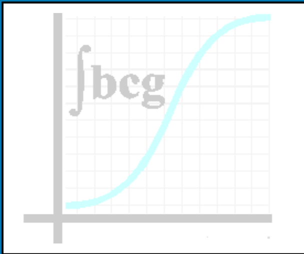

BCG Retirement News Roundup

May 2012, Volume 1, Issue 4

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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

Government pensions get a makeover

Public sector retirement plans of the future are emerging today, bearing only slight resemblance to their predecessors.

Faced with unfunded liabilities between $288 billion and $500 billion, California Gov. Jerry Brown has announced a government pension reform proposal that would marry elements of the traditional defined benefit plan and a defined contribution plan. "Current benefits, contributions and retirement ages don't reflect the changing demographic realities we face and are not sustainable," the Democrat said in a letter to state leaders. "Continuing these plans in the current form will put taxpayers on the hook for substantial costs now and in the future. Urgent and decisive action is imperative."

Although no legislator has yet introduced the governor's bill, and its prospects are unclear, the governor's office remains hopeful. "The timing is right to move ahead on this issue," says H.D. Palmer, a spokesman for Gov. Brown.

California is only one of the many states that have either moved to a so-called "hybrid" pension system or are considering plans that would begin to shift the burden for retirement savings from the employer onto employees sharing some benefit risk. While consideration of using this blend of pension plan systems is rising, actual implementation has been limited thus far.

"We see a lot of interest in this plan type," says Kim Nicholl, public sector retirement plan leader for New York-based The Segal Co., a pension consultant. "The hybrid has both defined benefit and defined contribution components. There are all kinds of variations."

In some states, the changes in public sector benefit plans the last several years have been dramatic:

In Rhode Island, most employees were enrolled in a defined contribution plan with a 1 percent match, while the defined benefit plan rules changed eligibility, increased contribution rates and suspended cost-of-living-adjustment (COLA) increases for future retirees until plan finances improve.

In Utah, new workers can now choose to participate entirely in a defined contribution plan, or they can participate in hybrid plan, which includes a defined contribution component plus a defined benefit element with fluctuating contributions based on the plan's financing.

In Michigan, new school employees contribute to a defined contribution plan (which is optional), while the employer's contribution includes a partial match to the defined contribution plan and a reduced rate on the defined benefit plan. It no longer includes a COLA. Many municipalities participating in the Municipal Employees' Retirement System of Michigan have established hybrid plans as the primary retirement benefit for their employees.

Not surprisingly, those plans have drawn mixed reviews, based on which side of the bargaining table the person sits. More importantly, some fear that the public sector, which has relied heavily on the notion of a secure retirement to draw good employees to its workforce, will suffer in its recruitment and retention. "Rather than teaching math, good people will become accountants," says Doug Pratt, director of public affairs for the Michigan Education Association. "We need good people in public education to prepare our nation's workforce."

Recession was catalyst for change

In the world of retirement systems, the traditional defined benefit (DB) plan ruled for generations in both the public and private sector. In a DB plan, the employer (and sometimes the employee) adds money to a fund, and the benefit that an employee receives at retirement is based on length of service and pay. Funds are invested by the fund (and its professional managers), and the responsibility for the benefit falls entirely to the employer. If investments do not meet expectations, employers must add funds from their general operations.

In the newer defined contribution plan (DC), the employer (and often the employee) adds money to an account in the employee's name, and the benefit upon retirement depends entirely on the amount available in the fund. The investment risk falls to the employee.

While just 21 percent of private sector employees participate in a DB plan, almost 87 percent of public sector workers are covered by these plans, according to 2009 data from the U.S. Bureau of Labor Statistics. The vast majority of private sector employees who have any retirement plan are covered by DC plans.

When the deep recession hit the United States in 2008 and 2009, the decline of the stock market had a devastating impact on the investments in pension funds set aside to pay the promised benefits, with the unfunded liabilities — or the amount promised but not covered — skyrocketing to more than 50 percent for some plans. A study by Robert Novy-Marx and Joshua Rauh published in the Fall 2009 Journal of Economic Perspectives estimated that the unfunded liability across state governments amounted to $3.2 trillion. While others dispute the methodology of the study, everyone agreed that the public sector pension system was in deep trouble.

