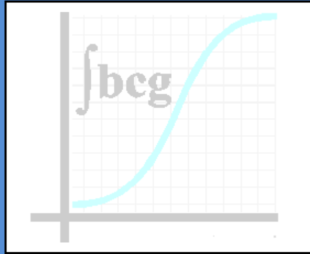

BCG Retirement News Roundup

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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

What Pension Rulings in Illinois and Oregon Could Mean for States

Courts struck down pension cuts twice in the last two weeks, setting the stage for potentially more drastic measures.

Twice in two weeks, courts struck down state attempts to cut pension benefits of state employees and retirees, a development that indicates just how hard it is for states to solve budget problems by slashing public pensions.

On Friday, the Illinois Supreme Court ruled that the state's 2013 pension legislation that raised the retirement age and reduced Cost-of-Living-Adjustments (COLAs) was unconstitutional. The court ruled similarly last year on a proposed change to the state's retiree health benefits, so observers expected the latest ruling. However, the situation puts Illinois, which already has the lowest credit rating of any state, on the verge of a rating downgrade if it can't solve its fiscal crisis and fix its $7 billion budget deficit. The court ruling has already resulted in Moody's downgrading Chicago's credit rating to junk status; the city's pension debt is a huge component of its financial problems.

In Oregon, the state's high court ruled on April 30 that its 2013 reduction to COLAs was unconstitutional. The court dismissed the state's argument that the cuts were necessary for the state to continue its essential services, an argument similar to the one Illinois offered.

"One important difference in all this is that Oregon doesn't have the explicit constitutional [pension] protection Illinois had," said Keith Brainard, research director for the National Association of State Retirement Officers. "But nevertheless Oregon's supreme court found that COLA reform did violate the contract protection those workers had."

Over the past several years, states have litigated scores of pension cuts with different results. In places like Colorado, Florida and Washington, courts upheld benefits changes. Elsewhere, like in Arizona, courts struck down such changes.

Experts say that last week's ruling leaves cash-strapped Illinois with little recourse except to take drastic action. Even before the ruling, Gov. Bruce Rauner proposed slashing current employees' retirement benefits in an effort to close his state's continual budget gaps. Rauner's proposal would allow current employees to keep the pensions they've already earned but future benefits would be less generous. He estimated the move would save $2.2 billion in 2016 alone. Key to his plan would be a voter referendum clarifying that the state's constitutional public pension benefit protection clause applies neither to future accruals nor to health insurance.

Changing the state constitution is extremely difficult, but for states that have been rejected by the courts or don't have a good track record, it may be the last available option, said Frank Shafroth, director of the Center for State and Local Government Leadership at George Mason University.

"These governors and legislatures are going to have to go to the people and say it's not adding up," said Shafroth, who is a Governing contributor. "Something's got to give here."

That may also be the case for New Jersey, which has pending litigation regarding its elimination of COLA benefits in 2011. Like Illinois, the state has struggled repeatedly with budget deficits and has neglected its pension funding requirements as a result. Without waiting for a ruling on the 2011 legislation, Gov. Chris Christie has proposed going even further. Earlier this year he said he wants to close down the plan entirely and move active public employees into a hybrid of a traditional pension plan and a 401(k)-like plan.

James Spiotto, a bankruptcy expert and co-publisher of the MuniNet Guide to municipal research, said the message the Oregon and Illinois rulings send is that states should avoid pension litigation at all costs. He pointed to the recent pension settlement in Rhode Island that changed COLA payments and ultimately reduced pensions payouts (although not as drastically as the initial legislation proposed). Litigation drags on for years and creates uncertainty, Spiotto said. In the case of Oregon, a negative ruling can create additional budget pressure as the state and its municipalities must pay more in pension contributions in future years than the pension fund forecast.

"It's clear that in not just these cases but all of them that we're far better off finding the solution and negotiating it rather than litigating it," he said. "If you don't fix it as a practical matter, then both sides lose."

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Pennsylvania Senate passes pension reform bill

Bill would place new employees in DC, cash balance hybrid, raise contributions for current employees

The Pennsylvania State Senate passed a pensions reform bill Wednesday that intends to update the funding, sustainability and fiscal responsibility of the state's two largest pension funds, said Jennifer Kocher, spokeswoman for the bill's sponsor, Sen. Jake Corman.

