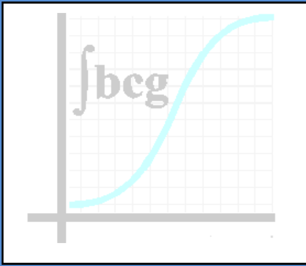

BCG Retirement News Roundup

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Boomershine Consulting Group, 3300 North Ridge Road, Suite 300, Ellicott City, Maryland 21043

www.boomershineconsulting.com 410-418-5525

Boomershine Consulting Group (BCG) provides 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. If you would like to discuss any of these issues, please contact us.

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Public Sector/Government Plans

Pennsylvania Governor Vetoes Pension Bill

Gov. Tom Wolf on Thursday vetoed the Republican-crafted bill that eliminates guaranteed public pensions for new school and state employees.

Wolf, a Democrat, said he understands the need to reform the public pension system but the legislation "provides no immediate cost-savings to taxpayers and does not maximize long-term savings for taxpayers."

"There are provisions within this legislation, which as part of a comprehensive pension proposal, I could support," he said in a statement. "However, Senate Bill 1 does not address the problems facing our pension system comprehensively and fairly."

Wolf leaked his intention to veto the bill in a morning interview on KQV Radio in Pittsburgh. He had until Friday to act.

His consideration of the bill made it clear "that this legislation violates federal tax law, as it would be considered an impermissible cash or deferred arrangement," Wolf said, "In addition, the bill forces newly-hired employees to pay down the unfunded liability of existing pension plans, caused by years of government failure to make necessary payments, while denying those new employees the full benefit of their contributions."

Wolf said he believes he and Republicans "are moving toward common ground" on pensions and the bill no longer is like the original Senate Bill 1, which curbed benefits for existing employees.

"My veto today is not to say I'm just throwing this out, but to say let's get back to work," Wolf told the radio station.

Top Senate and House Republicans said they were dismayed by the governor's decision.

"Further, the notion that we are close to a compromise on a pension reform plan, when we only learned this morning of the veto via the press, is a bit disingenuous," said Senate President Joe Scarnati of Jefferson County and Majority Leader Jake Corman of Centre County.

Those issuing the statement included House Speaker Mike Turzai of Marshall and Majority Leader Dave Reed of Indiana County.

They said the bill would have saved $10 billion over 30 years.

"It is remarkable that Gov. Wolf would oppose a proposal to move new public employees into a 401(k)-style retirement plan which he himself adopted for his employees at Wolf Organization," the senators said in a joint statement. "Apparently, the governor believes this type of plan, which is common in the private sector, is adequate for most hard-working Pennsylvanians but not for legislators or members of public employee unions."

Wolf's staff has strongly denied being influenced by union campaign contributions.

The governor's contention that the bill violates federal tax law "sounds like a convenient excuse on a bill he determined a long time ago he would veto on behalf of public sector unions," said Matthew J. Brouillette, president and CEO of the conservative Commonwealth Foundation.

Brouillette said Wolf "wasted a rare opportunity to meaningfully reform a broken public pension system that's piled up $53 billion in debt. Instead of safeguarding public employees' futures and taxpayers' wallets, Gov. Wolf is playing politics with the main driver of property tax increases across the state."

Many in the Capitol anticipated a veto, said GOP consultant Charlie Gerow. He said the action is "a setback on getting a real budget for Pennsylvania."

Had Wolf signed the legislation, that would have been "a big surprise," considering large campaign donations Wolf received from public-sector unions, Gerow said.

Wolf on June 30 vetoed a $30.1 billion Republican-drafted budget that does not raise taxes. He then vetoed another GOP priority, selling the state store system and privatizing wine and liquor sales.

"The Republicans passed a budget that contained their priorities and nothing else," Wolf spokesman Mark Nicastre said Thursday. "The Republican budget failed to include a commonsense severance tax (on natural gas.) It does not restore cuts made by Republicans to education over the last four years or reduce property taxes, and the Republican budget would increase, rather than responsibly address, the structural budget deficit."

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Chicago Public Schools' budgets spend $500 million district doesn't have

Chicago Public Schools on Monday unveiled school spending plans that rely on a half-billion dollars more than the district has on hand — an approach the head of the city's principals association compared to writing a bad check..

To make the individual school budgets work, CPS is banking on help from Springfield, which has so far been uncooperative. Without that, the district said it will have to resort to "unsustainable borrowing and additional cuts" midway through the coming school year.

“They’re not the budgets that we would like to be presenting,” the district's interim CEO Jesse Ruiz said in a conference call with reporters. “But they reflect the reality of where we are today: facing a budget deficit of more than $1 billion, the increasing costs of a broken pension system, and a state government that slashed education funding.”

