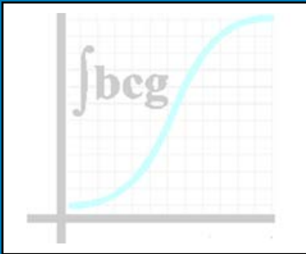

BCG Retirement News Roundup

June 2012, Volume 1, Issue 5

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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.

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Public Sector/Government Plans

GASB Improves Pension Accounting and Financial Reporting Standards

Norwalk, CT, June 25, 2012—The Governmental Accounting Standards Board (GASB) today voted to approve two new standards that will substantially improve the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans,* revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions,* revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

"The new standards will improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations," said GASB Chairman Robert H. Attmore. "Among other improvements, net pension liabilities will be reported on the balance sheet, providing citizens and other users of these financial reports with a clearer picture of the size and nature of the financial obligations to current and former employees for past services rendered."

Pension plans are distinguished for financial reporting purposes in two ways. First, plans are classified by whether the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms (a defined benefit plan) or whether the pensions an employee will receive will depend only on the contributions to the employee's account, actual earnings on investments of those contributions, and other factors (a defined contribution plan).

In addition, defined benefit plans are classified based on the number of governments participating in a particular pension plan and whether assets and obligations are shared among the participating governments. Categories include plans where only one employer participates (single employer); plans in which assets are pooled for investment purposes, but each employer's share of the pooled assets is legally available to pay the benefits of only its employees (agent employer); and plans in which participating employers pool or share obligations to provide pensions to their employees and plan assets can be used to pay the benefits of employees of any participating employer (cost-sharing employer).

Statement 68 (Employers)
Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures,* as they relate to governments that provide pensions

through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

Defined Benefit Pension Plans. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

The Statement calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms. Other components of pension expense will be recognized over a closed period that is determined by the average remaining service period of the plan members (both current and former employees, including retirees). These other components include the effects on the net pension liability of (a) changes in economic and demographic assumptions used to project benefits and (b) differences between those assumptions and actual experience. Lastly, the effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed five-year period.

Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. These changes include:

- **Projections of Benefit Payments.** Projections of benefit payments to employees will be based on the then-existing benefit terms and incorporate projected salary changes and projected service credits (if they are factors in the pension formula), as well as projected automatic postemployment benefit changes (those written into the benefit terms), including automatic cost-of-living-adjustments (COLAs). For the first time, projections also will include ad hoc postemployment benefit changes (those not written into the benefit terms), including ad hoc COLAs, if they are considered to be substantively automatic.

- **Discount Rate.** The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met.

- **Attribution Method.** Governments will use a single actuarial cost allocation method – "entry age," with each period's service cost determined as a level percentage of pay.

Note Disclosures and Required Supplementary Information. Statement 68 also requires employers to present more extensive note disclosures and RSI, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Single and agent employers will disclose additional information, such as the composition of the employees covered by the benefit terms and the sources of changes in the components of the net pension liability for the current year. A single or agent employer will also will present RSI schedules covering the past 10 years regarding:

- Sources of changes in the components of the net pension liability

- Ratios that assist in assessing the magnitude of the net pension liability

- Comparisons of actual employer contributions to the pension plan with actuarially determined contribution requirements, if an employer has actuarially determined contributions.

Cost-sharing employers also will present the RSI schedule of net pension liability, information about contractually required contributions, and related ratios.

Defined Contribution Pensions. The existing standards for governments that provide defined contribution pensions are largely carried forward in the new Statement. These governments will recognize pension expenses equal to the amount of contributions or credits to employees' accounts, absent forfeited amounts. A pension liability will be recognized for the difference between amounts recognized as expense and actual contributions made to a defined contribution pension plan.

Special Funding Situations. Certain governments are legally responsible for making contributions directly to a pension plan that is used to provide pensions to

the employees of another government. For example, a state is legally required to contribute to a pension plan that covers local school districts' teachers. In specific circumstances called special funding situations, the Statement requires governments that are nonemployer contributing entities to recognize in their own financial statements their proportionate share of the other governmental employers' net pension liability and pension expense.

Statement 67 (Plans)

This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules.

Effective Dates and Availability

The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged for both Statements.

Statements 67 and 68 will be available for download at no cost from the **GASB website** in early August. Bound copies of the Statements will be available for distribution soon thereafter. A plain-language description of the new requirements also will be available on the **GASB website**.

