BCG Retirement News Roundup

October 2012, Volume 1, Issue 9

Boomershine Consulting Group, 3300 North Ridge Road, Suite 300, Ellicott City, Maryland 21043

www.boomershineconsulting.com 410-418-5525

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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EEOC Wins Summary Judgment on Liability in Baltimore County Pension Case

The Equal Employment Opportunity Commission issued the following news release:

A federal judge has granted summary judgment against Baltimore County in favor of the U.S. Equal Employment Opportunity Commission (EEOC), the federal agency announced today. In so doing, the judge found that Baltimore County's pension plan, known as the Employee Retirement System (ERS), violates the Age Discrimination in Employment Act (ADEA) because the plan is inherently discriminatory. U.S. District Judge Benson Everett Legg also denied Baltimore County's motion for summary judgment.

The EEOC initially filed suit against Baltimore County in September 2007, charging that Baltimore County discriminated against Wayne A. Lee, Richard J. Bosse, Sr., and a class of similarly situated employees at least 40 years of age by requiring them to pay higher pension contributions than those paid by younger employees (Case No. BEL-07-2500, filed in U.S. District Court for the District of Maryland, Northern Division). The EEOC also named various county labor organizations as defendants who must negotiate with Baltimore County to effectuate the changes sought in its lawsuit. In January 2009, the Court awarded summary judgment in favor of Baltimore County.

After the EEOC appealed, the Fourth Circuit Court of Appeals vacated the entry of summary judgment and remanded the case to the District Court to decide whether Baltimore County's pension plan is supported by permissible financial considerations (EEOC v. Baltimore County, 385 F. App'x 322, 325 [4th Cir. 2010]). The District Court rejected Baltimore County's argument that the Supreme Court's decision in Kentucky Retirement v. EEOC, 554 U.S. 135 (2008) excused the pension practice. Noting that Baltimore County "was given an opportunity to conduct full discovery, including a comprehensive 30(b)(6) deposition of Buck Consultants, the actuarial firm that has been responsible for ERS since its creation," the District Court found that Baltimore County had failed to bring forward non-age related financial considerations that justify the disparity in contribution rates between older and younger workers. The next phase of the litigation will determine damages.

"It is pretty rare that any plaintiff can win any claim against a pension plan," said EEOC General Counsel David Lopez. "While some may have thought the Kentucky Retirement decision spelled the death knell for this case and others like it, our perseverance paid off in limiting the impact of that decision. The EEOC is prepared to vigorously litigate these cases, where necessary, to ensure compliance with the law."

EEOC Regional Attorney Debra Lawrence said, "The county made older employees pay more than younger employees for the same retirement benefits, without any financial justification. Older employees felt the impact of this discrimination in every paycheck. Because more money is taken out of older employees' paychecks to fund their retirement benefits, they receive less pay than younger employees doing the same job. With the court's decision, we are putting an end to this unlawful practice."

This resolution is the latest in a series of systemic suits the EEOC has brought against public employers alleging age discrimination in the provision of retirement benefits. In several related cases against Minnesota state agencies, the federal agency challenged early retirement incentive plans that denied health benefits for those employees who chose not to retire earlier than age 55 (http://www.eeoc.gov/eeoc/newsroom/release/5-2-12.cfm). The Eighth Circuit agreed that the plan violated the ADEA. In a case against an Arizona school district, the EEOC challenged a retirement plan that granted more compensation for unused leave to younger employees than to older employees (http://www.eeoc.gov/eeoc/newsroom/release/9-28-11k.cfm). These cases settled.

The EEOC enforces federal laws prohibiting employment discrimination. The EEOC's Philadelphia District oversees Maryland as well as Pennsylvania, Delaware, West Virginia and parts of New Jersey and Ohio. Further information about the Commission is available at its website, www.eeoc.gov .

Targeted News Service
October 22, 2012 Monday 8:54 PM EST

Bad news, good news on state pensions;
VRS' financial hole still getting deeper, but new contribution rates won't be set for next year

The bad news is that state employee and teacher pensions continued to decline in funding this year in advance of a sweeping package of reforms adopted by the General Assembly this year to cut back future benefits.

The good news is that legislators and Gov. Bob McDonnell won't be setting new rates for state and local pension contributions next year -- otherwise, the rates recommended by the Virginia Retirement System would rise for teacher and state employeeretirement plans by more than 6 percent of payroll.

The VRS board of trustees will receive the latest snapshot today of public employee retirement plans that carried almost $24 billion in unfunded liabilities on June 30 because of disappointing investment returns and insufficient state contributions.

That's about $4 billion more than a year ago and does not reflect unfunded liabilities in hundreds of local government plans, which the VRS will review next month.

The new actuarial analysis shows a slight savings from pension reforms that took effect July 1 because of anticipated decreases in future benefits.
But the effect of the new laws won't be felt fully until after a new hybrid retirement plan takes effect in 2014 and government gradually replaces workers entitled to higher benefits.

