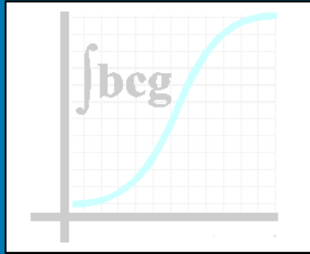

BCG Retirement News Roundup

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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.

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Public Sector/Government Plans

Plan to Exit Bankruptcy Is Approved for Detroit

DETROIT — Less than 16 months after Detroit became the largest city in the United States to file for bankruptcy, a federal judge on Friday approved a plan intended to help it escape years of financial ruin and begin the hard work of becoming viable again.

“What happened in Detroit must never happen again,” Judge Steven W. Rhodes of United States Bankruptcy Court in Detroit said as he approved a plan for the city to rid itself of $7 billion in debt and to invest about $1.7 billion into long-neglected city services. “This must never be repeated anywhere in this state.”

The decision came with remarkable speed and with far less discord than many had foreseen given the size of the city and the complexity and depth of its financial woes.

Many bankruptcy experts had predicted that the closely watched litigation would take months or even years longer, as it has in smaller cities and counties. Vallejo, Calif., spent nearly three years in bankruptcy. Stockton, Calif., just received permission to emerge after 27 months. And Jefferson County, Ala., which spent a little more than two years in bankruptcy, now faces more litigation a year after its case was supposed to have ended.

After many months of private mediation sessions, Detroit’s exit plan was more a deal than a court-imposed solution, largely agreed to by the major groups involved, including the city’s retired workers and financial creditors. That significantly quieted the court fight and limited the possibility of years of appeals.

The ruling marks an end to one chapter for Detroit, which, when the case began, had accumulated roughly $18 billion of debt and was wrestling with annual budget deficits, miserable city services and a nonstop exodus of residents and investment dollars. The exit plan sets aside $1.7 billion over a decade to remove blighted buildings, to buy fire trucks and ambulances, and to upgrade the city’s antiquated computer systems.

“Getting this resolved is a huge issue in terms of creating a great environment for the city, and not just the city but for the state, to all rally on focusing on growing Detroit,” said Gov. Rick Snyder of Michigan, who approved the city’s bankruptcy filing on July 18, 2013. “It really takes care of the city government issue and gets a normal context to be a more traditional government structure again.”

The plan requires strict oversight of the city’s finances in the years ahead by a commission that includes representatives of the state.

Detroit's price tag for lawyers, experts and other costs of the bankruptcy proceedings was $150 million. But the city's departure from bankruptcy does not mean an end to its challenges. While the court plan permits the city to free up additional money to make desperately needed improvements, it does not ensure that the city will not fall into financial distress once more, or that it will attract businesses that create jobs, or that it can lure enough new residents to end a decades-long population decline.

"We are starting this journey, not ending it," said James E. Spiotto, a bankruptcy lawyer and expert on municipal bankruptcy. "Bankruptcy is just debt adjustment, but that's not a solution," he said. "What you really need is the recovery plan. We can't lose sight of that. We won't know for five, 10, 15 years whether Detroit has solved its systematic problem."

To help him evaluate the city's prospects, Judge Rhodes hired his own fiscal-policy expert to decide whether the plan of adjustment was feasible, part of what is required for an exit plan to be approved. The expert, Martha E. M. Kopacz of Phoenix Management Services, said her research showed that the plan was feasible and that city officials were enthusiastic about making it work. But there were considerable risks, she said, and the speed of the bankruptcy proceedings had left Detroit with little margin for error.

To get one group of creditors to accept a settlement, Detroit's negotiators sometimes had to reduce what was available to satisfy others. To make pension cuts acceptable to retirees, for example, the city based its exit strategy on an assumption that pension investments would earn average annual returns of 6.75 percent, something Ms. Kopacz said was too aggressive for a fragile city that could not afford investment losses.

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Can Chicago Ever Dig Itself Out of Its Pension Hole?

At some point, the city is going to have to face reality. The alternative is becoming the next Detroit.