The preliminary budgets distributed to school principals for the coming school year assume state lawmakers will free CPS from having to make $500 million of a $700 million pension payment due June 30, 2016, either by giving the district more money or by allowing CPS to delay the payment until 2017 or later.

CPS had tried to persuade the Chicago Teachers' Pension Fund to agree to an extension until 2017. The pension fund rejected the idea Friday.

The decision to push ahead with a spending plan that assumes that half-billion dollars will be available makes the preliminary budgets distributed Monday of limited use to principals, said Clarice Berry, the president of the Chicago Principals and Administrators Association.

"They have issued budgets that have no money to back them," Berry said. "They are giving the principals a check that is going to bounce right now."

Berry warned that the disconnect between the budgets and the district's financial reality could lead to massive school disruptions, including layoffs and program closures. She also noted that the spending plan does not factor in the potential cost of a new teacher contract with the Chicago Teachers Union for the coming school year. Negotiations with the CTU are ongoing.

Individual school budgets are issued in advance of the passage of a districtwide budget, which the school board must approve by the end of August. Last year's operating budget totaled about $5.8 billion.

Even if Springfield does provide the $500 million the district is banking on, many schools will still see cuts under the budgets issued Monday.

While the preliminary budgets do not reduce per-pupil spending levels, CPS will not continue its past practice of maintaining funding levels to schools whose enrollment drops. Schools that have experienced enrollment declines will receive about $100 million less than last year. A majority of those cuts will affect district-run community schools, which have seen greater enrollment declines than privately run charters.

At least 65 schools will have $200,000 cut from their budgets, Chief Financial Officer Ginger Ostro said.

The district has already said it will cut $200 million by eliminating 1,400 positions, ending coaching stipends for elementary school sports teams and consolidating bus stops for students transported to magnet schools.

Despite the cuts, city and school officials say school will start on time and class sizes will not increase this fall.

So far, CPS' attempts to get help from Springfield have failed. The state legislature rejected Mayor Rahm Emanuel's push this summer to allow CPS to delay making its 2015 pension payment until August.

Ruiz declined to offer details about what would happen if state lawmakers do not grant the school district pension relief.

"We're going to continue to work with Springfield, banging that drum," Ruiz said in response to questions from reporters. "Otherwise, would we be facing additional alternatives and options and additional borrowing and cuts? We may."

Rodney Estvan, education policy analyst for the disability advocacy group Access Living, said he had already fielded calls from several principals asking about how they could set aside money in case of more cuts later this year.

Interviewed while waiting to receive his budget Monday afternoon, Principal Troy LaRaviere of Blaine Elementary School in Lakeview, a frequent critic of Emanuel's education policies, said his school has already dealt with significant cuts. He worries that further cuts at Blaine — where students test well-above the state average in reading and math — would erode the core services that help students thrive.

"We have a classroom, for example, of first graders and there are 24 or 25 students per class," LaRaviere said. "If we lose a position we're going to have to make those four classrooms three classrooms."

Blaine's budget was cut by about $140,000.

LaRaviere criticized school and city leaders for leaving schools at the mercy of the state. "Inaction in Springfield is no excuse for inaction in Chicago," he said.

Emanuel, meanwhile, continued to blame the school funding predicament on the state, calling the cuts CPS principals would face in their budgets without help from Springfield

"unconscionable." He again called on state lawmakers and Gov. Bruce Rauner to change the way the district's teacher pension system is funded.

"In major part, in my view, (the cuts are) because Springfield is unreasonable," Emanuel said Monday after an unrelated event on the West Side. "You are asking the system to continue an inequity."

CPS' recent budget-busting pension payments follow years in which the district paid less than its required annual contribution into the pension fund, including an entire decade when then-Mayor Richard M. Daley made no payments at all.

CTU Vice President Jesse Sharkey criticized the school spending plans released Monday as something "based on fantasy."

"This is going to have an actual harmful effect on the quality of our schools overall in the city," Sharkey said.

Emanuel aides confirmed Monday that the mayor is taking one step to ever-so-slightly ease CPS' financial woes. The mayor has decided to limit spending in seven controversial downtown special taxing districts to projects that already have been approved or are "in the final stages of approval," aides said.

The move will free up at least $250 million over five years, they said. More than half of the money would go to CPS and about 20 percent to the city, with the rest being distributed to other local governmental entities.

CPS' own ability to raise revenues is limited by statutorily imposed tax caps. The district said Monday that, as in most recent years, it will raise taxes by the maximum amount allowed.

That increase, which will net CPS an additional $61 million, equates to about $57 for a $250,000 home, according to a calculation by the Cook County clerk's office based on 2014 information.

