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.

Inside This Issue

Public Sector/Government Plans

Census Bureau: Public pension assets up 14.3% for year

The 100 largest U.S. public pension funds had a combined $3.365 trillion in cash and securities as of June 30, up 4.6% from three months earlier and 14.3% more than a year earlier, according to the U.S. Census Bureau's Quarterly Survey of Public Pensions.

The public pension funds reaped $129.4 billion from investment earnings in the second quarter.

Corporate stocks, making up 34.9% of all holdings, rose to $1.117 trillion. That amount was up 7.4% from March 31 and an increase of 15.5% from June 30, 2013. Corporate bonds, at 11% of all holdings, totaled $371.5 billion, a 7.1% increase from three months earlier and a 16.1% increase from a year earlier.

International securities, at 19.5% of all holdings, were a combined $656.5 billion, down 2.8% from March 31 but an 11.4% increase year-over-year.

U.S. government securities, at 9.1% of holdings, totaled $307.8 billion, up 12.4% from three months earlier and up 16% from a year earlier.

Of total contributions, 68% was provided by government sponsors and 32% came from employees. Government contributions totaled $24 billion, down 6.8% for the quarter and up 4.8% for the year.

The top 100 funds make up 89.4% of all U.S. public pension fund assets.

Bankruptcy judge: CalPERS pensions can be cut

A federal judge ruled yesterday that CalPERS pensions can be cut in bankruptcy like other debt. He rejected the argument that the giant system is an “arm of the state” with pensions protected by federal law and two state laws on contracts and liens.

U.S. Bankruptcy Judge Christopher Klein, who has called the issue of whether CalPERS pensions can be cut in bankruptcy a “festering sore,” delayed until Oct. 30 a ruling on whether Stockton can exit bankruptcy without cutting pensions.

Stockton does not want to cut pensions, arguing they are needed to be a competitive employer, particularly for police. The city reached agreements with three bond insurers owed $265 million, all labor unions, retirees and other major creditors.

But Stockton could not negotiate an agreement with a lone holdout, two Franklin bond funds owed $36 million, triggering a trial in May on the Stockton “plan of adjustment” to cut debt and emerge from the bankruptcy filed two years ago.

Franklin argues that an exit plan that provides full payment of the city’s “massive” pension liability, while paying Franklin a penny on the dollar, cannot be confirmed under the federal bankruptcy code requiring fair treatment of creditors.

Klein issued his CalPERS decision after receiving extensive written briefings from both sides he requested at the May trial. His lengthy oral ruling, covering the disputed legal points in detail, may be followed by a written decision.

“We have a plan that proposes not to adjust pensions,” Klein said. “I have concluded that pensions could be adjusted, at least the CalPERS contract could be adjusted, and by inference the pensions could be adjusted.”

A federal judge ruled in the Detroit bankruptcy last fall that pensions can be cut. CalPERS joined in the appeal, arguing that Detroit has a city-run plan and that CalPERS is an arm of the state whose operations are protected under federal bankruptcy law.

“We disagree with the judge’s opinion on the issue of pension impairment,” CalPERS said in a news release. “This ruling is not legally binding on any of the parties in the Stockton case or as precedent in any other bankruptcy proceeding and is unnecessary to the decision on confirmation of the City of Stockton’s plan of adjustment.

“CalPERS will reserve any further comment until such time as the court renders its final written decision. What’s important to keep in mind is what the City of Stockton stated in court today: that they can’t function as a city if their pensions are impaired.”

Matthew Jacobs, CalPERS general counsel, said in a separate news release: “The real precedent of today’s proceedings is that even if municipalities are allowed to impair pensions in the rare situation of bankruptcy, cities like Stockton can make the smart decision to protect the pension promises for their public employees.

“The city has made a choice to protect pensions for its public employees and find a reasonable path forward to a more fiscally sustainable future. This is the right decision. While we disagree with today’s ruling on pensions, we are hopeful that Judge Klein will approve Stockton’s plan. Providing great services to a city requires great employees and Stockton said today in court that it can’t function as a city if pensions are impaired.”

CalPERS has taken several steps, some going back decades, to avoid a ruling like the one Judge Klein made yesterday.

