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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New Report Finds Public Sector Employees Uncertain about Retirement

TIAA-CREF issued the following news release:

A new report released today by the Center for State and Local Government Excellence and the TIAA-CREF Institute finds that only 19 percent of full-time public sector workers are very confident in their retirement income prospects, with many expressing concern about the impact of rising health care costs.

The report - the 2012 Retirement Confidence Survey of the State and Local Government Workforce - surveyed more than 1,200 state and local government employees across the nation including public educators, police and firefighters.

The study found that only 16 percent of teachers and 25 percent of police and firefighters are very confident they are saving the right amount for retirement. In addition, a full 57 percent of public sector workers expect to work longer than they would like and 72 percent expect to work for pay after retiring.

"Much has been written about the financial condition of pension plans and plan reform in the public sector, but little has been documented about public sector workers' confidence, expectations and behavior with respect to retirement planning and saving," said Paul Yakoboski, senior economist with the TIAA-CREF Institute.

In particular, the survey indicates the rising cost of health care is a factor in the tepid expression of overall retirement confidence. Only 22 percent are very confident that they will have enough money to take care of medical expenses during retirement and two-thirds are not confident that Medicare will continue to provide benefits of equal value to those provided today.

"A large number of public employees have done little to save for out-of-pocket medical expenses in retirement, which is an area of concern," said Joshua Franzel, Center for State and Local Government Excellence vice president of research and co-author of the report. "The survey found that this is the case for nearly half of police and firefighters and 63 percent of teachers. Health care costs, the future status of Medicare, and lack of personal health care savings contribute to workers' anxiety about being ready for retirement."

July 26, 2012 Thursday 12:16 AM EST

Rising pension costs hurt San Bernardino, other Southern California cities

The deterioration of San Bernardino's public finances to the point where city officials are willing to declare bankruptcy could be the prologue to another fight over public employee benefits.

Pension costs are not the only source of San Bernardino's financial ills. The city's own financial analysis blames weak revenues, deficit spending and accounting errors for a $45 million deficit.

Whoever deserves the most blame for cities' poor financial health, public employees' pensions have received increased scrutiny as San Bernardino and other local governments in the Inland Empire, Los Angeles area and the rest of California have struggled to stay in the black since the Great Recession.

To some, pensions must be cut in order to preserve key government services without raising taxes in the midst of a weak economy.

"You're going to ask people, if they're making $20,000, $30,000, $40,000 a year, if they're going to pay more taxes, which aren't going to be enough probably? If they're going to pay more taxes for public employees?" San Bernardino Councilman Fred Shorett asked.

On the other hand, the leaders of employee unions say they should protect existing retirement agreements and respond that politicians are targeting pensions to avoid accepting responsibility for wasteful spending.

"You sit down and you bargain the best you can through that process, and to have us get blamed or accused that we ask too much, we sit down and we assume the city will not give something they can't afford," said Steve Turner, president of San Bernardino's police union.

Bankruptcy is a rare move for cities, but San Bernardino is not alone in having to deal with the combined pressures of growing retirement costs, shrinking revenues and the public's unwillingness to pay higher taxes simply to protect existing services.

Elsewhere, California municipalities have taken steps to curtail the generous pension plans that became the norm for California governments in the early 2000s.
That process has generally happened through bargaining, with various degrees of conflict between city managers and employees.

A more recent tactic, though still uncommon, is for officials to bypass negotiations and ask the voters themselves to change pension rules.

That happened in June when San Diego and San Jose voters approved ballot measures to cut retirement benefits. The measures, however, have been challenged in court.

San Bernardino County voters may see at least one pension reform measure on their ballots in November. Supervisors Janice Rutherford and Neil Derry each have proposals to put on the ballot.

Rutherford's plan includes a provision to require voter approval for any future increases to county employees' pension benefit formulas.

Derry's would increase new county employees' retirement ages and require current and future employees to contribute some of their wages to their pension plans.
His office reports the San Bernardino County Employees Retirement Association fund is short $1.7billion and risks insolvency without immediate changes.

"If you don't do it early on, by the time you do it later on, it will be too late," Derry said.
Derry acknowledged that he voted for pension formula increases as a San Bernardino council member, but he said financial estimates at the time indicated the programs were affordable.

Then, the city of San Bernardino risked losing workers to other cities offering better benefits, he said.

Now, local governments are seeing pension costs account for growing portions of their general fund.