The $27 billion Pennsylvania State Employees' Retirement System and $51.7 billion Pennsylvania Public School Employees' Retirement System, both based in Harrisburg, together have an unfunded liability of $60.12 billion.

Ms. Kocher said that the bill is expected to save taxpayers $18.2 billion over the next 30 years.

The bill proposes all new state and public school employees to be enrolled in a mandatory defined contribution plan, as well as in a cash balance plan.

For current participants, employee contributions for all future earnings will be increased by 3 percentage points to 9.25% for PennPSERS and 2.5 percentage points to 7.5% for PennSERS. Current employees will also be eligible to contribute up to 3% of payroll into an optional cash balance plan.

"The level of payment by the commonwealth and school districts required to annually address these amounts is staggering, particularly when other state revenues are reduced due to a struggling economy," the bill said. "The current condition of Pennsylvania's unfunded system combined with the state's structural deficit (threatens) the financial well-being of current and future public employees."

The bill added that, to fully fund the state's pensions systems, contributions will continue to require a significant portion of state revenues. For example, without reform, pension expenditures are expected to exceed $4.8 billion in fiscal year 2016 and $7.3 billion by 2025.

The bill passed the Senate by a 28-19 vote. The next step is for members of the state's House of Representatives to hold hearings on the bill sometime in June. Jeff Sheridan, spokesman for Gov. Tom Wolf, did not return a phone call by press time.

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Fitch, S&P taking more patient approach following Moody's Chicago credit downgrade

When Moody's Investors Service downgraded Chicago debt to junk status, it ramped up pressure on other ratings agencies, giving them something else to ponder in deciding how soon to act.

Moody's announcement on Tuesday preceded — and threatened to short-circuit — city efforts to refinance $900 million in variable-rate debt and borrow $200 million to pay off interest-rate swaps and avoid termination fees and other financial penalties associated with a lower credit rating.

While Moody's has dropped the city's debt rating by seven notches — to Ba1, one level below investment grade — since mid-2013, Standard & Poor's Rating Services has maintained an A+ rating — five notches from the top — for more than four years.

The six-notch spread is the widest for any city, creating challenges for debt traders.

S&P warned last week that it, too, could lower the city's rating by more than one notch. But it gave the city breathing room, indicating a downgrade would happen only if the city failed to implement a plan by the end of this year to “sustainably fund” its pension contributions, or if it “substantially” draws down its reserves to do so.

Chicago pension funds are underfunded by about $20 billion.

After Moody's acted on Tuesday, Fitch Ratings, which rates Chicago debt A-, said it was "in contact with city management and will assess the rating impact of the recent downgrade."

Mike Belsky, a former group manager in public finance for Fitch in Chicago, contends that Moody's acted prematurely, underestimating Chicago's "booming economy" and City Hall measures to work out of its pension mess. He adds, "S&P puts more weight on underlying economics than Moody's."

Mayor Rahm Emanuel termed Moody's decision "irresponsible." Meanwhile, on Wednesday, Moody's downgraded Chicago Public Schools debt to three grades below investment quality and lowered the Chicago Park District's debt rating to match the city's.

The city maintains that its pension situation is different from the state's. It argues that if changes to Chicago's pension system are overturned, the city won't be on the hook for obligations of municipal and laborers funds. Instead, the city will revert to a multiplier-based funding obligation, it says, "and the funds will go broke in 10 and 13 years, respectively."

Some municipal market veterans expect S&P and Fitch to issue downgrades on Chicago debt soon, but possibly not until after seeing what the Illinois General Assembly does about the pension bomb before adjourning later this spring.

Rating agencies tend to act more in lockstep when upgrading ratings than downgrading them, according to municipal finance officials.

Moody's downgrade of city debt came just days after the Illinois Supreme Court on Friday ruled unconstitutional pension law changes the Legislature had enacted in 2013. © 2015 Copyright © 2015 Crain Communications Inc.

Five job sectors still often offer pensions

There has been a lot of discussion about pensions and their disappearance from retirement benefits plans throughout the years.

A 2014 report released by professional services organization Towers Watson found that only 24 percent of Fortune 500 companies still offered any type of defined benefit plan to their newly hired employees by the end of 2013, with nearly two-thirds of the 24 percent offering cash balance plans. Instead, these employers have adopted defined contribution and hybrid plans.