Vallejo officials said they considered cutting pensions in bankruptcy, but chose not to try after CalPERS threatened a lengthy and costly legal battle. Vallejo cut deals with all creditors, avoiding a rare trial as on Stockton’s plan to “cram down” debt.

The Vallejo bankruptcy prompted public employee unions to back legislation requiring cities to get permission from a state panel to file bankruptcy. Some union officials said the threat of “pulling a Vallejo” could affect labor contract bargaining.

The bill, AB 506 in 2011, was altered to require an attempt in neutral mediation to reach an agreement with creditors before filing bankruptcy. Stockton failed to get an agreement during a 90-day mediation before filing for bankruptcy on June 26, 2012.

A month later San Bernardino made an emergency filing for bankruptcy without first trying mediation. Then San Bernardino, saying it was in danger of not making payroll, took an unprecedented step: skipping payments to CalPERS for a year.

The failure to make payments gave the California Public Employees Retirement System grounds to terminate its contract with the city, probably triggering a deep cut in pensions for San Bernardino current workers and retirees.

Last June San Bernardino announced an undisclosed agreement with CalPERS, reached in closed-door mediation, to pay the $13.5 million in skipped payments, plus several million more in penalties and interest.

San Bernardino is still struggling to reach agreements with labor unions, receiving court approval to modify a firefighter contract. City officials have said they do not expect to have a debt-cutting plan of adjustment until early next year or later.

In the Stockton bankruptcy, Judge Klein said during the trial in May that one of his options was ruling on whether CalPERS pensions could be cut without necessarily finding that Stockton pensions should be cut.

Part of his analysis yesterday that CalPERS pensions are not state “governmental or political powers” protected under federal bankruptcy law is that while state workers are in CalPERS by statute, cities choose to join CalPERS.

Klein said California cities have the option of forming their own pension systems, joining a county pension system, hiring a private pension provider or withdrawing from CalPERS, if they can afford to do so.

He concluded that benefits not prescribed by state law are not “governmental or political” powers protected by the federal bankruptcy law, but instead are unprotected “business powers.”

Klein said a CalPERS-sponsored state law preventing cities from rejecting their CalPERS contracts in bankruptcy is “flat-out invalid” under the constitutional “supremacy clause” giving federal law priority over state law.

The judge said another CalPERS-sponsored state law that gives CalPERS a lien on all city assets, except wages, when they declare insolvency is an invalid attempt by the state Legislature to “edit” the federal bankruptcy law.

Stockton argues that its employees and retirees have a fair share of the bankruptcy burden with pay cuts, workforce reductions and the elimination of retiree health care, a $545 million long-term debt replaced with a $5 million lump sum.

Klein’s ruling on Stockton may hinge on the city’s decision to place Franklin in the same class of debtors as retirees, who voted to accept the big cut in health care with the promise that their pensions would not be cut.

The low payment to Franklin is similar to the retiree health care cut. Franklin argues that it was “punished” for rejecting a city offer in closed-door mediation and unfairly placed in the debtor class to be “swamped” by the retiree approval of their health care cut.

The city argues that Franklin is properly in the class because most of its debt is unsecured. After the judge ruled that Franklin's collateral (two golf courses and a park) were valued at $4 million, Stockton amended its plan to pay that amount.

But Franklin wants payment for the remaining $32 million of unsecured debt.

A New Trend in Reducing Pension Obligations in Chapter 9?

Many municipalities across the United States remain under severe fiscal distress as a result of financial promises made that no longer can be honored. One of the largest of those obligations often arises from unfunded or underfunded pension benefits accrued over decades of employee service. In June 2012, the city of Stockton, Calif., filed its Chapter 9 bankruptcy petition in an effort to deal with these accrued liabilities while continuing to balance the ongoing health, safety and welfare of its citizens. In September 2013, Stockton filed its proposed plan of adjustment.

