BCG Retirement News Roundup

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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

These California cities could be next in bankruptcy

Since a federal judge ruled in April that Stockton, Calif., can pursue bankruptcy protection, the question has been which of the state's fiscally troubled cities will be next. These 10 are facing the kind of serious financial stress that sent Stockton and several other cities toward bankruptcy.

STORY: Calif. cities looking for economic recovery

• Atwater. This farm city in the Central Valley declared a fiscal emergency in October with a $3 million deficit and appeared poised for a bankruptcy filing. City leaders say they pulled the city back from the brink after winning concessions from unions to cut costs. The deal cuts pay 5% for city workers, including police. Last month, voters approved a half-point sales tax increase to 8%. The city has cut jobs but struggled as costs on a new water treatment plant exceeded $85 million in bond financing.

• Azusa. This city east of Los Angeles saw its credit rating downgraded in 2012 by Moody's and branded with a negative outlook by Standard & Poor's. Analysts cited low general fund reserves, which fell to $50,000, or 0.17% of expenses, last August. A 2011 audit found the city's general fund balance was almost entirely in restricted land assets.

• Compton. Bond-rating agency Standard & Poor's downgraded, then stopped rating, this Los Angeles County city's credit, citing the lack of an independent auditor's opinion, structural deficits and weakened finances. The city has ran annual deficits that reached $40 million and are still projected at more than $9 million this year, and borrowed from dedicated accounts when its general fund ran short. It has laid off 15% of its employees and reduced services, from law enforcement to canceling a popular annual gospel concert. Standard & Poor's said a 2011 audit was incomplete because of allegations of fraud and abuse of public money and a lack of response from the city to auditors' questions. The city once known for crime disbanded its police force and now relies on Los Angeles County sheriff's deputies — and was saddled with $369,000 in late fees for falling behind on payments to the county for those police services.

• Fresno. This Central Valley agricultural hub has been beset by annual deficits despite big cuts in spending and services, including a 25% reduction in the city workforce since 2009. Its credit rating was downgraded in 2012. The city has a $16 million deficit this year. In January, Standard & Poor's gave Fresno's credit a negative outlook "due to our view of the city's significantly deteriorated financial position." The city faces bigger annual payments for retired public workers because of poor investment returns for its defined benefit plan, the agency said. Fresno, like neighboring Stockton, has seen its financial stress compounded by double-digit unemployment in the region. The city is asking voters in June to approve privatizing garbage collection, which would produce a cash windfall of more than $10 million plus $2.4 million a year in franchise fees. City workers are fighting the change and petitioned to force a public vote on the plan.

• Hercules. This Contra Costa County city near San Francisco saw its credit ratings collapse seven grades to non-investment quality in 2012 as finances weakened and analysts questioned the city's future willingness to repay debts. The city notified creditors last September that it "does not anticipate there will be any available funds" for debt payments "in the foreseeable future." S&P says the city plans to use $4.5 million in unspent bond proceeds to pay debt service on other bonds but questions whether payments will be made when that money is exhausted. State Controller John Chiang issued audit reports in March saying, "The city's books were so poorly managed that I must question their use of every single federal and state dollar." Hercules has laid off 40% of public workers and last year defaulted on a bond payment, triggering a lawsuit.

• Mammoth Lakes. The mountain resort city filed for bankruptcy protection, then withdrew its petition last year after agreeing to a budget restructuring plan making settlement payments on a lawsuit that it lost. A developer, Mammoth Lakes Land Acquisition, filed suit charging that the city had breached a 1997 agreement to develop a hotel and condo project. The Hot Creek project stalled over federal objections that it would be too close to a planned airport runway expansion. A $30 million judgment, plus legal fees, against the city was upheld on appeal, and the city's liability grew to $42 million, 2½ times its general fund budget. Standard & Poor's says the city remains under financial pressure and rates its bonds at junk status.