“There’s a move away from pensions, that’s nothing new,” Alan Glickstein, senior retirement consultant at Towers Watson, told The Washington Post. “But the move is slowing.”

Although the number of Fortune 500 companies offering traditional defined benefit plans has dropped significantly over the years, it is possible to find a job that still offers some sort of pension.

GAS AND POWER UTILITIES SECTOR

Many Fortune 500 companies in the utilities sector offer defined benefit plans to new employees, and they have kept their retirement benefits consistent between union and non-union workers. Because these jobs tend to be physically demanding, defined benefit plans “encourage/allow workers to retire at an appropriate time,” states the Towers Watson analysis.

INSURANCE

The Towers Watson analysis also found that 46 percent of insurance companies offered hybrid and defined contribution plans, and 20 percent offered traditional defined benefit and defined contribution plans in 2013. Meanwhile, 34 percent offered defined contribution-only plans.

PUBLIC SECTOR

If you get a job as a public employee — such as a police officer, firefighter, etc. — you have a good chance of being enrolled in a state pension program. According to Monster .com, a state pension program could possibly “pay you up to 90 percent of your salary at retirement.”

MILITARY

Currently, troops can retire and receive their pensions after 20 years of service. The Military Times, however, reported in January that a military panel proposed a hybrid system that would “shrink the size of future troops’ pensions and end the 20-year, all-or-nothing aspect of the current benefits package by starting 401(k)-style investment funds with government

contributions for lower-ranking troops." According to USA Today, the new plan is expected to be in place by October 2017.

HEALTH SERVICES

The top five employers ranked in AARP's 2013 list of the "Best Employers for Workers Over 50" are in the health care/health service industry. At least four out of five of them offer some type of pension. For example, the National Institutes of Health offers employees a 403(b) plan with employer match as well as a defined benefit plan, according to AARP.

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House Passes Bill Exempting Some Feds From Retirement Tax Penalty

The House on Tuesday passed bipartisan legislation 407-5 that would allow federal law enforcement officers and firefighters to access money in their Thrift Savings Plan accounts without penalty when they are eligible to retire.

H.R. 2146 would reform the tax code so that federal law enforcement officers and firefighters, who are eligible to retire earlier than many other federal employees, aren't subject to the 10 percent tax penalty on TSP retirement funds and other 401(k)-type plans tapped before the age of 59 and a half. Civilians who access their retirement investments, such as a 401(k), prior to turning 55 if they are retired, or 59.5 if they are still working, incur the IRS fine.

Federal law enforcement employees and firefighters are eligible to retire after 20 years of service at age 50; that group also is subject to mandatory retirement at age 57 because of the physical demands and hazardous nature of their jobs. Border protection and customs officers would also be exempt from the tax penalty under the bill.

State and local public safety officers have been exempt from the 10 percent tax penalty since 2006; H.R. 2146 would extend that exemption to qualified federal public safety employees. Rep. Dave Reichert, R-Wash., is a sponsor of the bill, along with Reps. Michael Fitzpatrick, R-Pa.; Bill Pascrell, D-N.J.; and Tom Reed, R-N.Y. Sens. Pat Toomey, R-Pa, and Michael Bennet, D-Colo., introduced a companion bill in that chamber in April.

Jon Adler, national president of the Federal Law Enforcement Officers Association, praised the lawmakers for shepherding the bill. "These leaders in Congress recognize the need for federal officers to be able to access their Thrift Savings Plan account at retirement age without incurring a harsh IRS penalty," he said.

When it comes to the defined benefit portion of their retirement perks, law enforcement personnel receive a more generous annuity calculation and -- as mentioned -- can retire earlier than other federal workers.

A separate House bill, H.R. 1850, would extend law enforcement retirement coverage to Federal Protective Service officers, who are not considered LEOs for the purpose of calculating retirement benefits.

“FPS officers carry guns, make arrests, perform investigations, and apprehend criminals,” said David Wright, president of American Federation of Government Employees Local 918, in an April 20 press release, praising the legislation sponsored by Rep. André Carson “They are law enforcement officers in every sense of the word, and they should be entitled to law enforcement retirement benefits.”

