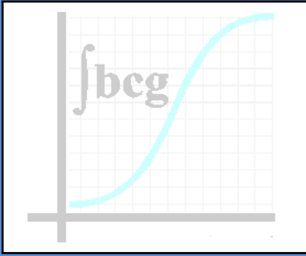

BCG Retirement News Roundup

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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

Rahm Emanuel Rolls the Dice to Pay Chicago's Pension Bills

The mayor wants lawmakers to authorize a city-owned casino whose revenues would exclusively fund pensions.

The Second City is strapped with a $30 billion unfunded liability for public worker and teacher pensions. This year, Mayor Rahm Emanuel must scrape together $1.1 billion, nearly a third of the city's $3.5 billion general budget, to make a balloon payment to the city's pension funds. Separately, the city's schools face a $1.1 billion deficit driven by a $634 million pension bill. This all has created a quandary for Mr. Emanuel.

Investors appear unlikely to finance worker pensions. Last month Moody's downgraded Chicago bonds to junk after the state Supreme Court ruled in effect that pensions were inviolable. What's more, creditors got burned by such bond deals when Detroit and the California cities of Stockton and San Bernardino went bankrupt. (San Bernardino has offered to repay holders of pension obligation bonds just one cent on the dollar.)

Hiking Chicago's property taxes, which have increased by about half over the past five years, is politically unpopular. Ditto raising the city's 9.25% sales tax, which is among the highest in the state and Midwest. And Illinois Republican Gov. Bruce Rauner has thrown cold water on a state bailout.

So how does Mr. Emanuel plan to pay the city's pension bills? Gambling. The mayor wants state lawmakers to authorize a city-owned casino whose revenues would exclusively fund pensions. He says the casino would be a win-win for workers and taxpayers.

Trouble is, other states are also betting on new casinos to help pay for pensions. The result could be a zero-sum game for states and a losing hand for Chicagoans if the city casino goes bust.

Raising money from gambling is as old as America. The Virginia Company of London inaugurated lotteries to finance the Jamestown settlement. All 13 colonies later adopted lotteries to help fund public-works projects and early colleges including Harvard, Yale, Columbia, Dartmouth and Princeton. Southern states held lotteries to rebuild after the Civil War.

In 1931, Nevada became the first state to legalize most other forms of gambling to stimulate tourism. In 1976, New Jersey lawmakers looked to casinos as an economic tool to revitalize downtrodden Atlantic City. So-called riverboat-market states, including Illinois, Louisiana and

Missouri, opened the gates to gaming in the early 1990s. More recently, Florida (2006), Kansas (2007), Maryland (2008) and Ohio (2009) have sought to get in on the moneymaking business.

All told, 23 states allow commercial gaming with various restrictions on their operations and levels of taxation, with effective rates ranging from 8.3% in Nevada to 53.1% in Rhode Island. The 514 casinos, which are mainly concentrated in the Midwest and Northeast, have produced a revenue rush for state and local governments as well as employment for low-skilled workers. A 2015 industry review by accounting firm RubinBrown estimates that states last year raised upward of $8 billion from gaming taxes. Illinois collected $501 million last year while New Jersey raked in $241 million.

Many states are seeking to expand gaming to boost local economies and government coffers—and compete with other states. In December, New York approved three new glitzy casino resorts in upstate New York, which Gov. Andrew Cuomo declared would help "drive economic development in surrounding communities, support small businesses, and create new tax revenue to support local governments and school districts."

Now, New Jersey lawmakers are considering a voter referendum to develop three new casinos outside of New York City. Not surprisingly, Atlantic City casinos fear the increased competition will further erode their customer base and profits. Gaming revenues in Atlantic City have fallen by half since 2006. Last year, four of Atlantic City's 12 casinos closed due to competition from neighboring Pennsylvania, whose gaming industry is meanwhile being squeezed by Maryland and Ohio.