San Bernardino County's retirement costs rose from 3.1 percent of expenditures in 1999 to 9.5 percent in 2011.

The city of San Bernardino's retirement costs have risen from 9 percent of general fund expenses fiscal 2006-07 to 13 percent in the fiscal year that ended June 30.

Los Angeles' pension costs account for about 20 percent of general fund expenses.
A decade ago, city leaders and employees did not have to face these kinds of pressures.

Most cities handle their employee retirement plans through the California Public Employees Retirement System, or CalPERS.

CalPERS collects a percentage of employers' and employees' wages to invest in the state's retirement fund. Cities sometimes, however, contribute the employees' share.
The object is for returns to help pay for the cost of thousands of retirees' benefits without local governments having to pay straight cash.

Not so long ago, this worked so well that people could talk of cities being "superfunded," meaning that investment returns were so great that a city did not have to spend one single dollar from its treasury to meet pension obligations.

In Pomona, for example, general employees' pensions were superfunded from 2000 to 2004. Police officers' pensions were superfunded from 2001 to 2003.

Pomona and many other cities increased maximum pension benefits in this era. Police benefits in 2002 were increased to a "3 at 50" formula, meaning an officer could retire with a pension worth 3 percent of his or her highest salary, multiplied by up to 30 years of service, at age 50.

Several other cities and state agencies extended this benefit to police and firefighters during the past decade.

But the superfunded times did not last forever. In 2004, Pomona had to contribute about 18 percent of police officers' salaries to CalPERS. That figure spiked to nearly 44 percent of officers' salaries the following year, and is projected to be at 32percent to 33 percent in 2013.

Pomona will also have to contribute 12 percent to 13 percent of general employees' salaries to CalPERS next year.
"It's an increase that affects your ability to fund services," said Mark Gluba, assistant to Pomona's city manager.

Gluba, however, did not say pensions are the sole source of continuing troubles that threaten to close the city library. He also said police and other city workers deserve credit for accepting pay concessions during recent lean years.

A key factor in rising pension costs is beyond the control of Pomona and other cities. When CalPERS investment returns are weak, as they have been, cities have to pony up the dollars that investments fail to bring in to the system.

The $234 billion CalPERS fund delivered a scant 1 percent return on investments for the fiscal year that ended June 30. That's far below the projected 7.5 percent return. CalPERS chief investment officer Joseph Dear has said recent years' returns have been the worst in a generation. Over the past five years, CalPERS earned just 0.1 percent despite earning 7.73 percent over the past two decades.

Like many cities, Pomona has adjusted to a tougher financial environment by adopting a two-tiered retirement system. That means new hires will not receive the same benefit package as employees who worked for the city before the new system was adopted. Pomona officials considered but rejected the idea of disbanding the Police Department and to contract with the Los Angeles County Sheriff's Department in 2010.

That kind of debate is now happening in Upland, where officials have broached the subject of contracting with the San Bernardino County Sheriff's Department despite the fact that employee unions agreed to concessions.

Upland's police union offered to pay members' full share of CalPERS costs and accept a wage freeze and pay cut. In exchange, the union wanted a $75-per-month boost in medical benefits and a two-year contract extension with layoff protections.
The Upland council rejected the deal, however, leaving the door open to the possibility of going with the Sheriff's Department.

"They asked for something. We gave it to them, and then they changed the rules," Upland police union President Marc Simpson said.

Upland never adopted the 3 at 50 pensions for its police and firefighters, but City Manager Stephen Dunn said the city still can't escape the weight of rising pension costs that take money away from other city work.

"We can't put it into streets. We can't put it into more hours at the library," he said.
Cities like San Bernardino and Long Beach have tried to curtail long-term pension costs by adopting two-tiered systems in which new hires receive less generous benefits than existing employees.

Long Beach police and firefighters have also agreed to pay the full 9 percent share of their CalPERS contributions, up from a previous 2 percent.

Police concessions in Long Beach are projected to save at least $69 million by 2022.
Firefighter concessions will save about $36 million in the same period, city officials say.
West Covina is another city where safety and other employees have begun to pay the full share of their retirement plans as CalPERS increases the employers' share.