Not surprisingly, because Stockton's plan does not seek to impair the city's pension obligations contracted through the California Public Employees' Retirement System (CalPERS), it drew significant objections from other creditors. In particular, the Franklin High Yield Tax-Free Income Fund and Franklin California High Yield Municipal Fund (collectively, Franklin), which is expected to recover less than 1 percent of its approximate $32.5 million unsecured claim, argues that the city's pension obligations should likewise be reduced. Following the argument at a July 8 plan confirmation hearing, the city and Franklin (as well as various plan supporters and amicus curie) filed briefs addressing whether Stockton's pension obligations can be impaired, and whether the city's plan is confirmable notwithstanding the disparate treatment between the pensioners' claims and those of other unsecured creditors, including Franklin.

In a significant Oct. 1 verbal bench ruling, U.S. Bankruptcy Chief Judge Christopher Klein of the Eastern District of California determined that the city's relationship with CalPERS is contractual and, therefore, its pension obligations can be impaired through bankruptcy. Apparently, while California law may prohibit Stockton from terminating its relationship with CalPERS, the statute may be preempted by the Bankruptcy Code and thus unenforceable. Moreover, assuming that pension benefits arise from contract, and the Bankruptcy Code allows for the modification of contractual rights, such benefits would not be immunized from reduction through a plan of adjustment. Coincidence or not, U.S. Bankruptcy Judge Steven Rhodes of the Eastern District of Michigan also recently decided in In re City of Detroit, 504 B.R. 97, 153-54 (Bankr. E.D. Mich. 2013), that, with respect to the city of Detroit, "pension rights are contractual rights ... subject to impairment in a federal bankruptcy proceeding." The Oct. 1 ruling may come somewhat as a shock to many who view pension obligations as sacrosanct property rights that are constitutionally protected.

Klein, however, has not yet determined whether Stockton must reject its CalPERS contract or whether the city is required to reduce pension obligations in order to have its plan approved. When the city's plan confirmation trial continues, scheduled for Oct. 30, the court likely will consider the following questions, among others: Is the city permitted to continue paying pension benefits in full? Can the city prefer its employees and retirees over other creditors by offering a higher rate of recovery? In other words, does Stockton's plan meet the Bankruptcy Code's confirmation requirements, including that the plan (1) is proposed in good faith and in the best interest of creditors, and (2) properly groups together similar claims and does not unfairly discriminate against certain creditors?

Is the plan proposed in "good faith"? A court shall confirm a plan only if the plan has "been proposed in good faith and not by any means forbidden by law." Stockton argues that its plan is proposed in good faith, reasoning that if the court were to find that pension obligations are subject to impairment, thereby possibly necessitating a reduction of benefits, the city would face disaster. In its brief, Stockton highlights the fact that the city already made indirect cuts to pensions, reductions to employee compensation, retiree medical benefits and staffing cuts. Therefore, according to Stockton, further pension reductions would cause the city to risk large-scale departure of its employees, including critical public safety officers, who would "cut and run" for other jobs to maintain pensions. The city likewise claims that it would have difficulty recruiting new employees, thus restricting Stockton's ability to provide its residents with basic health and safety services. In the end, the city's position is that, assuming the court were to find that the city's relationship with CalPERS constitutes an executory contract that may be assumed under Section 365, its decision to assume that agreement is based on a reasonable exercise of its business judgment.

Franklin argues in its papers that the city's fears were unwarranted, citing Detroit as an example, whose employees, faced with similar pension cuts, remained with the city. Further, even if justified, the city cannot rely upon a "business judgment" exemption to sidestep the code's confirmation requirements, including that the plan be in "the best interests of creditors" under Section 943(b)(7). Certainly, in Franklin's view, cramming down a less than 1 percent recovery on Franklin's unsecured claim is not in its best interest, especially when Franklin is able to produce evidence supporting its assertion that the city has access to sufficient funds to pay a larger portion of its debt service to Franklin.

The city's papers counter that its good faith further warrants maintaining its relationship with CalPERS because any pension impairment would trigger a $1.6 billion termination liability, resulting in a lien on the city's assets under California law. In response, Franklin contends that this termination lien would be invalid under Section 545 (which provides that a "statutory lien" arising upon a debtor's insolvency may be avoided in bankruptcy). Stockton further argues that it would be forced to create a substitute to the CalPERS-run pension system, an untenable situation given that it already determined that there is no viable and cost-effective alternative. In short, Stockton maintains that its plan is made in good faith because it has no other work-around. Franklin's response, however, paints a different picture: the plan lacks good faith because the city's doomsday scenario won't happen, the city failed to truly assess non-CalPERS alternatives and if the plan is confirmed as is, the city will miss its only opportunity to confront its massive unfunded pension liability.