Many industry analysts note that the market is becoming saturated. Due to increasing competition in the Northeast, revenues at Connecticut's two Indian casinos have declined by 40% to $1.9 billion since 2006, which has resulted in 8,500 job losses. Casinos in Indiana and Missouri are likewise losing customers to budding competitors in neighboring Ohio and Kansas.

According to RubinBrown, two thirds of states experienced revenue declines from commercial gaming and the number of operations last year dropped for the first time since 1989. In Illinois the recent legalization of "limited stakes gaming" in restaurants and taverns has undercut casino profits.

What all this means is that a casino in Chicago would face stiff competition. While Democrats have introduced legislation granting Mr. Emanuel's wish, they have demanded in return four new casinos in the city's suburbs and downstate. This would further limit the Chicago casino's market and profitability.

Perhaps the bigger problem is that Chicago taxpayers would be on the hook for losses in the not unlikely chance that the joint goes bust. For years, Chicago politicians have used budget

gimmicks to balance the city's books, and the temptation to do so would be even larger with a casino whose revenue projections can be manipulated.

Gov. Rauner has said he's open to the idea, and perhaps a city-owned casino would produce a jackpot. But do taxpayers really want to make that bet?

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PSEA: Proposed pension overhaul a 'disaster' for teacher recruiting

State and public school employees remain opposed to a pension system overhaul that Republicans say is essential and would save billions over three decades.

Speaking at a House committee hearing Thursday, Mike Crossey, president of the Pennsylvania State Education Association, said the overhaul represented "intergenerational theft," because future public school teachers and state workers would be paying some of the state debt through the changes proposed to the pension plans.

"It will be a disaster trying to recruit new highly qualified employees into the system," Mr. Crossey said. The PSEA is the state's largest teachers union.

Pension restructuring legislation quickly passed the Senate last month and would require state and school employees hired before a 2010 pensions law to choose between paying a higher contribution to their retirement, or having their benefits accrue at a lower rate.

Future hires would enroll in 401(k)-style defined-contribution plan and accompanying cash-balance plan.

Representatives of state and public school workers made clear their opposition to the bill at the House hearing.

But Rep. Jerry Knowles, R-Schuylkill, expressed his frustration with some members of PSEA, who have contacted him about the pension reform. He said they have not been willing to cooperate in fixing the problem and blame legislators for the state's more than $50 billion in unfunded liabilities.

Mr. Crossey responded by saying the Republicans' proposed bill "is an unconstitutional, convoluted, extremely complicated piece of legislation."

Joe Regan, of Pennsylvania's Fraternal Order of Police, reiterated law enforcement's opposition to the pension reform, something the committee heard in its first public hearing on Tuesday.

Mr. Regan said officers with state pensions will not support Senate Bill 1 because it does not cover disability benefits.

Under questioning from a Republican representative, Mr. Regan said maintaining the defined-benefit plan is so important to the Fraternal Order of Police that its members would be willing to pay more to keep that style of pension plan.

Rep. Cris Dush, R-Jefferson, a committee member and former state corrections officer, said he understood what it's like to be a public servant, and that dealing with the pension system in a fiscally responsible way is an important way to serve the public's interest for future generations.

"Wherever we are right now, we're looking at holding the gun to the heads of our children and grandchildren with these unfunded liabilities, and I'm talking about every single taxpayer in the commonwealth," Mr. Dush said.

Representatives from the Pennsylvania AFL-CIO, AFSCME Council 13, the National Association of State Retirement Administrators, the Commonwealth Foundation, the Manhattan Institute, and the state Chamber of Business and Industry also testified before the committee.

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New Jersey's top court sides with Gov. Chris Christie on pensions

New Jersey's top court sided with Gov. Chris Christie on Tuesday in a fight with public worker unions over pension funds.

The state Supreme Court overturned a lower-court judge's order that told the Republican governor and the Democrat-controlled Legislature to work out a way to increase pension contributions for the current fiscal year, which ends June 30.

In a 5-2 ruling, the court said there wasn't an enforceable contract to force the full payment.