Employees' contributions have helped reduce West Covina's financial problems, but retirement costs will remain an issue, City Finance Director Thomas Bachman said.
"As pension rates are projected to continue to rise in the future, especially public safety costs, they will continue to have an impact on our ability to provide services," he said.
San Bernardino has also switched to a two-tiered system, but that is more of a long-term plan than something that may immediately help the city emerge from bankruptcy.
Employee salaries account for about $102 million in San Bernardino's general fund costs, but police and fire salaries accounting for the bulk of that number may be protected during bankruptcy proceedings because they are set by a City Charter formula.

Potential avenues for negotiations - or arguments - include whether San Bernardino workers should do as they do in West Covina and Long Beach and begin to contribute the employees' share of pension costs.

"You do one or the other. You either cut services or you cut benefits and compensation," said San Bernardino Mayor Pat Morris, a former Superior Court judge who himself earned a pension for his work on the bench.

Morris says pension plans need to be reformed to raise retirement ages to assume that most people will work until the age of 65 and that police and firefighters will be able to work as late as 60.

If San Bernardino employees were to pay their full CalPERS contributions from their salaries, Turner said estimates show the city may gain $7 million to $7.5 million, which he noted would fall far short of filling the city's $45 million hole.
San Bernardino employees have already accepted difficult concessions, said George Swift, coordinator for the Pasadena-based local of International Union of Operating Engineers, which represents general employees.
Wage and health-care concessions have already amounted to a 16 percent to 17 percent cut in workers' pay, Swift said.

A frequent argument in favor of generous pension plans is that cities could lose their best employees to better-paying towns if they don't keep pace.
San Bernardino Councilwoman Wendy McCammack, who shares that idea, said her city may be at risk of having inexperienced police and fire services if the city imposes benefit cuts.

"It needs to be done at a statewide level, so it's an even playing field," she said.
Gov. Jerry Brown has proposed a 12-point pension reform plan that would establish a 50-50 split of CalPERS costs between government employers and workers, raise retirement ages and create "hybrid" pensions in which CalPERS would guarantee a portion of benefit amounts while allowing the remainder to move up and down with the market, like a 401(k) plan would.

At present CalPERS guarantees retirees' total pensions.

Brown's proposal did not make the November ballot after he failed to reach a deal with his fellow Democrats in the state Legislature. Negotiations may resume next month.
Pension costs are increasing for California's deficit-plagued government as well. State officials have said pension contributions accounted for 2.4 percent of state spending in 2006. The percentage is expected to reach 3.9 percent this year.

The San Bernardino council will almost certainly be asked to make drastic spending cuts as soon as Tuesday when Acting City Manager Andrea Travis-Miller delivers the first draft of a short-term budget that must be hashed out for the city to formally submit its bankruptcy filing.

San Bernardino County Sun (California)

July 21, 2012 Saturday

Localities reject state's pension offer

Almost every local government in Virginia refused an offer by the General Assembly this year to reduce the amount of money it must pay for local employee retirement.

With pension investment returns falling and new accounting standards looming, most localities say they cannot afford to underfund their local retirement plans, as the state has done with state employee and teacher pensions by using rates lower than those recommended by the Virginia Retirement System.

"If we had gone with the lower rate, we know we would have had to pay more in the long term, and we just don't want to do that," said John A. Vithoulkas, deputy county manager of administration in Henrico County.

Henrico and other localities say Virginia no longer can fail to fully fund state employee and teacher retirement plans without increasing pension liabilities and risking damage to government credit ratings.

New government accounting standards will take effect over the next three years that will require local governments and the state to show pension liabilities on their books, potentially affecting their ability to borrow in municipal bond markets.

"It is certainly a looming issue for localities that need to go to the bond market," said Mary Jo Fields, research director at the Virginia Municipal League.

Lisa Heller, a senior analyst at Moody's Investors Service, said bond-rating agencies will want to know not only who holds the liabilities but also "what kind of impact that would have on their budgets and cash flow, and what strategies they are employing to deal with it."

Localities will bear the full burden of unfunded liabilities for teacher pensions -- an estimated $12.6 billion a year ago -- even though the state controls contributions to the teacher retirement plan.

"The reason that unfunded liabilities are so high is because the state hasn't funded it, and now we're having to carry that liability," Fields said.

The state's offer for localities to use a lower contribution rate, based on a higher assumed annual return on VRS investments, was rejected by 90 percent of local governments, including Henrico.

The General Assembly included the option in the two-year state budget that took effect July 1 as savings for localities faced with big increases in contributions for teacher pensions, which the state and localities had underfunded substantially in the previous two fiscal years.