NCPERS Survey Finds Public Pensions Remain Solidly Funded, Funds Express High Confidence in Plan Sustainability

WASHINGTON, Jun 11, 2012 (BUSINESS WIRE) -- The most comprehensive and up-to-date study addressing retirement issues for public pension plans finds state and local pension funds remain solidly funded, have strong confidence in their ability to address retirement trends and issues and continue to adopt organizational and operational changes to ensure their long-term sustainability.

The 2012 NCPERS Public Fund Study, conducted by the National Conference on Public Employee Retirement Systems (NCPERS) and Cobalt Community Research, surveyed no less than 147 public pension funds in April and May. The vast majority -- 84 percent -- were local pension funds, while the remaining 16

percent were state pension funds. Those funds cover more than 7.5 million active and retired public employees and have assets exceeding $1.2 trillion.

"The data we collected -- the most current data available -- shows public pension funds are continuing their strong recovery from the historic market downturn of 2008-2009," said Hank Kim, Esq., NCPERS' Executive Director and Counsel. "The survey shows public pensions are managing their assets efficiently and effectively, making plan design changes to ensure sustainability, continuing to implement sound operational controls and are expressing strong and growing confidence about their readiness to address the challenges ahead."

Among the study's key findings:
-- Participating funds reported a solid average funded level of 74.9 percent, only slightly below the 2011 average of 76.1 percent. According to its February 2011 report Enhancing the Analysis of U.S. State and Local Government Pension Obligations, Fitch Ratings considers a funded ratio of 70 percent or above to be adequate.

-- Both one-year and 20-year returns reported by participating funds point to continuing long-term improvement in funded status. While one-year returns were slightly lower than 2011's (12.5 percent compared to 13.5 percent), all longer-term returns were higher: three-year returns jumped from negative one percent to 4.4 percent; five-year returns grew from 3.6 percent to 4.4 percent; 10-year returns increased from 4.0 percent to 5.3 percent, and 10-year returns grew from 8 percent to 8.7 percent.

-- Pension funds are designed to pay off liabilities over an extended period of time (the amortization period), to ensure long-term stability and to make annual budgeting easier through more predictable contribution levels. This year's survey found that amortization period averages 24.6 years -- down from 25.8 years in 2011.

-- Asked about readiness to address retirement trends and issues, respondents provided an overall confidence rating of 7.7 on a 10-point scale -- up from 7.4 in 2011.

-- Market returns remained the largest source of fund income -- 73 percent, while employer contributions accounted for 17 percent and member contributions amounted to 10 percent.

-- Overall, funds reported domestic equity exposure at 36 percent (down from 39 percent in the 2011 study). International equity exposure remained steady at 17 percent. Over the next two years, funds plan to reduce domestic equity slightly and increase allocations to private equity/hedge funds, commodities and other investments.

-- Funds with the highest 10-year investment returns had significantly lower allocations to domestic equity, international fixed income and high-yield bonds, but they had higher allocations to international equity, domestic fixed income and other asset classes.

-- The overall average expense to administer the funds and pay investment manager fees was 73.1 basis points (100 basis points equal 1 percentage point). This is a very slight increase from the 2011 level of 69.2 basis points. According to the investment industry's 2011 Investment Company Fact Book, the average expenses and fees of most equity/hybrid mutual funds average 95 basis points. Funds with lower expenses, like public pension plans, provide a higher level of benefit to members and produce a higher beneficial economic impact for the communities those members live in than most mutual funds.

-- Continued structural and operational changes to ensure long-term sustainability included increasing employee contributions, increasing age/service requirements, reducing wage inflation assumptions, tightening use of overtime in the calculation of benefits, tightening procedures for enhancing benefits, shortening the amortization period and closing the plan to new hires.

The full text of the 2012 NCPERS Public Fund Study is available at www.ncpers.org .

About NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage nearly $3 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.

SOURCE: National Conference on Public Employee Retirement Systems

Pension Reform: Some Myth-Busters To Follow The Stalemate

Last week, a State Senate bill that initially sought to replace New Hampshire's defined benefit (DB for short — think pension) plan with a defined contribution plan (DC for short — think 401(k)) dissolved into a stalemate. The Senate and House were not even able to form a commission to make recommendations addressing the state's $4.2 billion in unfunded liability. There seems to be an inability to agree on the facts. We mined a few sources, especially a report from the **National Institute On Retirement Security** (NIRS), to try to find some clarity.

The Author's Cheat Sheet:

DC = Defined Contribution = Newfangled 401(k)

The employee makes a *contribution* into an individual plan.

