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

California unions assail public pension changes

As Gov. Jerry Brown signed legislation Wednesday aimed at overhauling the state's overburdened public pension system, he acknowledged that further action may be needed in the future, saying "government, like a battleship in the ocean, turns slowly."

Labor unions representing California's public employees reacted swiftly, arguing that they were already taking fire.

Willie Pelote, political director of the Assn. of Federal, State, County and Municipal Employees, said Brown's signature on the pension legislation "made his disdain for a secure future for public employees crystal clear."

The changes require public employees hired starting next year to work longer before they retire with full benefits, place a cap on their pension benefits and restrict what is counted to prevent abuses. Current employees will have to pay at least 50% of the contribution toward their retirement plan.

Pelote said the legislation did not consider the concessions public employee unions have made in contract negotiations over the past few years. He contended that Brown's "real intent is to take public retirement funds and hand them over to the same Wall Street gamblers who drove our economy into a ditch."

To be sure, the pension legislation Brown signed Wednesday spared unions from some elements they had decried in his original proposal, including a requirement that new employees squirrel away a substantial portion of their retirement money in 401(k)-style accounts.

Business groups applauded the governor's action, but called on him to use the initiative process to win more changes.

"This legislation paves the way for the additional reforms necessary to help solve the state's ongoing fiscal crisis but much more remains to be done," said Rob Lapsley, president of the California Business Roundtable.

September 12, 2012 | 2:21 pm
-- Michael J. Mishak in Sacramento
Twitter.com/mjmishak
Photo: California Gov. Jerry Brown visits Los Angeles in August to speak on pension reform. Credit: Nick Ut / Associated Press

Florida High Court to Weigh $1 Billion State Pension Case

Florida lawmakers who backed Republican-led changes to the state's public-employee pension system didn't violate workers' constitutional rights, a lawyer told the Florida Supreme Court.
The legislature relied on earlier high court rulings when it changed future benefits to save $1 billion in pension expenses and deal with a financial crisis, Raoul Cantero, a lawyer for Republican Governor Rick Scott, argued. He asked the court to throw out a trial judge's ruling that the reform law was unconstitutional.

As part of a pension-reform effort that Florida governor Rick Scott Scott pushed last year to close a $3.6 billion budget shortfall, legislators changed the way pensions were funded. The measure required Photographer: Alex Wong/Getty Images

"The legislature has relied on that bright line not just in 2011 when they were making the plans, but all throughout," Cantero said today in Tallahassee.

As part of a pension-reform effort that Scott pushed last year to close a $3.6 billion budget shortfall, legislators changed the way pensions were funded. The measure required workers to contribute 3 percent of their pay and eliminated the system's cost-of-living adjustment for employees retiring after the law took effect.

The savings were shifted to the Florida Retirement System, which covers more than 650,000 state employees, saving general fund money for use in other programs. The change saved the state an estimated $1 billion for the 2011 budget year and saved local governments $600 million.

Workers contend the pension-reform measure amounted to an illegal salary cut and a violation of collective-bargaining rights under existing union contracts.

Game Changer

"You can't change the game in the middle of the game," Ronald Meyer, a lawyer for some of the workers challenging the pension-reform law, told the seven-member court.

Eleven public employees covered by the $120 billion pension system sued Scott and other Florida officials last year over the changes to their retirement plan. The employees include members of AFSCME Florida, the Florida Police Benevolent Association and the Florida Education Association.

Florida Circuit Judge Jackie Fulford in Tallahassee concluded in March the pension law violated the state's agreements with government employees and ordered contributions returned with interest.

The law amounted to an "unconstitutional taking of private property without full compensation and an abridgment of the rights of public employees to collectively bargain over conditions of employment," Fulford ruled.

The state's highest court agreed to hear the case on an expedited basis because it presented "issues of great public importance."

'Huge Budgetary Hole'

If the Supreme Court declines to overrule Fulford's ruling, state officials will be "forced to find ways fill a huge budgetary hole," Lane Wright, a spokesman for Scott, said in an interview earlier this week.