In setting rates for state employees and teachers, the state assumes a higher annual return on investments by the $53 billion retirement system than does the VRS board of trustees and its actuary. Normally, local governments must pay the VRS rates for their employees, and as a result local pension plans generally are better funded than the state-controlled plans.

Henrico officials initially welcomed the budget option but in the end decided the savings weren't worth it. "Let's not add to the long-term liability by underfunding VRS payments today," Vithoulkas said.

Most local governments, about 65 percent, also decided to fully fund a 5 percent raise for their employees to offset a new state requirement that local employees and teachers pay up to 5 percent of salary toward their pensions.

Henrico, Chesterfield, and Hanover counties all decided to pay the full 5 percent increase rather than phase the increase in over five years. Richmond municipal employees are not part of the VRS system, so the requirement didn't apply.
The results were mixed for teachers. VRS said 48 percent of school divisions elected to pay the full 5 percent.

The Virginia Education Association put the number at just less than 60 percent, based on an informal survey of 120 of the state's 132 school divisions. About 35 percent said they paid 1 percent, the minimum under the law that took effect July 1.

In the Richmond area, Henrico and Hanover schools paid the full 5 percent, as did Hopewell and the counties of New Kent, Charles City, Caroline, Dinwiddie, Powhatan and Sussex, according to the VEA survey.

Chesterfield schools paid 1 percent, plus a 2 percent raise to make up for a pay cut two years ago. Also paying 1 percent were Goochland, Louisa, Prince George, and King William counties.

Richmond paid 3 percent, as did King and Queen County. Some localities paid more than the employee contribution, primarily to offset higher payroll taxes.

"It appeared to be a question of whether funds were available or not," said D. Patrick Lacy, lawyer and lobbyist for the Virginia School Boards Association.

The requirement was strongly opposed by the VEA, which said it reversed a commitment by school districts decades ago to pay the employee pension contribution in lieu of raises.

"The real irony is that what they've done doesn't do anything to address the unfunded liabilities of the system," said VEA President Kitty Boitnott. "It simply shifts the burden of who's paying from the state to the individual."

The author of the new law, Sen. John Watkins, R-Powhatan, said local governments generally took a smarter approach than school divisions. "They're not facing reality," Watkins said of divisions that didn't pay the full 5 percent.

Watkins also sponsored legislation to require the state to face reality by gradually paying the full retirement rates certified by the VRS, based on a more conservative assumed rate of return on investments than used by the General Assembly.

This year, the General Assembly approved rates for state employee and teacher pensions that generate 70 percent of what the VRS requires to fund liabilities. The new legislation commits the state to increasing its rates to 100 percent of the VRS requirement by 2018-2020, but it's not binding.

"Please be mindful that future improvements in the fiscal condition of our plans will be inextricably linked to your commitment -- and that of future governors and General Assemblies -- to maintain this schedule," VRS Chairwoman Diana F. Cantor told the legislature's watchdog agency, the Joint Legislative Audit and Review Commission, on Monday.

Local officials hope the General Assembly heeds the message.
"They're starting to realize you can't use the VRS rates as a budget-balancing tool," Vithoulkas said.

Richmond Times Dispatch (Virginia)

July 13, 2012 Friday

NCPERS: Public pensions are recovering from recession

Despite years of underfunding by state and local governments, most public pension plans are “solidly funded and are experiencing a robust recovery from the Great Recession,” according to Hank Kim, executive director and counsel of the National Conference on Public Employee Retirement Systems (NCPERS).

Kim, in a written response to the Report of the State Budget Crisis Task Force, said he agreed with the report’s verdict that public pensions are playing into the financial woes of many local and state governments. He also agreed that stronger local funding policies and greater disclosure are needed.

“Three, five, 10- and 20-year investment returns are all on the rise—and long-term returns are far more indicative of a plan’s health than short-term fluctuations,” he said. “Unfortunately, the real American retirement crisis was beyond the Task Force’s portfolio – and it needs to take center stage in our national policy debate."

Kim asserts that defined contribution plans, which are the primary retirement savings vehicles for private-sector worker, are underfunded by more than $8 trillion. The task force said that public pension plans are underfunded by $1 trillion to $3 trillion.