DB = Defined Benefit = Old-fashioned pension fund

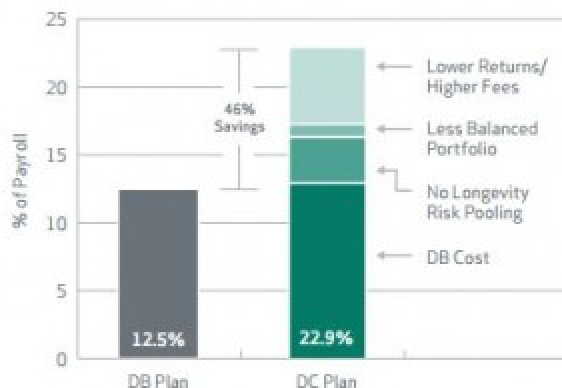
The employee receives a *benefit* provided by the employer.

People assume DC plans are cheaper than DB plans for employers, and therefore for taxpayers — when it comes to public pensions. But that's not actually true. Economists agree that defined benefit plans are more efficient than defined contribution plans. There are three reasons.

- When an employer pools all of their employees' investments and risks in a single pension fund, they can spread risk over the long term, saving in the good years and spending that in the bad years.
- The pooled investments also prevent over– and under-saving, which is what happens with DC plans because individuals can't predict when they will die.
- DB plans have lower management fees because of what economists call "economies of scale." Like buying anything in bulk, it's cheaper to manage all of

the money at once, rather than managing hundreds or thousands of individual investments.

Because of all of these factors, DB plans provide the same benefit for 46% less than the DC plan provides. Check out **NIRS's** Figure 1.



NIRS

So why have so many employers switched to defined contribution plans?

1. Smoke and mirrors. According to research by economists Theresa Ghilarducci and Wei Sun, when employers switch out of DB and into DC plans, they almost always cut the average employee benefit in the process. So while the same benefit will be cheaper in a DB than in a DC plan for both the employer and the employee, employers are using the transition as an opportunity to cut overall benefits. That makes things cheaper for the employer, but not for the employee.

2. Risk Divestment. Defined contribution plans, while less efficient, put all of the risk in the employee's hands. While this may be good for savvy investors, it is not so good for your average employee. So while employers could get more bang for their buck with a DB plan, with a DC plan they move financial risk from the company to the employee.

Another perk to DC plans is that they are very mobile, something useful in an era of high employee turnover. But that's actually a detractor for businesses: employee turnover is expensive, and the old-fashioned DB pension plans encouraged employee loyalty.

If traditional DB plans are so great, why are state DB pension plans — like New Hampshire's — in so much trouble?

Pension System

That seems to have less to do with the kind of pension fund, and more to do with the ways that states have been investing them. One problem is that states like New Hampshire haven't been saving during the good times to prepare for the bad times. Instead they've provided bigger and better benefits in the good times, only to find they can't sustain them during a recession.

Another reason was recently laid out by Mary Williams Walsh and Danny Hakim in the **New York Times**. They explained that while most public pension funds are assuming an unrealistic 7 to 8 percent (New Hampshire assumes a 7.75 percent) rate of return on investment, today the realistic expectation would be more like 3 or 4 percent — individuals are only seeing 1 percent on their 401(k)s, afterall. But lowering the anticipated rate of return even three-quarters of a percentage point sends unions, taxpayers and voters into a tizzy. As the Times reported, "when Rhode Island's state treasurer, Gina M. Raimondo, persuaded her state's pension board to lower its rate to 7.5 percent last year, from 8.25 percent, the president of a firemen's union accused her of 'cooking the books.'"

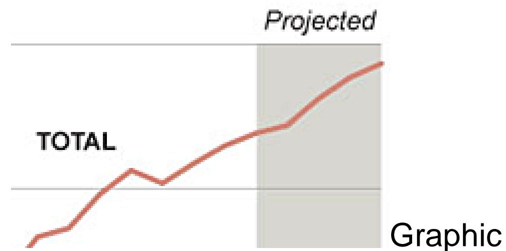
As the Executive Director of the New Hampshire Retirement System George P. Lagos explained in a **letter to Senate Majority Leader Jeb Bradley**, the New Hampshire Retirement System Trustees have more than once supported a study commission and endorsed adequate funding for it, to better understand the issues surrounding a transition to a defined contribution plan, before committing the state to such a potentially expensive change.