Does the city's plan properly classify claims or does the proposed 1 percent recovery unfairly discriminate against Franklin? A confirmable plan shall provide the same treatment for each claim of a particular class, unless a creditor agrees to less favorable treatment. The city argues that its plan properly classifies separately its pension claims because they are not substantially similar to other general unsecured claims, reasoning that the nature of the claims are different (the city's pension obligations are defined by state law, rather than solely by contract, as is the case with Franklin's claim) and the consequences of impairment of the claims are different (the city has no fear of a catastrophic workforce loss or termination lien as a result of cramming down Franklin's claim).

Second, even if pension claims are substantially similar to the city's other general unsecured claims, the city avers that it still can place the pension claims in a separate class, and the treatment of Franklin's claim is not "unfair," because the city has business justifications for doing so, for the reasons explained above. Finally, the city submits that because the class in which Franklin sits has voted to accept the plan, Franklin is not entitled to object on the basis that its claim is being crammed down and is facing unfair discrimination under Section 1129(b)(1) (which sets forth that the "unfair discrimination test" applies only when a class votes against a plan).

On the other hand, Franklin suggests that the city improperly gerrymandered the creditor grouping to ensure that Franklin is part of a consenting class (which includes retirees receiving "artificially low recovery" on their health care benefit claims in exchange for pension benefits to be paid in full), thereby restricting Franklin's ability to object to the disparate treatment and unfair discrimination of its claim. In contrast to those retirees, Franklin receives no benefit accompanying its 1 percent recovery, signaling that such treatment may be unfair and violative of the Bankruptcy Code.

Clearly, the treatment of pension claims in Chapter 9 cases is extremely complicated and presents a political overlay not often seen in other bankruptcy cases. However, because pension claims often make up a significant portion of the municipal debt load, this issue needs further resolution to clarify for municipalities the restructuring tools that they may have at their disposal. As legal precedent develops, additional municipalities, similar to Detroit and Stockton, may employ Chapter 9 protections, assuming pension obligations can be adjusted in the bankruptcy process. There is no doubt the Stockton case will be followed closely over the next few months by municipal bankruptcy experts around the country.

VRS funding improves for 1st time since 2008

The funding of Virginia's pension plans for state employees and teachers improved in the last fiscal year for the first time since 2008, before the recession cut deeply into the retirement system's investments.

All five major pension plans managed by the Virginia Retirement System showed gains in funded status, the actuary for the system reported Thursday.

The state employee plan was 67.9 percent funded on June 30, up from 65.1 percent the previous year, and the teachers plan rose to 65.4 percent from 62.1 percent, based on an actuarial calculation that smooths gains and losses over five years.

Based on current market value, both plans were funded at more than 74 and 71 percent, respectively, at the end of the last fiscal year.

The improved funded status reflects a 15.7 percent increase in investment income in the last fiscal year for the $65 billion retirement system and potentially reduces pressure on contributions that state and local governments and school systems must make to pension plans for more than 600,000 active, retired and inactive employees.

"For us, what's important is the trend is in the right direction," said Jose I. Fernandez, principal and consulting actuary for Cavanaugh Macdonald Consulting, LLC, which advises the VRS on the rates necessary to fund current retirement costs and long-term liabilities for public employees.

The actuarial analysis presented Thursday will not be used to set contribution rates for state and local governments, which are paying into the pension plans based on rates the General Assembly adopted this year for the two-year state budget that began July 1. Employees also contribute up to 5 percent of their pay to their pensions.

But the analysis shows a reduction in the contribution rates that would be required to fully fund the pension plans, not only for state employees and teachers, but also for state police, other sworn law officers and judges.

The so-called "informational rates" still are higher than the rates actually funded in this biennium by the assembly, which is moving under a graduated schedule to fully fund pension obligations by the 2018-20 biennium.

The current budget funds the contributions for state employees and the state's share of teacher retirement at about 80 percent of the level recommended by the VRS board a year ago, based on the actuary's analysis then. As a result, the system is getting about $798 million less in state and local contributions than required under the board-approved rates.