To rule for employees, the court would have to "throw out 30 years' worth of law that says the legislature has the power to change the pension system," he added.
Jesse Panuccio, Scott's general counsel, told reporters outside the courtroom today that the changes were nothing more than "common-sense pension reform" and that the "law is on our side."

Senate Minority Leader Nan Rich, a Democrat, countered in an interview earlier this week that Republican lawmakers didn't exhaust other possible ways of covering the budget shortfall before moving to violate existing union contracts.
"The Republican leadership sells itself as friends of the middle class while paring down their ability to have decent wages and benefits to support their families," Rich said in an interview. "Their focus has been on cutting and not a balance between cutting and looking at new revenues."

Poverty Concerns

AFSCME Legislative Director Doug Martin said the change in pension law will affect employees' financial security in the future.

"This is about keeping future public employees out of poverty when they retire," Martin said.

The high-profile pension fight has drawn the attention of lobbying groups, including Florida Tax Watch and the National Conference on Public Employee Retirement Systems, or NCPERS, which filed so-called friend-of-the-court briefs in the case.

If the pension-reform measure is overturned, it would add to the state's budget shortfall and could adversely affect Florida's credit rating, the anti-tax group claimed.

"Should Florida's credit rating be downgraded, it would cost the state more money to finance its borrowing to the detriment of the taxpayer, who would shoulder the burden of paying more for the same set of services for several years to come," lawyers for the group said.

'Reasonable Alternatives'

Florida's pension had assets of $136.4 billion to meet projected retiree obligations of $153.5 billion as of June 30, 2011, according to data compiled by Bloomberg.

Attorneys for Washington-based NCPERS argued that Scott and Florida lawmakers didn't show that the pension-reform measure was the only way to close the budget gap.

They contend the U.S. Supreme Court has found that, for states to change existing pension contracts, officials must show such reforms were "reasonable and necessary."

Fulford, the lower court judge, properly concluded "other reasonable alternatives existed to preserve the state's contract" with employees, NCPERS's lawyers said.

Mark Wilson, president of the pro-business Florida Chamber of Commerce, said in a statement this week that public employee benefits exceed their private-sector counterparts.

"With Florida continuing to have a higher unemployment rate than the national average and many Floridians underemployed and barely making ends meet, it's only fair to ask for public employees to help pay some of their own retirement costs," Wilson said.

'Class Warfare'

Florida PBA Executive Director Matt Puckett, whose association represents 24,000 police officers across the state, said the pension initiative is a form of "class warfare."

The legislature, with both houses controlled by Republicans, "did it to the public employees for the very reason because they could," Puckett said.

By Jef Feeley and Christine Jordan Sexton
Sep 7, 2012 1:57 PM ET

Rhode Island Setting Standard for Bondholders' Love: Muni Credit

Central Falls, the first city in Rhode Island's 222-year history to go bankrupt, is preparing to exit court protection after 13 months by keeping bondholders whole while raising taxes and cutting workers and pensions.

The financial and political support Central Falls got from state officials makes the case unique among municipal bankruptcies in the past year from Alabama to California.

Yet "there are great lessons to be learned here," said Theodore Orson, who represented the state-appointed receiver overseeing the bankruptcy and is a lawyer with Orson & Brusini in Providence. Chapter 9 of the U.S. Bankruptcy Code, which localities can use to cut debt as companies use Chapter 11, "can be effectively utilized to fix what appeared to be a broken city," Orson said.

A proposed resolution is set for review in federal bankruptcy court in Providence Sept. 6. The city's plan to cut debt doesn't impose losses on bondholders and may let them recover legal fees. State lawmakers also put investors ahead of other creditors by letting them put liens on city tax revenue. Rhode Island helped ease the pain of retirees and workers, providing $2.6 million to cushion pension cuts.

'Good Sign'

By contrast, Alabama state lawmakers refused to let Jefferson County raise taxes, prolonging the biggest U.S. municipal bankruptcy by months. California took away redevelopment tax money, contributing to two cities' insolvency.