• Monrovia. Standard & Poor's sharply downgraded the city's credit rating, citing a "substantially weakened general fund and liquidity position" coupled with the possibility it could lose pending litigation with a developer. It said the city's general fund consisted "entirely of restricted and non-spendable assets." Faced with declining tax and other revenue sources, the city cut staff 17% and reduced services, including street repaving, to balance its budget. Monrovia is 20 miles east of Los Angeles and one of several small cities along the foothills of the San Gabriel Mountains.

• Oakland. Plagued by high crime and lower revenue, this city on the east side of San Francisco Bay has cut police and other services while struggling to stay solvent. It has endured budget shortfalls of $318 million over the past six years and since 2008 has eliminated 16% of its workforce, or 720 jobs, while reducing pay and giving workers unpaid furloughs. Even with a recovering economy, the city is facing a $19 million shortfall in the coming year and projects a deficit of $35 million or more in 2015 as financial concessions made by public-employee unions expire and pension and retiree health benefits climb. The city has reduced its police force by 25% since 2009, to 626 officers, and the California Highway Patrol is helping police the city.

• San Jose. Being home to much of Silicon Valley's tech riches has not spared the nation's 10th-largest city from financial stress. The city has run 11 consecutive general fund deficits, and though it still has reserves, Standard & Poor's downgraded San Jose's credit rating in 2012 and branded it with a negative outlook, saying it still faces "long-term structural pressures." The city has cut workers' pay 10% and outsourced jobs but still foresees a $5.5 million deficit next year and nearly $14 million the year after. City officials say their biggest problem is retirement costs, which soared from $73 million in 2001 to $245 million last year. Cuts in public pensions approved by voters last fall are being challenged in court by unions. "Long-term budget obligations have outgrown the current revenue structure," Standard & Poor's said in January.

• Vernon. The smallest incorporated city in the state, with a population barely over 100, is an industrial center neighboring Los Angeles with 1,800 businesses and 55,000 jobs in 5 square miles. Vernon has a history of corruption and was the subject of a scathing report by the state auditor last July that said the city doesn't have enough revenue to pay for the services it provides. The audit found Vernon operated with annual deficits in its general fund for more than 20 years, increasing spending and salaries while tapping dedicated funds, reserves, asset sales and other transfers. The audit said Vernon engaged in speculative investments without effective risk evaluation, including an "unreasonable" natural gas deal that has cost it millions. It cited loose contracting practices and found problems in 21 of 25 city contracts examined, including lack of competitive bidding. It said Vernon had weak internal financial controls and "may have provided legally questionable retirement benefits to certain current and past executives." The city turned back efforts in the Legislature to disincorporate it last year and adopted reforms, but the auditor said some policy changes have not been implemented and others will take years to achieve.

William M. Welch, USA TODAY 8:39 p.m. EDT May 15, 2013

Illinois Pension Standoff Ahead as Senate Approves Its Own Fix

The Illinois legislative effort to repair the nation’s worst-funded pension system moved closer to a showdown as the Senate passed a restructuring measure endorsed by public-employee unions.

The bill, approved today by a vote of 40 to 16 in the Democratic-dominated chamber, sets up a confrontation over how to eliminate a $97 billion liability that is crowding out other spending priorities. The vote came one week after the House of Representatives, also controlled by Democrats, required employees to contribute two percentage points more of their incomes to pay for pensions.

Senate President John Cullerton said during the debate that his approach offers employees a choice of retirement and health-care options and wouldn’t run afoul of the state constitution’s protection of pension benefits.

“The bill that the House has passed I believe is risky,” Cullerton said. “This is the best chance to get a majority vote in both chambers and have the governor sign the bill.”

House and Senate Democrats have argued over the approach to repair the retirement plans covering state workers, teachers, university employees, judges and lawmakers. The bill from House Speaker Michael Madigan, which would also restrict cost-of-living increases and raise the retirement age, is designed to save $150 billion in costs during the next 30 years. The proposal from Cullerton, Madigan's fellow Chicago Democrat, would cut the shortfall by about $50 billion.

Impending Deadline

With annual costs projected to grow by more than $900 million in next year's budget, lawmakers are trying to resolve the squeeze by May 31, when the budget session is scheduled to end. The pension deficit increases by about $17 million a day.