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Private Sector

Reminder – Certain Plans May Have to Supplement Annual Funding Notice with Additional Required Information

As discussed in our entry from March, "DOL Issues Final Regulations on Annual Funding Notice," the DOL published new final regulations for defined benefit plan annual funding notices earlier this year. The DOL has also issued supplemental guidance in the form of Field Assistance Bulletin ("FAB") 2013-01 and FAB 2015-01. These Bulletins require that an annual funding notice include a supplemental information table with respect to a notice year (and two preceding years) in which: (1) the plan's funding target is less than 95% of the statutory funding target under ERISA determined without taking into account the plan's funding target modified by interest rate adjustments included as part of the Moving Ahead for Progress in the 21st Century Act ("MAP-21") and later by the Highway and Transportation Funding Act of 2014 ("HAFTA"); (2) the plan's funding shortfall is more than $500,000; and (3) the number of plan participants was more than 50 on any day during the preceding plan year.

Background

In 2013, MAP-21 adjusted, for plan years beginning after December 31, 2011, the method used to determine the present value of a defined benefit plan's liabilities by revising the applicable interest rate calculation and requiring plan actuaries to multiply the revised interest rate by certain statutory minimum and maximum percentages ("interest rate multipliers"). The purpose of these adjustments, known as "rate stabilization," was to lessen the effect that short term interest rate volatility could have on defined benefit plan liabilities and funding obligations.

MAP-21 also amended ERISA's statutory annual funding notice rules to require, temporarily for plan years between 2012 and 2015, an annual funding notice supplement if a defined benefit plan meets the criteria outlined in items (1) through (3) above.

Current Guidance

HAFTA, passed in late 2014, revised the interest rate multipliers and extended the years during which the new supplemental information would have to be added, if applicable, to the annual funding notice for a defined benefit plan. Thanks to HAFTA, an annual funding notice supplement will be required with respect to an applicable plan through 2020 if it meets the requirements outlined above.

The key test to determine whether an annual funding notice will require a HAFTA supplement revolves around whether a defined benefit plan's funding target (i.e., the value of plan benefits

accrued during the plan year), determined using the newly adjusted interest rate, is less than 95% of the plan's funding target without taking the newly adjusted interest rate into account. If the quotient determined by dividing the funding target using the HAFTA rates by the funding target using the non-HAFTA rates is at least 95%, no supplement to the annual funding notice is required.

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Will Longer-Working Boomers Change the Workplace?

U.S. employers could see a shift in staffing pressures as so-called retired Boomers look to change careers or stay in the workforce, at least part-time, a report says. ---

Though they may face headwinds from health and other reasons, middle-income Boomers want to work in retirement and report high levels of satisfaction when they do, according to "New Expectations, New Rewards: Work in Retirement for Middle-Income Boomers," a study by Bankers Life Center for a Secure Retirement (CSR).

Nearly half of non-working, retired American Baby Boomers (48%) would like to work, but can't. The reasons vary—their own health, or the health of a loved one, or they can't find a job—but it adds up to a large number of retirees who would like to be in the workforce.

Most retired Baby Boomers (72%) aren't currently working for pay in retirement, the report finds. Baby Boomers are clearly grappling with how they want to spend their retirement years, which they see as different from the way their parents lived. In a Merrill Lynch Bank of America study, a majority of pre-retirees said the ideal retirement would include work. For many, the old-fashioned concept of retirement as a time when work completely ends is simply unattainable.

The changes in social expectations for retirement could have an impact on workplace retirement plan sponsors, the study says. Employers will need to ask themselves what role a highly experienced, part-time workforce can play in an organization as the lines blur between retirement and working for pay.

Citing a revolution in the workforce when American women began working in unprecedented numbers in the 1960s and '70s, Ken Dychtwald, founder and chief executive of Age Wave, says the big question is whether employers will be willing to accommodate these older job-seekers. Industry expressed anxiety about the numbers of women who might be competing with men for a scarcity of jobs, Dychtwald observes. "Instead, the economy exploded, with more people working and consuming," he tells PLANADVISER. "If you have tens of millions highly talented people in their 60s who want to work, are we going to see that as the next revolution of work? I think it will be."

Baby Boomers are more likely to look for flexibility in work arrangements and in scheduling. Many try new career paths in different industries. In exchange for the work arrangements they want, many retired Baby Boomers are willing to work for less money than they were before retiring.

For employers, retirees represent a large category of potential workers with different values and skills than non-retired workers, and the study seems to reveal a disconnect between the expectations of middle-income Boomers who are still working and the reality of working retired Boomers.