All in all, 41 states and many cities have made significant changes to some aspect of their pension plan, says Ilana Boivie, director of programs for the

Washington-based National Institute on Retirement Security (NIRS). “They have run the gamut,” she says. “The common wisdom that the benefit was rock solid from the date of hire was challenged in the fiscal crisis.”
In some states, the initial focus has been on no longer offering the DB plan to new hires, as an immediate means of reducing the cost to the employer. While the thinking is that closing an under-funded plan would save money, the economics of retirement plans works against that solution.

Keith Brainard, research director for the Essex, Conn.-based National Association of State Retirement Administrators, points out that taking such an action requires changes to required payments because the life of the plan becomes limited and unfunded liabilities have to be paid out faster. “When you close an existing plan, your costs go up,” he says.

Instead, cities and states have focused on adjusting employee and employer contribution levels, restructuring benefits, or both.

Hybrid saves $275 million in first year

Rhode Island is the most recent state to adopt a hybrid plan to solve its funding issues. In a special session late in 2011, the state legislature approved reform of the pension plan, including a new hybrid structure that touched most of the public sector workforce— teachers, state employees and the state-administered Municipal Employees’ Retirement System (MERS).

As a result of the changes, the state reduced its unfunded liability of nearly $7.3 billion to $4.3 billion and its fiscal year 2013 state and local contribution from $689 million to $414 million, saving nearly $275 million in the first year. It will take effect on July 1, 2012.

Under the bill, state employees’ overall contribution to their retirement will remain at 8.75 percent of their salary, and teachers’ contributions will be reduced to that amount from the current 9.5 percent. Their contributions will be split between the two parts of the new hybrid retirement plan: 3.75 percent of their pay will go toward a DB pension, and 5 percent will go toward their individual DC retirement account. The state will contribute an additional 1 percent of each employee’s salary to the DC plan.

The legislation also reduces the length of time employees must work before they are vested in the pension from 10 years to five. The treasurer’s office has estimated that, under the new hybrid plan, retirees could receive more than 70 percent of their final average salary when they retire, a level that is similar to the retiree benefit under the existing system.

In addition to the hybrid proposal, the act institutes a proportional retirement eligibility structure for most employees between ages 59 and 67, depending in

part on the employee's current years of service. Those already eligible to retire as of June 30, 2012, would not be affected. The act ensures that retirees do not lose any COLAs granted prior to July 1, 2012, but suspends future annual COLAs until the Employees' Retirement System of Rhode Island, the Judicial Retirement Benefits Trust and the State Police Retirement Benefits Trust are funded at greater than 80 percent.

Although the reforms in the act directly affect the plans included in the state-administered MERS, the reforms do not cover locally administered municipal pension plans. However, local officials must review their plans and develop a funding improvement plan if funding is less than 60 percent.

Behind the reform effort is Treasurer Gina Raimondo, whose proposal was ultimately adopted overwhelmingly by the Democrat dominated state legislature. "The treasurer's goal was to design a solution that would provide retirement security for plan participants both from the perspective of an appropriate benefit level to ensure a comfortable retirement and at a funding cost to the state that would ensure that future funding levelers were achievable," Dara Chadwick, Raimondo's spokesperson, said in an email.

Not surprisingly, the leader of the state's largest public sector union deplored the changes to the plan. "The burden of the proposed plan is borne on the backs of the working class," J. Michael Downey, president of Council 94 of the American Federation of State, County and Municipal Workers, said in a news release. "True shared sacrifice would be asking Rhode Island's richest citizens, those that benefited the most from Bush-era tax cuts, to pay their fair share of the unfunded pension liability."

Unintended consequences of changes

The interest in hybrids is a combination of concern about the funding issues facing public sector employers following the recession and market crash and the setbacks seen by early adopters who closed their DB plans in favor of DC plans, Nicholl says. "Entities thought the silver bullet was the DC plan," she says, "but once they see how they work, they believe they may not be the right approach."

With hybrids, employers share the risk with the employees, which reduces their liabilities. But implementing a new plan is complicated. "There are many stakeholders in a plan design process," she says. In a typical plan, stakeholders are not only the employee and employer, but also the legislature and governor and the taxpayer. "There is a need to consider the thoughts of each of the stakeholders from their own viewpoint."

Advocates of change often miss important considerations that have impact far beyond the initial decision to close a DB plan, such as the proposal now before the Washington legislature, says George Masten, interim executive director of

the Retired Public Employee Council of Washington and a 19-year member of the Washington state investment board. Closing a DB plan hurts the remaining employees in the plan, because the investment managers can no longer manage investments for the long term, but only for the remainder of the plan, he says. In addition, managers have to keep a larger-than-usual amount in cash because of the lack of new contributions coming into the plan from new employees.