The Central Falls approach "is a good sign for bondholders of Rhode Island bonds compared to, say, California," said Alan Schankel, head of fixed-income research at Janney Montgomery Scott LLC, an investment bank in Philadelphia.

Stockton, California, targeted lenders including bondholders when it sought court protection in June for the community of 296,000. It was one of three such filings in the state since June. Last year, there were 14 local-government insolvencies nationwide, including special tax districts, compared with six in 2010, data compiled by Bloomberg show.

Rhode Island has labored under the lingering effects of the longest recession since World War II, with one of the nation's highest jobless rates. For Central Falls, the difficulties date to at least 1991, when the state took over its school district's finances.

Cocaine Capital

Dubbed the Cocaine Capital of New England by Rolling Stone magazine in 1986, it is the state's smallest city, at 1.2 square miles (3.1 square kilometers) and a population of about 19,400, according to U.S. Census Bureau data. A quarter of the population lives in poverty, double the state average.

Residents resent that $3 million has been spent on lawyers while their community center was closed and the public library turned over to a nonprofit group, said state Senator Elizabeth Crowley, a Central Falls Democrat. The city remains in a state of disrepair with potholed streets, she said, while bondholders have continued to be paid.

"I will never be able to retire because they had to protect their precious bond rating," said Don Cardin, 47, a former fire department battalion chief. His monthly pension fell to $2,100 from $2,800 and is set to drop to $1,250 in five years. Like many government workers, firefighters in the city don't participate in the federal Social Security system.

Market Access

The approach to resolving the bankruptcy will help the city regain access to the $3.7 trillion municipal bond market, said Janney's Schankel.

"Central Falls will be penalized by the market going forward for awhile, but they have a shot at crawling their way back," Schankel said. "They will be able to borrow because the process worked out OK for bondholders."

Central Falls securities maturing in May 2015 traded on Aug. 9 at an average of about 92 cents on the dollar to yield 9.33 percent, or about nine percentage points more than top- rated debt with a similar maturity, Bloomberg Valuation data show. On Dec. 20, the securities traded at about seven percentage points above a AAA index.

In the broader muni market yesterday, yields fell in most maturities, tracking gains in Treasuries. Yields on top-rated tax-exempts due in 10 years fell 0.02 percentage point to 1.80 percent, the lowest in about two weeks, Bloomberg Valuation data show.

Less Complex

The city's case differs from the bankruptcies in California, according to Marc Levinson, an Orrick Herrington & Sutcliffe LLP lawyer in Sacramento who represents Stockton.

"Central Falls is a much smaller city than San Bernardino, Vallejo or Stockton," Levinson said by e-mail. "Its debt structure was not nearly as complex."

Levinson also worked for Vallejo, the California city that has spent about $11 million over three years to exit a Chapter 9 case that began in 2008. San Bernardino, with 213,000 residents, filed for bankruptcy this month.

Central Falls is asking citizens and retirees to absorb higher taxes and reduced benefits after Rhode Island Treasurer Gina Raimondo last year spearheaded an overhaul of the state's pensions. The revamp included measures such as delaying retirement and offering workers 401(k)-type plans.

Under the Central Falls plan, the city's payroll will fall to 121 jobs from 174 in May, according to Rosemary Booth Gallogly, the state's revenue director who oversaw negotiations with creditors. Pensions will be cut as much as 55 percent for 133 municipal retirees, while no one will get less than $10,000 a year, court documents show. They will also be required to pay 20 percent of their health-care costs until they turn 65 and become eligible for the federal Medicare program.

State Promises

Retirees accepted the proposal after the state promised to supplement pensions for five years. After an earlier receiver put the city in bankruptcy, municipal workers agreed to new contracts with lower benefits, helping expedite the Chapter 9 process, said Orson.

"I would consider it a model," Gallogly said. "I don't want to make it sound like this was easy and anybody could go through this process. It's an unfortunate chapter, and I hope all Rhode Island cities and towns will learn by it."