Ahead of the Senate debate, investors in the $3.7 trillion municipal market were penalizing the state's debt. A taxable pension-obligation bond sold in June 2003 and maturing in June 2033 traded at an average yield of 5.13 percent at 1 p.m. in New York, the highest since April 5, according to data compiled by Bloomberg.

"The big problem with this bill is that it doesn't solve the problem," said Senator Matt Murphy, a Republican from Palatine. "This is a bill that perpetuates this crisis mode."

Democratic Governor Pat Quinn last week applauded the House-passed version, saying it moves Illinois closer to curing a plague on the state's economy, bond rating "and the future of our children."

Cellar Dweller

Illinois has the lowest-graded credit of any U.S. state by Moody's Investors Service and Standard & Poor's partly because of the unfunded retirement plans. Moody's, S&P and Fitch Ratings all have a negative outlook for the state.

"In order to begin to rebuild the trust between us and the people who depend upon the systems, you have to take a bold step, and this is not a bold step," said Senator Dale Righter, a Republican from Mattoon.

Illinois is paying for years of mismanagement and political gridlock, with only 39 percent of assets needed to cover projected obligations, according to the Civic Federation, a Chicago nonprofit research group that tracks public finances.

SEC Settlement

On March 12, the state settled with the U.S. Securities and Exchange Commission over charges it misled investors from 2005 to 2009 about retirement shortfalls.

Supporters of the Senate version of the pension bill argued that legislators should be concerned about more than saving money.

"This isn't just a numbers problem -- this is people, this is people who have spent decades teaching our children, working in our state government," said Senator Linda Holmes, a Democrat from Aurora. "Do you want to be fiscally responsible or do you want to be morally bankrupt and cheat the people who have helped us as a state?"

By Tim Jones and Brian Chappatta
May 09, 2013

Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures

A new national economic impact study finds that DB pension benefits have a significant economic impact: 6.5 million American jobs and $1 trillion in economic output.

"Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures" finds that expenditures made from public and private pension benefits in 2009:

Had a total economic impact of more than $1 trillion.

Supported more than 6.5 million American jobs that paid more than $315 billion in labor income to American workers.

Supported more than $134 billion in federal, state, local tax revenue.

Had large multiplier effects. For every dollar paid out in pension benefits, $2.37 in total economic output was supported. For every taxpayer dollar contributed to state and local pensions $8.72 in total output was supported.

Had the largest employment impact on the food services, real estate, health care, and retail trade sectors.

Paid $426 billion in pension benefits to nearly 19 million retired Americans and beneficiaries.

The report also analyzes the economic impact of state and local pensions in all 50 states.

Pa. pension reform legislation begins circulating

Gov. Tom Corbett could get his wish on reform of the state-administered pension systems.

Sen. Mike Brubaker, R-Lancaster County, and Rep. Chris Ross, R-Chester County, are taking the lead on one of the big issues in this year's 2013-14 budget debate.

They are circulating identical co-sponsorship memos for pending legislation that would mirror the governor's pension proposal in February. Neither was immediately available for comment on when the bills could be introduced.

Together, the State Employees' Retirement System and Public School Employees' Retirement System have an unfunded liability of $47.4 billion. Corbett called for legislation that would move new employees into a defined-contribution system in 2015.

The governor also wants to change the formula for future benefits in current employees' plans. Beginning in 2015, he has proposed reducing the multiplier used to determine future benefits by 0.5 percent.

"Final salary" under the Corbett model would be based on a five-year average rather than the current three. Pensionable compensation would be capped at 110 percent of the average salary of the previous four years, while the ceiling on pension income would be set at the Social Security wage base, which is $113,700 for 2013. Meanwhile, the 2013-14 budget would reduce the annual increase in the employer contribution limit to the pension funds to 2.25 percent, instead of the 4.5 percent increase scheduled to take effect.

That amount would increase by 0.5 percent per year until it reaches 4.5 percent again. "Collectively, without these needed reforms, pension costs will consume approximately 60 percent of all new revenues in the 2013-14 fiscal year," the memos state. "That translates to more than $500 million, leaving little to fund the growth in core programs and services."