"It's going to save money, but you're not going to see it in this valuation," VRS Director Robert P. Schultze told the board's Benefits and Actuarial Committee on Wednesday.

Instead, the new analysis shows a continued decline in the funded status of the retirement plans -- to just more than 64 percent for state employees and 61 percent for teachers. Three years ago, they were funded at 84 percent and 76 percent, respectively.

The declines reflect lingering stock market investment losses for the $53 billion retirement system during the recession as well as a 1.4-percent return on investments in the last fiscal year after two years of double-digit gains.

The status of the plans also show the effects of underfunding by the state, which set contribution rates for the last two fiscal years that deferred more than $1.1 billion in state and local contributions that had been recommended by the retirement system.

As part of the pension reforms enacted this year, the legislature and governor pledged to gradually increase contributions to 100 percent of those recommended by the VRS board, but the state won't reach that level until 2018.
In the two-year budget that took effect on July 1, Virginia is funding state employee and teacher pensions at about 70 percent of the rates recommended by VRS.

"They won't be full rates, but we're getting closer," said Jose I. Fernandez, an actuary for Cavanaugh Macdonald Consulting LLC.
The contribution rates that the VRS board will review today are for information only because the state sets rates every other year when it adopts a biennial budget.

However, they show continued pressure to rise, as the state struggles to reduce the unfunded long-term obligations to current employees over the rest of their lives. Those unfunded liabilities represent more than three-fourths ofthis year's rate for state employees and two-thirds of the rate for teachers.

In addition, the rates reflect a 10-year payback for contributions that the state deferred in its last two-year budget.

"Most of the contribution is to pay (for) what happened in the past," Fernandez said.

Richmond Times Dispatch (Virginia)
October 18, 2012 Thursday

Republicans build up, then fight, issue of bailouts for pension funds

Concern over underfunding of both public and corporate pension plans has Republican presidential candidate Mitt Romney, his party and other conservatives making a pre-emptive strike against the idea of federal government bailouts.

Mercatus Center's Eileen Norcross: “I wouldn't rule (a pension bailout) out. . . . Congress is right to pay attention.”

While the threat might not be imminent, the need to take steps to avoid it is, bailout opponents say. Political analysts see little political appetite for federal solutions to state budget problems, especially as Washington faces its own spending crisis, but “I wouldn't rule it out,” said Eileen Norcross, senior research fellow with the State and Local Policy Project at the Mercatus Center at George Mason University in Arlington, Va. “I don't think it'd be very popular if it was phrased (as a pension bailout), but it could come in the form of a soft bailout, like an education funding package. Illinois and New Jersey are pretty much out of time.”

A pension-related budget crisis in those states “is still a few years away, and I think it will come down to the last second, but I think Congress is right to pay attention,” Ms. Norcross said.

Fueling the debate over public pension underfunding is a report issued Sept. 26 by Republican members of the congressional Joint Economic Committee. They warned state pension bailout requests are inevitable, as state legislators fail to fully fund pension

liabilities now totaling $2.5 trillion.
“It's only a matter of time before those same politicians ... put their own interests ahead of other people's constituents, too, by asking for a federal bailout of their unsustainable pension obligations,” said Sen. Jim DeMint, R-S.C., the senior Republican on the committee. He argues that members of Congress have to speak up now, because “reckless state and local politicians will not put pension reform on the table until Congress takes a pension bailout off the table.”

The JEC Republicans' report uses market-rate accounting methods — rather than public accounting methods that discount pension liabilities over a longer term period — to predict that states like Illinois and California will run out of pension assets in as few as five years. If that happens, other state spending goals would be reduced unless there were tax hikes. If it got to the point of federal bailouts, taxpayers in other states with better funded pension systems would have to help out, the report says.

One of the most vocal critics of public pension underfunding is the Illinois Policy Institute, a non-profit group based in Chicago that promotes free market principles and is a member of the conservative American Legislative Exchange Council. Ted Dabrowski, IPI vice president for policy, said in an interview that while there is no imminent bailout threat from a public plan, “we want to nip a bailout scenario in the bud. Our greatest concern is that states will run (their pension funds) into the ground. We felt the need to create a sense of urgency.”

Illinois a big concern

Groups like the IPI and the Cato Institute and Heritage Foundation point to Illinois as their prime concern in the underfunding debate.

Illinois faces a combined $83 billion unfunded liability for five systems: the $36 billion Illinois Teachers' Retirement System, Springfield; the $13 billion Illinois State Universities Retirement System, Champaign; and three systems with combined assets of $10.3 billion overseen by the Illinois State Board of Investment, Chicago.
Illinois Gov. Pat Quinn, a Democrat, started making sizable payments to reduce the unfunded liability, beginning with $5 billion in fiscal 2013, but is pushing legislators to do more. A fiscal year 2012 budget document raising the idea of a federal guarantee of state debt prompted a swift response from House Republicans in a letter to Illinois legislators “that there will not be any legislative bailouts.”