The plan also includes annual 4 percent property-tax increases through 2017. It closes almost $26 million in deficits projected over six years in annual budgets averaging about $18 million. Rhode Island covered more than $3 million in legal fees, which the city will have to repay starting in 2017, Gallogly said.

Payments Priority

Last year, Governor Lincoln Chafee, an independent, ensured investors holding $27 million of Central Falls debt would be protected when he signed a law giving them a lien on tax and general revenue.

"We don't want Central Falls to become a contagion that spreads around the state," Gallogly said in September. "We want to show very clearly that our priority is to pay these obligations."

Moody's Investors Service in June said the city's credit rating, seven steps below investment grade at Caa1, might be raised.

"You take the bonds being held hostage out of the equation," said James Spiotto, a bankruptcy lawyer in Chicago with Chapman & Cutler LLP.

The case is In re City of Central Falls, 11-13105, U.S. Bankruptcy Court, District of Rhode Island (Providence).

Following are pending sales:

ARKANSAS is set to issue $225 million of general-obligation bonds as soon as next month, data compiled by Bloomberg show. The bonds are secured by Federal Highway Grant Anticipation and Tax Revenue and will help finance interstate highways, according to bond documents. (Added Aug. 29)

FLORIDA MUNICIPAL POWER AGENCY plans to sell a combined $140 million of debt as soon as today, according to data compiled by Bloomberg. The issuance will refund debt and finance capital projects, according to sale documents. (Updated Aug. 29)

By Michael McDonald and Steven Church on August 29

Gap between public, private pensions troubles retirees

Kenneth Murphy and Alice Jordon are about the same age, worked long careers in their chosen fields and retired on roughly similar incomes.

But that's about where the similarity stops. Their differences illustrate the growing divide between retirees in the public and private sectors.

Jordon, 61, was in her mid-50s when she retired after 31 years in DeKalb County schools. She worries that younger teachers won't enjoy an equally secure retirement because of pay cuts, furloughs and growing pressure to trim public employees' pension benefits.

"I think most educators are very underpaid for what they do, all the hours, just like firemen and policemen," said Jordon, of McDonough.
Murphy, 64, on the other hand, thinks state and local employees' pensions and pay are out of control and need to be cut — even if state and local governments have to file bankruptcy to do it.

"What they get on their retirement, it's unreal," said Murphy, who retired four years ago from his air cargo job at Delta Air Lines. "I think every pension plan, state and local, needs to be looked at."

Former House Speaker Newt Gingrich, a possible GOP presidential candidate, recently proposed that federal law be changed to enable states to file bankruptcy so they can shed their pension obligations. But critics of the proposal counter that, without their pensions, public-sector retirees wouldn't have a safety net since many aren't part of the Social Security system. Private-sector pensions also are guaranteed up to certain levels by the Pension Benefit Guaranty Corp., a federal agency. Public-sector pensions are not.

Such talk worries Jordon.
"It concerns me a great deal," she said of proposals to allow states to renege on their pension obligations. "Without a pension, we would have nothing."
A look at the ups and downs of Jordon's and Murphy's careers — and their plans for retirement — sheds a personal light on the growing debate over public employees' retirement systems.

'I put a lot of money away'
Kenneth Murphy said he and his wife, Mary, are comfortably retired on about $42,000 a year, roughly 60 percent of their previous incomes. Also, his wife, who likewise was employed at several airlines, sometimes works part time as a flight attendant on corporate jets.

"I'm not on food stamps," he said.
But that might have seemed a likely fate at times during his 36-year career at five airlines, including Eastern, Continental and Delta. Four carriers, including those three, filed bankruptcy. Eastern failed.

The Murphys' retirement income is cobbled together from Social Security, savings, rental income, a small pension and cash severance payment from Delta, settlements from Eastern's bankruptcy case, and pension payments from the PBGC, which took over Eastern's pension plan.

In 1972, however, Murphy wasn't thinking much about retirement when he hired on with Eastern as a cargo handler in Boston. Soon, he moved to Atlanta, where he eventually supervised crews of fuelers and aircraft cleaners for Eastern.