An editorial by the Concord Monitor **recently suggested** that alternatives should be discussed, including hybrid plans that combine both DB and DC plans — a system supported by the National Institute On Retirement Security, the organization responsible for much of the information in this article.

JUNE 5, 2012 | 7:33 AM
BY EMILY CORWIN

Public Pensions Faulted for Bets on Rosy Returns

Few investors are more bullish these days than public pension funds.
Multimedia



Graphic

Pensions and the New York City Budget
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While Americans are typically earning less than 1 percent interest on their savings accounts and watching their401(k) balances yo-yo along with the stock market, most public pension funds are still betting they will earn annual returns of 7 to 8 percent over the long haul, a practice that Mayor Michael R. Bloomberg recently called "indefensible."

Now public pension funds across the country are facing a painful reckoning. Their projections look increasingly out of touch in today's low-interest environment, and pressure is mounting to be more realistic. But lowering their investment assumptions, even slightly, means turning for more cash to local taxpayers — who pay part of the cost of public pensions through property and other taxes.

In New York, the city's chief actuary, Robert North, has proposed lowering the assumed rate of return for the city's five pension funds to 7 percent from 8 percent, which would be one of the sharpest reductions by a public pension fund in the United States. But that change would mean finding an additional $1.9 billion for the pension system every year, a huge amount for a city already depositing more than a tenth of its budget — $7.3 billion a year — into the funds.

But to many observers, even 7 percent is too high in today's market conditions.

"The actuary is supposedly going to lower the assumed reinvestment rate from an absolutely hysterical, laughable 8 percent to a totally indefensible 7 or 7.5 percent," Mr. Bloomberg said during a trip to Albany in late February. "If I can give you one piece of

financial advice: If somebody offers you a guaranteed 7 percent on your money for the rest of your life, you take it and just make sure the guy's name is not Madoff."

Public retirement systems from Alaska to Maine are running into the same dilemma as they struggle to lower their assumed rates of return in light of very low interest rates and unpredictable stock prices.

They are facing opposition from public-sector unions, which fear that increased pension costs to taxpayers will further feed the push to cut retirement benefits for public workers. In New York, the Legislature this year cut pensions for public workers who are hired in the future, and around the country governors and mayors are citing high pension costs as a reason for requiring workers to contribute more, or work longer, to earn retirement benefits.

In addition to lowering the projected rate of return, Mr. North has also recommended that the New York City trustees acknowledge that city workers are living longer and reporting more disabilities — changes that would cost the city an additional $2.8 billion in pension contributions this year. Mr. North has called for the city to soften the blow to the budget by pushing much of the increased pension cost into the future, by spreading the increased liability out over 22 years.

Ailing pension systems have been among the factors that have recently driven struggling cities into Chapter 9 bankruptcy. Such bankruptcies are rare, but economists warn that more are likely in the coming years. Faulty assumptions can mask problems, and municipal pension funds are often so big that if they run into a crisis their home cities cannot afford to bail them out.

The typical public pension plan assumes its investments will earn average annual returns of 8 percent over the long term, according to the Center for Retirement Research at Boston College. Actual experience since 2000 has been much less, 5.7 percent over the last 10 years, according to the National Association of State Retirement Administrators. (New York State announced last week that it had earned 5.96 percent last year, compared with the 7.5 percent it had projected.)

Worse, many economists say, is that states and cities have special accounting rules that have been criticized for greatly understating pension costs. Governments do not just use their investment assumptions to project future asset growth. They also use them to measure what they will owe retirees in the future in today's dollars, something

companies have not been permitted to do since 1993.

As a result, companies now use an average interest rate of 4.8 percent to calculate their pension costs in today's dollars, according to Milliman, an actuarial firm.

In New York City, the proposed 7 percent rate faces resistance from union trustees who sit on the funds' boards. The trustees have the power to make the change; their decision must also be approved by the State Legislature.

"The continued risk here is that even 7 is too high," said Edmund J. McMahon, a senior fellow at the Empire Center for New York State Policy, a research group for fiscal issues.

And Jeremy Gold, an actuary and economist who has been an outspoken critic of public pension disclosures, said, "If you're using 7 percent in a 3 percent world, then you're still continuing to borrow from the pension fund."

The city's union leaders disagree. Harry Nespoli, the chairman of the Municipal Labor Committee, the umbrella group for the city's public employee unions, said that lowering the rate to 7 percent was unnecessary.

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"They don't have to turn around and lower it a whole point," he said.

When asked if his union was more bullish on the markets than the city's actuary, Mr. Nespoli said, "All we can do is what the actuary is doing. He's guessing. We're guessing."