"Retirement security can no longer be viewed as a luxury – it is a necessity, both for the individual and for our national economy. Young adults entering the workforce are competing with Baby Boomers for the few jobs that are available, because Baby Boomers, whose defined contribution plans lost a significant portion of their values in the Great Recession, can't afford to retire. Baby Boomers forced to retire with insufficient assets not only won't be able to contribute to the economy, they will likely become drains on public resources. A strong economy demands that we manage our workforce. Older workers must be able to retire with financial security to make room for younger workers," he said.

NCPERS believes that the country should extend defined benefit pension to private-sector workers. It proposed a Secure Choice Pension, which is envisioned as a public-private partnership to provide affordable, easy-to-administer pension plans to private sector employers.

SCPs have proven very popular with small business owners who want to attract and retain talented and reliable workers, he said.

The SCP would provide guaranteed, lifetime retirement income that is immune to market fluctuations and sudden, unexpected economic downturns like the one that launched the Great Recession – at no cost to taxpayers.

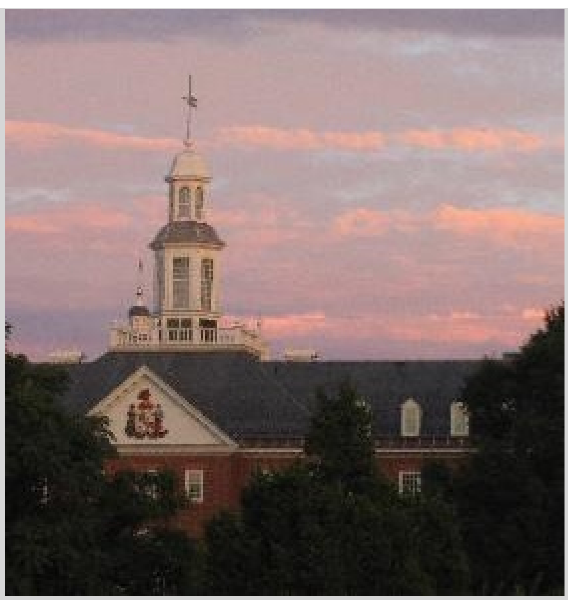
The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada.

BY PAULA AVEN GLADYCH
July 21, 2012 • Reprints

State Pensions and Federal Cuts Loom Over Maryland's Triple-A Bond Rating, Three Ratings Agencies Say

The big three New York bond rating agencies last week again affirmed Maryland's almost sacred triple-A bond rating, attributing the decades-old stamp of approval to a strong economy, high incomes, prudent fiscal management and a willingness to raise taxes.

But as they have for recent bond issues, the three agencies said the state government continues to face financial challenges from its above-average pension liabilities and likely federal budget cuts, along with an increasingly sluggish economy.



Maryland State Treasury Building In Annapolis

Job losses confirms slow growth

Confirmation of the continuing slow economic growth came Friday with the report that Maryland lost 11,000 jobs in June, the third worst performance in the nation. The governor and labor secretary both emphasized that these numbers have been revised upward in the past, and there are still 28,000 more people working now than there were a year ago. But growing jobs at about 1% a year is hardly enough to put recent college graduates to work, not to mention the long-term unemployed. That's why the employment rate has continued to rise.

Some of those job losses might already be due to cutbacks by federal contractors preparing for the "fiscal cliff" the U.S. government faces come January. The Defense Department will have its budget reduced in big ways or small, but enough to affect the federally dependent Maryland economy. And there's not much the state can do about it.

Gloomiest forecast from Moody's

The gloomiest forecast came from Moody's Investor Services. "Maryland's economic recovery continues sluggish and federal downsizing poses risk," says one subhead. Moody's has frequently cited the state's debt levels, which it ranks as "high" relative to 50-state medians.

But it saved it longest description of credit challenges for the pension liabilities.

"The state ranks among the top 20 in its ratio of unfunded pension liabilities to [gross domestic product], well above the norm for its Aaa-rated peers," says Moody's.

Moody's and the other rating agencies all acknowledge that Maryland took solid action last year to raise the contribution rates from employees and teachers, and reduce some benefits, including immediate reductions in health benefits for retirees. This cut the liabilities for the health benefits from $16 billion to $10 billion.

Required contributions not made

But Maryland continues to suffer from investment losses by the retirement system in 2008 and 2009, and from continued failure to pay the "actuarially required contribution" into the pension system for the last 10 years.