Incoming Chicago Treasurer Kurt Summers is pledging to improve investment returns for the city's pension funds and reduce investment-management fees. Both are worthy goals, but he's the first to admit that they "aren't going to change the kinds of holes we have."

As treasurer, Summers will sit on the boards of all four Chicago pension funds, which are a mess. Combined, they have less than 33 percent of the funds needed to meet pension obligations. Two of them -- the police and fire systems -- are less than 30 percent funded.

In fiscal 2013, Chicago contributed $476 million toward its pension obligations while it paid out $1.8 billion in benefits. The city's $23.1 billion in total unfunded liability is nearly three times its $7.8 billion in 2013 revenue.

Chicago's pension debacle was largely precipitated by the fact that the payment schedule is determined by the state legislature rather than by complying with Government Accounting Standards Board (GASB) requirements. The state has a long history of exempting itself and Chicago from annual pension-contribution requirements.

According to a recent Pioneer Institute study that I mentioned in my last post here, "It is hard to imagine how Chicago can avoid a full-blown Detroit scenario ... within the next 10-15 years unless the city both 1) finds a way to cut existing benefits and obligations and 2) starts contributing substantially more to its pension plans right away."

Under state law, Chicago will be required to more than double that $476 million pension contribution by 2016, and the annual tab is scheduled to continue rising rapidly after that. The city says it can't afford the higher contribution, but even the new payment is barely half of the $2.2 billion payment Chicago should make according to GASB rules.

The city plans to delay increasing its contributions in hopes that the legislature will enact changes to reduce the required payments. But while it's important for the city to take the time needed to craft a comprehensive solution to its pension problem, waiting for state help doesn't make much sense. Illinois faces the biggest pension crisis of any state, with $100 billion of its own unfunded obligations.

To make matters worse, arguments are scheduled for later this month in a legal challenge to the state pension-reform law enacted last December. The Illinois constitution prohibits diminishing or impairing public employees' retirement benefits, but the new state law raises the retirement age, reduces and suspends retiree cost-of-living adjustments, and limits the salaries on which pension benefits are calculated. Ominously, in an unrelated case, the state Supreme Court ruled this summer that retired state workers' health care is a pension benefit that is protected by the state constitution.

The moral of the story is that when you allow something to get as bad as Chicago's pension system has, there rarely are any good options for fixing it. Improving the Chicago pensions' investment performance and reducing fees -- though important -- will be the least of Kurt Summers' problems.

Together with radical pension contribution increases, the city will need to significantly cut the cost of its existing obligations. If the courts find that such a move runs afoul of the Illinois constitution, Chicago will find itself a long way down the frightening path that leads to becoming the next Detroit.

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Major SE Cities' Pension Actions Stand, Stall on Courts' Whim

Atlanta, Ga. and Jacksonville, Fla. are both in the southeast, both face fiscal pressures over their public pension systems like many other cities, and both have been taken to court over their attempts to ameliorate that stress. But the similarities end there — the courts took different tacks on their efforts to rein in public pension issues.

Green Light for Atlanta

On Nov. 12, Atlanta Mayor Kasim Reed and City Attorney Cathy Hampton announced that in Stephen Borders, et al. v. City of Atlanta, et al. (Case No. 2013-CV-239021), the Fulton County Superior Court granted the city's motion for summary judgment and dismissed the case against the city's comprehensive pension reform, which it promulgated in 2011.

Employees were invited to participate in the pension reform process, and the city incorporated employee recommendations into the plan. The reform included an increase in employees' contributions.

As a result of the reform, in three years the city's pension plan has gone from a $2 billion underfunding liability to no deficit. The city says that the increase in employee contributions has saved the city more than $36 million since November 2011 and will save more than $160 million in 30 years. It also says that the reform has enabled the city to forgo other steps to balance the books, such as layoffs.

Hamilton hailed the ruling: "This isn't our victory, it's a victory for the people who have contributed to their pension plans and now know that when they retire, the money promised to them will be there. The court's affirmation offers other cities the opportunity to emulate the efforts of Mayor Kasim Reed and the Atlanta City Council in developing fair and fiscally responsible pension reform."