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Christie toughens stance with public workers

The governor - his eye on the 2016 race - has frozen step pay. The unions are hitting back.

Gov. Christie has taken an aggressive approach to dealing with public workers and their unions since taking office in early 2010.

He has encouraged voters to reject school budgets in communities where teachers weren't accepting pay freezes, pushed to change civil-service rules, and signed legislation that forced employees to pay more toward to their pensions and health benefits.

Now that Christie has joined the 2016 Republican presidential primary field, his administration is taking another tough stance toward public workers.

It recently told thousands of union members whose contracts expired June 30 that they will not be receiving annual incremental pay increases while there is no new deal in place.

In the past, the unions say, workers have generally received their annual increases if their performance merited the bump - even without a contract.

Christie's freeze affects state office workers, college professors, corrections officers, and other groups of public workers who have not yet reached the top of their pay scales.

Public-worker unions have been responding to the Christie administration's new position on pay increments - something many view as a pressure tactic - by filing administrative grievances. And at least one union, Policemen's Benevolent Association Local 105, has filed suit in Superior Court.

Lance Lopez, president of PBA Local 105, said the administration's freeze affects 3,700 members of his union. The prior agreement with the state said that the rules established under a contract that expired on June 30 would be extended for a year if no new agreement was reached, he said. And the union would have had to have been informed in writing by Feb. 1 of any change, which did not occur, he added.

"In the past they've always maintained these step increments," Lopez said. "We believe that it's a violation of the agreement that we had."

The administration's position on step pay comes as the amount public employees contribute to their health-care coverage is becoming a hot issue. That's because a four-year sunset provision on health-care contributions was a part of the 2011 law that forced them to pay more toward both pensions and health benefits.

Because of the sunset provision, health-care contributions will be back up for negotiation as contracts come up for renewal.

By taking the stance that workers are no longer entitled to step increases, the administration appears to be adopting a position the state Public Employment Relations Commission took last year in a case in Atlantic County, in which the local government was in a labor dispute with sheriff's officers.

"We have acted appropriately and fully within the law," said Christie spokesman Brian Murray.

The pay-increment issue has heated up just as the four-year sunset provision in the June 2011 worker-benefits law commonly referred to as Chapter 78 has started to become a factor in contract negotiations at all levels in the state.

Chapter 78 is the same law that called for the state to increase its own contributions to the chronically underfunded public-employee pension system over a seven-year term.

But Christie, despite touting the reform effort as having saved the pension system, reneged on the promise to make increased pension contributions last year amid state budget problems.

The state Supreme Court said last month that the state constitution does not compel Christie to follow the payment schedule that was promised under Chapter 78 as a contractual right of the employees.

That ruling came even as the employees are still paying more toward their pensions because there was no sunset provision in place like the one that applies to health benefits.

Depending on how contract negotiations go, state and local governments could be forced to once again pick up more of the cost of their employees' health benefits.

Murray said Chapter 78 only started the process of controlling health-coverage costs, which are a huge expense for the state.

But Lopez, the corrections union official, countered that it is wrong for the administration to say it wants to abide by certain components of Chapter 78 while at the same time choosing to ignore other requirements spelled out in the law, such as the state pension contributions.

"You shouldn't be able to pick and choose portions of Chapter 78 that you feel are right," he said. "It's not fair."

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Md. pension fund earns 2.68%, missing annual target

Maryland's $45.8 billion pension fund for state employees and teachers earned 2.68% for the past fiscal year, almost 5 percentage points below its target of 7.65%, but better than benchmark returns for its various asset classes, its Board of Trustees was told Tuesday.

“While earnings for this one year fell short of our expected rate of return, the board continues to focus on long-term performance,” State Treasurer Nancy Kopp, board chair of the Maryland State Retirement and Pension, said in a statement.

"Over the last five years our average return has been close to 9.4%, a much more relevant measure of the overall health of our investment portfolio. Although this has been a challenging year for most institutional investors, the wisdom of the board's decision some time ago to diversify its portfolio has been borne out by its long term positive returns."

The 10-year return was 5.77%, which includes losses in the Great Recession, according to Michael Golden, spokesman for the pension system. Twenty and 25-year returns were not available.

Robert Burd, acting chief investment officer until a newly hired chief is on board, said, "While absolute performance did not meet the actuarial target for the fiscal year, we are very pleased with the performance of our active management program, which continues to add significant value over the overall plan benchmark. For the fiscal year, active management added roughly $800 million in excess of the benchmark."