One of Christie's signature achievements as governor has been a 2011 deal on pensions for public workers. Employees had to pay more and the government was locked into making up for years of skipped or reduced contributions.

The state agreed to escalating payments over seven years to make up for all the times it has skipped contributions or put in less than what's required to keep the funds healthy. Retirees saw their cost-of-living increases suspended, and current workers had to put in more and had retirement ages raised as part of the deal.

But last year, state tax revenue unexpectedly came in short of projections, setting off a budget scramble.

Christie, who is considering seeking the Republican presidential nomination, solved it by reducing the planned contributions by more than $2.5 billion over the fiscal 2014 and 2015 budgets. Most of that amount - nearly $1.6 billion - is for the current fiscal year. Christie's administration says it intends to put about $200 million in unexpected revenue and nearly $100 million in money that was budgeted this year but is not being spent toward pensions by June 30.

His budget proposal for the fiscal year 2016, which starts July 1, calls for a record $1.3 billion contribution. But even that amount is less than half the $3.1 billion called for in the 2011 deal.
The governor says he has a new plan to reduce health benefit costs and use the savings to stabilize pension funds - but over a longer time. Current workers would also have their defined benefit plans frozen and replaced with 401(k)-style plans.

In court arguments and filings, Christie's lawyers were in the unusual position of arguing that the pension overhaul the governor signed was unconstitutional - or at least it was the way the unions that were suing were interpreting it. An attorney general's office lawyer arguing the case said the escalating contributions were "aspirational," a notion that state Senate President Steve Sweeney disputes.

Christie's lawyer also warned that if the court ruled against the administration, it could be setting itself up for getting dragged into many future budget disagreements.

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4 Reasons New Jersey's Pension Ruling Isn't a Win for the State or Its Employees

A state Supreme Court ruling this week freed Gov. Chris Christie from having to fully fund public pensions.

New Jersey's top court this week overturned a lower court's ruling that Gov. Chris Christie had violated a 2011 pension law. The decision means the state doesn't have to pay its pension fund the $1.6 billion Christie had promised to pay when employees agreed to contribute more to their retirement accounts.

Tuesday's ruling is largely hailed as a political victory for the governor, who will announce whether he's running for president later this month. It's also a temporary financial victory for

New Jersey. But there are many more reasons why the win is fleeting and will ultimately place more pressure on a financially beleaguered state that can ill afford it. Here's why:

New Jersey still has a really high pension liability.

Although the court said New Jersey wasn't contractually required to put aside the actuarially recommended state contribution each year, that doesn't mean it gets out of what it owes to retirees. The roughly $90 billion unfunded pension liability across the state's three major plans will likely increase next year if the state doesn't start putting in enough money to pay down that debt. Incidentally, thanks to new pension accounting rules, New Jersey's pension liabilities jumped dramatically this year precisely because of the state's history of skipping pension payments.

Both Moody's Investors Service and Standard & Poor's credit rating agencies issued statements that cut short any celebration of the ruling, noting that the decision helps the state avoid a credit crunch for now. But Baye Larsen, Moody's lead analyst for the state of New Jersey, warned that it also "perpetuates severe pension underfunding and rapid growth of state liabilities." And S&P noted that Christie and the legislature "are far apart on how to manage the long-term pension liability," and that not finding a solution will only accelerate the state's liability growth.

New Jersey could still get downgraded. Again.

The three major credit ratings agencies have cut the state's general obligation bond rating three times over the past five years. Its "A" rating is the second-lowest of all 50 states, behind only Illinois. Ratings agencies generally like New Jersey's pension reform law, because it instituted some fiscal discipline for a state that had not consistently contributed to its pension fund since the turn of this century. "Today's decision certainly provides the state with some increased budgetary flexibility, but if the past is any indicator, flexibility around pension payments does not bode well for New Jersey's liability position and is a key contributor to the state's current pension funding situation and deterioration in credit quality," S&P said. If the state does not find a solution to pension and other post retirement liabilities, the agency added, "budget and credit pressure will accelerate and the state's rating could be vulnerable to further downgrade."