Quinn spokeswoman Kelly Kraft said in an interview that the 2012 budget document's reference to any "federal guarantee" was in error and quickly corrected by the governor. "We have no intention of seeking a bailout. Our pension payment continues to go up, and we are very eager to get pension reform before" the fiscal 2014 budget is adopted.

Hank Kim, executive director of the National Conference on Public Employee Retirement Systems, Washington, said that is the right approach. "It's about making incremental corrective actions that will have long-term impact. No one is saying you have to cut that whole check now. It does begin with the plan sponsor taking its responsibility seriously, but there are reforms at the state level. I think (the groups raising the bailout issue) are being alarmist."

John Tuohy, deputy treasurer for Arlington County, Va., and vice chairman of the Government Finance Officers Association's retirement committee agreed.

"It would really have to get to the point where there is simply no money in the plans," Mr. Tuohy said. "The number of funds in deep trouble are relatively few. Secondly, I don't think the feds are in a position to bail out anybody."

Unions representing public employees and retirees dismiss the idea of a federal bailout for public pension plans as neither "appropriate nor necessary," said Steve Kreisberg, director of collective bargaining at the American Federation of State, County and Municipal Employees, Washington. "With rare exception, state and local governments, and their employees, have been responsible stewards of their pensions."

Mr. Kreisberg calls the bailout campaign "a rehash" of a short-lived Republican proposal in 2011 that would have allowed states to declare bankruptcy and have courts reduce pension benefits, among other cuts. "That proposal was quickly shot down by governors from both political parties," said Mr. Kreisberg.

Republican platform

The concern over the possibility of a federal bailout of corporate pensions came to light during the Republican Party's gathering to write its political platform.

There was sufficient concern about the potential collapse of some private pension plans and the resulting strain on Pension Benefit Guaranty Corp. resources to adopt platform wording calling for a presidential panel to scrutinize private pension plans in the interest of averting a federal bailout. The proposed panel's work would be a “first step toward possible corrective action,” according to the adopted platform. The platform also commended some states for dealing with their public pension problems, and called for “immediate remedial action” to address unfunded public pension liabilities.

David John, a fellow with the Heritage Foundation in Washington, said a taxpayer rescue of the PBGC is not unthinkable if enough corporate plans seek protection at the same time. “It depends on how many assets they take over. The GAO has put them on their emergency list for several years now.”

Even though the PBGC's deficit ballooned to a record $26 billion by the end of 2011, employer groups agree with agency officials that it has enough money to pay benefits over time.

“The agency has never taken a dime from the taxpayer, and we don't want to start,” said PBGC spokesman J. Jioni Palmer. n

BY HAZEL BRADFORD | OCTOBER 1, 2012

By Michael McDonald and Steven Church on August 29

10 states where the public pension fight is fierce

Many are dealing with big pension bills by reducing retirement benefits. Here's a look at 10 states that have taken steps to address unfunded pension liabilities — or the amount of money the state has to pay out but for which it has no funding in the pension pool.

CALIFORNIA

Unfunded liability: $100 billion in the Public Employees' Retirement System and $65 billion in the State Teachers' Retirement System.

Changes: Gov. Jerry Brown last month signed legislation expected to save billions of dollars in coming years by increasing the retirement age for new employees, limiting annual pension payouts to $132,120 and requiring workers who are not contributing half of their retirement costs to pay more. San Diego this year moved its city workers to a defined contribution plan similar to a 401(k).

Court challenges: Recent pension changes in San Diego and San Jose are being challenged. A state worker's organization says it's considering a challenge to the state changes.

ILLINOIS

Unfunded liability: $85 billion.

Changes: The state has reduced benefits for new employees, but efforts to do so for existing employees and retirees have stalled. The changes for new employees include raising the retirement age to 67 and ending 3 percent cost of living raises, compounded annually, for their pensions. Instead, new employees qualify only for raises of 3 percent or half the inflation rate, whichever is lower.

KANSAS

Unfunded liability: $9.2 billion.

Changes: Over the past two years, the state has committed to additional funding for the pension system. It wants to give existing employees the choice of increasing the percentage of their salaries going into pensions. It's also starting a new plan for workers hired after 2014 that moves toward a 401(k)-style plan, in which workers contribute a lump sum and are guaranteed at least 5.25 percent in interest earnings annually.

KENTUCKY

Unfunded liability: $30 billion.

Changes: Lawmakers suspended pension increases this year, raised the retirement age for new hires in 2008 and raised the employee contribution in 2008 from 5 percent to 6 percent of their wages.

LOUISIANA

Unfunded liability: $18 billion.

Changes: In recent years, lawmakers have made changes to increase the retirement age and retirement benefits for new workers, but Gov. Bobby Jindal's attempt to change benefits for existing workers failed to win legislative support.

Court challenges: A plan to switch new state employees to a cash balance plan with many of the features of a 401(k)-style account is tied up in litigation.