What was a temporary fix for a budget problem in 2002 has become a permanent feature of state law. The pension system board and a special pension commission have both recommended that the current system be phased out. Moody's notes that in fiscal 2011, the state put $1.4 billion into the pension fund, when the actuary said it needed to be $1.9 billion.

Last week the board of the state retirement and pension system also voted not to reduce its presumed rate of return on investments from 7.75% to 7.5%. While 7.75% hardly seems realistic in current circumstances, the immediate effect of changing the expected rate would be to increase the amount of money taxpayers would have to put into the pension funds for state employees and teachers. Given that the state is not putting in its “actuarially required contribution,” raising the ARC would simply increase the gap.

The state board did vote to change some of its demographic presumptions for retirees, since it is hard not to recognize that people are living longer and thus collecting their pensions for a longer period of time. This change too raises the amount of money state taxpayers will have to pay toward pensions.

Fitch Ratings explicitly rejects the notion that 7.75% is realistic for what the other rating agencies call the “discount rate assumption.” It uses the more conservative figure of 7%. This means that instead of state employees and teachers pensions now being funded at about 64%, the system actually had about 60% of the money needed over the next 30 years and that the unfunded liabilities of the plan were not $20 billion but more like $24 billion.

Economists see reckless risk-taking

For some economists who have studied U.S. public pension systems over the last two years, all of these expectations are wishful thinking about rates of return, which have also pushed pension plans to take on riskier investments to achieve these high rates.

One study in particular that came out in May by three economists said U.S. public pension funds were allowed too much leeway in choosing their own rate of return compared to corporations and public pension systems in Europe and Canada.

“U.S. public funds uniquely increased their allocation to riskier investment strategies in order to maintain high discount rates and present lower liabilities, especially if their proportion of retired members increased more,” said the study. “Current stakeholders, including boards, members and their representatives as well as politicians and taxpayers, have a direct incentive to underestimate the current value of the existing liabilities and transfer this risk to future generations. In this era of general underfunding, this will allow current members to receive higher benefits without boards and politicians having to make tougher choices now.”

“A major worry is that increased risk-taking is reckless and could lead to substantial future costs to taxpayers or public entities," said the authors.

For the moment, with Maryland revenues growing slowly and continuing pressures to spend more on direct services such as education, health care and transportation – and not retirement benefits for current workers – the state is likely to continuing putting less toward pensions than it should and seek higher returns from riskier investments

By Len Lazarick
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Private Sector

Announcement – Significant Pension Law Change
Pension Plan Funding Relief Arrives!

On Friday, July 6, 2012, President Obama signed into law the ***Pension Funding Stabilization*** bill as part of the transportation reauthorization legislation.

The new law provides significant pension plan funding relief for plans subject to ERISA/PPA, effective for 2012 plan years. The relief comes in the form of revising the interest rate basis used in actuarial valuations (the most key assumption) to determine actuarial liabilities and minimum required contributions. Plan sponsors may elect to not use the new rates for 2012.

Interest Rate Change
The new interest rate basis moves from a 2 year average index for segmented rates to a 25 year average index, with a corridor limit, that will have significant impact in the short term (about 5 years). The corridor will gradually widen, reducing the impact in future years. The 25 year average basis will reduce required employer contributions significantly for several years and will reduce contribution volatility.

It is estimated that the single effective interest rate for the 2012 calendar plan year will move from about 5.4% to 6.7% under this law change. This could mean as much as a 20% reduction in actuarial liabilities used in determining funding ratios ("AFTAP") and minimum required contributions. Remember, as interest rates go up, the present value of future benefits, actuarial liabilities and costs go down. Also note that this may result in a change of timing in making contributions – ie., reduced contributions now may end up eventually increasing contributions in future years, depending on the economy rebounding and future interest rates.

Other Provisions
☐***Accounting***: Note that the above-noted interest rate change only impacts required

funding – it does not affect
accounting determinations under FASB rules.

- ***Plan Restrictions***: The interest rate change does impact funding ratios to determine any plan restrictions (like restricting lump sum payments) that may apply to the plan.
- ***PBGC Premiums***: Premium rates are increased and the new interest rates are not used to determine variable rate premiums – so, reducing contributions may result in increased PBGC premiums. The PBGC flat rate premium increases from $35 per participant to $42 in 2013 and $49 in 2014. The variable premium rate increases from .9% to 1.4% in 2013 and 1.9% in 2015. Both premium rates are indexed after 2015.
- ***Lump Sums***: The new interest rates do not impact any lump sum determinations under plan provisions.
- ***Maximum Contribution Limits***: The new interest rates do not impact maximum deductible contribution amounts.