However, the underfunding of contributions was more than offset by $2.1 billion in gains on VRS investments, as well as cost-of-living increases that were less than expected.

The analysis also reflects the required payback of $1.1 billion in deferred state and local pension contributions in the 2010-12 budget. The state has repaid about $250 million of the deferred obligations with interest, but will owe about $851 million over the next seven years.

The net result was a reduction in the system's unfunded liabilities from almost $24 billion a year ago to about $22.6 billion now. The liability falls by almost $858 million for the teachers plan, the largest retirement plan with about 147,000 active employees and more than 81,000 retirees. But the plan still had an unfunded liability of about $14.3 billion on June 30.

Those liabilities are based on an actuarial analysis that smooths investment gains and losses over five years to protect the VRS assets from stock market volatility. If the analysis is based on market value, as required by new rules from the Government Accounting Standards Board, the unfunded liability for all VRS plans falls to $18.7 billion, and $11.9 billion for the teachers pension plan.

“All good news,” said Mitchell L. Nason, a Prince William County firefighter who chairs the actuarial and benefits committee for the VRS board of trustees.

The latest actuarial analysis also reflects, for the first time, the results of a hybrid retirement plan the assembly adopted in 2012 for most state and local government employees; public safety was exempted. The plan, combining a defined-benefit pension with a defined, 401(k)-type of contribution, took effect Jan. 1 for new hires.

More than 3,300 state employees and teachers joined the hybrid plan in the first six months of this year. Combined with employees hired after initial pension reforms took effect in mid-2010, the number of employees in all pension reform plans exceeds 25,000 state workers and about 45,000 teachers, who will receive smaller pensions when they retire than those hired before them.

“Looking long term, what is anticipated is lower costs for the plans,” Fernandez said.

City plans to stop paying for Medicare prescription drugs

Baltimore officials this week sent about 40,000 letters to city employees and retirees, telling them the city will no longer pay for prescription drugs under Medicare as of 2020.

City officials are touting the move -- which they say is made possible by President Barack Obama’s Affordable Care Act closing a coverage gap that Baltimore supplemented -- as a way to save millions for cash-strapped Baltimore. But union workers are criticizing the plan, which they argue could drive up costs for some seniors who’ll need to find coverage in the private market.

“The changes in the Affordable Care Act make it no longer necessary for the city to provide supplemental prescription drug coverage as of 2020,” said Andrew Kleine, the city’s budget director. Kleine acknowledged that some seniors could pay more after the change.

“It will depend a lot on to what extent they use brand name versus generic drugs,” Kleine said. “The more generics you use, you could end up paying less. The more brand-names you use, you could end up paying more. We think, on balance, most retirees won’t see significant change in their costs.”

Because the federal government is phasing in the increased coverage, Baltimore is beginning to see health care savings. City officials say they project saving between $7.4 million and $9.2 million a year between 2016 and 2019.

Once the city stops paying for prescription drugs under Medicare in 2020, officials expect to save $17.3 million for the city budget.

The plan is the latest in a series of cuts and overhauls of the costly municipal health care system, including an audit that cut 1,600 spouses, children and others from coverage and programs requiring city workers to pay more while incentivizing cheaper drugs. Maryland Stephanie Rawlings-Blake said last year that nearly half of Baltimore’s municipal employees and retirees have a “critical or chronic" illness — a distinction that contributes to the high cost of providing their health insurance.

City officials say their policy changes have reduced the unfunded liability for health care from $2.5 billion to $1.3 billion.

"The whole series of reforms we made are saving us $100 million a year," Kleine said. He added the budget office has more plans to cut down on prescription drug costs, noting the city pays about $1 million a year for erectile dysfunction pills for its workers and retirees.

Glenard S. Middleton, whose union represents many city workers, said the cumulative effects of the city's health care cuts have hurt retirees.

"The average worker that is retired now is living paycheck to paycheck," he said. "These are folks who gave their lives to the city. If they have to go out on their own, it's not going to be as good of coverage."

Kristin Barcak, the city's 10-year financial plan project manager, said the Affordable Care Act could provide more desirable coverage for some seniors.