NEW HAMPSHIRE

Unfunded liability: $4.26 billion.

Changes: The state cut benefits in 2009 and 2011, has raised some retirement ages and increased contributions from employees. Some lawmakers plan to push legislation to create 401(k)-style retirement plans next year.

Court challenges: Lawsuits challenging the increased member contributions and benefit changes are pending.

NEW JERSEY

Unfunded liability: $41.7 billion.

Changes: In 2011, a law increased pension contribution requirements for public employees and suspended pension increases.

Court challenge: A judge sued, saying the increased pension and health care contributions amounted to an unconstitutional salary reduction for judges. A court agreed, and now there's a call to amend the state constitution to allow the changes.

NEW YORK

Unfunded liability: $9 billion.

Changes: In March, state leaders, facing union opposition, reached a budget agreement to reduce pension benefits for future public workers, requiring higher contributions and lowering the retirement age from 63 to 62. The changes are projected to save local governments $80 billion over 30 years. It omitted Gov. Andrew Cuomo's proposal for a defined contribution alternative for all future employees.

New York has one of the healthier state pension systems in the country, thanks in part to a law requiring the state to make annual contributions to the pension system.

OKLAHOMA

Unfunded liability: $10.6 billion.

Changes: In 2011, lawmakers eliminated the common practice of approving an automatic 2 percent pension increase and required that all future increases be funded by the Legislature. Other changes included increasing the retirement age for some future employees.

RHODE ISLAND

Unfunded liability: $4 billion; was $7 billion before recent changes.

Changes: Last year, lawmakers suspended pension increases, raised retirement ages for many workers and created a new type of retirement plan that combines traditional pensions with 401(k)-style accounts.

Court challenge: Public-sector unions are suing to block the changes, which they say are illegal and unfair.

RI takes the lead as states fight $1.4 trillion war with unions over public employee pensions

Retired social worker Jim Gillis was told his $36,000 Rhode Island state pension would increase by $1,100 next year to keep up with inflation. But lawmakers suspended annual increases, leaving Gillis wondering how he'll pay medical bills and whether he'd been betrayed by his former employer.

"When you're working, you're told you'll get certain things, and you retire believing that to be the case," Gillis said. He and other retirees are challenging the pension changes in a court battle that's likely to have national implications as other states follow Rhode Island's lead.

Cities and states around the country are shoring up battered retirement plans by reducing promised benefits to public workers and retirees. All told, states need $1.4 trillion to fulfill their pension obligations. It's a yawning chasm that threatens to wreck government budgets and prompt tax hikes or deep cuts to education and other programs.

The political and legal fights challenge the clout of public-sector unions and test the venerable idea that while state jobs pay less than private-sector employment, they come with the guarantee of early retirement and generous benefits.

The actions taken by states vary. California limited its annual pension payouts, while Kentucky raised retirement ages and suspended pension increases. Illinois reduced benefits for new employees and cut back on automatic pension increases. New Jersey last year increased employee retirement contributions and suspended pension increases.

Nowhere have the changes been as sweeping as in Rhode Island, where public sector unions are suing to block an overhaul passed last year. The law raised retirement ages, suspended pension increases for years and created a new benefit plan that combines traditional pensions with something like a 401(k) account.

"This saved $4 billion for the people of Rhode Island over 20 years," said state Treasurer Gina Raimondo, a Democrat who crafted the overhaul. "Rhode Island is leading the way. I expect others to follow, frankly because they have to."

Public employee unions say Rhode Island is reneging on promises to workers.

"What they did was illegal," said Bob Walsh, executive director of the National Education Association Rhode Island. "We're deep into a real assault on labor. It worries me that people who purport themselves as Democrats do this."

The court case foreshadows likely battles elsewhere as states grapple with their own pension problems. In the past two years, 10 states suspended or cut retiree pension increases; 13 states now offer hybrid retirement plants that combine pensions with 401(k)-like plans.

"Forty-three states from 2009 to 2011 did something, but in many cases something was not enough," said David Draine, a researcher who tracks pension changes at the Pew Center on the States.

States are discovering the political challenge of reining in pensions is only one step in a battle ultimately won or lost in the courts.

A plan to enroll new Louisiana state workers in a 401(k)-like retirement plan is being challenged by retirees. New Hampshire is defending a law that cuts pension benefits and increases employee contributions.

California Gov. Jerry Brown last month approved higher retirement ages and contribution rates for some state workers and a $132,000 cap on annual pension payouts. The state's two main pension funds _ the California Public Employees' Retirement System and the California State Teachers' Retirement System _ are underfunded by $165 billion.

Brown said the changes may lead to bigger pension reforms in the future. Unions are ready for a fight.

"Any additional pension reform they try to do will be met with serious opposition," said Dave Low, of Californians for Retirement Security, which represents 1.5 million public workers. "Public employees have become the whipping boy."