Additional information may be required in the plan's Annual Funding Notice to plan participants for the next few years.

Obviously, the impact of this new law is significant. Let us know if you have any questions. We will be in touch with you concerning the impact on your plan.

TECHNOLOGY COMPANY;
NCR offers lump-sum pension payments

Duluth technology company NCR is trying to reduce the drag of a pension program that is underfunded by $1.3 billion, in part by offering former employees the chance to take the money they're owed in lump-sum payments.

The move --- combined with an influx of $500 million from the company to the fund --- is expected to reduce NCR's pension deficit by $800 million.

NCR expects about 70 percent of 23,000 eligible former employees to accept the voluntary payment, which is available for former workers who are not yet drawing from their pensions.

Bill Nuti --- NCR's chairman, president and CEO --- told analysts in a conference call Tuesday that the company is working on eliminating "legacy issues" such as the pension trouble.

"This is a massive step for NCR in the right direction," he said.
Nuti said the move will free up money for acquisitions and provide financial flexibility. In the call, Wedbush Securities analyst Gil Luria called the move a "very thoughtful

approach" to the pension shortfall.

NCR stopped adding employees to its pension plan in January 2007. This is the company's second move to tackle the pension shortfall. The first started in 2010 when NCR switched its pension assets from a mix of stocks and fixed-income holdings to only fixed income. That saved NCR more than $200 million and should be completed by the end of the year.

Additional steps are expected, Nuti said.

Arielle Kass; Staff
August 1, 2012 Wednesday
Main Edition

In today's economy, retirement planning is not so easy

"When can I retire?"

The answer to that question used to be fairly straightforward.
For decades, financial planners calculated a person's ability to retire using four basic components -- what one spends, what one saves, what one owns, and what one owes.

Add them all up, figure in a person's life expectancy, and generally a planner could render a "yes" or "no" opinion on the age a client hoped to retire, within three to five years.

"It used to be that you burned the mortgage. You had a defined benefit pension plan, you had Social Security, you worked and you paid off the mortgage, and you didn't have any debt. You turned 65 and you walked out the door," said Phil Selden, a veteran financial planner and president of the Toledo, Ohio, board of the Financial Planners Association.

But over the last decade, and especially since the 2007 recession, finding an answer to that previously simple question is a lot harder.

The 2000s have brought two recessions, slumping housing values, overburdened pension plans, soaring medical costs, exploding college costs, and a shifting investment landscape.

These days, planners say, only one issue still instills any reasonable certainty: Social Security.

"That needs to be the mainstay for all Americans for having some sustained lifetime income," said Jean Setzfand. a financial security expert for AARP in Washington.

"Beyond that, people are being left to their own devices to establish a retirement nest egg for themselves, and they have to know how much to set aside and find an easy way to do so. The easiest is to save at the workplace, and the best way is through a 401(k) savings plan," she said. "But only half of workers have a 401(k) available to them. The ability to save these days is not easy. You have so many obstacles."

Don Roork, a financial planner and president of AssetDynamics, said the list of risks that impede retirement now includes longevity, inflation, interest rates, health care, and investments. But many clients, he added, don't want to hear about it.

"It's like Americans feel it's their birthright to retire at a specific age," Roork said.

"But I think that age is going to go up."

Selden said longevity is a problem delaying retirement for many.

The average person now lives about eight years longer than the average person did in 1970, according to U.S. Census Bureau data. Now the average man lives to be 76, the average woman 81.

Roork said the health-care risk is much greater than it was two decades ago, with the possibility of a catastrophic illness or mishap wiping away much of one's retirement nest egg as one approaches retirement.

Knowing that the game has changed, many planners are still trying to advise clients on retirement based on tried-and-true logic: what kind of lifestyle do you want in retirement, and how much money will you need to save to maintain that? Selden said he advises clients to "control what you have control over." Currently, that comes down to three things: taxes, savings, and spending.

But America seems to be losing the battle for restrained spending, according to a 2011 survey by SunAmerica Financial Group.