Retirement security for New Jersey state employees is now in doubt.

If New Jersey's retirees and about-to-be-retirees weren't worried about their pensions, they should be now. The state has set aside roughly one-third of the money it said it would give them and has no plans to start making up the difference. The insolvency of New Jersey's pension system could be a real issue in the next year if lawmakers can't resolve this crisis. Speaking at a summit on retirement security this week in Washington, D.C., Steve Kreisberg, the

director of collective bargaining for the American Federation of State, County and Municipal Employees, called the court ruling the unfortunate result of a "dysfunctional political system."

To make matters worse, recruitment is at stake, warned Kreisberg. "We find that our younger members value pensions every bit as much as our older ones," he said. Although there is certainly a trend among younger workers in public and private sectors to not stay at their jobs as long as previous generations, many drawn to government are lifers: teachers, police officers and firefighters, for example. "They're not looking to move on necessarily," Kreisberg said, "so pensions really are a good fit for this workforce."

New Jersey still has other big budget problems.

As outlined by a Volcker Alliance report Monday, an outsized pension liability is just one of several overwhelming problems facing the Garden State. New Jersey, the report found, suffers from a "chronic inability" to match its expenses to revenues. In addition to a pension funding gap, the state is also short about $1 billion this year in education funding required under the State Funding Reform Act. And it has insufficient funds to address the state's growing infrastructure issues, in part because the state has been transferring money from those funds to balance the budget in recent years.

The report noted New Jersey's frequent use of budget gimmicks to balance the budget. It is a practice that's been going on since the 1990s, and it's allowed the state to mask a deep-seated fiscal imbalance. "Long term," said Moody's Larsen, "this reinforces the state's ongoing reliance on one-time budget solutions and will perpetuate large structural imbalances and a rapidly increasing pension burden."

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Public plans doing better on funding — study

Most public pension plans improved their funded status in 2014 and are likely to be more than 80% funded by 2018, according to a report released Friday by the Center for State and Local Government Excellence in Washington.

Authors Alicia Munnell and Jean-Pierre Aubry, director and assistant director of State and Local Research, respectively, at the Center for Retirement Research at Boston College, looked at 150 plans whose $3.2 trillion in assets represent 90% of public plan assets, and found their funded status improved to 74% from 72% the previous year.

State and local government officials also did a better job of making their annual required contributions, increasing to 88% of the ARC, up from 82% in 2013. “I think that's encouraging on a lot of levels,” Elizabeth Kellar, SLGE president and CEO, said in an interview. “Plan sponsors

recognize that the only way to get on top of it is to pay their required contributions, and revenues are improving.''

It's encouraging, she said, that most plans are moving in a positive direction.

Mr. Aubry noted in an interview that plans have made many reforms in recent years. “The really big question is investment returns,” he said. The report's 2018 projections were based on baseline scenarios of the plans reaching their respective assumed rate of return, which averaged 7.6% among plans.

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Private Sector

S&P 500 company pension funding ratio falls in 2014

The funding ratio of pension plans sponsored by S&P 500 companies fell 6.7 percentage points to 81.2% in 2014, said new research from S&P Dow Jones Indices.

Background

In 2014, S&P 500 pension plan underfunding increased $164.5 billion to $389 billion, primarily because of new mortality assumptions and accounting procedures, and a 104-basis-point increase in the discount rate to 3.92%, which raised pension fund liabilities 12% to $2.07 trillion.

During the same period, assets grew 3.6% to $1.68 trillion, boosted by double-digit equity market returns; the S&P 500 returned 13.7% in 2014.

Also in 2014, pension funds' assumed rates of return declined 10 basis points to 7%, making it the 14th consecutive year that assumed rates of return have declined, said Howard Silverblatt, senior index analyst and co-author of the report in a telephone interview.

Corporate plan sponsors are moving to fixed income and avoiding the risk of equities, Mr. Silverblatt said on why assumed rates of return have declined.