The court's decision affects not only Atlanta but also other local governments in Georgia addressing similar issues.

Red Light for Jacksonville

Jacksonville did not fare as well as Atlanta, although its judicial fate was the result of a technicality. According to the Florida Times Union on Jacksonville.com, an appeals court has upheld a lower court's holding that Jacksonville broke state law by negotiating with the Police and Fire Pension Fund regarding pension benefits behind closed doors. Mayor Alvin Brown in a Nov. 12 letter to the City Council said that, as the council had requested, the city will not challenge the ruling. The Pension Fund, however, has requested a rehearing of the case.

In 2013, the city and the pension fund had participated in closed-door mediation sessions in order to reach a new pension benefit agreement. State law, however, says collective bargaining must be open to the public. Times-Union Editor Frank Denton filed suit over the way the proceedings were conducted. The city argued that the process was a mediation, not collective bargaining.

The deal that resulted from the negotiations had not even been accepted by the City Council anyway. Brown has submitted a new deal to the council, which has not acted on it yet.

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Illinois pension reform law is unconstitutional, judge rules

A ruling Friday by an Illinois judge that a law intended to fix the state's mounting pension crisis is unconstitutional paves the way for a legal showdown before the Illinois Supreme Court.

Sangamon County Circuit Judge John Belz ruled in favor of state employees and retirees who sued to block the state's landmark pension overhaul.

In his ruling, Belz found that the "protection against the diminishment or impairment of pension benefits is absolute and without exception."

"The Act without question diminishes and impairs the benefits of membership in State retirement systems," Belz wrote in the ruling, finding the state had no legally valid argument.

Soon after the ruling was issued Friday, Illinois Attorney General Lisa Madigan said she would appeal and ask the Illinois Supreme Court to rule on an expedited basis. Gov.-elect Bruce Rauner, who inherits the state's pension mess, said in a statement he hopes the court will rule as soon as possible.

"I look forward to working with the legislature to craft and implement effective, bipartisan pension reform," Rauner said.

The overhaul was approved by lawmakers and Democratic Gov. Pat Quinn last year. Years of underfunding has put the state's pension systems roughly $111 billion short of what they need to cover benefits promised to employees and retirees.

The law reduces benefits for retirees but also reduces employee contributions. State employees argued that the Constitution prohibits reducing benefits or compensation.

If the decision is upheld by the Illinois Supreme Court, lawmakers will have to work together to come up with another plan.

A spokesman for Quinn expressed optimism Friday that the state supreme court would uphold the law.

"We're confident the Illinois Supreme Court will uphold this urgently-needed law that squarely addresses the most pressing fiscal crisis of our time," Quinn spokesman Grant Klinzman said.

Illinois Senate President John Cullerton, D-Chicago, who has long questioned the constitutionality of the pension reform law, said he believed there is a legal way to confront the state's pension challenges.

"Today's ruling confirms that, while the need for reform is urgent, the rule of law is absolute," Cullerton said in a statement. "I remain committed to working with all parties to address our budget pressures and pension problems in a manner consistent with the Illinois Constitution."

Labor leaders, meanwhile, hailed the ruling as a victory.

"This is a huge victory for teachers, nurses, firefighters and police and all the working people in the state," Illinois Federation of Labor President Dan Montgomery said. "They did what they said they were going to do, rule it unconstitutional. These benefits are absolutely protected, and you can't change it just because you want to. The court ruling was very definitive and clear."

Ty Fahner, president of the Civic Committee of the Commercial Club of Chicago, said Friday that the non-partisan business leaders' group is disappointed but not surprised by the ruling, and fears those least able to afford budget cuts will be hurt if the ruling is upheld.

“After two-and-a-half years of work on this (legislation), we all believed it was constitutional,” he said. The Civic Committee, whose members are CEOs of the state's biggest employers, supported and helped orchestrate the pension reform legislation.