The Senate is in session today, while the House returns May 6. The 2012-13 fiscal year ends June 30 and the governor has said he wants pension reform included in the 2013-14 budget.

By Jason Scott May 01. 2013 9:00AM - Last modified: May 01. 2013 9:46AM

Private Sector

Aging America: Seeking softer retirement landing

MUSCATINE, Iowa - There is an oft-told story about what happens when a worker at the Stanley Consultants engineering firm decides to retire.
"They say you have the retirement party one day and you come back to work the next," said Mary Jo Finchum, spokeswoman for the Muscatine, Iowa-based company.

Stanley is among the U.S. employers that have offered workers a softer landing into retirement, allowing them to scale back hours as they prepare to take the plunge and move into part-time positions once it's official.

"It's really the best of all worlds," said John Sayles, a 79-year-old planner at Stanley who cut his hours before formally retiring in 2003, but who has continued to work part time in the decade since. "I'll probably do it as long as the company would like me to help out."

Like most phased retirement programs, Stanley approves participants case by case. Those who take part before officially resigning must work at least 20 hours to maintain their health benefits. Once they've officially retired, workers can cash in shares through the company profit-sharing plan and make 401(k) withdrawals, even if they continue to work part time.

Dale Sweere, Stanley's human resources director, said phased retirement gives employees a way to maximize their retirement savings and the company a way to retain a highly experienced employee who often has built close ties with clients.

It also slows costs and productivity losses tied to turnover, and responds to a desire from employees who want to remain engaged in work, just not as much.

"They don't want to just walk away from the profession," Sweere said. "And to try to replace these people, especially with the amount of experience they've gained, is very difficult."

The phased retirement idea was born in Sweden in the 1970s and gained a foothold in the U.S. soon after.

Sarah Rix, a policy adviser at AARP who worked on the issue in its early years, said it has been hard to quantify how many people have taken part in such programs because most are informal. A 2010 study by AARP and the Society for Human Resource Management found that 20 percent of employers had phased retirement programs in place or planned to start them.

Companies that do embrace the concept often cite the wishes of older workers, who, surveys show, list flexibility as a priority in the twilight of their careers.

Businesses also see phased retirement as a way for employees to transfer knowledge to their replacements and to mentor younger workers.

It also is a way for them to reduce the payroll without losing a valued employee's expertise and experience.

"We're helping not only the retiree to transition, but the retiree is hopefully helping us to transition too, by passing on that corporate memory," said Judy Gonser, director of benefits and labor relations at The Aerospace Corporation, whose engineers have been at the helm of a variety of space-age projects, including missile defense.

The company lets employees take unpaid leaves of absence to give retirement a test run, switch to part-time status ahead of a full retirement, and gives retirees a chance to return to part-time work.

Phased retirement has been most widespread on university campuses and, to a lesser degree, among government and health care workers. It has been far less common among blue-collar workers.

"Some jobs are rather easy to split," said Robert Clark, a North Carolina State University economist who has written about phased retirement. For example, he said, professors teaching two classes a semester could easily trim their schedules. The salary savings might go toward hiring a less experienced, less expensive instructor.

Many formal phased retirement programs let employees maintain health insurance, vacation and other perks, and continue building up their retirement benefit. Others are more like consulting agreements, with retirees returning to work as independent contractors without benefits.

John Matzeder, compensation and benefits manager at the University of Kansas Medical Center, said phased retirement helps force individuals to think about their post-career lives and determine how they want to spend their time.

"You kind of want to transition into something and do something other than watch TV," he said. "It's a good transition. You're still coming to work, you're drawing a good income, your benefits are not going to change, but you really have to come up with a plan for when you're retired."

Phil Eckhert, 65, who retired in April from his post as director of housing, community works and transit for Hennepin County, Minn., now works part time under the county's phased-retirement program. It's provided him with a chance to refocus his life, both at work and at home. He has more time for projects around the house and his hobbies of golf and photography. But he also finds new fulfillment on the job.

He'll take calls and offer advice to less senior colleagues, all while enjoying a more limited schedule and a full pension. He had to give up his spacious office for a more modest one, but has also scaled back his responsibilities.