Murphy had worked there for almost 20 years when Eastern filed bankruptcy and, in 1991, shut down. He said he'd known for some time that the airline was in trouble. "I knew the party was over, so I put a lot of money away," he said.
He started saving a good chunk of his pay in retirement accounts and stock investments nearly 30 years ago, Murphy said. The Murphys now get about a third of their retirement income from those investments.

After Eastern, Murphy went to work for a few years at Continental Airlines, which filed bankruptcy in 1990, and then got the cargo job at Delta.

By the time he retired in 2006, Delta had also filed bankruptcy. The airline dumped its pilots' pension plan on the PBGC during the bankruptcy reorganization but retained pensions for other employees.

At 59, Murphy took an early retirement buyout offer from Delta, which was restructuring and shedding employees. He said he retired because he needed to help his aging father and his brother, a Vietnam veteran who suffers from schizophrenia and other issues.

“This is my brother. I can’t kick him to the side of the road,” Murphy said. “He would be dead.”

From his experience with the airlines, Murphy believes tough cost-cutting, consolidation and even bankruptcy can result in healthier, more efficient companies — or governments. He said states, counties and cities should consolidate overlapping units and cut overly generous pay and pensions, he said.

Some public-sector employees “probably do deserve [their current pensions], like the police and firemen,” he said. But for “the ones that sit behind a desk,” he added, their pensions “should be comparable to the private sector.”

'Not an easy job'

When Jordon runs into people with such complaints, or who are amazed that she was able to retire at 54, she replies that her benefits were not her idea. And she feels as if she earned her pension.

“Keeping up with 150 eighth graders is not an easy job,” she said.

As with Murphy, pensions were not much on her mind in 1971, when she and her husband had both graduated from Emory University with geology degrees.
Most of their classmates took jobs as petroleum geologists, but Jordon said she and her husband stayed at Emory and got master’s degrees — hers aimed at teaching.
In 1973, she took a job teaching earth sciences to ninth-graders at a high school in DeKalb County. Her husband, who had also been teaching, stayed home with their daughter.

She discovered she loved teaching. By living in a modest house and driving the same cars up to 20 years, she said, “we were able to survive on one income.”
With summers off, they toured the country for five or six weeks at a time.
At first, she was surprised that teachers were required to contribute to the Teachers Retirement System of Georgia through payroll deductions. Private-sector companies typically don’t require such contributions. “As a young teacher, when my check was $600 a month, and my rent was $169 a month, it was a real shock when they took all that stuff out,” she said.

At first she viewed it as a “forced savings account.” But as the years went by, her future pension benefits became another reason she stayed in the job. For 28 years, she taught at the same high school.

“I loved going to work,” she said. “My goal was to teach at least 35 years.”
That would have enabled her to retire at 58 with at least 70 percent of her salary.
“But things change,” she said.

When DeKalb County opened a new middle school nearby, she transferred to it, attracted by a raise in pay and the chance to help launch a new school. But she soon learned she had made a mistake.

“It was not run well,” she said. Chronic discipline problems meant the new school was like “being in a war zone,” she said. Stress began to affect her health.
After three years at the school — four years short of her goal — she retired.
These days, Jordon collects about $42,000 from her pension plan, about two-thirds of her pay as a teacher. Until it runs out in a few years, she’s also getting about $10,000 a year from a retirement savings account the school system created when it opted out of Social Security in the late 1970s.

She has returned to teaching part time as a substitute — not for the money, she says, which is minimal, but because she loves teaching.

Jordon figures she could have made much more money if, years ago, she had become a geologist at some oil company. But she’s glad she chose teaching.
“I’ve never regretted it a minute,” she said.

By Russell Grantham
The Atlanta Journal-Constitution

Gov. Kasich signs pension reform bill; Five state public pension systems will see major changes; OHIO BUDGET

COLUMBUS - Gov. John Kasich signed into law Wednesday sweeping changes to the five public pension systems that will cost workers billions, but allow them to maintain defined-benefit plans.

"It's an exciting day for members of the various funds and retirees who now can have a real sense their funds are going to be solvent," Kasich said, before using 55 pens to sign the bills into law, while leaders of the pension funds looked on.