Vermont has lowered its rate by 2 percentage points, but for only one year. The state recently adopted an unusual new approach calling for a sharp initial reduction in its investment assumptions, followed by gradual yearly increases. Vermont has also required public workers to pay more into the pension system.

Union leaders see hidden agendas behind the rising calls for lower pension assumptions. When Rhode Island's state treasurer, Gina M. Raimondo, persuaded her state's pension board to lower its rate to 7.5 percent last year, from 8.25 percent, the president of a firemen's union accused her of "cooking the books."

Lowering the rate to 7.5 percent meant Rhode Island's taxpayers would have to

contribute an additional $300 million to the fund in the first year, and more after that. Lawmakers were convinced that the state could not afford that, and instead reduced public pension benefits, including the yearly cost-of-living adjustments that retirees now receive. State officials expect the unions to sue over the benefits cuts.

When the mayor of San Jose, Calif., Chuck Reed, warned that the city's reliance on 7.5 percent returns was too risky, three public employees' unions filed a complaint against him and the city with the Securities and Exchange Commission. They told the regulators that San Jose had not included such warnings in its bond prospectus, and asked the regulators to look into whether the omission amounted to securities fraud. A spokesman for the mayor said the complaint was without merit.

In Sacramento this year, Alan Milligan, the actuary for the California Public Employees' Retirement System, or Calpers, recommended that the trustees lower their assumption to 7.25 percent from 7.75 percent. Last year, the trustees rejected Mr. Milligan's previous proposal, to lower the rate to 7.5 percent.

This time, one trustee, Dan Dunmoyer, asked the actuary if he had calculated the probability that the pension fund could even hit those targets.

Yes, Mr. Milligan said: There was a 50-50 chance of getting 7.5 percent returns, on average, over the next two decades. The odds of hitting a 7.25 percent target were a little better, he added, 54 to 46.

Mr. Dunmoyer, who represents the insurance industry on the board, sounded shocked. "To me, as a fiduciary, you want to have more than a 50 percent chance of success."

If Calpers kept setting high targets and missing them, "the impact on the counties won't be bigger numbers," he said. "It will be bankruptcy."

In the end, a majority decided it was worth the risk, and voted against Mr. Dunmoyer, lowering the rate to 7.5 percent.

A version of this article appeared in print on May 28, 2012, on page A1 of the New York edition with the headline: Public Pensions Faulted for Bets On Rosy Returns.

Quinn not optimistic about hitting deadline for pension reform

Gov. Pat Quinn acknowledged Monday what most others in state government have said for weeks: It's unlikely that he and legislative leaders will strike a deal on public employee pension reform by his June 30 deadline.

While Quinn said he's still pushing for a resolution by month's end, he admitted that a huge hurdle remains as Democrats and Republicans are split over a plan that would shift some retirement costs from the state to local school districts. Lawmakers left Springfield at the end of May without passing a major pension overhaul, prompting Quinn to set his own deadline.

The governor said Illinois has made great strides by overhauling the Medicaid health care system for the poor this year but said the state's budget won't be on a path to sound footing until pension costs also are brought under control.

"We need to roll up our sleeves and get that part of the job done this summer," Quinn said.

At issue is a provision backed by Democrats that would force local school districts, universities and community colleges to pick up more of the tab for their employees' retirement costs. The state now pays the bulk of those benefits, which Quinn and House Speaker Michael Madigan, D-Chicago, have said the state no longer can afford.

Democrats say the proposal would force schools to be more accountable when they dole out pensions to employees. Republicans agree but say it also would drive property taxes up as schools look for money to cover the pension costs. Quinn argues that the shift would have an "imperceptible impact" on schools if it is phased in over 10 years or longer.

Senate Republican leader Christine Radogno, of Lemont, said it's a policy conversation worth having but that the plan should not be tied to larger pension reforms that lawmakers agree on. Radogno contended that Democrats are purposely trying to delay broader pension changes until after the November election so they can avoid angering unions that typically support them at the polls.

"This is a stall tactic," Radogno said.

Quinn said politics should not factor into the equation.

"I really don't see the Election Day as really the key date. I think the date is really right away for pension reform," Quinn said. "It's beyond me how you can let this one issue hold up a fundamental overhaul of our public pension system that has been in the waiting for three decades."

Quinn's comments came after he signed a measure into law that will create the new position of state actuary. The actuary will oversee the state's five pension systems to ensure accuracy when calculating Illinois' annual pension contribution payment.