Unions note that states have long neglected to contribute enough to pay for promised benefits. In 2010, 17 states set aside no new money for pension benefits. Kentucky hasn't made its share of pension contributions since 2004. In the past decade, Kansas and New Jersey haven't paid their full shares a single year, and Illinois has done so only once.

Steep pension fund investment losses made the situation far worse _ a federal report says state and local pension plans lost $672 billion during fiscal years 2008 and 2009.

Longer-lived retirees, higher health care bills and pension increases also drive costs. In Rhode Island, 58 percent of retired teachers and 48 percent of state retirees receive more in their pensions than in their final years of work.

Before Rhode Island's reforms passed in November, its pension costs were set to jump from $319 million in 2011 to $765 million in 2015 and $1.3 billion in 2028. The state's annual budget is $7 billion.

Passing the changes wasn't easy. Public employees rallied at the Statehouse and jeered lawmakers during floor debate. Firefighters lined the walls of committee hearings. Rep. Donna Walsh called the vote the "most heart-wrenching, gut-wrenching vote" she'd cast in 12 years as a lawmaker.

One of the biggest changes involved putting off pension increases for five years, and then only if pension investments perform well.

North Providence retiree Jamie Reilly left her job as a secretary at age 50, thinking her 30 years of state employment would mean good benefits during her later years. But now she said she may be forced to re-enter the workforce at age 55 because the state has put off pension increases.

"I counted on that money," Reilly said of the increases, which she estimates would have started at $700 to $1,000 a year. "I retired knowing I was going to get a certain amount of money. You work all your life and you plan, and they take it away from you."

Cranston firefighter Dean Brockway said higher retirement ages mean he will have to work several years longer than he expected, and he wonders how he'll climb stairs in heavy gear in his 60s. Brockway, who has nearly 30 years on the job, said reducing benefits could make it harder to recruit public safety employees.

"Could I do something else? I don't know," he said. "A lot of us chose to dedicate our lives to public service because to us it's an honor. Could I be a carpenter? I don't think so. This is what I do."

State leaders, however, said they had no choice but to reduce benefits taxpayers cannot afford. Otherwise cities might have gone bankrupt and current workers would have no retirement security, Raimondo said.

"These problems won't go away," she said. "The longer you wait, the bigger the problems get. People looking for easy, short-term solutions. ... Well, there are none."

By DAVID KLEPPER | ASSOCIATED PRESS | Oct 7, 2012 7:45 AM CDT in

State Public Pension Gap: Shrinking But Still Huge

In case you missed it this weekend, the top story in Saturday's *Wall Street Journal* – called Pension Crisis Looms Despite Cuts – pointed out that despite a $100 billion trimming across nearly every state to public-employee benefits, a $900 billion retirement funding gap remains. Michael Corkery reports:

Since 2009, 45 states have rolled back pension benefits for teachers, police, firefighters and other public workers, including cuts by Michigan and California this month. Next week, Republican Ohio Gov. John Kasich is expected to sign legislation requiring, for example, that certain teachers work longer and pay more toward their pensions….

But the new laws have trimmed just $100 billion out of the $900 billion gap between what the states and their workers put into their retirement plans and what the states owe in retirement benefits, according to estimates prepared for The Wall Street Journal by researchers at Boston College…. While most states have approved some form of pension cuts, many have opted to apply those changes only to workers who have yet to be hired.

That means most of the savings won't be realized for decades, when the most expensive retirement benefits come off the books. Changes made to the retirement plans of newly hired workers are expected to reduce pension costs by 25% over the next 35 years, according to Boston College estimates.

The story makes no mention of the muni bond market. Analyst Meredith Whitney – who just under two years ago infamously sparked a protracted muni selloff when she predicted a 2011 wave of defaults that didn't happen – has since focused on the long-term threat that pension underfundings pose to municipal bonds. Still, the muni market soldiers on, with muni funds and ETFs having seen weekly inflows every week during 2012, even despite a trio of publicized defaults by California cities this year. Veteran muni-market observers continue to point out that most municipalities – whether by law, precedent, or fear of stigma – will cut employees and services to the bone before opting to default on a bond payment.

Income Investing
News, analysis and commentary on income-generating investments.

September 24, 2012, 11:36 A.M. E

Private Sector

IRS increases contribution limits on retirement plans

Good news for retirement savers: The IRS announced last Thursday that it was increasing contribution limits for most defined contribution plans and Individual Retirement Arrangements. Participants in employer plans will be allowed to defer up to $17,500 in 2013, an increase of $500 from this year. The increase in allowable deferrals applies to 401(k), 403(b), and most 457 plans and is a welcome if modest improvement.

The maximum contribution to an IRA account ratchets up to $5,500 next year.
The retirement plan landscape has changed dramatically over the past generation. The modern defined contribution plan was created in 1981 when the IRS formalized rules for salary deferral and employer matching provisions under section 401(k) of the internal Revenue Code. However, at that early date most of these plans were supplemental to an employer's basic defined benefit (pension) plan, and very few employees had a stand-alone 401(k) as their sole retirement option.