“If the Illinois Supreme Court — the only court that really counts in this (case) — finally decides the law is unconstitutional, it will create great hardship on all levels of the state's citizens, especially those least able to care for their needs,” Fahner said.

Fahner said the state's neediest would suffer because, if state employees are entitled to collect their pensions plus a 3 percent cost-of-living raise, it would mean $6 billion in spending cuts elsewhere.

"That money (would) come out of somebody else's hide," he said. "That's the people who can least afford to take care of themselves…It would greatly impact education, public safety and the help needed by the elderly."

The next step is up to the Illinois Supreme Court, who can even choose to not hear the case, according to John Colombo, law professor at the University of Illinois at Champaign.

"They could just allow Judge Belz's ruling to stand. That's certainly not out of the realm of possibility," Colombo said.

Colombo said should the Illinois Supreme Court take the case on an expedited basis, it could still take up to six months from the briefing to the oral arguments, and ultimately an issued opinion.

"If they don't want to do that, it could take a year. If they just wanted to follow the normal briefing cycle and normal process," Colombo said.

The court has previously indicated it takes the state's obligations to its retirees seriously.

In July, the court sided 6-to-1 with retired state employees who argued health insurance premiums are a protected retirement benefit.

While state lawmakers might like some guidance from the court on what would pass muster, if the current law doesn't, it's up to the court.

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NCPERS 2014 Survey: Public Pension Plans Report Solid Returns, Financial Strength, Increasing Confidence

Confidence continues to rise among public pension plan administrators about the sustainability of their funds and their readiness to address future retirement issues, according to a new survey by the National Conference on Public Employee Retirement Systems (NCPERS).

The 2014 NCPERS Public Retirement Systems Study also shows continuing financial strength for public funds, with healthy long-term investment returns.

"Once again, our annual survey provides convincing evidence that the vast majority of public pension plans are financially sound, well-funded and sustainable for the long term," said NCPERS Executive Director and Counsel Hank Kim, Esq. "It also

demonstrates that defined benefit public pension plans are the least costly way to ensure retirement security for American workers."

Partnering with Cobalt Community Research, NCPERS surveyed 187 state, local and provincial government pension funds with more than 11.8 million active and retired members and with assets exceeding $1.8 trillion. The majority – 81 percent – were local pension funds, while 19 percent were state pension funds. Of the responding funds, 61 percent are members of NCPERS. The data, collected in September and October 2014, represents the most up-to-date information available.

The major findings of the 2014 NCPERS Public Retirement System Study include:

- Confidence continues to grow about readiness to address future retirement trends and issues. Respondents' overall confidence rating measured 7.9 on a 10-point scale, up from 7.8 in 2013 and 7.4 in 2011.

- Funds experienced an increase in average funded level – 71.5 percent, up from 70.5 percent in 2013. Two factors contributed to the change: average one-year investment returns of 15 percent and lower amortization periods.

- Funds continue to experience healthy investment returns: 14.5 percent for one-year investments (compared to 8.8 percent in 2013); 10.3 percent for three-year investments (up from 10.0 percent last year); 9.8 percent for five-year investments (up from 2.7 percent last year); 7.8 percent for 10-year investments (up from 7.0 percent), and 8.1 percent for 20-year investments (virtually unchanged from last year's 8.2 percent). Funds continue to work toward offsetting sharp losses from the Great Recession in 2008 and 2009 by strengthening investment discipline. Signs point to long-term improvement in public retirement systems' funded status.

- Public funds continue to be the most cost effective mechanism for retirement saving. The total average cost of administering funds and paying investment managers was 61 basis points. According to the Investment Company Institute's 2014 Investment Company Fact Book, the expenses of most equity funds average 74 basis points and hybrid funds average 80 basis points.

- "Because they have lower expenses, public retirement funds provide a higher level of benefits to members," Kim said. "They also produce a higher positive economic impact for the communities those members live in than mutual funds and defined contribution plans like 401(k)s."