	Asset Allocation	Return	Benchmark	Difference
Public Equity	37.63%	3.65%	0.60%	3.06%
Private Equity	8.02%	13.17%	7.62%	5.54%
Fixed Income	12.94%	1.96%	1.93%	0.03%
Credit	9.73%	-0.81%	-3.05%	2.24%
Real Return	13.17%	-5.18%	-6.61%	1.43%
Real Estate	7.36%	12.12%	10.40%	1.71%
Absolute Return	10.65%	0.74%	2.63%	-1.90%
Cash	0.49%	2.10%	0.02%	2.08%
Total	**100.00%**	**2.68%**	**0.86%**	**1.82%**

Failure to meet the long term investment target of 7.65%, which is will be reduced to 7.55% in two years, would require state and local taxpayers to put more into the fund to meet the promises made to state employees and public school teachers.

Critics of the pension system have consistently disapproved of its investment performance compared to other public pension funds of similar size and the amount of money its pays to outside managers that handle such investments as private equity.

Former correctional officer added to board

Former correctional officer Sheila Hill was elected to the 15-member retirement system board in an election held this spring. Hill had previously served on the board as a representative of active Employees' System members for nearly 10 years beginning in 2004, but could no longer serve after her retirement.

As a retiree, she was eligible to run for the position being vacated by John W. Douglass, who did not to run for reelection as the retirees' representative.

Hill received 6,702 votes (75%). Her opponent Linda Day received 2,209 votes (25%).

Hill was endorsed by the American Federation of State County and Municipal Employees (Council 3, Council 67, Local 2250 and Retiree Chapter 1) and the State Law Enforcement Officers Labor Alliance, a union spokesman said.

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Public pension fund trustees press SEC for private equity fee disclosure

A coalition of public pension fund trustees wants the Securities and Exchange Commission to require more disclosure of private equity fees.

A letter sent Tuesday to SEC Chairwoman Mary Jo White by 13 state and municipal treasurers and comptrollers representing $1 trillion in public pension fund assets calls for an industrywide standard to give private equity limited partners more transparent and frequent information on fees and expenses.

There are four types of private equity firm expenses, but only directly billed management fees are regularly provided to investors, while information on fund expenses, allocated incentive fees and portfolio-company charges "are often reported deep in annual financial statements, and only on an annual basis," said the letter signed by officials from the District of Columbia, California, New York, Virginia, Wyoming, North Carolina, South Carolina Rhode Island, Vermont, Nebraska, Oregon and Missouri.

"It's time to take the detective work out of how private equity managers report their fees," said New York City Comptroller Scott M. Stringer, fiduciary for the five public pension funds in the

$163.4 billion New York City Retirement Systems. “Billing practices are cryptic at best and many partnership statements are so vague they could be considered purposefully opaque.”

Coalition members want more consistent and comparable fee disclosures, and said the SEC is in the best position to make those changes. North Carolina Treasurer Janet Cowell, sole trustee of the $90 billion state pension fund, said in a statement that while her state collects and reports private equity performance and fees, “the time has come to require standardized and comprehensive reporting from private equity firms to level the playing field."

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Private Sector

3 Retirement Loopholes That Are Likely to Close

The government has a knack for catching on to the most popular loopholes.

There are plenty of tips and tricks to maximizing your retirement benefits, and more than a few are considered “loopholes” that taxpayers have been able to use to circumvent the letter of the law in order to pay less to the government.

But as often happens when too many people make use of such shortcuts, the government may move to close three retirement loopholes that have become increasingly popular as financial advisers have learned how to exploit kinks in the law.

1. Back-door Roth IRA conversions

The U.S. Congress created this particular loophole by lifting income restrictions from conversions from a traditional Individual Retirement Account (IRA) to a Roth IRA, but not listing these restrictions from the contributions to the accounts.

People whose incomes are too high to put after-tax money directly into a Roth, where the growth is tax-free, can instead fund a traditional IRA with a nondeductible contribution and shortly thereafter convert the IRA to a Roth.

Taxes are typically due in a Roth conversion, but this technique will not trigger much, if any, tax bill if the contributor does not have other money in an IRA.

President Obama’s 2016 budget proposal suggests that future Roth conversions be limited to pre-tax money only, effectively killing most back-door Roths.

Congressional gridlock, though, means action is not likely until the next administration takes over, said financial planner and enrolled agent Francis St. Onge with Total Financial Planning in Brighton, Michigan. He doubts any tax change would be retroactive, which means the window for doing back-door Roths is likely to remain open for awhile.

“It would create too much turmoil if they forced people to undo them,” says St. Onge.

2. The stretch IRA

People who inherit an IRA have the option of taking distributions over their lifetimes. Wealthy families that convert IRAs to Roths can potentially provide tax-free income to their heirs for decades, since Roth withdrawals are typically not taxed.