As defined contribution plans gained in popularity and concerns about budget deficits magnified, Congress acted in 1982 to reduce the total annual contribution limit from $45,475 to $30,000. This limit stood until 2001, when the Economic Growth and Tax Relief Reconciliation Act indexed the yearly maximum contribution for inflation, and also loosened the limits on employee deferrals to allow for larger participant contributions. Another important element of the 2001 reform was the initiation of so-called "catch-up" contributions for participants age 50 and over. The provision for 2013 allows qualifying catch-up contributions of up to $5,500 in addition to the deferral limit of $17,500, or a total of $23,000 next year.

IRA account holders may make an additional $1,000 catch-up contribution if they are 50 or older.

According to the Investment Company Institute, 61 percent of private-sector retirement plan assets were in traditional pensions in 1980. By 2011, the fraction of assets in pension plans had fallen to 34 percent covering fewer than 10 percent of private sector employees, highlighting the necessity of beefing up 401(k) participation.

The shift away from pensions presents a looming retirement crisis for many workers. Only half of all employees are covered by any plan at all, and those with 401(k) plans have accumulated just $60,000 on average, according to the Employee Benefit Research Institute. Obviously, more must be done to encourage participation, and recent developments like automatic enrollment are helping to get workers signed up earlier.

If you are currently enrolled, boosting contributions is the best investment you can make, if at all possible. Surveys report that only about 5 percent of 401(k) participants are making the maximum contribution. If you are not among them, make an effort to

step up next year, even if only incrementally. Be sure you are contributing at least enough to maximize your employer's match, and then ratchet up your percentage every year as much as you are able.
Providing for a comfortable retirement is increasingly the responsibility of each of us individually. Resolving to work toward the maximum deferral is the best step you can take.

Christopher A. Hopkins CFA, is a vice president at Barnett & Co.

Chattanooga Times Free Press (Tennessee)
October 24, 2012 Wednesday

US Cos take aim at pension risk with lump-sum offers

Corporate America is finally ready to deal with a monkey on its back: massive pension obligations. AT&T Inc on Friday said it plans to contribute a $9.5 billion stake in its wireless business to its underfunded pension plan. Earlier this week, Verizon Communications Inc moved to unload $7.5 billion in pension obligations to insurer Prudential Financial Inc.

But by far the most common trend in corporate America is to offer lump-sum payouts to thousands of retirees now - these voluntary buyouts could cost companies millions of dollars upfront, but they eliminate the risk of obligations soaring out of control in the future.

General Motors Inc and Ford Motor Co kicked off the trend earlier this year, and they have been joined this earnings season by companies ranging from Taco Bell and KFC owner Yum Brands Inc to tissue maker Kimberly-Clark Corp .

Companies "have been de-risking to manage the volatility of their (pension) assets," said Ari Jacobs, senior partner and Global Retirement Solutions Leader at Aon Hewitt. "The logical next step for organizations is to move liability off the balance sheet."
For years, plan sponsors have been squeezed by lower investment returns and higher costs for retiree benefits, which have forced companies to top up pension plans.
For instance, Sears Holdings Corp in September contributed $203 million to its pension plan to make it at least 80 per cent funded.
In July, the average US corporate pension was only 71.4 per cent funded, according to BNY Mellon, the lowest level since the firm began tracking this information in December 2007.

By offering voluntary buyouts, companies expect to protect their balance sheets "from future volatility and future fluctuations," said Rick Jones, a managing partner in Aon Hewitt's Retirement Consulting practice.

Kimberly-Clark recently notified about 10,000 former workers not yet receiving retirement benefits that they would be eligible for the lump sum distribution.
"It takes some of the volatility out of the pension plan going forward," said Bob Brand, a spokesman for the company.

In the case of Verizon, it aims to remove a quarter of its pension burden with a single upfront payment to Prudential, a deal known as pension terminal funding. The full terms have not been finalized, but Verizon has said it would inject $2.5 billion into its pension plan prior to closing.

WHY NOW?

Even before the financial crisis, many US companies had stopped offering defined benefit pension plans, especially to new workers. Companies preferred 401(k) plans, where the burden - and risk - is on the employee to save and invest. During the financial crisis, some companies slashed their contributions to 401(k) plans.

And now, firms eager to move the defined benefit plans off their balance sheets are encouraging retired and other former workers to take a voluntary payout.
"We've seen a high level of interest this year, and I think you'll see it next year and beyond," said Alan Glickstein, senior retirement consultant at Towers Watson in Dallas, Texas.

In a survey released earlier this year by Aon Hewitt, 35 per cent of about 500 large American employers expect to offer a lump sum payout.

Companies - many of which had been on the fence about making changes - are beginning to believe that interest rates will not rise in the near future.

Low interest rates mean lower returns on the investments companies use to pay their obligations; if the companies assume rates will not rise anytime soon, they have to rethink how they plan to meet those obligations.