By Monique Garcia, Chicago Tribune reporter

9:57 p.m. CDT, June 18, 2012

Private Sector

IRS Lists Issues Found in Audited DB

The Pension Protection Act of 2006 (PPA)made significant changes to funding requirements and administrative practices for defined benefit (DB) plans, including cash balance plans.

The Internal Revenue Service (IRS) said a team of agents received training in the new law and subsequently conducted a number of DB plan audits. Although the project is still ongoing, many of the cases have been completed.
Issues identified to date include:

Annual funding notices made late or not dated in accordance with PPA section 501(a); Employee Retirement Income Security Act (ERISA) section 101(f);

•Elections to use or reduce prefunding and/or carryover balances made late/not dated (Treas.Regs. sections 1.430(f)-1(e) and (f));

•Elections to use prefunding and carryover balance to meet quarterly contributions made late or elections not specifying the dollar amount(s);

•Late Adjusted Funding Target Attainment Percentage certification (Treas. Regs. sections 1.436-1(f) and -1(h));

• Actuarial increase for late retirement benefits not made;

•Assets valued differently for IRC section 430 versus IRC section 436 -- Internal Revenue Code
(IRC) section 430 describes the new funding requirements under PPA. The new law imposes restrictions via IRC section 436 on benefit payments, benefit increases and accruals when a plan is underfunded beyond certain thresholds;

• Relative value disclosure notices didn’t satisfy Treas. Regs. section 1.417(a)(3)-1(c)(1)(iv);

• Late contribution payments resulting in liquidity shortfalls;

• Late quarterly contributions - IRC section 430(j)(3);

•Inappropriate inclusion of premiums for life insurance policies in target normal cost as plan expenses;

• Funding in excess of the IRC section 404(o) limitation;

•Compensation for purposes of determining the accrued benefit in the valuation doesn't match the definition per plan terms;

• Compensation for benefit purposes not defined in the plan;

• Service incorrectly calculated for benefit purposes; and

•Incorrect interest rates used for calculating benefits distributions for payment options that are subject to IRC 417(e)(3).

The IRS noted many of the identified issues are failures to comply with the funding rules and consequently, do not threaten the qualified status of the plan, but may result in assessment of excise tax or penalties. However, some of the issues do result in qualification failures, such as a plan not operating in accordance with its specific written terms or in compliance with the requirements of IRC section 401(a) (29).

Resolution of the qualification failures have been addressed using the appropriate correction program, and applying the basic correction principles discussed in Revenue Procedure 2008-50.

Rebecca Moore
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The high price of early benefits; Out-of-work Americans forced to seek retirement funds earlier than desired

This retirement oasis in the desert has long beckoned those who want to spin out their golden years playing golf and sitting by the pool in the arid sunshine.

But for Clare Keany, who turned 62 last autumn and cannot find work, it feels more like a prison. Just a few miles from the gated estates of corporate chieftains and Hollywood stars, Ms. Keany lives in a tiny mobile home, barely getting by on

little more than $1,082 a month from Social Security.

"I would rather be functioning and having a job somewhere," said Ms. Keany, whose pixie haircut, trim build and crinkling smile suggest someone much younger than her years. "I really don't enjoy living like this. I've got too much to do still."

Even as most Americans are delaying retirement to expand their savings accounts, the recession and its protracted aftermath have forced many older people who are out of work to draw Social Security much earlier than they had planned.

According to an analysis by Steve Goss, chief actuary for the Social Security Administration, about 200,000 more people filed initial claims in 2009 and 2010 than the agency had predicted before the recession. He said the trend had probably continued in 2011 and 2012, though that is harder to quantify. The most likely reason is joblessness.

Ms. Keany had always expected to work into her 70s and add to her retirement cushion. But after losing her job as an executive assistant at an advertising agency in 2008, she searched fruitlessly for full-time work and exhausted her unemployment benefits. For a while, she strung together odd jobs and lived off her 401(k) retirement and profit-sharing accounts. Then, this year, with her savings depleted and no job offers in sight, she reluctantly applied for Social Security.

Gazing out the window where the Santa Rosa Mountains rise behind the mobile home park, she said, "It just seems a waste of a life, to be honest."
Drawing Social Security early has repercussions that will be hard to overcome even if the economy - and her work prospects - improve. By collecting four years shy of her full retirement age, Ms. Keany will receive a reduced monthly benefit for the rest of her life. Those who collect early get 20 to 30 percent less a month than they would get if they waited until full retirement age, which varies by year of birth. People in Ms. Keany's age bracket are expected to live an average of close to 23 more years.