"It's been very nice to focus on a smaller number of things," he said. "I really have liked not having to carry 82 things home in my head at night."

Despite positive experiences around the country and decades of history, phased retirement still isn't an option most workers have access to.

Dallas Salisbury, president of the Employee Benefit Research Institute, said the economic picture will have to improve for the idea to get a more widespread embrace.

"It will require unemployment to come back down significantly lower and, particularly for the unemployment rates for those coming out of high school and college before there's interest in finding special ways to keep those who want to retire but the company would like to keep around part time," he said.

The idea gained a significant boost last year when Congress passed a law to allow some federal employees participate in phased retirement. With an eye toward a potential mass exodus of baby boomer workers, the U.S. Office of Personnel Management said the goal of the program is to facilitate the mentoring and training of employees' replacements.

That forthcoming expansion could fuel more interest in the private sector, particularly if projections of its cost savings are realized. The Congressional Budget Office estimated phased retirement would cut federal spending by $427 million over 10 years and increase revenues by $24 million because workers would collect pensions for shorter periods and earn taxable wages longer.

At Stanley Consultants, phased retirees speak passionately of what the program has allowed them to do. Hank Mann, a 72-year-old engineer, cut back to 30 hours a week in the months leading up to his formal retirement last year, and has worked fewer hours since.

He now coaches a swim team with his wife and volunteers harvesting grapes at a local winery. He relishes still being called upon to help with projects, but also enjoys being able to turn them down if he's not interested, an option not afforded during his 52 years of full-time work.

"Now I work on my schedule," he said. "Not the company's."

Anderson Independent-Mail (South Carolina)
May 29, 2013 Wednesday

Boomers' outlook dims as retirement nears

Donna Gehrke-White, Sun Sentinel (Fort Lauderdale, Fla.)

The Great Recession saw unemployment rates double and the housing bust that proved far stronger and lasted much longer than anyone had expected. Through it all, retirement savings plans took a major hit.

The economy is improving now. But for Baby Boomers who can see the finish line of retirement in the not-so-far-off distance, the race is on to rebuild - or start over - with their retirement plans.

The clock is ticking - loudly. Finding work still isn't easy. Neither is finding safe investments with reasonable returns.

For Vilma Hart, 58, an unexpected layoff during the recession undermined her best-laid retirement plans.

"It was a rude awakening," said Hart, a former corporate trainer and state caseload manager who was let go by the state in 2008. "I could not find a job for a year and a half. I exhausted all my retirement savings."

Hart took a part-time job with the AARP Foundation in 2010 so she could scrape by with her bills and also watch over her elderly mother. She hopes to find full-time work, but also understands the challenges ahead. She has nothing saved for retirement now, and hasn't been able to start saving again.

"I have to adapt," she said. "I thought I had my ducks in a row but it didn't work out."
Hart is among the 2 out of every 3 Baby Boomers who are in some kind of unfavorable retirement situation.

Surveys spell out in detail the depth of the problem. About 63 percent of displaced workers during the recession dipped into their retirement savings to pay bills, according to a 2012 study by the nonprofit Transamerica Center for Retirement Studies. Middle-aged workers were most at risk, the survey found. Workers in their 40s and 50s had only a median $2,300 left in their retirement accounts.

Investment earnings for Americans 65 and over accounted for 10 percent of their income on average in 2006. Now, it's only 6 percent, according to a separate AARP survey of 2011 trends, the most-recent year available.

"This is going to be a huge story for years and years," Florida AARP spokesman Dave Bruns said. Many boomers "are in a world of hurt. You have to wonder what their options are. Many say, 'I'm going to work until I drop.' "

Ken Viviano, a 57-year-old construction contractor, has struggled for the past six years after the housing boom went bust.

He was forced to retool his business during the housing collapse, trying to get by on individual kitchen and bathroom remodeling projects for homeowners. It was all he could do to pay his everyday bills and get his kids through college. During that time, he hasn't been able to save anything for retirement.