"They'll have more flexibility in the marketplace," she said. "They can choose a plan that best meets their needs."

Private Sector

Retirement Plans - Prudential Announces Two Large Buyouts

In the past month Prudential has announced large pension buyout deals with Motorola and Bristol-Myers Squibb. The buyout with Motorola will transfer $3.1 billion in liabilities, and will affect approximately 30,000 retirees who are already receiving pension payments. Motorola also announced that certain employees would be eligible to receive a lump-sum payment. The combined lump-sum payments will be capped at $1 billion, and those plan participants with the smallest amounts will qualify first. In total, Motorola plans to spend $4.2 billion to de-risk its DB pension plan.

The buyout between Prudential and Bristol Myers Squibb is for $1.4 billion. The transaction will affect the benefits of approximately 8,000 U.S. retirees. Furthermore, Bristol Myers Squibb's DB retirement plan is in a strong financial position and will not require them to make any extra contributions to get the plan 100% funded.

Major US pension buyouts announced

It looks like both Motorola and Bristol-Myers Squibb (BMS) will be transferring significant portions of their defined benefit pension plans liability to Prudential Insurance. Both buyouts were announced this week – and are expected to be completed in December.

The Motorola plan buyout will be the third largest in the United States (following the 2012 pension buyouts by Detroit-based General Motors and New York-based Verizon) – shifting about $3.1 billion in pension benefit liabilities for 30,000 Motorola retirees to a Prudential group annuity plan. Motorola also is offering to cash out about 32,000 former employees who have not started receiving pension benefits with lump sum benefit payments. The buyout and the lump sum agreements are expected to cut Motorola's pension liability in half – to about $4.2 billion. The BMS buyout will settle $1.4 billion in pension obligations for about 8,000 retirees and their beneficiaries.

Both plans will continue to maintain the pension plans for remaining participants. In conjunction with the buyout, Motorola announced that it would pump $1.1 billion into what remains of the plan – which will continue to cover about 40,000 participants. The smaller BMS plan will continue coverage for about 27,000 participants.

Motorola indicated that the action is related to the sale of its enterprise businesses – which shrinks the company significantly. Both pension buyouts, however, are clear illustrations of employers' efforts to eliminate the financial burden and volatility of pension liabilities associated with defined benefit plans. In announcing the buyouts, both companies recognized the logic in having financial institutions with expertise in managing plan assets and the varying costs and benefit liabilities take on responsibility for their pension plans.

The trend is not limited to the United States. As highlighted by the sizable buyout of UK-based ICI Pension Fund earlier this year, pension de-risking strategies are trending in the UK as well. Key, in both countries, is that plan sponsors properly navigate the fiduciary and other legal requirements as they proceed down this road.

PBGC Maximum Insurance Benefit Level for 2015

The Pension Benefit Guaranty Corporation announced today that the annual maximum guaranteed benefit for a 65-year-old retiree in a single-employer plan has increased to $60,136 for 2015, up from $59,318 for 2014.

The increase is not retroactive; payments to retirees whose plans terminated before 2015 will not change. The guarantee for multiemployer plans has not changed.

Single-Employer Plan Guarantee

The PBGC maximum guarantee for participants in single-employer plans is determined using a formula prescribed by federal law that calls for annual increases. The formula provides lower amounts for people who begin getting benefits from PBGC before age 65, reflecting the fact that they will receive more monthly pension checks over their expected lifetime. Conversely, amounts are higher for benefits starting at ages above 65. The formula also calls for reducing the amount for retirees who choose a payment form that continues benefits to a beneficiary after the retiree's death.

The following table shows the maximum annual guarantee limits for 2015 for sample ages and payment forms. Amounts for other ages are posted on a table on PBGC's website.

Age	Annual Maximum Single Life Annuity	Annual Maximum Joint & 50% Survivor Annuity*
65	$60,136	$54,123
60	$39,089	$35,180
55	$27,061	$24,355

*Assumes both spouses are the same age. Different amounts apply if that is not the case

The limits shown above generally apply for participants whose plan terminates in 2015. However, if a plan terminates in 2015 as a result of a bankruptcy that began in an earlier year, the limits in effect for that earlier year apply.