“The more they push hybrids, the more cautious people will become in investing,” he says, which in turn will reduce investment results and increase liabilities on the remaining fund. “It will have a major impact on the board. Good long-term investing gives the highest returns.”

Pratt says that any DC component “puts the employee’s retirement in the hands of Wall Street instead of a pension system backed up by structure and employers.” He says that teachers who want to take full advantage of the employer match put 12 percent of their pay into the retirement plan, along with health care and other deductions. “It’s not sustainable for young teachers who have to pay down their college debt and want to own a home,” he says. “We want to recruit and retain the best people for the classroom. This climate makes it really difficult.”

Good practices rather than radical design change are often instrumental in keeping the best retirement funds solvent, Boivie says. A June 2011 NIRS study of several plans that have remained well-funded throughout the economic turbulence showed that they regularly reviewed their assumptions with an actuary to evaluate investment assumptions, asset allocations, demographic and mortality changes, and wage growth. Then, they adopted a rather simple solution: They set aside funding consistently. What happened next seems obvious but hard for so many to implement.
“If you pay, you’re OK,” she says.

— Robert Barkin is a Bethesda, Md.-based freelance writer.
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Coalition issues guidelines for public pensions

A coalition of bond lawyers, analysts, auditors, state treasurers, pension administrators, securities professionals, bond dealers and issuers released on Thursday a framework for describing financial strains on state and local governments caused by pension funding obligations.

"This answers not an accounting question, but a securities law question: what should be disclosed to an investor?" said National Association of Bond Lawyers

Governmental Affairs Director William Daly. "It requires looking at each issuer's situation ... You can't just have a checklist of 'disclose this, disclose that.'"

Nearly two years ago New Jersey became the first state charged with securities fraud by the U.S. government. Without admitting or denying any wrongdoing, the state settled allegations that it had lied about the magnitude of its pension shortfall.

Since then, the pressure has mounted for state and local governments to accurately portray pension funding obligations.

The framework from the group suggests summarizing the type of pension plan, how contributions flow into it, how the plan is governed, whether employees receive Social Security payments, and plain statements of how difficult funding the pension can be.

Most governments will likely follow the guidance in deciding what to disclose, given that the coalition includes the Government Finance Officers Association, a group of smaller issuers, and the National Association of State Treasurers.

The full document can be found here

The Pew Center on the States estimates that public pensions are short $660 billion in paying future benefits.

Other guidelines, due to be issued soon, will address the accounting question. The Governmental Accounting Standards Board's final set of requirements for providing greater detail about pension obligations is due this summer, spokesman John Pappas said.

Currently, state and local governments can select from a menu of accounting practices for their pension systems provided by the board, an independent group that sets the accounting standards for all governments in the country to follow much like the Financial Accounting Standards Board does for the private sector.

The largest point of contention is how much money governments need to put aside for future benefits.

In the proposal GASB made last July, it considered abandoning the practice of spreading expenses over several years and suggested that pension systems lacking sufficient assets to cover future benefits use projected rates of investment returns of about 3 to 4 percent. The historical averages for returns on investments, which provide the bulk of pension funds' revenue, have been around 8 percent.

Last year, members of the U.S. Congress considered legislation that would require all systems to post projections using the lower rates, but the bills largely stalled.

(Reuters)
(Reporting by Lisa Lambert)

N.Y. pension chiefs sing praises of DB plans

DiNapoli, Liu say plan is best option for public workers

The leaders of New York city and state pension funds came out swinging last week against those who oppose defined benefit plans for public workers.

In separate presentations at the National Conference on Public Employee Retirement Systems' annual meeting in New York, comptrollers John Liu of New York City and Thomas DiNapoli of New York state explained why the DB plans they oversee should be maintained and strengthened.

“The traditional pension — also known as the defined benefit retirement plan — has been under attack in this country since at least 1980,” Mr. Liu said May 7. “But, as this audience is well aware, the traditional pension has managed to hang on in the public sector. We have to make sure this continues.”

Mr. Liu, who oversees the five pension funds in the $122 billion New York City Retirement Systems, is also a proponent of offering public defined benefit plans to private-sector workers.
Much of the attacks on public pension funds are about costs, Mr. Liu said. But research by the city comptroller's office, titled “A Better Bang for the Buck,” shows the DB model is more cost effective than the defined contribution model, Mr. Liu said.