A company must notify employees when its pension fund's asset value dips below 80 per cent of obligations. When that happens, companies can only make lump sum distributions equal to half the benefit owed to workers. The other half has to be in the form of an annuity.

Archer Daniels recently began notifying vested former workers they are eligible for the payout. Depending on uptake, ADM estimates it could "reduce its global pension benefit obligation by approximately $140-$210 million and improve its pension underfunding by approximately $35-$55 million."

Yum said in its filings that it is making a similar decision "in an effort to reduce our ongoing volatility and administration expense." Funding would come from existing pension assets. It expects a pre-tax non-cash charge between $25 million and $75 million in the fourth quarter of 2012.

Historically, the vast majority of people, when offered a lump sum payout, have taken it instead of waiting for a pension check. That rate has fallen slightly since the recession as workers have grown reluctant about managing their own funds.

"We hope people think really carefully about the decision," said Nancy Hwa, a spokeswoman for Pension Rights Center, a consumer organization in Washington, D.C.

"It's very easy to be tempted by this large sum of money initially, and it's easy to spend it on something other than retirement."

Those in late 30s most concerned

WASHINGTON - Americans in their late 30s are now the group most likely to doubt they will be financially secure after retirement, a major shift from three years ago when baby boomers nearing retirement age expressed the greatest worry.

The survey findings by the Pew Research Center, released Monday, reflect the impact of a weak economic recovery beginning in 2009 that has shown stock market gains while housing values remain decimated.

The news was no surprise to Nicole Gilliard, 37, who works for the solicitor's office in Charleston.

"My biggest fear is not being able to retire," Gilliard said as she came out of the courthouse on Meeting Street after work Monday. "I have a 5-year-old, and my biggest fear is that I'm going to have to keep working to put her through school."

As a whole, retirement worries rose across all age groups - roughly 38 percent of U.S. adults say they are "not too" or "not at all" confident that they will have sufficiently sized financial nest eggs, according to the independent research group. That's up from 25 percent in 2009.

But the concerns are increasing the greatest among younger adults approaching middle age, whose equity in their homes represents most of their net worth. About 49 percent of those ages 35-44 said they had little or no confidence that they will have enough money for retirement, more than double the 20 percent share in that age group who said so in 2009.

"My husband is still paying back student loans," Gilliard said, "so we're dealing with student loans, we're dealing with the mortgage, and college is just around the corner for my daughter. Retirement doesn't look like it's ever going to be for me. It just looks like we're going to be working for a long, long time."

Tanya Smith, 42, of Meggett expressed similar worries as she walked down Meeting Street. She and her husband work in the transportation industry.

"Social Security will probably not be available by the time we're of retirement age," she said. "Of course the economy has a lot to do with it. Everyone's 401(k)'s have plummeted.

"I've got my first in college, and it's tough."

Baby boomers, those born between 1946 and 1964, also reported having more retirement anxieties than before, but now to a lesser degree compared with their younger counterparts. About 43 percent of Americans ages 45-54 expressed little or no trust in their retirement security, up from 33 percent in 2009.

Among Americans ages 55-64, the share expressing little or no confidence was 39 percent, up from 26 percent.

Broken down by smaller groups, the Pew analysis found that retirement worries peaked among adults in their late 30s; a majority, or 53 percent, of Americans ages 36 to 40 lacked confidence that they will have large-enough nest eggs.

Just three years ago, it was baby boomers ages 51 to 55 who had the most anxiety over whether their income and assets would be sufficient.
Richard Morin, a senior editor at Pew who co-authored the report, said the shift in attitudes was somewhat surprising.

"I think most people would expect those on the cusp of retirement - ages 55 to 64 - would be the most concerned about financing their retirement, (so) the finding that the peak is now occurring among adults roughly 20 years younger is notable," he said. "Moreover, the wealth data showing those approaching or in early middle age had lost the most in the past decade suggests that their concerns are not misplaced."

The latest findings come as the presidential campaigns focus most often on retirement issues such as Social Security and Medicare when appealing to older voters. In recent weeks, President Barack Obama has pounded Republican challenger Mitt Romney and his running mate, Rep. Paul Ryan, saying their plan to replace Medicare with vouchers won't keep up with health care costs.

Ryan has sought to reassure seniors by saying he and Romney won't alter Medicare for those in or near retirement.

An Associated Press-LifeGoesStrong.com poll in late 2011 also found that concerns about retirement were increasing across all age groups, a reflection of the continuing hard economic times.

According to the Pew report, the inflation-adjusted net worth of Americans ages 35 to 44 fell roughly 56 percent from 2001 to 2010, the sharpest decline for any age group and more than double the 22 percent rate of decline for boomers ages 55 to 64. Net worth, also referred to as wealth, is the sum of all assets such as a house, car, stocks and 401(k)'s, minus the sum of all debts, including mortgage, credit card debt and car and tuition loans.