Only two in 10 non-retired Boomers (21%) say they would be willing to take a pay cut for their work in retirement, while more than half (53%) of currently employed retirees report making much less per hour in retirement. Nearly all non-retirees who plan to work in retirement (94%) would like some kind of special work arrangement, such as flex-time or telecommuting, but only about one-third (37%) of currently employed retirees have such an arrangement.

Non-retired workers may not see their working future accurately.

More than one-quarter (26%) of employed retirees are looking for an employer that accommodates flexible work hours or schedules. In contrast, a small percentage of non-retired workers (9%) say they seek flexibility as a primary quality in a post-retirement job. More than one-third (34%) of non-retired workers say the primary quality they look for in an employer is one that pays well; just over one-tenth (13%) of employed retirees cite compensation as a top goal.

A majority of those retired Boomers (69%) say they would have liked to have worked longer but find that they retired earlier than expected. Among those, nearly eight in 10 (79%) retired early for reasons they could not control, such as a personal health situation (39%), being laid off (19%) or lagging performance (6%). The results are in contrast to those of a New York Life survey that found many retirees expressing regret that they had stayed in the workforce as long as they had, but that group had liquid assets of at least $100,000.

Work in retirement brings more than just monetary compensation, according to the survey's findings: many retired Boomers who are able to say they work for reasons beyond pay. One-third of retired Boomers (28%) are either currently employed or have been employed for pay during retirement, according to the study. Of those currently working, more than six in 10 (61%) say they work because they want to, not because they have to. In contrast, more than seven in 10 (71%) non-retired Boomers say they are working because they have to work.

Although money is the top single reason for continuing to work, other reasons for working in retirement are not exclusively financial and are cited by about six in 10 employed retirees.

These reasons include staying mentally alert (18%), remaining physically active (15%) and keeping a sense of purpose (14%). About half of working retirees (49%) say they expect to work as long as their health allows, or beyond age 70.

Lower compensation is not always a bar for Boomers who want to work in retirement. Nearly three-quarters (72%) of employed retirees report that their per-hour compensation in retirement is less than it was before retirement, with more than half (53%) reporting an hourly compensation that is much less than before retirement.

However, working Boomer retirees trade reduced compensation for the increased employment flexibility that semi-retirement offers. A majority of employed Boomer retirees (88%) have work arrangements other than full time, including part time (59%), freelance (18%) or seasonal (7%).

Despite lower compensation, working Boomer retirees say they are happier and more satisfied with their job than non-retirees. A solid majority (78%) are just as satisfied or more satisfied with their job now than they were with their job before retiring, and one-third (32%) report being much more satisfied. Compared with non-working retirees, employed retirees report lower stress levels, better relationships and other positive impacts.

The "New Expectations, New Rewards: Work in Retirement for Middle-Income Boomers," available for download on the firm's website, is part of a series of studies commissioned by the Bankers Life Center for a Secure Retirement. The study surveyed 1,005 middle-income Baby Boomers and 2,293 retired Baby Boomers, ages 51 to 69, with annual household incomes between $25,000 and $100,000. Research was led in February and March by the Blackstone Group, an independent research firm.