The report also found companies contributed $53.9 billion to their pension funds in 2014, up slightly from $53.6 billion in 2013. Companies expect to contribute $32.6 billion to their pension funds in 2015.

The report also indicated underfunded levels for other post-employment benefit funds increased 7.9% to $195.6 billion in 2014. The funding ratio of those trusts declined to 26.7% from 28.5%.

Together, the assets that S&P 500 companies set aside to fund pension benefits and OPEB totaled $1.75 trillion, covering $2.34 trillion in liabilities and resulting in an underfunding of about $590 billion.

Despite these numbers, pension and OPEB funds, in aggregate, are a manageable expense for S&P 500 companies, Mr. Silverblatt said.

“On the longer-term picture, there is light at the end of the corporate retirement benefit obligation tunnel, as enrollment in defined pensions and OPEB programs are limited, with

benefits being lower and risk shifted. The result is the corporate obligation, and employee benefit, will slowly sail into the sunset," Mr. Silverblatt said.

Data were collected from S&P 500 companies with defined benefit plans, the majority of which had Dec. 31 fiscal year-end dates.

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Hewlett-Packard settles $810 million in pension liabilities through lump-sum offer

Hewlett-Packard Co., Palo Alto, Calif., settled about $810 million in U.S. defined benefit plan liabilities in May, following a voluntary lump-sum offer made to former employees vested in the plan who have yet to retire.

The company announced the lump-sum offer Monday in a 10-Q filing with the Securities and Exchange Commission. About 50% of the participants to whom the offer was made in January accepted the offer. The number of participants given the offer was not available by press time.

HP froze its U.S. defined benefit plan in 2008.

As of Oct. 31, U.S. defined benefit plan assets totaled $11.979 billion, and projected benefit obligations totaled $13.756 billion, for a funding ratio of 87.1%, according to the company's most recent 10-K filing.

Gretchen Tai, HP vice president, global treasury, and chief investment officer; and Sarah Pompei, HP spokeswoman, couldn't be reached for comment by press time.

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The No. 1 Reason Multiemployer Plans Fail a DOL Audit

Multiemployer plan trustees have a fiduciary duty under ERISA to make sure the fund is receiving all employer contributions that are due, based on participants' hours worked. This means they must follow up when employers neglect to send their contributions on time (in other words, when they're delinquent). This also means trustees need to make sure that the correct amounts are received. If trustees neglect this fiduciary responsibility, they can be personally liable. They help fulfill this duty by having a payroll audit performed by a knowledgeable and experienced auditor.

So, what is a payroll audit?

A payroll audit is an examination of the records of a contributing employer in a multiemployer plan to determine whether the employer has reported all of the hours or wages that a collective bargaining agreement (CBA) requires be reported. This ensures the right contribution amount has been sent to the fund. If an employer has not reported all (or any) of the hours or wages, the payroll audit shows the contribution amounts that are lacking or delinquent. Sometimes an employer may pay too much—A payroll audit can uncover overpayments too.

[Related: Payroll Auditing: A Guide for Multiemployer Plans]

Experts and the DOL recommend that multiemployer trust funds have a detailed, written collection policy for trustees, administrative staff and plan advisors to follow. This policy should state how the payroll audit will be conducted—its form and content—and when. For example, some funds spell out that payroll audits are done on a fixed cycle, such as every three to four years. However, some contributing employers are never (or rarely) delinquent in sending in their contribution amounts, while other employers may be habitually late. A multiemployer fund's collection policy can call for more frequent payroll audits of delinquent employers.

[Related: Collection Procedures Institute]

The policy can also indicate which employer records will be examined. An auditor often looks at more than just an employer's payroll records. He or she also reviews cash receipts, disbursement records, financial statements, income tax returns and the general ledger.

Lastly, the policy should include an appeals process for contributing employers, giving them the chance to offer additional and final evidence that a worker is not covered by the CBA and therefore shouldn't be reported and to dispute any penalties that may have been imposed for late contributions.