That bothers lawmakers across the political spectrum who think retirement funds should be for retirement – not a bonanza for inheritors.

"Congress never imagined the IRA to be an estate-planning vehicle," said Ed Slott, a certified public accountant and author of "Ed Slott's 2015 Retirement Decisions Guide."

Most recent tax-related bills have included a provision to kill the stretch IRA and replace it with a law requiring beneficiaries other than spouses to withdraw the money within five years.

Anyone contemplating a Roth conversion for the benefit of heirs should evaluate whether the strategy makes sense if those heirs have to withdraw the money within five years, Slott said.

3. "Aggressive" strategies for Social Security

Obama's budget also proposed to eliminate "aggressive" Social Security claiming strategies, which it said allow upper-income beneficiaries to manipulate the timing of collection of Social Security benefits in order to maximize delayed retirement credits.

Obama did not specify which strategies, but retirement experts said he is likely referring to the "file and suspend" and "claim now, claim more later" techniques.

Married people can claim a benefit based on their own work record or a spousal benefit of up to half their partner's benefit. Dual-earner couples may profit by doing both.

People who choose a spousal benefit at full retirement age (currently 66) can later switch to their own benefit when it maxes out at age 70 – known as the "claim now, claim more later" approach that can boost a couple's lifetime Social Security payout by tens of thousands of dollars.

The "file and suspend" technique can be used in conjunction with this strategy or on its own. Typically one member of a couple has to file for retirement benefits for the other partner to get a spousal benefit.

Someone who reaches full retirement age also has the option of applying for Social Security and then immediately suspending the application so that the benefit continues to grow, while allowing a spouse to claim a spousal benefit.

People close to retirement need not worry, said Boston University economist Laurence Kotlikoff, who wrote the bestseller "Get What's Yours: The Secrets to Maxing Out Social Security."

"I don't see them ever taking anything away that they've already given," Kotlikoff said. "If they do something, they'll have to phase it in."

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FASB to address net pension costs on income statements

The Financial Accounting Standards Board will develop guidance on how companies present the net periodic cost of pensions and other postretirement benefits on their income statements.

FASB members agreed Monday to add the project to their technical agenda.

Currently, there is no specific guidance in generally accepted accounting principles and only limited guidance in International Financial Reporting Standards on where an employer's income statement should present the net benefit cost, and stakeholders have criticized a lack of transparency into which elements are included. "The lack of transparency in the presentation of net benefit cost also reduces usefulness of financial information," a board meeting handout said.

FASB members considered three modified alternatives for presenting net pension cost, with additional components such as service cost, interest cost and expected return on assets. The project will add service cost to the employer compensation costs already included in income statements. Cost components that are eligible to be capitalized would be limited to service cost.

Companies would also have to disclose which other components are included, following guidelines that FASB officials are working on as part of a separate project on disclosure frameworks for defined benefit plans.

FASB staff recommended a retrospective transition for the proposed amendments and a prospective transition for the proposed changes on capitalization of net benefit cost in the assets.

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IRS Notice on Pension Lump Sums Causes Confusion

A recent notice from the Internal Revenue Service, meant to address a relatively constrained issue involving distributions from defined benefit pension plans, has led to confusion—especially in casual social media discussions.

On July 9, 2015, the IRS issued Notice 2015-49, "Use of Lump Sum Payments to Replace Lifetime Income Being Received by Retirees Under Defined Benefit Pension Plans." In the notice, the IRS announced guidance "to amend the required minimum distribution regulations under Section

401(a)(9) of the Internal Revenue Code to address the use of lump sum payments to replace annuity payments being paid by a qualified defined benefit pension plan."

The regulations, as amended, "provide that qualified defined benefit plans generally are not permitted to replace any joint and survivor, single life, or other annuity currently being paid with a lump sum payment or other accelerated form of distribution."

The decision is effective immediately, except with respect to certain pension de-risking arrangements already in place. Proposed amendments to the regulations under section 401(a)(9) of the tax code will be issued in the near future confirming this position, the IRS said.

The notice, in effect, says that pension plan sponsors won't be able to offer a lump sum to a vested participant if the plan has already started making annuitized pension payouts to that participant. That is, it applies only to individuals who are already receiving annuity distributions. The IRS appears to be concerned about participants being shortchanged on the value on their vested benefits if a switch is made from annuitization to a lump-sum distribution once payouts are underway.

Unfortunately, the notice led some employees vested in a defined benefit pension plan to think that the IRS is preventing pension lump-sum payouts as an option at all, which is not the case.