The life insurance firm, which surveyed American attitudes about retirement in 2002 and then updated parts of that survey a year ago, found that two classes of people woefully unprepared for retirement had increased over the last nine years. A class of workers SunAmerica called "Live for Todays" -- that is, those with retirement ambitions but who have saved for it on average 18 years and are unprepared for it -- rose from 22 percent in 2002 to 27 percent. Another class, "Worried Strugglers," that is those who see retirement as a period of financial worry and stress, rose from 19 percent to 35 percent.

"It's pretty clear, as you know, that many Americans are willfully and sadly unprepared for retirement," said Larry Mark, a SunAmerica spokesman. (Contact Jon Chavez at: jchavez@theblade.com. For more stories visit scrippsnews.com)

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GM, Ford testing the water with lump-sum pensions; Automakers look to shed monthly check obligation

Your Money by Susan Tompor

Put a pile of money on the table before thousands of retirees from two major carmakers. Will they grab it or skip it and stick with a regular monthly check?

A group of white-collar General Motors retirees have until July 20 to decide if they want a payout of $300,000 or $500,000 or so. Some even are staring at $1 million. Some experts say offers to blue-collar retirees could be next.

The trade-off is that if they take the lump sum, they'll give up a steady, monthly check. "The downside is you can run out of money," says Marilyn Capelli Dimitroff, president of Capelli Financial Services.

Warning: This could be the start of something new for retirees across the USA. Financial advisers everywhere are watching how a significant lump-sum payout deal plays out with two big carmakers. Pension experts caution that many retirement plan sponsors could be dangling lump-sum payouts before their retirees in years ahead. The rules changed in 2012 involving how lump-sum payouts could be calculated -- and some say employers could have more incentives down the road to move to limit their own risks associated with managing pension plans.

GM and Ford Motor want to unload billions of dollars in pension obligations -- and the automakers are presenting pension buyouts or changes to about 216,000 retirees, surviving spouses and some former white-collar employees.

Other companies could follow. "I'm sure they're all looking at what they can do to de-risk their pension plans," Charles Millard, Citigroup's head of pension solutions, said last month.

The Milliman Pension Funding index as of June 30 showed that 100 U.S. public companies had a funding deficit of $415 billion -- the second-largest deficit in the 12 years of the study.

All this should give anyone lucky enough to still have a pension reason to pause, too. "It's not that all companies with pensions are going to do this," says Stephen Utkus, who directs the Vanguard Center for Retirement Research. Some companies have already frozen benefits and may not need to do anything else.

But experts say more retirement plans are expected to terminate and distribute assets, possibly through lump sums, to participants.

Vanguard projects that in the coming years, millions of retirees and participants in plans that are terminated might be required to choose a payout option.

Utkus predicts that more companies will likely try to get retirees to give up their traditional, regular monthly pension checks. "This is the first step," he says of the automakers' offer.

Others, though, aren't sure if this is a start of a shift. Zorast Wadia, consulting actuary for Milliman, said he does not believe GM or Ford's moves relating to salaried retirees will start a trend. He says it is costly to copy what GM is doing and a pension plan needs to be more than fully funded to terminate and offer lump sums. He notes that pension plans face such high deficits now, in part, because interest rates are at historic lows and there's an inverse relationship between rates and liabilities when calculating pension funding.

A lump sum might offer some individuals more flexibility -- and certainly being able to roll over $300,000 or more into your own IRA sounds attractive. But it's not something for everyone -- and the uproar among auto salaried retirees from the two carmakers shows that people aren't exactly comfortable with a choice. "A lot of these people are in the position where they cannot go back to work anymore," says Jim Knaus, a certified financial planner for Global Wealth Advisors in Troy, Mich.

What should anyone consider when facing a lump-sum offer?
Don't make a decision based on emotion. If you're leaving a company -- or seeing a pension plan get terminated -- you might want to walk away with a lump sum and forget about it.

Instead, individuals need to consider how long they're likely to live, how confident they are about their investing skills, and how tempted they'd be to use a lump sum to buy a boat or remodel the kitchen.

But if you're in bad health or fairly well off, a lump sum might be a good option. It's not easy to make money.

If you're making 8%, your money doubles in nine years. At 2%, it takes 36 years. As a general guideline, a couple who are 65 and retired could start to withdraw 4% a year -- plus inflation in future years -- from their retirement nest egg, says David Blanchett, head of retirement research at Morningstar Investment. But he says retirees should re-evaluate how much money is withdrawn every year based on the performance of their portfolio and their longevity. As you age, the odds go up that you will live longer.

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