- Funds continue to tighten benefits, assumptions and governance practices. Examples include a continued trend toward increasing member contribution rates, lowering inflation assumptions, shortening amortization periods, holding actuarial assumed rates of return and lowering the number of retirees receiving health care benefits.

- Income used to fund public pension programs came from member contributions (8 percent); employer (government) contributions (19 percent) and investment returns (73 percent).

"There is no question that public pension funds are continuing their strong recovery from the historic market downturn of 2008-2009," Kim said. "The survey shows public pensions are strong and getting stronger, managing their assets efficiently and effectively, making plan design changes to ensure sustainability and are expressing strong and growing confidence about their readiness to address the challenges ahead."

"The vast majority of public pension plans are thriving, more than adequately funded, inexpensive to operate and sustainable for the long-term. Policymakers, taxpayers and public employees can have confidence that public pension plans will be providing retirement security for covered workers – and thus making positive economic contributions to the communities they live in – well into the future."

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Private Sector

Retirement issues likely to be addressed by Republican-led Congress

Retirement issues rarely came up during federal elections that gave Republicans control of the House and Senate on Tuesday, but that is expected to change when the 114th Congress convenes in January.

Their first appearance is likely to be when the new Congress focuses on tax reform and other revenue raisers. With retirement incentives high on the list of tax expenditures, "that puts retirement issues squarely on the table," said American Benefits Council President James Klein. "For plan sponsors and participants, that is bad news if it comes at the expense of improving national (retirement) savings, or at the expense of existing plans."

As of Wednesday, the GOP has 52 seats in the Senate — and two more seats awaiting runoffs in December — but is short of the 60 seats needed to avoid a Democratic filibuster. That means that Republicans will have to work with Democrats to accomplish their agenda, which includes some Affordable Care Act tweaks, corporate tax reform and the Keystone XL Pipeline.

"The good news is that retirement policy is a lot less partisan than some other issues," Mr. Klein said. A bipartisan spirit is expected to prevail as key Senate committees change leadership. Lamar Alexander, R-Tenn., is in line to head the Senate Health, Education, Labor and Pensions Committee, while Orrin Hatch, R-Utah, takes over the Senate Finance Committee. Both Republicans are versed in retirement issues and known for a bipartisan approach. Mr. Alexander would replace retiring Chairman Tom Harkin, D-Iowa, and Mr. Hatch would replace current Chairman Ron Wyden, D-Ore.

Mr. Hatch has sponsored legislation that would expand the use of multiple employer plans, allow public defined benefit pension systems to purchase private annuities, and create a "starter 401(k) plan" for small private-sector employers.

In statewide elections, Rhode Island General Treasurer Gina Raimondo, who overhauled the $7.7 billion Rhode Island Employees' Retirement System, Providence, in 2011, won her bid for governor. That pension reform is currently being challenged in court.

Connecticut State Treasurer Denise Nappier, the sole trustee of the $29.4 billion Connecticut Retirement Plans & Trust Funds is expected to survive a possible recount in her re-election bid.

Also, New Mexico voters passed a ballot measure that removes the 15% cap restricting international investment of the $14 billion Land Grant Permanent Fund, which is overseen by the $20.2 billion New Mexico State Investment Council, Santa Fe. It also adopts a stricter standard of care for the fund's fiduciaries. The council put a contingent asset allocation in place earlier this summer giving the staff the ability to increase international equities in the Land Grant Permanent Fund by three percentage points to 18% and reduce domestic equities by three percentage points to 32%.

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Government workers get first crack at phased retirement

Will federal program set an example for the private sector?

Virtually every survey of American workers finds the majority would like to ease into retirement, perhaps working part time for a few years before calling it quits completely. The problem is, corporate America has been slow to embrace the phased-retirement concept.

But that could be changing.

The nation's largest employer, the federal government, on Nov. 6 began accepting applications for phased retirement. While the rules apply only to federal workers, they could serve as a pilot project for the private sector.

Federal employees who are eligible for phased retirement based on their age and years of service can continue to work part time if they receive approval from their agency.

During phased retirement, employees will be paid for part-time work, supplemented by a partial annuity, and will continue to accrue additional service credits toward their final annuity.