For instance, a discussion thread titled IRS: No more lump sum in lieu of defined benefit annuity?, on the popular investment discussion site Bogleheads.org (inspired by the investment philosophy of index-fund pioneer John Bogle), included anonymous comments such as:

"A shame for anyone who was in the midst of making such a decision (unless they would have declined the lump sum and stayed with the annuity)"

And:

"It is unfortunate that a number of people may have thought they had a choice offered by employers, and POOF, no choice ..."

The Real Deal

Anne Waidmann, director in the Human Resource Services practice at consultancy PricewaterhouseCoopers (PwC), confirmed to SHRM Online that "Defined benefit plans may continue to offer a lump sum as an optional form of benefit upon retirement, but under the new guidance, plans may not offer retirees an opportunity to convert an annuity to a lump sum after payments have already begun in an annuity form."

Waidmann provides further analysis of the new guidance and its effect on plan sponsors in a PwC alert, “IRS Notice Prohibits Offering Lump Sums to Retirees in Pay Status” (to be posted online shortly), where she noted:

Under the regulations, the period over which an annuity is to be paid may be changed only in certain limited circumstances, such as a plan termination or the employee’s actual retirement (if he or she retires after distributions have commenced). The regulations further provide that annuity payments may not increase, except in accordance with certain permitted exceptions. ... The amendment will provide that the types of permitted benefit increases described in the regulations include only those that increase the ongoing annuity payments, and do not include those that accelerate the annuity payments.”

Similarly, attorneys Sarah Kregor and Dan Salemi of Franczek Radelet P.C. pointed out in an online post that the new guidance will “prohibit lump-sum cashout windows for pension plan retirees already in pay status,” but “lump-sum windows may still be offered to deferred vested participants/beneficiaries who have not yet begun receiving benefits.”

Survey findings released by Mercer in July 2015 found that nearly two thirds (59 percent) of companies sponsoring defined benefit pension plans have already offered some type of one-time lump sum payment to vested plan participants. This trend seems set to continue, as 49 percent of survey participants stated their companies are likely to employ some form of lump sum payout in the next two years.

Social Media Pitfalls

Discussions on social media platforms often can provide helpful insights from one’s peers. But unfortunately, they can sometimes help spread misinformation, which takes us back on the Bogleheads site, where another commenter expressed misplaced concern over the new guidance:

“Seems like always something. Lol. So 4 years ago I retired and I opted to take the lump sum. If I understand it that account would be fine and with no restrictions right? I also am going to retire again with the same company in March and will have a retirement worth about $200,000. At that time I won't be able to take the lump sum. Is that correct?”

To which another board participant replied, with a bit of social media snark:

“For now it's a narrow focus—plans can still offer lump sums as an optional form—not sure where you're coming from?”

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Moody's: US multiemployer pension plans' funding levels still weak

Most multiemployer pension plans (MEPPs) in the US continue to be poorly funded, Moody's Investors Service says in a new report. Since the financial crisis, obligations have grown but assets have remained almost constant, with weak funding levels leading to large amounts of debt at some participating companies. In a few cases, the magnitude of future MEPP funding obligations could lead to rating downgrades.

Moody's reviewed the public financial statements of 124 MEPPs in the US as part of its periodic MEPP funding update and estimates that collectively the plans were underfunded by nearly $318 billion at year-end 2013, up from $286 billion the prior year.

"While underfunding won't result in downgrades for most companies that have MEPPs, increased calls on cash could affect the ratings of those that don't have the size, scope or financial wherewithal to withstand additional burdens on their cost structure," says Vice President -- Senior Accounting Analyst, Wesley Smyth. "Speculative-grade companies that lack the flexibility to meet increased pension funding needs will come under the most rating pressure."

MEPPs' obligations grew by $228 billion between 2007 and the end of 2013, while assets remained nearly constant during the same period, Smyth says in "Multiemployer Pension Funding Levels Remain Weak." This asymmetry stems from the financial crisis, when 25% of plan assets, or close to $80 billion, was wiped out. By the end of 2008 funding levels were slightly above 50%, and from then on the writing was on the wall, since now assets had to work twice as hard to keep up with obligations.

Where smaller or weaker companies are unable to handle increased contributions, or they exit plans altogether, the funding burden placed on otherwise strong companies that contribute to an underfunded plan will increase, Smyth says. "This 'last man standing' scenario suggests that certain investment-grade companies could eventually face substantial funding pressure."

Rising interest rates won't help plans shore up their financial position for several years, given the manner in which discount rates are calculated. As a result, Moody's expects to see more plan sponsors restructuring liabilities or withdrawing from MEPPs altogether.

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A SUMMARY OF THE 2015 ANNUAL REPORTS

Each year the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. This message summarizes the 2015 Annual Reports.