A board of trustees has many decisions to make regarding payroll audits:

- Which employers should be audited?
- How frequently should employers be audited?
- Should the audit be done internally using plan staff or externally?
    - If externally, will a certified public accountant (CPA) firm be used? What should a board look for when selecting a CPA firm?
    - Alternatively, will a non-CPA firm be used? If yes, the board should make sure the firm has the same standards and follows the same procedures as a CPA firm.
- Will contributing employers that fail to cooperate with a payroll auditor suffer consequences? If yes, what will those be?
- How often should the payroll audit policy be reviewed?

The DOL strongly recommends that all multiemployer funds conduct regular payroll audits. Here's why:

- Payroll audits
  - Make money for the plan
  - Help fulfill trustee responsibilities—see above—AND show trustees are doing their best to collect all contributions due to the fund
  - Help trustees avoid personal liability
  - Can help the plan pass a DOL audit.

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Participation in 401(k) Plans Rises as More Companies Automatically Enroll

Wells Fargo & Company (NYSE: WFC) announced today an uptick in the percentage of employees participating in 401(k) plans administered by the firm. The number of eligible employees participating in Wells Fargo-administered plans rose 13% between 2011 and 2015. Wells Fargo administers 401(k) plans for 3.8 million eligible participants employed by U.S. companies. The increase in participation correlates to an increase in plan sponsors opting for automatic enrollment of their participants, which now stands at 40% of Wells Fargo-administered plans versus 30% in 2011.

The data show increasing participation rates among younger employees, new hires and lower-earning workers over the past four years. Participation in the 401(k) plan among millennials has reached 55% compared to 45% in 2011. For newly hired eligible employees (meaning those who have reached the one year mark of employment), participation has increased from 36% four years ago to 48% in 2015. In addition, employees in a pay range of $20,000 to $40,000 in salary are participating at a rate of 59% versus 47% four years ago.

"This is a great set of data demonstrating some very positive behaviors from participants. I get very excited when I see the percentage of employees enrolling in plans ticking up over the last four years because it tells me people understand that participation in their workplace retirement plan is vital," said Joe Ready, head of Wells Fargo Institutional Retirement and Trust. "We know that systematic, pre-tax savings and investing works. The first critical step along that journey is to get people in the plan. In addition, to see such gains among people who are historically the hardest to get saving for retirement is also quite encouraging. People are getting the message that their 401(k) is an important key to a viable retirement."

Savings rates, company match and average balances

Although participation rates are rising, the deferral rates are relatively flat in the four-year analysis, with 38% of participants saving a minimum of 10% of their salary (which may include employer match) in their 401(k) plan – a modest increase from 34% four years ago. Twenty-eight percent of millennials currently reach a total contribution of 10% of pay, compared to 35% of Gen X and 45% of boomers.

Sixty-two percent of all active participants are taking full advantage of their employer match. When analyzed by generational groups, this breaks down to 54% of millennials, 63% of Gen X, and 70% of boomers who are contributing enough to capture their full company match.

The average 401(k) balance is $93,015 – up from $69,802 four years ago, largely due to gains in the stock market.

The number of people with a loan from their 401(k) has remained flat; 19% have at least one loan.

"Participating in the plan is the first step, but what we really need to see is a more robust increase in how much people are saving," said Ready. "The reality is that people need to save their way to retirement. This is true for all generations, and especially so for the younger population that has time on its side and can take advantage of the compounding effect of time. At the very least, we like to see people reap the full benefit of their employer match because that's a nice boost for their savings that doesn't come out of their pocket."

Roth 401(k) popular among millennials

The Roth 401(k) usage is creeping up – with 12% of participants contributing to a Roth 401(k) compared to 8% four years ago. Millennials are the most significant users of Roth, with 16% contributing to a Roth 401(k), versus 11% of Gen X and 7% of boomers. The Roth 401(k) allows participants to contribute after-tax dollars, and withdraw in retirement on a tax-free basis.