"The most potent lever that individuals can pull in trying to get themselves a secure retirement income is to postpone claiming" Social Security, said Alicia H. Munnell, director of the Center for Retirement Research at Boston College.
As recently as a decade ago, half of those eligible claimed Social Security at 62. But that share has been falling because people are living longer and still want to work as well as shore up retirement funds. That makes it even more galling for those who are forced to claim early because of unemployment. Several people interviewed mentioned blows to their self-esteem along with abandoned dreams of a more comfortable old age.

According to an analysis by Richard W. Johnson, director of the retirement policy program at the Urban Institute in Washington, 37 percent of older workers who lost their jobs between 2008 and 2011 and did not return to work ended up claiming Social Security as soon as they turned 62.

Ms. Keany, who was born in Britain, was making $64,000 a year as an administrative manager for a boutique advertising agency in Santa Monica when the firm lost two of its biggest clients in one week. She has nearly three decades of experience in the United States. She has managed offices, arranged visits by foreign dignitaries, composed employee handbooks and finessed demanding bosses. She said she had also run errands for movie producers, organized home offices and coordinated the administrative details of a drug study.
Those years of experience now work against her, she thinks. ''I'm overly qualified, overly skilled,'' she said.

Her age is also probably an impediment. After they lose a job, older workers tend to have a much harder time finding another than younger workers.
A Government Accountability Office report found that just under a third of those 55 to 64 who lost their jobs from 2007 through 2009 had found full-time work by January 2010, compared with 41 percent of people 25 to 54. The median duration of unemployment for those 55 and older was 34.1 weeks in May, according to the Labor Department, in contrast to 22 weeks for all jobless people over 16.

Ms. Keany, who is single and has no children, tried a change of geography. Because the economy in California was so weak, she moved in with friends in Charlotte, North Carolina, three years ago in hopes of having better luck there. She signed up with employment offices and volunteered but did not find paying work.

Another friend invited her to stay on the Outer Banks of North Carolina, where Ms. Keany eventually began work at a women's recovery house in exchange for room and utilities. Then Hurricane Irene hit last August and damaged the house. Ms. Keany could not afford to stay.
In a panic, she used the last of her savings to move to Palm Springs last October and buy a $19,000 one-bedroom mobile home in the same park where friends lived two doors down.

''I was so frantic at that point, and I was at my wit's end,'' said Ms. Keany, saying she still planned to find a job. ''I thought at least with Palm Springs, it's a retirement resort community, and I know there's a lot of business here as well.''
She scoured Craigslist for affluent residents seeking personal assistants. She took a one-month job in Los Angeles, chauffeuring the principal actor on a movie. She applied for a job as a concierge at a Marriott Hotel, but withdrew after hearing it offered only eight hours a week.

Finally, in January, she gave in and filed for Social Security. Her monthly check covers the $336 mobile home park fee plus utilities, her cellphone bill, insurance and a satellite dish. She is also paying $100 a month in credit card debt. To save money, she has canceled the data plan on her BlackBerry and cut back on fresh fruits and vegetables.

After a wind storm blew out a window, she covered it with a tarp because she could not afford to replace the glass.

Ms. Keany is still hoping to find work. Social Security recipients younger than full retirement age can earn as much as $14,640 a year without sacrificing any of their monthly benefit. At Ms. Keany's age, for every $2 earned over that amount, Social Security deducts $1 in benefits.

This month, she flew back to the Outer Banks to stay with friends and work part time in two gift shops over the summer. If she cannot find permanent work in North Carolina, she plans to return to Palm Springs in the autumn.

She is discouraged by what she sees as youth-obsessed employers. ''We're already has-beens, which is so sad,'' Ms. Keany said. ''Some of us are still pretty productive.''

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The International Herald Tribune

June 11, 2012 Monday

70 may be the new age to retire;
Study shows half of workers won't have enough saved at 65.

When it comes to retiring, 70 is the new 65.

That's according to a study from Boston College's Center for Retirement Research that shows fewer than half of U.S. workers will have enough money saved to retire at 65. But if those same people keep working until they are 70, the picture improves dramatically, with 86 percent likely to be financially comfortable in retirement.

"The 401(k) system has worked for some, but it has not worked for many," said Anthony Webb, research economist and an author of the study.

To have more time to save and to maximize Social Security benefits, he noted, "One of the most powerful levers is working longer."