In most cases, the single-employer PBGC guarantee is larger than the pension earned by people in such plans. In fact, according to a 2006 study, almost 85% of retirees receiving PBGC benefits at that time received the full amount of their earned benefit.(For more information see the entry "Making Sense of the Maximum Insurance Benefit" in PBGC blog, Retirement Matters.)

The limits shown above represent the cap on what PBGC guarantees, not on what PBGC pays. In some cases, PBGC pays benefits above the guaranteed amount. Whether that happens depends on the retiree’s age and how much money was in the plan when it terminated.

For more information about how the single-employer guarantee works, see PBGC's fact sheet Pension Guarantees.

Multiemployer Plan Guarantee Limit

The PBGC maximum guarantee for participants in multiemployer plans is also based on a formula prescribed by federal law. Unlike the single-employer formula, the multiemployer guarantee is not indexed (i.e., it remains the same from year to year) and does not vary based on the retiree’s age or payment form. Unlike the single-employer formula, it varies based on the retiree’s length of service. In addition, the multiemployer guarantee structure has two tiers, providing 100% coverage up to a certain level and 75% coverage above that level. For a retiree with 30 years of service, the current annual limit is 100% of the first $3,960 and 75% of the next $11,760 for a total guarantee of $12,870. This limit has been in place since 2001.

IRS Announces 2015 Pension Plan Limitations; Taxpayers May Contribute up to $18,000 to their 401(k) plans in 2015

The Internal Revenue Service today announced cost‑of‑living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2015. Many of the pension plan limitations will change for 2015 because the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged because the increase in the index did not meet the statutory thresholds that trigger their adjustment. Highlights include the following:

- The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from $17,500 to $18,000.

- The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from $5,500 to $6,000.

- The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains unchanged at $5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

- The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between $61,000 and $71,000, up from $60,000 and $70,000 in 2014. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is $98,000 to $118,000, up from $96,000 to $116,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $183,000 and $193,000, up from $181,000 and $191,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

- The AGI phase-out range for taxpayers making contributions to a Roth IRA is $183,000 to $193,000 for married couples filing jointly, up from $181,000 to $191,000 in 2014. For singles and heads of household, the income phase-out range is $116,000 to $131,000, up from $114,000 to $129,000. For a married individual filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

- The AGI limit for the saver's credit (also known as the retirement savings contribution credit) for low- and moderate-income workers is $61,000 for married couples filing jointly, up from $60,000 in 2014; $45,750 for heads of household, up from $45,000; and $30,500 for married individuals filing separately and for singles, up from $30,000.

Below are details on both the adjusted and unchanged limitations.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. Section 415(d) requires that the Secretary of the Treasury annually adjust these limits for cost-of-living increases. Other limitations applicable to deferred compensation plans are also affected by these adjustments under Section 415. Under Section 415(d), the adjustments are to be made under adjustment procedures similar to those used to adjust benefit amounts under Section 215(i)(2)(A) of the Social Security Act.

Effective Jan. 1, 2015, the limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) remains unchanged at $210,000. For a participant who separated from service before January 1, 2015, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2014, by 1.0178.

The limitation for defined contribution plans under Section 415(c)(1)(A) is increased in 2015 from $52,000 to $53,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of Section 415(b)(1)(A). After taking into account the applicable rounding rules, the amounts for 2015 are as follows:

The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from $17,500 to $18,000.

The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C) and 408(k)(6)(D)(ii) is increased from $260,000 to $265,000.

The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan remains unchanged at $170,000.

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from $1,050,000 to $1,070,000, while the dollar amount used to determine the lengthening of the 5-year distribution period remains unchanged at $210,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) is increased from $115,000 to $120,000.

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over is increased from $5,500 to

$6,000. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over is increased from $2,500 to $3,000.

The annual compensation limitation under Section 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost‑of‑living adjustments to the compensation limitation under the plan under Section 401(a)(17) to be taken into account, is increased from $385,000 to $395,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) is increased from $550 to $600.

The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts is increased from $12,000 to $12,500.

The limitation on deferrals under Section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from $17,500 to $18,000.