Still, he said, there is room to improve costs by changing the management of the five DB plans. New York City's five funds are managed independently under Mr. Liu's oversight. The retirement system has been in place for about 70 years.

Mr. Liu, backed by New York City Mayor Michael Bloomberg, advocates an independent investment board composed of representatives of the mayor, comptroller and unions that would set pension strategy and hire managers for all five city pension funds. Additionally, the proposal calls for an independent Bureau of Asset Management headed by a chief investment officer who only answers to the investment board and not directly to any elected official.

Mr. Liu said the combined board and CIO proposal would lower costs of the five pension funds by $30 billion over 30 years without reducing benefits.

Mr. Liu also has proposed the New York City Personal Retirement Account, which would effectively extend the city's pension plans to private employers. The National

Conference on Public Employee Retirement Systems is touting a similar concept called Secure Choice Pension.

Both proposals would pool employee and employer contributions into a professionally managed retirement fund that leverages economies of scale to lower costs for employers and offers portability to workers, Mr. Liu said.

“We believe ideas like this will go a long way to keeping everyone out of the rain when it comes time for retirement,” Mr. Liu concluded.

401(k) criticism

On May 8, Mr. DiNapoli continued his criticism of 401(k) plans being offered as options to public employees, calling the DC option “woefully inadequate” for people who rely on them as a primary source of retirement income.

Mr. DiNapoli said he's glad the New York state Legislature this year did not approve Gov. Andrew Cuomo's proposal to make a 401(k) plan an option for all new public employees along with the state's defined benefit plan. A bill signed into law by Mr. Cuomo in March allows only new non-union employees earning $75,000 or more per year to choose a 401(k) plan.

“The good news” was that most of the governor's proposal did not make it into law, said Mr. DiNapoli, sole trustee of the $147.2 billion New York State Common Retirement Fund, Albany. “I made no secret of the fact that I thought moving from our current defined benefit to a 401(k)-style defined contribution plan would be a very bad idea,” he said.
Mr. DiNapoli repeated his criticism of “anti-pension advocates” who try to blame public pension plans for damaging state and local budgets and for handing out allegedly inflated payments.

“Another well-worn line of attack on public pension funds — an argument that particularly disturbs me — is that they are bloated with retirees making six-figure pensions,” he said. “The vast majority of retirees in our system are receiving modest benefits.”

BY MATTHEW WURTZEL AND ROBERT STEYER | MAY 14, 2012March 27, 2012

NCPERS Develops Best Governance Practices for State and Local Government Retirement Systems and Stakeholders

WASHINGTON, Apr 26, 2012 (BUSINESS WIRE) -- The largest trade association for public sector pension funds today unveiled a set of governance practices to assist fiduciaries in positioning pension funds for continuously improved performance, while addressing risks related to changing markets and the global economy.

The National Conference on Public Employee Retirement Systems (NCPERS) represents more than 550 funds and nearly $3 trillion in assets. Its Best Governance Practices for Public Retirement Systems include recommendations in key management areas including board practices, policies, risk oversight, strategic planning, reporting, measures and stakeholder communications.

In announcing the guidelines, Hank Kim, Esq., NCPERS executive director and general counsel, noted public funds' history of implementing leading edge oversight practices for the benefit of their members, taxpayers and other stakeholders.

"Public pension funds play a leadership in delivering high quality, cost-effective benefits to their members through effective oversight, accountability and transparency," Kim said. "These practices are intended to contribute to these outcomes as the markets and the economy evolve."

In the wake of the financial crisis, governance is on the front burner for corporations, regulators and public pension funds alike. Julian Regan, Vice President/Senior Consultant with The Marco Consulting Group, who collaborated with NCPERS on the initiative, noted that private sector lapses and lack of adherence to risk controls led to the collapse of well-known Wall Street firms and contributed to market losses that at one point eliminated $4 trillion from pensions worldwide.

In introducing their recommended practices, NCPERS highlighted the following:

-- There is a strong link between best practices and performance. Research has found that effective governance may improve investment returns by up to 1% - 2.4%, annually.

-- In a recent survey, almost 9 in 10 institutions reported that they established a chief risk officer role to centralize accountability for risk management, a core function of governance.

-- Beyond investments, initiatives such as fiduciary training and risk assessments drive performance across a fund's administrative, member service and compliance functions.

-- The current focus on fund governance is likely to increase in light of policy debates that are increasingly focused, largely without merit, on public employee benefit levels.