"The decision to contribute after-tax money to a Roth 401(k) is an intentional one, because people typically are not automatically enrolled into Roth 401(k) plans," said Ready. "I am encouraged that the younger participant group is putting thought into what can be a tax diversification strategy when it comes time to take money out of plans in retirement."

Millennials are the most diversified in their 401(k) investment portfolio

Roth 401(k) usage is not the only category in which millennials have Gen X and boomers beat. Millennials are still the most diversified generation, and are making the biggest gains: 82% are meeting a minimum level of diversification – a minimum of two equity funds and a fixed income fund and less than 20% in employer stock – which is up from 72% four years ago. Gen X and

boomers have also seen strong gains in this category, with 78% and 75% respectively meeting the minimum level of diversification (compared to 70% and 68% four years ago).

This improved diversification is most likely due to the broader use of managed investment products, which continue to gain in popularity. Overall, 76% of participants use a managed product (such as target-date funds, which is seeing specific gains from 47% to 62% of participants who have money in target-date funds), versus 65% four years ago. When comparing by generation, 83% of millennials, 75% of Gen X and 70% of boomers use some type of managed product in their 401(k) plan.

Women participate at higher rate than men

In a review of data compiled from 2,036 companies where gender is indicated, there are also some noteworthy differences. Women participate in their 401(k) plans at a slightly higher rate than men: 65% to 62%. The number of women saving at least 10% of their salary is slightly lower: 38% of women vs. 40% of men contribute at least 10% of their salary, and 64% of men are taking full advantage of their company match, compared to 61% of women. Women use managed products more than men – 77% of women compared to 74% of men – which might explain why they are better diversified. Eighty percent of women are meeting minimum diversification criteria compared to 78% of men.

EDITORS AND REPORTERS: Retirement Savings Tips

Get started saving today

If you have the option to join your employer's 401(k) plan, enroll today and contribute up to $18,000 per year; participants age 50 and older can make up to $6,000 in additional catch-up contributions each year (unless their plan has lower limits or doesn't offer catch-up contributions). Pay yourself first and save as much of your salary as you can on a tax-advantaged basis. If you do not have access to a workplace retirement plan, you can set up an automatic savings program and make systematic contributions of up to $5,500 if you are under age 50, or $6,500 if you are age 50 or older through regular contributions to a Roth IRA (with after-tax dollars) or a traditional IRA (with pre-tax dollars) if you meet eligibility requirements.

Get the company match — if it's offered

If you are contributing to a 401(k), find out if there's a company match. If there is, consider taking full advantage of it. Remember that the money your employer contributes on your behalf can be added to the amount you're contributing, and combining the two contributions helps give your overall savings goal a boost.

Increase your rate of savings

Research shows that the #1 factor in saving for retirement is your contribution rate, and regular contribution rate increases. Find out if your employer's plan offers the option to increase your contribution amount automatically and on a regular basis. That's one less thing to remember and it's an easy way to help you gradually save more in preparation for retirement. You can always change the increase rate or limit for your automatic retirement plan contributions.

Find out what type of investor you are

Your asset allocation is the "big picture" — the way you divide your investments among the three basic investment categories: stocks, bonds, and stable value investments. Knowing your investor type — conservative, moderate, or aggressive — can provide a good starting point for determining which asset allocation makes the most sense for you. Use an online tool like www.wellsfargo.com/riskquiz to help you determine your risk tolerance.

Leave your savings alone

It may be tempting to spend your savings if you change jobs or have an unexpected expense pop up, but it is important to keep these assets growing in a tax-favored retirement account. Withdrawing money from your employer-sponsored plan can erode your retirement savings to the point where you may jeopardize your financial security in retirement. Keep your money working for you!