"You can't put anything away," Viviano said. "The game has really changed."
His business is doing well now, but he worries about physically being able to continue with so much manual labor at his age, since he can't afford to hire other employees to help him. "I've got issues with my feet, my arms," he said. "I don't know if I can keep doing this for 10 more years."

Sharon Hallback is 65 years old. She went back to school late in life and has two master's degrees. She still can't find the right full-time job to help get her back on her feet.

"They say I am overqualified," said Hallback, who has stopped telling some prospective employers about her degrees.

Hallback was a counselor who was hired by a private company to make home visits to help special needs children. But in 2009, her mother became gravely ill and Hallback ultimately lost her job because she refused to give up caring for her mother. "I will never regret what I did."

She went on Social Security at 62 to bring in a monthly check. Her retirement savings accounts had been depleted by putting her three children through college.

"I was a single parent," Hallback said. "I had to pull out my money."

She was able to find work at a juvenile program but has struggled since then to get by. She considers herself lucky that she got into an AARP program, working at a state workforce agency in Hollywood, Fla. Even with her Social Security benefits, making ends meet has not been easy. And saving for retirement? Out of the question.

Her warning to other baby boomers: If you think you want to get a part-time job to supplement your Social Security, realize it may be harder than you think to snag one.
"There are so many people looking for work - even part-time work," Hallback said. "It didn't use to be that way. But now there's so much competition."

To get to a comfortable retirement level, many baby boomers will have to reinvent themselves by working longer and resuming their saving - even if it means not financially helping their children and further shaving off living expenses, said financial planners and analysts who work with older workers.

Most who lost jobs will have to rework their budgets to still save for retirement with smaller paychecks, said Florida's AARP director Jeff Johnson.

"Chances are they are going into a much lower salary than they had before," Johnson said.

Some boomers will also have to adjust to the new reality of more companies eliminating their 401(k) contributions to workers' accounts, said Boca Raton, Fla., financial planner Mari Adam.

But boomers can't use that as an excuse not to save, Adam said. "They don't save enough now," she added. They especially must not help their children through college if that jeopardizes their retirement savings, Adam said.

"Their kids can get loans," she said.

The key is to not to go through all the savings within a few years of retiring, added Craig Copeland, an analyst with the Employee Benefit Research Institute.

Some laid-off boomers who have managed to hold onto some savings can retire as long as they budget and watch their spending, said Plantation, Fla., financial planner Ben Tobias.

"While comfortable, their retirement won't be as comfortable as planned," he said. "It's happened to a lot of people."

Sharon Hallback, 65, left her job to care for her mother in 2009. Since re-entering the job market, she has found it hard to find work. She found help with the AARP job training program in Hollywood, Fla. Her plight is common among Baby Boomers.

Charleston Gazette (West Virginia)
May 26, 2013, Sunday

Washington: Take Three: Lifetime Income Illustrations

US Department of Labor, The Government of USA has issued the following news release:

On May 7, the department’s Employee Benefits Security Administration announced an advance notice of proposed rulemaking on including lifetime income illustrations in the statements workers receive from their defined contribution retirement plans, such as 401(k) and 403(b) plans. The notice gives the public an opportunity for early input into the development of regulations.

We checked in with Phyllis C. Borzi, assistant secretary of labor for employee benefits security, to help explain what lifetime income illustrations are and why they matter.
What is a lifetime income illustration?

What we mean by a lifetime income illustration is a projection, a visual indicator on a quarterly or annual retirement account statement, if you will, that would show an individual saving for retirement the likely monthly income that may be generated from his or her current account balance. The illustration could also show an expected account balance at the time of retirement based on projected contribution amounts and annual growth over a period of years, and how such a lump sum could be broken down into a stream of monthly payments for life.

Why is this important?