The Best Governance Practices for Public Retirement Systems are available to members on NCPERS web site, 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 framework 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 pension stakeholders.

About The Marco Consulting Group

The Marco Consulting Group (MCG) is one of the nation's largest investment consulting firms to Taft-Hartley, Public Sector and other Jointly Trusteed Benefit Plans. The firm currently delivers investment consulting, fiduciary services and corporate governance/proxy voting capabilities to over 350 benefit plans whose combined assets exceed $131 billion. MCG is headquartered in Chicago, IL with regional offices in Boston, MA and Denver, CO.

SOURCE: National Conference on Public Employee Retirement Systems (NCPERS)

Illinois is running out of time and money

After trying to tax Illinois to governmental solvency and economic dynamism, Pat Quinn, a Democrat who has been governor since 2009, now says “our rendezvous with reality has arrived.” Actually, Illinois is still reality-averse, so Americans may soon learn the importance of the freedom to fail in a system of competitive federalism.

Illinois was more heavily taxed than the five contiguous states (Indiana, Kentucky,

Missouri, Iowa, Wisconsin) even before January 2011, when Quinn got a lame-duck legislature (its successor has fewer Democrats) to raise corporate taxes 30 percent (from 7.3 percent to 9.5 percent), giving Illinois one of the highest state corporate taxes and the fourth-highest combination of national and local corporate taxation in the industrialized world. Since 2009, Quinn has spent more than $500 million in corporate welfare to bribe companies not to flee the tax environment he has created.

Quinn raised personal income taxes 67 percent (from 3 percent to 5 percent), adding about $1,040 to the tax burden of a family of four earning $60,000. Illinois' unemployment rate increased faster than any other state's in 2011. Its pension system is the nation's most underfunded, and the state has floated bond issues to finance pension contributions — borrowing money that someday must be repaid, to replace what should have been pension money that it spent on immediate gratifications.

Quinn's recent flirtation with realism — a plan to raise the retirement age to 67 and cap pension cost-of-living adjustments — is less significant than the continuing unrealistic expectation that some of Illinois' pension investments will grow 8.5 percent annually. Although the state Constitution mandates balancing the budget, this is almost meaningless while the state sells bonds to pay for operating expenses (in just 10 years the state's bonded debt has increased from $9.4 billion to $30 billion), underfunds pensions and other liabilities, and makes vendors wait (they are owed $5.6 billion).

The Illinois Policy Institute, a limited-government think tank, in a report cheekily titled "Another $54 Billion!?" argues that in addition to the $83 billion in pension underfunding the state acknowledges, there is $54 billion in unfunded retiree health liabilities over the next 30 years. Illinois, a stronghold of public-employees unions, "is on pace to spend nearly $1 billion on retiree health care benefits in fiscal year 2013, more than double what it spent in 2003. Worse yet, these liabilities are growing more than twice as fast as tax revenues."

To prepare for Illinois' probable plunge into insolvency, read "Freedom to Fail: The Keystone of American Federalism" by Paul E. Peterson and Daniel Nadler in the University of Chicago Law Review. They note that only 25 of the world's 193 nations have federal systems, and in most of the 25 the freedom of the lower tiers of government is more circumscribed by the central government than American state governments are by the federal government. American states' greater freedom —

autonomy under America's system of dual sovereignty — from the central government's supervision requires that they be disciplined instead by the market for government bonds, and by the real possibility of default.

Peterson, a professor of government at Harvard, and Nadler, a doctoral candidate also at Harvard, say that collective bargaining rights for government employees pose "a dramatically new challenge to the viability" of American federalism. They cite studies demonstrating that investors' perceptions of risk of default are correlated with the rate of unionization among government employees. Higher percentages of government employees who are unionized, and larger Democratic shares of state legislative seats, correlate with increases in state borrowing costs.

At least 12 percent of Americans change their residences each year, often moving to more hospitable economic environments. In a system of competitive federalism, Peterson and Nadler write, "If states and localities attempt in a serious way to tax the rich and give to the poor, the rich will depart while the poor will be attracted." And government revenues and expenditures vary inversely.

From September through December 2008, the premium that investors demanded before they would buy California debt rather than U.S. Treasurys jumped from 24 to 271 basis points (100 points equals 1 percent). The bond market, the only remaining reality check for state politicians, must be allowed to work.