Social Security's Disability Insurance (DI) Trust Fund now faces an urgent threat of reserve depletion, requiring prompt corrective action by lawmakers if sudden reductions or interruptions in benefit payments are to be avoided. Beyond DI, Social Security as a whole as well as Medicare cannot sustain projected long-run program costs under currently scheduled financing. Lawmakers should take action sooner rather than later to address these structural shortfalls, so that the uncertainty now facing disability beneficiaries will not eventually be experienced by other programs' participants, and so that a broader range of solutions can be considered and more time will be available to phase in changes while giving the public adequate time to prepare. Earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits.

Social Security and Medicare together accounted for 42 percent of Federal program expenditures in fiscal year 2014. Current trust fund operations including General Fund transfers into SMI, the portion of interest payments made to the trust funds that are necessary to pay benefits, and any drawdowns of a trust fund's assets—are resulting in mounting pressure on the unified budget. Both Social Security and Medicare will experience cost growth substantially in excess of GDP growth through the mid-2030s due to rapid population aging caused by the large baby-boom generation entering retirement and lower-birth-rate generations entering employment and, in the case of Medicare, to growth in expenditures per beneficiary exceeding growth in per capita GDP. In later years, projected costs expressed as a share of GDP trend up slowly for Medicare and are relatively flat for Social Security, reflecting very gradual population aging caused by increasing longevity and slower growth in per-beneficiary health care costs.

Social Security
The DI program satisfies neither the Trustees' long-range test of close actuarial balance nor our short-range test of financial adequacy and faces the most immediate financing shortfall of any of the separate trust funds. DI Trust Fund reserves expressed as a percent of annual cost (the trust fund ratio) declined to 40 percent at the beginning of 2015, and the Trustees project trust fund depletion late in 2016, the same year projected in the last Trustees Report. DI costs have exceeded non-interest income since 2005, and the trust fund ratio has declined in every year since peaking in 2003. While legislation is needed to address all of Social Security's financial imbalances, the need has become urgent with respect to the program's disability insurance component. Lawmakers need to act soon to avoid automatic reductions in payments to DI beneficiaries in late 2016.

To summarize overall Social Security finances, the Trustees have traditionally emphasized the financial status of the hypothetical combined trust funds for DI and for Old Age and Survivors Insurance (OASI). The combined trust funds, and expenditures that can be financed in the context of the combined trust funds, are hypotheticals because there is no legal authority to finance one program's expenditures with the other program's taxes or reserves.

Social Security's total expenditures have exceeded non-interest income of its combined trust funds since 2010, and the Trustees estimate that Social Security cost will exceed non-interest income throughout the 75-year projection period. The Trustees project that this annual cash-flow deficit will average about $76 billion between 2015 and 2018 before rising steeply as income growth slows to its sustainable trend rate after the economic recovery is complete while the number of beneficiaries continues to grow at a substantially faster rate than the number of covered workers.

Interest income and redemption of trust fund assets from the General Fund of the Treasury, will provide the resources needed to offset Social Security's annual aggregate cash-flow deficits until 2034. Since the cash-flow deficit will be less than interest earnings through 2019, total income will exceed expenditures and reserves of the combined trust funds will continue to grow but not by enough to prevent the ratio of reserves to one year's projected cost (the combined trust fund ratio) from declining. (This ratio peaked in 2008, declined through 2014, and is expected to decline steadily in future years.) After 2019, Treasury will redeem trust fund asset reserves to the extent that program cost exceeds tax revenue and interest earnings until depletion of total trust fund reserves in 2034, one year later than projected in last year's Trustees Report. Thereafter, tax income is projected to be sufficient to pay about three-quarters of scheduled benefits through the end of the projection period in 2089.

Under current projections, the annual cost of Social Security benefits expressed as a share of workers' taxable earnings will grow rapidly from 11.3 percent in 2007, the last pre-recession year, to roughly 16.7 percent in 2038, and will then decline lightly before slowly increasing after 2050. Costs display a slightly different pattern when expressed as a share of GDP. Program costs equaled 4.1 percent of GDP in 2007, and the Trustees project these costs will increase to 6.0 percent of GDP for 2037, then stay about flat through 2060, and thereafter rise slowly reaching 6.2 percent by 2089.

The projected 75-year actuarial deficit for the combined Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds is 2.68 percent of taxable payroll, down from 2.88 percent projected in last year's report. This deficit amounts to 20 percent of program non-interest income or 16 percent of program cost. A 0.06 percentage point increase in the OASDI actuarial deficit would have been expected if nothing had changed other than the one-year extension of the valuation period to 2089. The effects of recently enacted legislation, updated demographic and economic data, and improved methodologies on net improved the actuarial deficit by 0.26 percent of taxable payroll.