To ensure the pension systems can meet the state requirement that their unfunded liabilities be paid off within 30 years, the changes increase employee contributions, compute new final average salaries, require longer service and reduce cost-of-living adjustments.

The bills largely represent plans proposed up to three years ago by the various pension boards, and they passed the House and Senate earlier this month with near-unanimous support.

"I think the people that look at Ohio from the outside will see that this represents significant progress in terms of stabilizing the systems," Kasich said.
Senate President Tom Niehaus, R-New Richmond, who co-sponsored the bills with Senate Minority Leader Eric Kearney, D-Cincinnati, has repeatedly stressed that the "changes are not popular, but they are necessary."

The changes should stop the bleeding for pension systems that have struggled to maintain payouts to retirees while also offering health-insurance coverage that is not required by law. The largest fund, the Ohio Public Employees Retirement System, estimates it is losing $1 million every day that the changes it proposed in 2009 are not implemented.

"Our members and retirees really understand the changes and they understand the reason for it, and they strongly believe the changes are necessary," said Karen Carraher, executive director of the Ohio Public Employees Retirement System, which combined serve about 1.8 million active and retired public workers and their dependents.

The five bills will take effect Jan. 7. For all but OPERS, the bills give the pension boards the ability to make some future adjustments without legislative approval. Carraher has said OPERS will continue working on getting its members in agreement on the idea.
Sen. Keith Faber, R-Celina, the chairman of the Ohio Retirement Study Council, said the goal was for the plans to be actuarially sound, keep the promises of benefits to retirees and those about to retire, and balance the taxpayers' expectation for what the retirement systems should provide. Republicans were adamant that changes not increase taxpayer contributions.

"Nobody will pretend... this is going to be the last solution," Faber said. "But it certainly moves all the plans toward all those goals."

Faber and other Republicans have expressed concern that some plans, particularly the State Teacher Retirement System, might not reach their expected investment returns.
For a breakdown of changes, go to www.orsc.org and click the link, "Comparative Document for Pension Reform Legislation."

Dayton Daily News (Ohio)
September 27, 2012 Thursday

Private Sector

IRS and PBGC Release Guidance on MAP-21 Pension Provisions

The U.S. Internal Revenue Service (IRS) has released Notice 2012-61 that provides guidance on the special rules relating to pension funding stabilization for single-employer defined benefit pension plans under amendments to the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 (ERISA) made by the Moving Ahead for Progress in the 21st Century Act (MAP-21). MAP-21 was enacted July 6, 2012, and contains a number of pension provisions in Division D (Finance).

In addition, the Pension Benefit Guaranty Corporation (PBGC) has issued Technical Update 12-2 that provides guidance on the effect of MAP-21 on annual financial and actuarial reporting under section 4010 of ERISA and part 4010 of PBGC's regulations. This Technical Update supersedes any inconsistent guidance in PBGC's 4010 filing instructions.

Population Aging Will Have Long-Term Implications for Economy; Major Policy Changes Needed

The National Academies issued the following news release:

The aging of the U.S. population will have broad economic consequences for the country, particularly for federal programs that support the elderly, and its long-term effects on all generations will be mediated by how -- and how quickly -- the nation responds, says a new congressionally mandated report (http://www.nap.edu/catalog.php?record_id=13465) from the National Research Council. The unprecedented demographic shift in which people over age 65 make up an increasingly large percentage of the population is not a temporary phenomenon associated with the aging of the baby boom generation, but a pervasive trend that is here to stay.

"The bottom line is that the nation has many good options for responding to population aging," said Roger Ferguson, CEO of TIAA-CREF and co-chair of the committee that wrote the report. "Nonetheless, there is little doubt that there will need to be major changes in the structure of federal programs, particularly those for health. The transition to sustainable policies will be smoother and less costly if steps are taken sooner rather than later."