Constitutional jurisprudence affirms that states exercising substantial autonomous powers thereby assume concomitant risks. Federal loans or other bailouts of misgoverned states would remove bond market discipline, the only inhibition on the alliance between the Democratic portion of the political class and unionized public employees.

By George F. Will, Published: April 25

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Private Sector

Trustees report Social Security outlook worsening; Medicare funds run dry in 2024; officials tout health law effect

The Medicare and Social Security trust funds are both on "unsustainable paths" -- as they have been for years -- and will be exhausted by 2024 and 2033, respectively, a trustee report released Monday said.

"The projections in this year's report are somewhat more pessimistic than last year's report," Treasury Secretary Timothy Geithner said.

The 2024 date for depletion of the Medicare trust fund was the same as predicted last year, while trustees moved up the date for the Social Security fund running out by three years compared with last year.

Geithner said the 2010 health care law would lower costs by changing how people pay for health care. Administration officials also said that, without the health care law, Medicare's trust fund would be exhausted in 2016.

"It's in a much stronger position than it was a few years ago because of the Affordable Care Act," Health and Human Services Secretary Kathleen Sebelius said, adding that spending in Medicare is growing at a slower rate than in the private sector. Even so, officials said, it's not enough.

The trustees have predicted the depletion of the Medicare Trust Fund every year since they first began issuing reports in 1970, and they ultimately extend the deadlines out a few more years. However, the realities of Baby Boomers hitting senior-citizen status, Americans living longer and an economy that has supplied fewer workers to pay into Medicare and Social Security have left the trust funds paying out more than they take in.

Democrats and Republicans have already staked out opposing positions for this fall's election.

Former Massachusetts governor Mitt Romney, the presumptive Republican nominee, has said he backs the Medicare plan proposed by Rep. Paul Ryan, R-Wis. That plan would give each recipient a set amount each year to buy medical insurance.

In the meantime, the Obama administration touts actuary figures also released Monday that show the health care law will save Medicare $200 billion through 2016.

Sebelius said those savings come by preventing medical errors with better-quality care, fighting fraud and bringing wealthier seniors into the Medicare Advantage program. She said "leading health systems" have been allowed to reduce costs by managing chronic care because of provisions in the federal health care law.

The Medicare Trust Fund pays for about 85% of Medicare's Part A plan, or hospital insurance. That covers hospital, home health, skilled nursing facility and hospice care. General revenue and beneficiaries' premiums pay for general care and prescription drugs.

AARP responded to Monday's report by saying Social Security is "not in crisis" but still needed improvements. Medicare is in deeper trouble, and AARP asked for more actions to decrease costs through the entire health care system, rather than just Medicare.

The Heritage Foundation, a conservative think tank, said Monday that Obama's Medicare plan will either cause access problems for seniors or fail to keep costs down. It said Medicare providers will operate at a loss by 2030 and therefore drop out of the system. The think tank said the problem can be solved by higher payroll taxes, which it doesn't support; deeper cuts to providers; or through the voucher program proposed by Ryan.

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USA TODAY

April 24, 2012 Tuesday

Study: Rising healthcare costs driving shift of benefits costs, choices to employees; Companies looking to reduce or eliminate pension risks through liability-driven investment, pension risk transfer solutions

A survey of senior finance executives highlights the impact of rising healthcare costs on employee benefit programs. The report prepared by CFO Research services in collaboration with Prudential Financial, Inc.

(NYSE:PRU), " The Future of Retirement and Employee Benefits: Finance Executives Share Their Perspectives ," shows a shift toward greater employee responsibility for making benefits choices, and for contributing to benefits costs.

The survey found an increasing number of employers expect to move to an "employee choice" benefits model over the next two years, giving employees greater responsibility for choosing the types and levels of benefits selected. "Just as employees have had to take on more responsibility for their retirement security, they will be taking on more responsibility for other benefits as well," said James Gemus, senior vice president, Life/AD&D Products, Non-Qualified Benefits and Voluntary Benefits. "With these choices, employees will have more control over their benefits, to meet their personal needs." The 2012 survey also suggests that many companies are closer to making decisions on the future of their traditional pension plans. In particular, financial executives are increasingly looking at pension risk transfer and liability driven investment strategies to reduce or eliminate defined benefit plan risks.