The compensation amount under Section 1.61‑21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation remains unchanged at $105,000. The compensation amount under Section 1.61‑21(f)(5)(iii) is increased from $210,000 to $215,000.

The Code also provides that several retirement-related amounts are to be adjusted using the cost-of-living adjustment under Section 1(f)(3). After taking the applicable rounding rules into account, the amounts for 2015 are as follows:

The adjusted gross income limitation under Section 25B(b)(1)(A) for determining the retirement savings contribution credit for married taxpayers filing a joint return is increased from $36,000 to $36,500; the limitation under Section 25B(b)(1)(B) is increased from $39,000 to $39,500; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from $60,000 to $61,000.

The adjusted gross income limitation under Section 25B(b)(1)(A) for determining the retirement savings contribution credit for taxpayers filing as head of household is increased from $27,000 to $27,375; the limitation under Section 25B(b)(1)(B) is increased from $29,250 to $29,625; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from $45,000 to $45,750.

The adjusted gross income limitation under Section 25B(b)(1)(A) for determining the retirement savings contribution credit for all other taxpayers is increased from $18,000 to $18,250; the limitation under Section 25B(b)(1)(B) is increased from

$19,500 to $19,750; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from $30,000 to $30,500.

The deductible amount under Section 219(b)(5)(A) for an individual making qualified retirement contributions remains unchanged at $5,500.

The applicable dollar amount under Section 219(g)(3)(B)(i) for determining the deductible amount of an IRA contribution for taxpayers who are active participants filing a joint return or as a qualifying widow(er) is increased from $96,000 to $98,000. The applicable dollar amount under Section 219(g)(3)(B)(ii) for all other taxpayers (other than married taxpayers filing separate returns) is increased from $60,000 to $61,000. The applicable dollar amount under Section 219(g)(3)(B)(iii) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains $0. The applicable dollar amount under Section 219(g)(7)(A) for a taxpayer who is not an active participant but whose spouse is an active participant is increased from $181,000 to $183,000.

The adjusted gross income limitation under Section 408A(c)(3)(B)(ii)(I) for determining the maximum Roth IRA contribution for married taxpayers filing a joint return or for taxpayers filing as a qualifying widow(er) is increased from $181,000 to $183,000. The adjusted gross income limitation under Section 408A(c)(3)(B)(ii)(II) for all other taxpayers (other than married taxpayers filing separate returns) is increased from $114,000 to $116,000. The applicable dollar amount under Section 408A(c)(3)(B)(ii)(III) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains $0.

The dollar amount under Section 430(c)(7)(D)(i)(II) used to determine excess employee compensation with respect to a single-employer defined benefit pension plan for which the special election under Section 430(c)(2)(D) has been made is increased from $1,084,000 to $1,101,000.

SOCIAL SECURITY COLAs SLATED TO INCREASE SLIGHTLY IN 2015:

InvestmentNews says that Social Security benefits are likely to increase by 1.7% in 2015, slightly more than this year's 1.5% increase but still well below average increases over the past few decades. The figure comes from an unofficial projection by the Senior Citizens League. Based on the latest consumer price index data through August, the advocacy group's projection of a 1.7% increase in

Social Security benefits for 2015 would make the sixth consecutive year of record low COLAs, unprecedented since the COLA first became automatic in 1975.

Inflation over the past five years has been growing so slowly that the annual increase has averaged only 1.4% per year since 2010, less than half of the 3% average during the prior decade. In 2010 and 2011, benefits did not increase at all, following a 5.8% hike in 2009. Although the annual adjustment is provided to protect buying power of Social Security payments, beneficiaries report a big disparity between benefit increases they receive and increase in costs. The majority of Social Security recipients said that their benefits rose by less than $19 in 2014, yet their monthly expenses rose by more than $119. Social Security beneficiaries have lost nearly one-third of their buying power since 2000.
Low COLAs affect not only people currently receiving benefits, but also those who have turned 60 and who have not yet filed a claim. The COLA is part of the formula used to determine initial benefits and can mean a somewhat lower initial retirement benefit. A 1.7% increase would increase average Social Security benefits by about $20 next year, and boost the maximum amount of wages subject to payroll taxes by nearly $2,000 above this year's $117,000 level.