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SSA issues final rule explaining 60-month period of employment to receive GPO exemption for spouse's benefits

The SSA has issued a final rule that adopts, with clarifying changes, the proposed rule the agency previously published in the *Federal Register* on August 3, 2007 (72 *Fed. Reg.* 43202). The final rule revises the SSA's Government Pension Offset (GPO) regulations to reflect changes to the Social Security Act made by Section 9007 of the Omnibus Budget Reconciliation Act of 1987 (OBRA 1987) and Section 418 of the Social Security Protection Act of 2004 (SSPA). The regulations explain how and when the SSA will reduce the Social Security spouse's benefit for some people who receive federal, state, or local government pensions if Social Security did not cover their government work. The final rule becomes effective on July 15, 2015.

Background

Under the GPO, the benefits of an insured worker's eligible spouse who has a government pension based on noncovered employment is reduced so as to prevent what Congress saw as a windfall if he or she also could receive a pension based on his or her own noncovered work and

an unreduced Social Security spouse's benefit, regardless of a dependency on the insured spouse. The GPO provision was designed to provide parity with workers who earned their own Social Security retirement benefits and who are eligible to receive a spouse's benefits under Social Security as well. These workers have their spouse's benefits offset by their retirement benefits and receive the larger of the two. Accordingly, the GPO prevents individuals who receive a government pension based on noncovered earnings from receiving more in combined pension and Social Security spouse's benefits than individuals who worked in covered employment and also were eligible for spouse's benefits under Social Security. The GPO adjusts the spouse's benefits of a government worker to prevent a windfall.

Clarifying changes made

The SSA now has finalized the changes it announced in the Notice of Proposed Rulemaking (NPRM) in 2007, with the modifications listed below. No other changes were made. The agency:

- Reworded and reorganized the proposed regulatory language to better explain how it will apply the GPO rules. The language changes do not affect the substance of the regulation as proposed in the NPRM.
- Proposed replacing the words “receiving” and “received” in the NPRM with the word “payable,” but decided against the change. Variations of the term “receive” more clearly describe the fact that a government pension plan must pay a person a periodic benefit for GPO to apply. Additionally, use of the term “receive” in the section maintains consistency throughout the SSA’s regulations.
- Simplified the language in proposed §404.408a(a)(1), and redesignated the section as §404.408a(a)(2). The SSA also redesignated proposed §404.408a(a)(1) as (a)(2) because it added a new §404.408a(a)(1). In the proposed rules, the SSA used the terms “government pension” and “noncovered employment” without a definition. It also referred to an individual's “Social Security benefits as a wife, husband, widow, widower, mother or father, divorced or surviving divorced spouse” throughout proposed §404.408a(a), as well as in proposed §404.408a(b) and (d).

To simplify and clarify the rules, the SSA added a definitional paragraph to §404.408a(a) for these terms. In addition, it defined the terms “government pension” and “noncovered employment” in §404.408a(a)(1)(i) and (a)(1)(ii) and added §404.408a(a)(2)(iii) to define “spouse's benefits,” which is a single term used to represent those beneficiaries affected by this section: Wives, husbands, widows, widowers, mothers, fathers, divorced or surviving divorced spouses. Using a single term to describe these groups simplifies the rules and makes them easier to understand, but the addition of the term does not change or affect the categories of beneficiaries affected or change the substance of the rules the SSA proposed.

- Simplified the language in proposed §404.408a(a)(3) and moved it to §404.408a(b)(6), except for the final sentence of (3)(ii).
- Revised the final sentence of proposed §404.408a(a)(3)(ii) and moved it to §404.408a(a)(2).

- Simplified the first sentence of proposed §404.408a(a)(4) and moved it to §404.408a(b)(6)(ii) to clarify that it applies to the last-60-months rule.
- Simplified the second sentence of proposed §404.408a(a)(4) and moved it to §404.408a(a)(1)(ii) to clarify that it applies to all of §404.408a.
- Simplified the language of proposed §404.408a(d) and added provisions from proposed §404.408a(a)(5); revised the language of proposed §404.408a(b)(6) and moved it to §404.408a(b)(7); and simplified formerly proposed §404.408a(a)(2) and moved it to §404.408a(b)(8) as a new exception.

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