Unfortunately, many retirees run the risk of outliving their savings, and this initiative is intended to help America's workers have a more secure retirement. The traditional pension plans where retirees receive monthly checks from former employers is less and less of an option for workers these days. What we've seen over recent decades is the move towards defined contribution plans, like 401(k) plans. Participants in such plans need to manage their own investments throughout their career, and continue to manage their nest egg when they retire. The final balance that workers will see in their account will very likely be the most money they will ever have at their disposal. For example, $300,000 might seem like a lot of money for retirement. However, when you show a worker today how that amount would be broken down into monthly payments over about 20 years, it's an eye opener. We're hoping a lifetime income illustration might spur better planning for the future.
Can you show us an example of a lifetime income illustration?

Yes. On our website is a calculator that will allow you to plug in your projected retirement age, current account balance, your current annual contribution amount, and the number of years until you expect to retire. It estimates the monthly lifetime income streams based on your current account balance and on the projected value of the account balance at your retirement. It's a very useful tool that even some on my staff have said has forced them to rethink how they're saving and investing money for the future. For more information please visit: http://social.dol.gova

US Official News
May 27, 2013 Monday UNITED STATES

Pension plans can make all the difference in retirement

PRINCETON, N.J., May 23

Pension plans can make all the difference in how financially well off U.S. retirees are, Gallup's annual Economy and Personal Finance survey indicates.

The survey of 2,000 U.S. adults, including 636 retirees, conducted April 4-14, indicated U.S. retirees with $50,000 or more in annual income were twice as likely as retirees below that threshold to have a work-sponsored pension plan as a major source of retirement funds.

Among all U.S. retirees, Social Security was most commonly -- 61 percent -- cited as a major source of retirement income followed by 36 percent who said pension plans were a major source, 23 percent who said 401(k), IRA or other retirement savings accounts, and 20 percent who said home equity.

Among wealthier retirees, Social Security was the next-most-common major source of funds, followed by self-directed retirement savings accounts such as 401(k) plans or IRAs, the survey said.
Seventy-three percent of retiree respondents below the median household income said they depended for most of their retirement income from Social Security.

Sixty-two percent of retirees age 70 and younger said Social Security was a major source of retirement funds, compared with 61 percent of retirees age 70 or older. Thirty-six percent of both age groups say pension plans were a major source of retirement income.

Data from Fidelity Investments, the largest holder of 401(k) plans, suggested investors' average 401(k) balance was about $77,000 at the end of 2012. For those nearing retirement age, these national average balances -- $77,000 -- will almost certainly be inadequate to fund their retirement, making them more dependent on Social Security, Gallup said.

The survey has a margin of error of 5 percentage points.
In a separate poll, Gallup said three-quarters of U.S. adult respondents said they believe they will work past the retirement age and more will do so because they want to than because they have to.

Gallup said an April 4-14 survey that 61 percent of respondents indicated they believed they would work part time past their retirement age, while 15 percent indicated they would work full time.

The remaining 24 percent, "don't intend to work or aren't sure," Gallup said.

But 40 percent of respondents indicated they would continue to work because they wanted to, while 35 percent indicated they would have to work past their retirement age.

Results of the second poll, which involved 1,005 adults, include a margin of error of 3 percent points, Gallup said.

UPI
May 23, 2013 Thursday 3:53 PM EST

Fidelity® Estimates Couples Retiring in 2013 Will Need $220,000 to Pay Medical Expenses Throughout Retirement; Lower Health Care Utilization Due to Weaker Economy in Recent Years and Changes to Provider Payments Contribute to Lower Medicare Spending Projections per Retiree

BOSTON

A 65-year-old couple retiring in 2013 is estimated to need $220,000[1] to cover medical expenses throughout retirement according to the latest retiree health care costs estimate calculated by Fidelity Investments.® This year's figure represents an 8 percent decrease from last year's estimate of $240,000.

Fidelity has calculated an annual estimate of medical expenses for retirees since 2002. For many Americans, health care is likely to be among their largest expenses in retirement. The estimate, which is calculated by Fidelity's Benefits Consulting, does not include any costs associated with nursing home care and applies to retirees with traditional Medicare insurance coverage.

Fidelity's estimate had increased an average of 6 percent annually between 2002 and 2012. It decreased only once before - in 2011 - due to a one-time adjustment driven by Medicare changes that reduced out-of-pocket expenses for prescription drugs for many seniors. The estimate decreased for the second time in 2013 due to lower than expected Medicare spending in recent years as well as a reduction in projected Medicare spending in the near future.