The study takes into account 401(k) retirement plans and pensions, as well as home values, all of which have suffered in the economic downturn.
And Social Security weighs heavily in the calculation, because the benefits are so much greater for those who wait until at least 66 - and even better, 70 - instead of cashing in at 62.

Assume the average person needs about 75 percent of his or her annual income to be comfortable in retirement. The average 55- to 64-year-old has a 401(k) balance of less than $100,000, Webb said. That will provide only $5,000 a year, over a 20-year retirement. So Social Security has to make up the difference.
A worker making $65,000 a year would get $1,236 a month if he retired at 62; waiting until age 70 turns that check into $2,253 monthly.

For some, the study may bring a bit of relief - you will have to work longer, but not forever.

Baby boomers who grew up believing they could drop into a chaise lounge promptly at 65 may find the idea of having to work longer deeply disappointing. However, others, as long as they are healthy, want to be productive as they get older, and don't want to be idle for a decade or two.

But today's younger workers are the ones most likely to have to delay retirement.

According to the study, the older you are right now, the greater the chance you will have enough money to retire at an earlier age. For instance, people 50 to 59 are twice as likely to be able to afford to retire at 62 as those who are currently 30 to 39. That's in part because many older workers enjoy
traditional pension plans, which are being phased out at many companies. They also may have done better in their IRAs or 401(k) plans, having invested more aggressively in better markets and more conservatively in recent years.

But not everyone wants to work longer. For people with demanding physical jobs, such as in construction or nursing, the prospect of working to age 70 may not be possible, or reasonable.

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GM still pitching pension buyouts

General Motors executives are continuing to lobby white-collar retirees on major changes pending for their pensions, but not everyone has yet embraced the plan.

The two sides held an hour-long conference call Friday, called by GM, to discuss the planned pension buyout offer to 42,000 salaried retirees.

Also, GM is offloading $26 billion of its $134 billion in pension obligations to Prudential Insurance Co., which means about 118,000 hourly retirees will see their pensions swapped for lump-sum payments or paid by Prudential, not GM.

GM's decision to terminate its salaried pensions and transfer them to Prudential has angered many retirees. Some have threatened to stop buying GM vehicles.

Retirees have stopped short of calling for a formal boycott or demonstration at GM's Renaissance Center headquarters in Detroit.

However, leaders of a group representing white-collar retirees plan to hold a conference call Monday to decide their next steps.

Jim Shepherd, the General Motors Retiree Association president, wrote GM Chairman and CEO Dan Akerson this month questioning
the pension plan changes, noting that retirees will lose the protection of the Pension Benefit Guaranty Corp. - the government's pension insurer - along with federal law that governs employee pensions.

GM officials on Friday's call said the July 20 deadline to decide whether to accept the lump sum will not be extended. "It was mostly a question and answer period," said Shepherd in an interview after the call.

GM spokesman Dave Roman said pensions were the topic of a regularly scheduled call Friday with presidents of GM retiree clubs across the country. He declined to provide any details of the meeting.

The automaker invited about 30 or 40 retirees - leaders in the GM Retiree Association - to the conference call, said Wayne Williamson, GMRA treasurer/secretary.

Williamson, 74, of Bay City, a retired GM senior buyer in purchasing, said the call didn't leave enough time for questions - or result in any good answers.

"We're going to go after them," he said.

He said one option may be an informal boycott by individual members. Williamson said GM hasn't explained why it offered lump-sum buyouts to some retirees, but not to others.

The key issue is "what happens if Prudential bellies up, which is highly improbable," Shepherd said.

"But 10 years ago, who would have felt that GM would file for bankruptcy?"

About 10,000 people attended 75 meetings GM held across the country to answer retirees' questions about pension changes.

Roman said GM has received thousands of calls to its call center and hits to its website and boycotts are not coming up.

Cindy Brinkley, GM's vice president of global human resources, defended the plan in a letter to Shepherd last week.

"We believe that these changes are good for retirees ... and for the company, which will see its pension obligation reduced significantly," wrote Brinkley.

"Strengthening our balance sheet will allow GM to do something we haven't done in decades - focus our attention and resources on being the best carmaker we can be."

In a follow-up letter Thursday, Shepherd said he agreed that "GM management must prove they can create a low debt, high equity driven company with an investment grade rating as high or higher than Prudential enjoys today.

"This should include honoring its pledge to fund the salaried plan liability. It seems GM favors funding union plans, similar to the way the Delphi union plan was funded, but not its salaried retiree plan."

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