The employees also will spend 20% of their time mentoring younger workers.

“Phased retirement offers an innovative alternative to traditional retirement for the 21st century,” Katherine Archuleta, director of the Office of Personnel Management, said in announcing the program. “It provides a new tool that allows managers to better provide unique mentoring opportunities for employees while increasing access to the decades of institutional knowledge and experience that retirees can provide.”

POPULAR WITH WORKERS

The idea of easing into retirement is popular with workers. A 2014 survey of more than 4,100 private sector workers conducted by the Transamerica Center for Retirement Study found nearly two-thirds of participants “envision a phased transition into retirement during which they will continue working, reduce hours or work in a different capacity that is less [stressful] and/or brings greater personal satisfaction.”

Unfortunately, the idea has not exactly caught fire with businesses.

“Few employers have practices and programs in place to facilitate a phased retirement,” the report said.

Just 21% of workers 18 and older interviewed for the Transamerica survey said their employers enable them to reduce work hours and move to part time from full time.

An even smaller percentage, 14%, said their employers enable workers to take positions that are less stressful or demanding.

“The implication for workers is that a phased transition into retirement may require changing jobs employers if their current employer does not accommodate them,” the report concluded.

If successful, the federal program could lead to broader acceptance of phased retirement. In the meantime, some companies will continue offering phased-retirement arrangements to valued employees on a case-by- case basis.

Financial advisers can play a vital role in helping clients evaluate the pros and cons of such arrangements. They may even be inspired to set up a similar situation when they create their own succession plans.

FACTORS TO CONSIDER

One of the important factors to consider in moving from full-time to part-time work is the impact on employee benefits.

In some cases, it may make more sense for an employee to resign in order to access earned retirement and retiree health benefits, and then establish a consulting arrangement with an employer.

Pensions. A lower salary could hurt workers covered by traditional defined-benefit pension plans if the plan benefit formula is based on average salary during the final years of work. But the Pension Protection Act of 2006 lets people receive pension distributions while working part time.

401(k)s. There's no early withdrawal penalty when tapping 401(k) plans after age 591/2, but distributions are taxable. Part-time employees might no longer be eligible to contribute to an employer's retirement savings plan or qualify for matching contributions.

Health insurance. Part-time employees may lose access to employer-provided health coverage. That might be less problematic now that most Americans have greater access to insurance through federal and state health exchanges. Employees eligible for Medicare could end up saving money.

Social Security. Social Security retirement benefits are based on a worker's highest 35 years of average indexed earnings. Depending on earnings history, benefits could be affected by cutting hours in the final years of work.

Eligible individuals can collect reduced retirement benefits as early as 62, but benefits claimed before full retirement age are subject to annual earnings limits. Workers collecting before full retirement age lose $1 in benefits for every $2 earned over $15,480 in 2014. The limit rises to $15,720 next year.

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PBGC guarantees 401(k) rollovers to pensions

You can now roll your 401(k) assets into your company's pension plan and the Pension Benefit Guaranty Corp. will guarantee the portion you roll over.

Pensions guarantee qualifying workers a set monthly income for life, depending on their salary and years of service. If a private-sector pension plan goes bankrupt, the PBGC guarantees payments, up to $60,165 a year.

Under the new rules, you'll be able to add your 401(k) assets to your pension, which would increase the amount of your pension paycheck. The amount you add to your pension from your 401(k) wouldn't be subject to the $60,165 limit.

If you rolled over your 401(k) into your pension and the pension failed, you would get your pension payment up to the $60,125 insurance limit. But you'd also get an additional monthly amount in the form of an annuity from the PBGC representing your 401(k) rollover.

If your company froze your pension plan and it failed, you'd get the amount of your lump sum pension plus your additional contribution from your 401(k) as an annuity payment from the PBGC.

"We think that lifetime income is important, and that if you have a larger retirement paycheck, we think that's a good thing," says PBGC spokesman Marc Hopkins.