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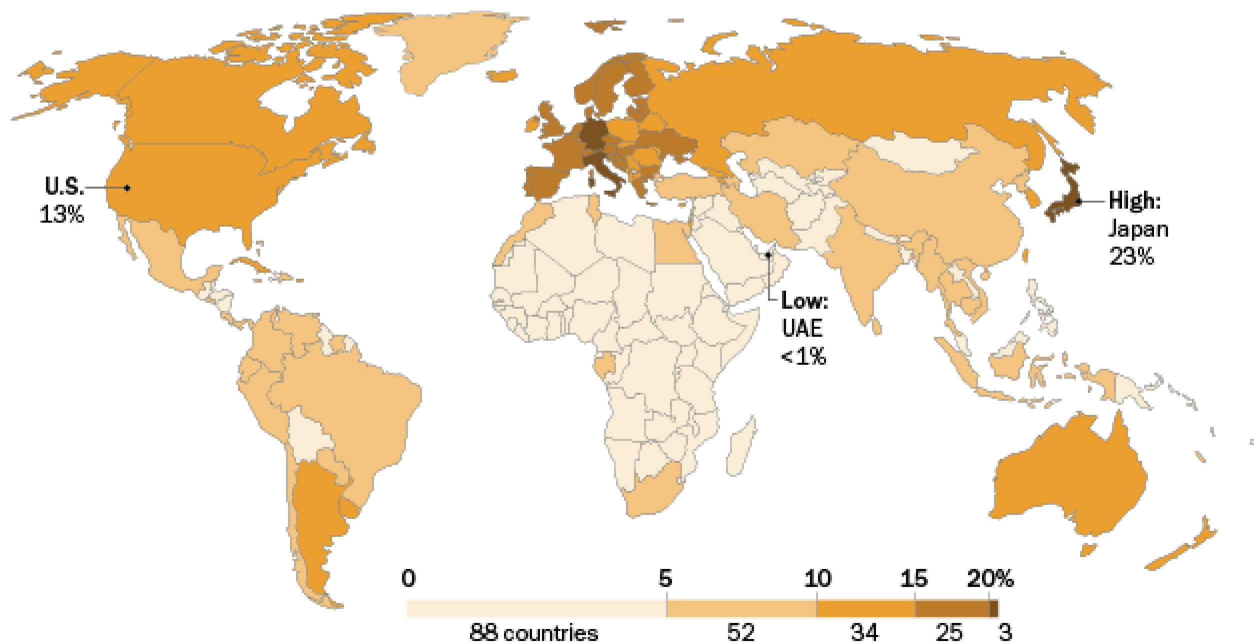
Americans are aging, but not as fast as people in Germany, Italy and Japan

U.S. Younger Than Much of Europe and Japan, Older Than Most Other Regions

% of the population aged 65 or older in 2010



Source: United Nations Population Division World Population Prospects, 2012 Revision; Natural Earth (map boundaries)
Note: Only those areas with 90,000 inhabitants or more, plus Greenland, are included.

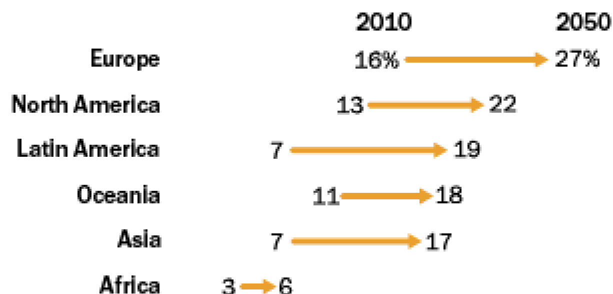
PEW RESEARCH CENTER

A new Pew Research Center report shows that in the United States, the share of people aged 65 or older will rise dramatically by 2050. However, the U.S. isn't experiencing the same gray wave that many other developed nations in Europe and Japan are. At least one-in-five people in Japan, Germany and Italy are already 65 or older, and most other European countries are close behind.

In the U.S., 13% of the population is 65 or older, ranking the country 42nd on this measure out of about 200 other places in 2010, according to United Nations data.

But thanks in large part to global increases in life expectancy, populations in all regions of the world are expected to age dramatically in the coming decades, according to the United Nations. Europe and North America will continue to lead this trend, with the largest shares of older people through the middle of the century. Currently, 16% of Europe is comprised of people 65 and older, as is 13% of North America. By 2050, one-fourth (27%) of Europe's population will be

at least 65 years old, as will 22% of North America's. In Oceania, the share of older people is expected to rise from 11% to 18%.



In other parts of the world, the share of the elderly population is still quite low, but it's expected to rise dramatically. At present, just 7% of people in Latin America are aged 65 or older, but that number is expected to reach 19% by midcentury. Asia's population is expected to undergo a similar transformation. Meanwhile, in Africa, the share of the population that is 65 or older is expected to double, rising to 6% – still relatively youthful, compared with the rest of the world.

Global aging has policy implications for nations with social programs designed to support older adults. In the U.S. now, about 38% of income among older people comes from government transfers, according to the Organization for Economic Cooperation and Development.

But what might the future hold, in terms of government support of older, retired people? The bulk of Americans who are still working are skeptical that they will receive Social Security benefits comparable to what today's older people get, according to a new Pew Research Center survey.