"Reinforcing what we are hearing from our clients, senior finance executives are looking at ways to limit the impact of benefits risks on their firms' balance sheets," said Christine Marcks, president, Prudential Retirement. "For their defined benefit plans, finance executives are increasingly likely to adopt liability-driven investment and pension risk transfer strategies. For their defined contribution plans, they agree that plans need to be enhanced and are looking more closely at retirement income and risk-mitigation products that will enable more employees to retire as planned."

With respect to defined contribution plans, the survey indicates senior finance executives are exploring stable value products, guaranteed income products, and enhancements to target-date funds to improve participant outcomes, because they are concerned that employees are delaying retirement decisions due to inadequate savings.

The survey also finds that finance executives continue to recognize the value their companies' benefits programs have for attracting and retaining talent. "Facing a difficult economic environment and rising healthcare costs, companies are looking at ways to manage costs and reduce risk across the benefits spectrum while ensuring they remain competitive," said Sam Knox, senior vice president and director of research, CFO Research.

The survey was conducted from December 2011 to January 2012 by CFO Research Services in conjunction with Prudential Financial, Inc. Senior finance executives from a range of midsize and large U.S. companies were surveyed. The 2012 survey targeted companies that have defined benefit (DB) plans with $250 million or more in assets. One hundred eighty-six responses were collected from senior finance executives in a broad cross-section of company size and

industry segments. Prior CFO Research/Prudential Financial, Inc. surveys were conducted in 2009 and 2010.
CFO Research Services is the research unit of CFO Publishing, LLC, a portfolio company of Seguin Partners. CFO Publishing is the leading business-to-business media brand focused on the information needs of senior finance executives. Delivering content through multiple channels including online, digital, mobile, and print, the business consists of CFO magazine, CFO.com, CFO Research Services, CFO Learning and CFO Conferences. CFO's award-winning editorial content and loyal, influential audience make it a valued resource for its readers as well as an effective marketing partner for a wide range of blue-chip companies. CFO has long-standing relationships with nearly a million finance executives.

Prudential Financial, Inc. (NYSE: PRU), a financial services leader with approximately $943 billion of assets under management as of March 31, 2012, has operations in the United States, Asia, Europe, and Latin America. Prudential's diverse and talented employees are committed to helping individual and institutional customers grow and protect their wealth through a variety of products and services, including life insurance, annuities, retirement-related services, mutual funds and investment management. Prudential Retirement is a Prudential Financial business. Pension risk transfer products are issued by The Prudential Insurance Company of America (PICA), Newark, NJ. Guarantees are contingent on PICA's claims paying ability. In the U.S., Prudential's iconic Rock symbol has stood for strength, stability, expertise and innovation for more than a century. For more information, please visit http://www.news.prudential.com/ .

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Business Editors

403(b) Plan Sponsors Making Great Strides; New survey from Plan Sponsor Council of America reveals plan sponsors' progress, commitment to change for the better

Sponsors of 403(b) retirement plans continue to adapt to new regulations from the Department of Labor (DOL). The not-for-profits continue to make improvements, especially to investment line-ups. These insights and more are revealed in the latest 403(b) plan sponsor survey from the Plan Sponsor Council of America (PSCA) .

The survey, which was sponsored by the Principal Financial Group®, shows more stability and less uncertainty among 403(b) plan sponsors.

"The engagement of 403(b) plan sponsors is much higher than in years past. They're adjusting to the new regulatory environment, and show a much better understanding of ERISA," said David Wray , president of PSCA. "In many ways, sponsors of 403(b) plans are catching up to the 401(k) system ."

The 403(b) plan sponsor survey , reflecting 2011 data, shows: More certainty. The percent of plan sponsors who don't know their ERISA status is down from 10.0 percent in 2010 to 6.8 percent in 2011. Twenty-percent fewer sponsors are uncertain over whether they have an investment policy statement. Greater use of target date funds. This trend continues, with 72.5 percent of plan sponsors offering target date funds as an investment option, versus 69.1 percent in 2010.Significant increase in Roth feature. The number of plans permitting Roth after-tax contributions has doubled in the past four years. In 2011, 21.7 percent of 403(b) plans allowed Roth, up from 16.9 percent in 2010 and 10.9 percent in 2007.Enhanced education and communication. Use of email communication has increased (at 65.0 percent in 2011 vs. 59.5 percent in 2010), as has use of seminars/workshops (53.0 percent in 2011 vs. 41.8 percent in 2010). These increases likely reflect participant preferences and cost-efficiency trends. Continuous review and major restructuring of investment options. Nearly 40 percent of plan sponsors made changes to the investment lineup in the last year and nearly 26 percent plan a comprehensive re-design in the next 12 months. "The economic downturn in 2008 - 2009 had a big impact on plan sponsors," Wray explains. "They got the message to exercise due diligence in reviewing investment options."