In dollars, the median wealth of Americans ages 35 to 44 fell by $56,029 to $43,698 over the last decade. In contrast, those ages 45 to 54 and 55 to 64 lost about $50,000. The median wealth of those 65 and older over the last decade increased slightly - the only age group to experience a gain.

The 35 to 44 age group has been hit the hardest in terms of wealth because they were the ones most likely to have purchased a home at bubble prices during the housing boom, only to see values shrivel in the housing bust. This younger to middle-aged group also largely stayed out of the stock market from 2001 to 2010 and as a result missed out on the stock run-up that began in 2009, according to Pew's analysis of Federal Reserve data.

The S&P 500 index peaked above 1,500 in October 2007 but fell to a closing low of 676.53 in March 2009. It has risen significantly since then, closing above 1,200 in December 2010 and is now back above 1,400.

Broken down by education and income, adults holding a high school diploma or less were less likely to express confidence in their retirement finances than college graduates, 53 percent vs. 71 percent. Those with family incomes of less than $50,000 also were less confident compared with those making $100,000 or more, 51 percent vs. 79 percent.

The Pew study is based on interviews with 2,508 adults by cellphone or landline from July 16-26, as well as an analysis of the Survey of Consumer Finances, which is sponsored by the Federal Reserve. The Pew poll has a margin of error of plus or minus 2.8 percentage points, larger for subgroups.

Post & Courier (Charleston, SC)
October 23, 2012 Tuesday

Private-Sector Retirement Plan Income Steady

The Investment Company Institute issued the following news release:

The annual update of an ICI research study finds that, contrary to conventional wisdom, retirees across all income groups are collecting more in retirement income today from employer-sponsored retirement plans than they were in the mid-1970s, when sweeping new retirement plan regulations were enacted.

The study, A Look at Private-Sector Retirement Plan Income After ERISA, 2011 (http://www.ici.org/pdf/per18-05.pdf), finds that in 2011, 33 percent of retirees received income--either directly or through a spouse--from private-sector retirement plans, compared with 21 percent in 1975. The median income received by those with private-sector pension income was $6,300 in 2011 compared with about $4,700 in 1975 (in 2011 dollars). The research examines private-sector retirement income trends since 1974, just after the Employee Retirement Income Security Act (ERISA) was enacted.
Receipt of Income from Pension by Type of Pension

For more details click here: (http://www.ici.org/pressroom/news/12_news_erisa)

"As policymakers consider retirement savings policies, it is important that they understand that private-sector pension income has tended to increase over time rather than decrease. The share of retirees receiving private-sector pension income increased by more than 50 percent between 1975 and 1991, and has remained fairly stable since," said Peter Brady, ICI senior economist and coauthor of the report. "Further, among those receiving income from private-sector pensions, the median amount of inflation-adjusted income--which had remained fairly flat between 1975 and 1991--has increased nearly 40 percent since 1991."

Other Key Findings: Access, Coverage, Role of Social Security

Increase in DC plan coverage over time has kept U.S. worker access to private-sector retirement plans steady since the 1970s. While coverage has been consistent, an increasing share of private-sector workers has worked for employers that sponsor defined contribution (DC) pension plans, and a decreasing share has worked for employers that sponsor defined benefit (DB) pension plans. In 1975, nearly 90 percent of active participants in private-sector retirement plans had primary coverage through DB plans, dropping steadily over time to below 50 percent by the 1990s. By 1998, 44 percent of active participants in private-sector retirement plans had coverage through DB plans.

Coverage by a pension plan does not always result in retirement income. The historical prevalence of retirement income from private-sector DB plans may be overstated by only looking at pension coverage, rather than receipt of pension income. Many retirees may have worked for companies that offered DB plans, but, because private-sector workers change jobs often, the combination of vesting rules and back-loaded benefit accrual resulted in many retirees getting little or no retirement income from private-sector retirement plans.

Social Security plays key role in retirement. Social Security benefits continue to serve as the foundation for retirement security in the United States and represent the largest component of retiree income and the predominant income source for lower-income retirees. In 2011, Social Security benefits were 57 percent of total retiree income and more than 85 percent of income for retirees in the lowest 40 percent of the income distribution.

Targeted News Service
October 22, 2012 Monday 9:12 PM EST

Social Security Announces 1.7 Percent Benefit Increase for 2013

The U.S. Social security Administration announced that monthly Social Security and Supplemental Security Income (SSI) benefits for nearly 62 million Americans will increase 1.7 percent in 2013. The 1.7 percent cost-of-living adjustment (COLA) will begin with benefits that more than 56 million Social Security beneficiaries receive in January 2013. Increased payments to more than 8 million SSI beneficiaries will begin on December 31, 2012.

Some other changes that take effect in January of each year are based on the increase in average wages. Based on that increase, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $113,700 from $110,100. Of the estimated 163 million workers who will pay Social Security taxes in 2013, nearly 10 million will pay higher taxes as a result of the increase in the taxable maximum.

A fact sheet showing the effect of the various automatic adjustments is provided.