Social Security, Medicare, and Medicaid are on unsustainable paths, and the failure to remedy the situation raises a number of economic risks, the report says. Together, the cost of the three programs currently amounts to roughly 40 percent of all federal spending and 10 percent of the nation's gross domestic product. Because of overall longer life expectancy and lower birth rates, these programs will have more beneficiaries with relatively fewer workers contributing to support them in the coming decades. Combined with soaring health care costs, population aging will drive up public health care expenditures and demand an ever-larger fraction of national resources.

Population aging is also occurring in other industrialized nations, so any consequences for the U.S. must be considered in the broader context of a global economy. Adapting to this new economic landscape entails costs and policy options with different implications for which generations will bear the costs or receive the benefits. Recent policy actions have attempted to address health care costs, but their effects are as yet unclear. According to the report, the ultimate national response will likely be some combination of major structural changes to public support programs, more savings during people's working years, and longer working lives.

"The nation needs to rethink its outlook and policies on working and retirement," said Ronald Lee, professor of demography and economics at the University of California, Berkeley, and committee co-chair. "Although 65 has conventionally been considered a normal retirement age, it is an increasingly obsolete threshold for defining old age and for setting benefits for the elderly." The committee found that there is substantial potential for increased labor force participation at older ages, which would boost national output, slow the draw-down on retirement savings, and allow workers to save longer. The report adds that longer working lives would have little effect on employment opportunities for younger workers, productivity, or innovation.

In addition, workers can better prepare for retirement by planning ahead and adapting their saving and spending habits, the report suggests. Improved financial literacy will be critical, since between one-fifth and two-thirds of today's older population have not saved enough for retirement and therefore rely heavily on Social Security and Medicare. More research in areas such as health measurement and projections, capacity to work, and changes in consumption and saving will help to inform decision making, but the report emphasizes the need to act now in order to craft a balanced response.

"Population aging does not pose an insurmountable challenge provided that sensible policies are implemented with enough lead time to allow people, companies, and other institutions to respond," Ferguson said.

A follow-up study from the National Research Council will look more in-depth at the long-term macroeconomic effects of population aging and provide quantitative assessments of specific policy choices.

Targeted News Service
September 25, 2012 Tuesday 2:20 AM EST

WHO HAS RETIREMENT BENEFITS IN PRIVATE INDUSTRY IN 2012?

The following information was released by the U.S. Bureau of Labor Statistics:
Nearly two-thirds of private industry workers in March 2012 had access to some form of retirement plan, typically either a defined-benefit plan, such as a pension, or defined-contribution plan, such as a 401(k). Forty-eight percent of workers chose to participate in a retirement plan.

Access to retirement plans varied significantly by major occupational group, full- or part-time status, union-membership status, and wage category. Management, professional, and related occupations had nearly twice the access rate and more than three times the participation rate of service occupations. (Some examples of service occupations are healthcare support, protective service, food preparation, maintenance, and personal care workers.) Similarly, full-time workers had nearly twice the access rate and three times the participation rate of part-time workers. Union workers had very high access (92 percent) and participation (85 percent) rates for retirement plans.

High-wage workers (those in the top 25 percent of all wage earners, with earnings at or above $24.81 per hour) had significantly higher rates of access to and participation in retirement plans than did low-wage workers (those in the lowest 25 percent of all wage earners, with earnings at or below $10.69 per hour). Workers in large establishments (500 workers or more) had a retirement participation rate more than twice that of workers in small establishments (fewer than 100 workers).

These data are from the National Compensation Survey - Benefits program. To learn more, see "Who has benefits in private industry in 2012?" (HTML) (PDF), Beyond the Numbers volume 1, number 13, September 2012. An employee had access to a benefit plan if the employee is in an occupation in which his or her employer offered the plan. The participation rate is the percentage of employees who actually enroll in a retirement plan.

States News Service
September 21, 2012 Friday

United States: IRS Announces Changes To Its Letter-Forwarding Program

The IRS recently issued Rev. Proc. 2012-35, revising the scope of the IRS letter-forwarding program. The revenue procedure provides that the IRS will no longer forward letters on behalf of plan sponsors or administrators of qualified retirement plans or qualified termination administrators (QTAs) of abandoned plans under the Department of Labor's Abandoned Plan Program who are attempting to locate missing plan participants and beneficiaries.