The trends signal opportunities for financial professionals to provide assistance to 403(b) plans, especially those who work with TPAs. Nearly 35 percent of 403(b) sponsors report using the services of a TPA in 2011.
"We're seeing a culture of continuous improvement among 403(b) sponsors. Financial professionals can tap into that by using survey results to help clients benchmark their programs and shed light on areas that could be enhanced," says Aaron Friedman, national non-profit practice leader, The Principal®.
"For instance, nearly 22 percent of 403(b) plan sponsors said they are still using money market funds as the default investment option whereas the strong trend among 401(k) plans is to use target date funds as the default," said Friedman. "That, combined with plan sponsors' desire to continually renew investment options, could result in opportunities for financial professionals."

Admirably, even the smallest of not-for-profits-still challenged by a slow recovery-continue, like larger plans, to demonstrate strong commitments to employee retirement security by continuing to improve and make contributions to 403(b) plans.

"That's why this benchmarking survey is so valuable. Not-for-profits need to be able to attract and retain high performers efficiently. Strong retirement programs are critical for helping these organizations compete for talent, and they want to know what their peers are doing," says Wray.
Full survey results are may be purchased from PSCA at www.psca.org .
About PSCA. The Plan Sponsor Council of America (PSCA) is a nonprofit association that provides services, best practice information, and advocacy to defined contribution plan sponsors. Members have access to a broad range of resources and programs that address the varying needs of both small and large companies. Membership includes 1,200 companies ranging in size from Fortune 100 firms to small, entrepreneurial businesses.

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The new retirement

For many Americans the concept of a traditional retirement -- 20 or more years of leisure after a productive career -- is neither realistic nor appealing. Increased life expectancy, better health and a desire to remain active and productive into their 70s, 80s and even 90s are causing people to redefine the concept of retirement. For some, financial realities play a central role in the decision to continue working. The effects of the recent financial crisis on retirement savings and expectations for lower future investment returns are causing those of all economic levels to reconsider whether their nest eggs can support 20 or more years of withdrawals to cover retirement spending.

According to Wharton professor Olivia Mitchell, this trend toward working longer

is actually a return to the realities of the early 1900s. That's how it was before the advent of Social Security and what we now consider the "old-fashioned" plans that pay monthly benefits for life.

Back then, people worked for as long as they were physically able. "Sitting around and doing nothing was an alien concept," said Mitchell.

Now, factors including the shift away from those pension plans, concerns regarding the viability of Social Security and the realization that retirement can last decades have caused the historical trend toward retiring earlier to reverse itself starting in the 1990s.

However, to conclude that people are delaying retirement solely for economic reasons would be ignoring the influence of other important considerations. A survey of wealthy individuals conducted by Barclays Capital concluded that a majority of those who could otherwise afford to retire without financial worries are choosing to work for as long as they can. They view interesting work as a means to stay engaged, challenged and productive, and to contribute to society.
The financial benefits of working longer should not be overlooked and cannot be overestimated. It is one of the most important factors for achieving retirement security because it impacts an individual's finances in a number of ways:

* Savings on health-care costs. Employer-subsidized health insurance is one of the primary reasons many people stay in the workforce.

* Increased retirement benefits. For those eligible to receive a monthly pension annuity, additional years of service may increase the monthly lifetime benefit.

* Larger nest eggs and fewer withdrawals. Employees who participate in 401(k) type plans can make additional tax-deferred contributions and can allow their investments to grow for a longer period. Also, fewer years of withdrawals means your nest egg will last longer.

* Larger Social Security benefits. For every year you delay taking Social Security benefits after your full retirement age (and up to age 70), you will increase the benefit you receive by about 8 percent. You won't get a better deal anywhere else. These larger checks will improve your (and your spouse's) retirement security, especially in old age when you may need it most.

For many, economic well-being is only part of the argument for working longer. Research on healthy aging conducted by researchers at leading universities and think tanks supports the notion that working later in life offers physical, psychological and emotional benefits to older people.

The reasons are simple. First, interesting work requires that individuals utilize their social skills and cognitive abilities, which help them retain them longer.

Second, a person's desire to work, contribute their talents and be appreciated allows them to maintain a sense of purpose.
In other words, it's a great reason to get up in the morning.

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