropriately, (participants) should feel comfortable that the accrual they earn every year is guaranteed.”

Lee Gold, a principal in Mercer's Denver office, said he has helped three private companies put in variable benefit plans in the last three years, and has had “quite a few” discussions with others. He wouldn't name the companies that adopted variable benefit plans.

One client even started preparing to unfreeze a defined benefit plan to adopt the variable benefit approach, but had a change of heart because “it was just too much change,” said Mr. Gold. “These kinds of plans can be better for the employee and the employer. People just don't know these options are out there.”

This article originally appeared in the July 8, 2013 print issue as, "Sheet Metal Workers latest to go to variable benefits".

By Hazel Bradford | July 8, 2013 | Updated 12:40 pm

Opening the window wider

There has been a lot of buzz lately about offering lump sums to terminated vested participants. Several large employers implemented lump sum windows in order to “de-risk” their pension plans and reduce Pension Benefit Guaranty Corporation (PBGC) premiums. I recently had a client ask about taking it to the next level and offering a lump sum window to existing retirees.

They were interested in targeting retirees who were receiving small benefits (but they hadn’t decided yet what they considered to be “small”).

It sounds like a simple enough project, but there are a few potential complications that employers should consider if they’re interested in offering such a window.

Don’t we have to amend the plan?
Absolutely. But not yet.

Even though a plan doesn’t allow paying out existing retirees, a targeted group needs to be identified. Sponsors hoping to cash out “small” benefits will want to work with the plan actuary to calculate present values for as many retirees as possible. Then the group can be sliced and diced by both monthly amounts and total present values to determine eligible participants for the window and the effect on plan funding levels.

Plan sponsors should also consult with their legal counsel about getting a Private Letter Ruling from the IRS.

There will be time for amending after the dust settles. Plan sponsors have until the end of the plan year to adopt discretionary plan amendments.

Old people have old data
Because many retirees may have been receiving payments for decades, their data could be missing things that are necessary for calculating present values. It’s very common for actuaries to make assumptions about missing birth dates. If lump sums are offered, the actual birth dates (for participants and beneficiaries) must be used.

Communication considerations
Be careful when communicating about the lump sum window to retirees. Remember that the people in this group are easily worried, have a lot of questions, and talk to each other. Make sure to explain that this is just an option, that pensions can stay the same if that's what they choose. Call centers should be prepared in advance.

Manual mailings
If a pension administration system is used for day-to-day processes, forget about using it for a retiree lump sum window. Calculating and communicating these benefits will be a highly manual process. Allow for the extra time or expense that manual calculations and mail-merges require.

Deceased beneficiaries
In some cases, returned election forms will reveal that spouses and beneficiaries have predeceased retirees. That could lower the present value because the payment is valued over one lifetime instead of two. The sponsor should decide how to communicate this. Retirees will not be pleased when the amount comes back lower because it is based on a single life.

QJSA requirements
Keep in mind that the same spousal consent requirements apply as for traditional lump sum elections. Qualified Joint & Survivor Annuity (QJSA) notices must be provided and spousal consent must be obtained and notarized—the "spouse" would be the person to whom the retiree was married when the original benefit commenced, even if they are no longer married.

No guarantees
After all is said and done, there are no guarantees that any of the retirees will choose the lump sum. You might expect that retirees are old and set in their ways. After all, they've been receiving payments for a long time and may be reluctant to let go of their small monthly check.

But actual results may surprise you. In a recent plan termination for one of our clients, nearly half of the retirees elected to take the lump sum and there was little demographic difference between those who took lump sums and those who didn't. While broader trends can't be predicted from a single example, it's somewhat reassuring that all the effort involved in opening the window may not be in vain.

July 26th, 2013
By David Benbow

Risky Business:
Living Longer Without Income for Life

http://www.actuary.org/files/Risky-Business_Discussion-Paper_June_2013.pdf

PBGC Proposes Rules on Premium Rates, Payment of Premiums, Reducing Regulatory Burden; Comments Due September 23, 2013

The PBGC released its draft premium payment form and instructions for public comment.
Update 7/25/13

The Pension Benefit Guaranty Corporation (PBGC) proposed amending its regulations on premium rates and payment of premiums to simplify due dates, coordinate the due date for terminating plans with the termination process, make conforming and clarifying changes to the variable-rate premium rules, provide for relief from penalties, and make other changes. Large plans would no longer have to pay flat-rate premiums early; small plans would get more time to value benefits. These amendments would be effective starting 2014. PBGC also proposes to amend its regulations in accordance with the Moving Ahead for Progress in the 21st Century Act.

The major proposals are:

- that all annual premiums for plans of all sizes will be due on the same day in the premium payment year—the historical variable rate premium due date.
- that small plans generally use prior-year figures for the variable-rate premium.
- that the 1% penalty cap is reduced from 100% to 50% in order to preserve the self-correction incentive and reward for long-overdue premiums.
- to amend its regulations in accord with the Moving Ahead for Progress in the 21st Century Act and to avoid retroactivity of PBGC's rule on plan liability for premiums in distress and involuntary terminations.

© 2013 International Foundation of Employee Benefit Plans June 4, 2013 Tuesday 4:36 PM GMT
Business Editors; Insurance Writers

Golden Years or Financial Fears? Decision Making After Retirement Seminars

Many organizations provide retirement planning seminars to their employees as a benefit to help them make better informed retirement decisions. This study examines the participants in 85 seminars conducted by five companies in 2008 and 2009 to determine how much learning takes place and whether employees adjust retirement plans. Using surveys conducted before and after the seminars, we find that financial literacy and knowledge of retirement program parameters are significantly higher after the seminar. Employees with the largest increases in knowledge were most likely to change their planned retirement age and planned age of claiming Social Security benefits.

Steven G. Allen, Robert L. Clark, Jennifer Maki, Melinda Sandler Morrill

NBER Working Paper No. 19231
Issued in July 2013
NBER Program(s): AG LS