Fully 41% of those not yet retired expect that there will be no Social Security benefits for them when they reach retirement, and another 31% expect that there will still be enough money for benefits, but that they will be offered at reduced levels only. Just one-in-five expect that there will be enough money in the Social Security system to provide them with benefits equal to the benefits today's retired people are given.

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New FASB standards keep focus on simplification

FASB issued separate accounting standards Wednesday that are designed to simplify reporting of certain employer retirement obligations and assets, as well as provide explicit guidance about how to account for fees paid in a cloud-computing arrangement.

Both standards are the result of FASB's simplification initiative, which has produced several standards advancing its objective of reducing complexity for preparers without sacrificing usefulness of information for financial statement users.

New measurement guidelines are included in Accounting Standards Update (ASU) No. 2015-04, Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets.

Under the standard, an entity with a fiscal year end that does not coincide with a month end will be permitted to measure defined benefit plan assets and obligations using the month end that is closest to the entity's fiscal year end. The practical expedient is required to be applied consistently from year to year and across all of an entity's plans.

If a contribution or significant event that calls for a remeasurement occurs between the month-end measurement date and the entity's fiscal year end, the entity is required to adjust the measurement to reflect those effects. Events that call for a remeasurement could include a plan amendment, settlement, or curtailment. But under the standard, entities should not adjust the measurement for other events not caused by the entity—such as changes in market prices or interest rates—that occur between the month-end measurement date and the end of the fiscal year.

An additional practical expedient allows an entity that has a significant event in an interim period that calls for a remeasurement (e.g., a partial settlement) to remeasure defined benefit plan assets and obligations using the month end that is closest to the date of the significant event. This remeasurement should be adjusted for any effects of the significant event that may or may not be captured in the month-end measurement. But the measurement should not be adjusted for other events that are not caused by the entity.

If an entity using the expedient receives a contribution between the month-end measurement date and the end of the fiscal year, the fair value of each class of plan assets should not be adjusted for the effects of the contribution. Instead, the entity should disclose the amount of the contribution to permit reconciliation of the total fair value of all the classes of plan assets in the fair value hierarchy to the ending balance of the fair value of plan assets.

Preparers are required to disclose this accounting policy election and the date used to measure defined benefit plan assets and obligations. The expedient does not apply to employee benefit plans.

The standard takes effect for public business entities in annual periods, including interim periods within those annual periods, beginning after Dec. 15, 2015. All other entities are required to apply the new requirements for annual financial statements with years that begin on or after Dec. 15, 2016, and interim periods in annual periods beginning after Dec. 15, 2017.

All entities have the option of adopting the new requirements early.

Cloud-computing arrangements

Explicit guidance on how to account for cloud-computing vendor fees is included in ASU No. 2015-05, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.

GAAP previously has not contained specific guidance on how an organization should account for fees paid in a cloud-computing arrangement. That led to costs, complexity, and diversity in practice for companies using arrangements such as software as a service, platform as a service, infrastructure as a service, and similar hosting arrangements.

The new guidance helps cloud customers understand whether their arrangement includes a software license. If the arrangement does include a software license, then the software license element of the arrangement is required to be accounted for in a manner consistent with the acquisition of other software licenses.

If a cloud-computing arrangement does not include a software license, the customer is required to account for the arrangement as a service contract.

The standard takes effect for public business entities in annual periods, including interim periods within those annual periods, beginning after Dec. 15, 2015. All other entities must apply the new requirements for annual periods beginning after Dec. 15, 2015, and interim periods in annual periods beginning after Dec. 15, 2016.

Early adoption is permitted for all entities.

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Central States Pension Fund Developing Rescue Plan

May 2015

The Central States Pension Fund has announced that it will adopt a "rescue plan" under which certain participant benefits will be reduced. The Multiemployer Pension Reform Act of 2014 (MPRA), which was signed into law on December 16, 2014, includes a controversial provision allowing deeply troubled multiemployer pension plans to voluntarily reduce benefits. We discussed this controversial provision and MPRA generally in a prior alert. Central States' announcement indicates that its trustees intend to take advantage of the new law, although specific details on the benefit reductions are not yet available. The rescue plan will have to be submitted to the U.S. Department of Treasury and voted on by participants and beneficiaries before it can be implemented. The fund has established a website to provide updates about the rescue plan. A copy of the letter that Central States sent to participants announcing the rescue plan as well other participant communications are available through the rescue plan website.

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