In order to roll your 401(k) into your pension, your company must have a traditional pension plan, and your employer must allow you to do it. You may be able to split your 401(k) assets between your pension and a self-directed retirement account. That's up to your employer.

"This is good news for employees," says from Robyn Credico, head of defined contribution consulting at Towers Watson. "Allowing 401(k) participants to roll their money into a defined benefit plan is the most efficient form of annuity that employers can offer from a cost and administrative perspective. The additional guarantee is also of great value."

Just how willing employees will be to add their 401(k) proceeds to their pension is an open question. "While this is a helpful clarification that will remove some barriers to lifetime income, when companies offer lump sum pension payouts, generally people take them," says Ann Combs, head of government relations at Vanguard.

Investors in 401(k) programs can always annuitize all or part of their assets when they retire. A company may be able to negotiate better terms than individuals could get, however.

Although companies have been cutting back on traditional pensions in favor of 401(k) plans, 118 Fortune 500 companies still offer pensions to new employees, according to Towers Watson. That's down from 299 just 15 years ago. Nevertheless, nearly half of Fortune 500 companies that no longer provide pension plans to new hires still have active employees who are accruing pension benefits.

PBGC pays the benefits of about 1.5 million people in failed pension plans. It takes no taxpayer money. Operations are financed by insurance premiums, investment income and with assets and recoveries from failed plans.

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Moody's: New mortality tables will increase pension liabilities by $110 billion

U.S. corporate defined benefit plan liabilities will increase about $110 billion due to new mortality tables recently published by the Society of Actuaries, a new Moody's Investors Services report says.

The society estimates there could be a 4% to 8% increase in projected benefit obligations due to the publication of the new mortality tables on Oct. 28, showing increased overall longevity among men and women currently aged 65.

Overall longevity among men rose to 86.6 years in 2014 from 84.6 in 2000, and among women it rose to 88.8 years in 2014 from 86.4 in 2000.

Moody's uses a 6% increase to estimate the overall projected benefit obligation of U.S. defined benefit plans will rise about $110 billion, which the company says is a credit negative.

Individual company liabilities will vary by the average age of a pension fund's population — the older the population, the more the liabilities will increase — and whether the pension fund instituted interim amendments since the last full tables were published in 2000, in which case the liabilities will increase slightly less.

"Given these increasing liabilities and cash drains, we expect to see an acceleration in lump-sum offers and annuitizations," the report said.

Wesley Smyth, vice president and senior accounting analyst at Moody's and author of the report, did not return phone calls by press time.

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HOW THE GREAT RECESSION AFFECTED CHANGES IN RETIREMENT:

Among the victims of the Great Recession were the retirement expectations of many Americans. New research from nonpartisan Employee Benefit Research Institute has quantified just how much those hopes suffered. The report from EBRI finds a nearly 23-percentage-point drop in workers retiring early or close to their expected retirement after the markets crashed. Specifically, EBRI found that before September 2008 (the start of the recession), 72.4% of workers retired either before or shortly after (no more than one year) their expected retirement. However, that dropped to 49.6% after September 2008.

EBRI analysis is among the first to look at longitudinal survey data that compare expected and actual retirement for the same group of workers. It finds that 55.2% of these workers retired within three years (before or after) of their expected retirement. Specifically, the longitudinal findings show that 38.0% retired before they expected, 48.0% retired after they expected, and 14.0% retired the year they expected to retire. It also shows that more people (35.9%) actually retired after 65 than expected (18.9%), and among those who expected to retire after 65, 56.6% did so. The study also shows that these longitudinal findings (comparing one cohort at different times) differ from cross-sectional findings (comparing different cohorts at the same time), which are reported more frequently. It shows that in 2012, the expected probability of working full-time after age 65 was 48.7% and 46.0%, respectively, among men and women working full-time. However, only 12.7% of men and 6.0% of women worked full-time after 65 in 2012.

EBRI also found that people who have a retirement plan tend to retire closer to when they expected, compared with those without a plan. The gap between expected and actual retirement among those with defined benefit plans and defined contribution plans is generally very small.

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