According to the IRS, since the IRS letter-forwarding program began, numerous alternative missing person locator resources have become available to assist a plan sponsor or plan administrator in locating a missing participant or beneficiary who is owed a retirement benefit, thus enabling the program change. In particular, this change affects retirement plan sponsors and administrators who are searching for plan participants or beneficiaries to correct failures that require payment of additional benefits in accordance with the Employee Plans Compliance Resolution System (EPCRS), as described in Rev. Proc. 2008-50. Accordingly, in future guidance on EPCRS, the IRS intends to provide an extended correction period for plan sponsors and administrators affected by this change in the letter-forwarding program.

Rev. Proc. 2012-35 applies to requests postmarked on or after Aug. 31, 2012. Requests postmarked prior to that date will continue to be processed according to Rev. Proc. 94-22.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Mondaq Business Briefing
September 13, 2012 Thursday

Quick Poll: Pension Plan Sponsors Combat Volatility And Low Interest Rates; Many Prefer Not To Terminate

SEI ("SEIC-Q") - Quick Poll: Pension Plan Sponsors Combat Volatility And Low - Interest Rates; Many Prefer Not To Terminate
SEI released the results of its fifth annual mid-year pension Quick Poll, revealing ongoing frustration among corporate pension plan sponsors in continuing to combat market volatility and low interest rates in 2012. Of the 110 participating U.S. and

Canadian plan sponsors, more than half (55 percent) have closed the plan to new entrants, meaning that new employees cannot participate in this retirement benefit. However, given the hypothetical option of terminating a fully funded plan, more than half (56 percent) of plan sponsors said they would not terminate, as the pension remains too critical a part of their organizations' employee benefits structure.

Last year, almost half (46 percent) of participating plans were more than 90 percent funded, but this year only 28 percent said the plan was that well funded. More poll participants (37 percent) said the pension is now between 81-90 percent funded. In the U.S., 27 percent of participating pensions currently fail to meet the federal funding minimum of 80 percent. When asked whether the Moving Ahead for Progress in the 21st Century Act (MAP-21) might provide some funding relief, almost half (43 percent) of U.S. poll participants felt that it would reduce plan contributions for the 2012 plan year. Almost one-quarter (24 percent) said it was still too early to tell.

"Pension plan sponsors have faced a challenging year so far with historically low interest rates and volatile equity markets. Yet, many organizations continue to see the pension as a valuable benefit for employees and seek strategies to improve and protect plan funding status, while limiting cash contributions," said Jon Waite, Director, Investment Management Advice and Chief Actuary for SEI's Institutional Group. "Continued interest in Liability Driven Investing (LDI) strategies makes sense as they can help reduce funding status volatility by better matching a plan's assets to its liabilities, ultimately reducing the impact of the pension plan on corporate finances."

In regard to asset allocation strategies, more than half (52 percent) of poll participants invest a portion of the pension portfolio in an LDI solution, with the largest group (17 percent) allocating between 21-30 percent. The survey also found that plans which are 71-80 percent funded have the highest use of LDI strategies, at 63 percent. In an effort to capitalize on upside swings and mitigate downside losses in a volatile market environment, 40 percent of plan sponsors currently use or are developing a glidepath strategy with automatic triggers.

In the previous four years of this poll, the use of alternatives in pension portfolios steadily increased, topping out at 78 percent in 2011. While alternatives remain a popular asset class for generating returns, the poll saw a 13 percent decline, with 65 percent of participants investing in alternatives, on par with results from 2010. The overall slight decline in use of alternatives this year was impacted most prominently by plans with more than $1 billion in assets, which dropped usage by 25 percent.
The fifth annual Quick Poll was completed by 110 U.S. and Canadian executives overseeing corporate pension assets ranging in size from $25 million to over $1 billion. Of the respondents, 48 percent oversee more than $300 million in assets. None of the respondents were institutional clients of SEI.

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