"While lower, this year's estimate is still daunting for many retirees, and it will consume a considerable amount of a couple's retirement savings," said Brad Kimler, executive vice president of Fidelity's Benefits Consulting business. "It is extremely important that health care costs are factored into retirement savings strategies today so that retirees can be prepared to pay their medical bills throughout retirement."

Weaker Economy, Payment Changes, and Demographics Contribute to Lower Estimate
Medicare per enrollee spending increased at a rate of only 0.4 percent in 2012, in line with relatively small increases in spending in recent years.

Specifically, spending per enrollee rose just 1.9 percent between 2010 and 2012.[2] This is significantly lower than historical increases, which have averaged 7 percent annually from 1985 to 2009[3.]

A number of factors likely contributed to the recent trend of decreasing spending per enrollee. The economic downturn that began in 2008 led to a decrease in utilization of health care services as many Americans were faced with financial challenges. Also contributing to the decrease were smaller payment increases to providers (e.g. hospitals, physicians, health plans). Additionally, as baby boomers retire, they bring a large influx of younger enrollees into the Medicare population, reducing the overall average age of participants. Younger retirees tend to have lower health care expenses than older beneficiaries which also contributed to the lower per-enrollee spending.

Though spending per enrollee has declined, it is important to note that increases in aggregate Medicare spending have grown at a faster rate due to a larger number of beneficiaries. While the current trend of lower spending per enrollee has had a positive impact on Medicare costs, the growth in Medicare enrollees over the next few years is expected to continue to strain Medicare-related resources.

"What is surprising is that while the economy has strengthened, per-enrollee trends remain modest compared to historical rates," continued Kimler. "Whether these trends are sustainable depends largely on the ability of the private health sector to find efficiencies in the delivery system."

Many Workers Still Underestimate Health Care Costs in Retirement
A recent Fidelity study[4] suggests that many consumers greatly underestimate the amount of savings they may need to cover health care costs in retirement. While Fidelity's annual retiree health care cost estimate has exceeded $200,000 every year since 2006, a recent poll of pre-retirees (ages 55-64) found that nearly half (48 percent) of respondents believe they will only need $50,000 to pay for health care costs in retirement. While some Americans will have employer-sponsored retiree health benefits to help cover these expenses, the majority of Americans will need to plan to cover health care costs as part of their overall retirement savings strategy.

In addition, consumers should explore options for covering their retiree health care costs and identify the savings vehicle that fits their strategy. For instance, consumers who have access to a high-deductible health plan (HDHP) through their employer may have the option of saving in a Health Savings Account (HSA), which allows pre-tax contributions to roll over and accumulate if not spent. In addition, consumers can also consider adding an annuity or other retirement income product to their overall retirement savings strategy to help address health care costs in retirement.

"Creating a plan and starting to save as early as possible are two key aspects of a successful retirement savings plan," added Kimler. "But it's also important to identify a specific retirement income stream to address health care costs in retirement. Having assets that are earmarked for health care expenses will help ensure retirees can cover these costs when they arise, as well as help manage their overall retirement savings portfolio."

For more guidance on how individuals and couples can better plan for health care expenses in retirement, check out Fidelity's latest Viewpoint article at https://www.fidelity.com/viewpoints/health-care-costs-when-you-retire.
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1 The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.

2 U.S. Department of Health & Human Services. Office of the Assistant Secretary for Planning and Evaluation. Growth in Medicare Spending Per Beneficiary Continues to Hit Historic Lows. By Richard Kronick and Rosa Po, January 7, 2013.

3 Henry J. Kaiser Family Foundation. A Primer on Medicare Financing. January 31, 2011.

4 The HSA survey was conducted by GfK Public Affairs & Corporate Communications from February 4th to 20th, 2013. The study was conducted among a nationally representative sample of 1,836 U.S. adults ages 25-64 with a household income of $25,000 or more. Respondents also have primary or shared responsibility for household financial decisions and receive healthcare benefits through their own or their spouse's employer.

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