While the hypothetical combined OASDI Trust Fund fails the long-range test of close actuarial balance, it does satisfy the test for short-range (ten-year) financial adequacy. The Trustees project that the combined trust fund asset reserves at the beginning of each year will exceed that year's projected cost through 2028.

Medicare

The Trustees project that the Medicare Hospital Insurance (HI) Trust Fund will be depleted in 2030, the same year projected in last year's report. At that time dedicated revenues will be sufficient to pay 86 percent of HI costs. The Trustees project that the share of HI cost that can be financed with HI dedicated revenues will decline slowly to 80 percent in 2050, and will then rise gradually to 84 percent in 2089. HI non-interest income less HI expenditure is projected to be negative this year and next (as it has been in every year since 2008), and then turn positive for four years (2017-2020) before turning negative again in 2021. The HI fund again fails the test of short-range financial adequacy, as its trust fund ratio is already below 100 percent and is expected to decline in a near continuous fashion until reserve depletion in 2030.

The HI Trust Fund's projected long-term actuarial imbalance is smaller than that of the combined Social Security trust funds under the intermediate assumptions employed in the 2015 Trustees Report. The estimated 75-year actuarial deficit in the HI Trust Fund is 0.68 percent of taxable payroll, which amounts to 18 percent of tax receipts or 15 percent of program cost. This estimate is down from 0.87 percent projected in last year's report, in large part due to a change in the projection methodology that results in a lower estimate for long-range health care cost growth for HI and other parts of Medicare.

The Trustees project that Part B of Supplementary Medical Insurance (SMI), which pays doctors' bills and other outpatient expenses, and Part D of SMI that pays for prescription drug coverage, will remain adequately financed into the indefinite future because current law provides financing from general revenues and beneficiary premiums each year to meet the next year's expected costs. However, the aging population and rising health care costs cause SMI projected costs to grow steadily from 2.0 percent of GDP in 2014 to approximately 3.4 percent of GDP in 2035, and then more slowly to 3.8 percent of GDP by 2089. General revenues will finance roughly three quarters of these costs, and premiums paid by beneficiaries almost all of the remaining quarter. SMI also receives a small amount of financing from special payments by States and from fees on manufacturers and importers of brand-name prescription drugs.

The Trustees project that total Medicare costs (including both HI and SMI expenditures) will grow from approximately 3.50 percent of GDP in 2014 to 5.4 percent of GDP by 2035 and will increase gradually thereafter to about 6.0 percent of GDP by 2089.

Relative to last year's projections, the projections for Medicare's total costs are little changed over the next 20 years, but are substantially lower over the longer range. The improvement in the longer-term Medicare outlook is principally due to the methodological change mentioned

above, and also to provisions of the recently enacted Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) that lowers projected long-range Medicare Part B costs. After 20 years, Medicare reimbursement rates for physicians' services under MACRA are substantially reduced relative to last year's featured baseline projection that assumed continued overrides of the prior-law mechanism for setting Medicare's physician reimbursement rates.

In recent years U.S. national health expenditure (NHE) growth has slowed considerably. There is uncertainty regarding the degree to which this slowdown reflects the impacts of the recent economic downturn and other non-persistent factors or structural changes in the health care sector that may continue to produce cost savings in the years ahead. The Trustees are hopeful that U.S. health care practices are in the process of becoming more efficient as new payment models become more prevalent and providers anticipate less rapid growth of reimbursement rates in both the public and private sectors than has occurred during the past several decades.

For a number of years the methodology the Trustees have employed for projecting Medicare finances over the long term has assumed a substantial reduction in per capita health expenditure growth rates relative to historical experience. In addition, the Trustees have been revising down their projections for near-term Medicare expenditure growth in light of the recent favorable experience, in part due to effects of payment changes and delivery system reform that are changing how health care is practiced. However, the Trustees have not assumed additional, specific cost saving arising from structural changes in the delivery system that may result from MACRA's new payment mechanisms and the cost-reduction incentives in the Affordable Care Act, as well as from payment reforms initiated by the private sector.

Notwithstanding the assumption of a substantial slowdown of per capita health expenditure growth, the projections indicate that Medicare still faces a substantial financial shortfall that will need to be addressed with further legislation. Such legislation should be enacted sooner rather than later to minimize the impact on beneficiaries, providers, and taxpayers.

Conclusion

Lawmakers should address the financial challenges facing Social Security and Medicare as soon as possible. Taking action sooner rather than later will permit consideration of a broader range of solutions and provide more time to phase in changes so that the public has adequate time to prepare.

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