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.

Inside This Issue

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Public Sector/Government Plans

California's pioneering pension law

The private sector has an inadequate retirement system. It is too small and too risky. With the decline of defined benefit pensions, most private sector workers will end up with Social Security and the balances in their 401(k) plans. In 2010, according to the Federal Reserve's *Survey of Consumer Finances*, the median 401(k)/IRA holdings for households that had a plan and were approaching retirement (age 55-64) was $120,000. (IRA balances are included because the bulk of the assets in these accounts have been rolled over from 401(k) plans.) Moreover, at any moment in time, only 42% of private sector workers have any form of employer-sponsored retirement plan, be it defined benefit or 401(k). Some of these individuals will pick up some coverage along the way, but a full one-third of households will have nothing but Social Security.

State and local employees have nearly universal coverage under defined benefit plans, despite some recent moves to introduce a defined contribution component. Public employees recognize that their counterparts in the private sector may feel that public pension benefits are too generous relative to private sector benefits and, therefore, public pensions should be scaled back. Therefore, the future security of public sector workers hinges on private sector workers having access to a retirement system that ensures adequate retirement income. In response, the National Conference on Public Employee Retirement Systems (NCPERS), the largest trade association of public sector funds, released a proposal in 2011 to build on the public sector infrastructure to provide a plan to uncovered workers in the private sector. That proposal provided the impetus for recent California legislation.

Governor Brown recently signed legislation that creates a California Secure Choice Retirement Savings Trust, authorizes a major feasibility study, and seeks approval from federal regulators. The Department of Labor must determine that the California law is not preempted by ERISA, the federal law that sets standards for private pensions, and the Internal Revenue Service needs to rule that the contributions to the retirement plan could be made on a pre-tax basis. While the final legislation only provides for a study and requires another bill to specifically authorize such a program, it is an exciting notion that innovation may occur at the state level.

The goal of the proposal – should it pass all the hurdles and a second bill be enacted – is to create a plan for California's private sector employees who have no retirement coverage at work. Eligible employees would have 3% of pay deducted from their earnings unless they opt out. The state would collect their money and hand it over to professional investment managers selected by the state through a competitive bidding process. The managers could be either private sector firms or the California Public Employees Retirement System (CalPERS). The plan also calls for a minimum guaranteed return to be purchased in the private sector. Since private sector firms cannot guarantee more than the riskless rate without enormous expense, the guarantee would be modest. The whole program would be overseen by a seven-person board, consisting of the state treasurer, director of finance, comptroller, and four people appointed by the governor and the legislature.

Although opponents have tried to link the proposed plan to public pensions – which face serious financial challenges, especially in California – it is essentially an automatic IRA that would not cost the state a dime.

The California proposal is important for two reasons. First, it draws attention to the fact that the majority of private sector workers are not covered by any type of employer-sponsored plan and takes the first step to solve the problem. Second, if finally enacted, it would be very efficient in that it uses automatic enrollment to maximize participation and professionally-managed pooled investments to minimize administrative costs and the risk of making investing mistakes.

It is an exciting initiative. If it works, more states may take on the retirement crisis.

November 20, 2012, 5:35 PM
By Alicia Munnell

Pension reform awaits when session begins

Illinois lawmakers return to the Capitol on Tuesday, hoping to achieve what they failed to get done the last time they were in town.

After failing to resolve problems with the state's multibillion-dollar pension mess during a special session in August, the House and Senate have scheduled almost two weeks of session days between now and Jan. 9, which is the day before a new Legislature is sworn into office.

But along with finding a hard-sought compromise over how to reduce the state's annual payments for employee retirement programs, a number of other issues are expected to surface now that the dust has settled from the 2012 election.

Lawmakers could take action on restoring money to keep prisons open in Tamms and Dwight, as well as tackle a massive gambling expansion. They also could be asked to vote on issues ranging from gay marriage to immigrant driver's licenses.

It remains unclear how quickly things will get rolling, with some lawmakers believing the sessions could be devoid of much action.

"I think we'll see more action in the lame duck session in January," Rep. Pat Verschoore, D-Milan, said.

Here's a look at some of the hot issues expected to be debated in the coming weeks:

Pension reform

Gov. Pat Quinn, who unveiled last week an Internet-based lobbying effort designed to drum up public support for a pension overhaul, thinks closed-door talks on pension reform will begin during the veto session and continue through December.

Actual votes, however, might not happen until the House and Senate return in early January for what is known as the lame duck session, when lawmakers who are leaving the Legislature can vote on issues without having to fear any backlash from voters in the next election.

Critics of Quinn's push, however, said his effort to generate grassroots support via the website falls short because it doesn't offer solutions, which could include a higher retirement age, more costs for employees, a reduction in cost-of-living adjustments and a controversial proposal to force school districts to share a bigger portion of the cost of pensions.

Members of the House and Senate are hopeful a resolution can be hammered out.

"I would like to see if we can get something done with pension reform. Something has to happen with that," Verschoore said. "But it can only come if all parties are at the negotiating table."

Gambling expansion

Quinn vetoed Senate Bill 1849 in August. The bill would have created five new casinos in Chicago, Danville, Rockford, Lake County and Chicago's south suburbs. It also would allow slot machines at horse racing tracks, likely bring back live racing at Quad-City Downs in East Moline.

Lawmakers could override the governor or begin work on an entirely new bill aimed at appeasing Quinn's call for additional provisions, such as a ban on campaign contributions from gaming licensees and casino managers.
Quinn also wants guarantees that revenue from new casinos will provide more money for schools.

Budget issues

Sen. Gary Forby, D-Benton, is expected to lead the charge to restore funding in the budget for the Tamms Correctional Center, the all-female prison in Dwight and five other prison facilities that Quinn is trying to close.

The closures, which are tied up in a court battle between the governor and the American Federation of State, County and Municipal Employees union, could go forward nonetheless if Quinn decides to ignore the General Assembly and simply not fund the prisons.

Rep. Jason Barickman, R-Champaign, said there are numerous problems with the budget that must be addressed, including the prison issue and money for retiree health care costs.

“We have a budget that in no way reflects what our operating costs are,” said Barickman, whose district includes the Dwight prison.

House Speaker Michael Madigan, D-Chicago, also might press forward with his proposal to allow the Legislature to weigh in on state labor negotiations. Under legislation expected to be debated Tuesday in a House committee, the General Assembly could place limits on how much a governor can hand out in raises to unionized state workers.

Also on tap could be a heated debate over whether to borrow money to pay down the state’s unpaid bills.

Gun control
Quinn also used his veto powers to amend a Republican-backed bill regulating mail-order ammunition to ban assault weapons and large-capacity ammunition clips.

Lawmakers have the option of accepting the changes, overriding them or just allowing the proposal on mail-order ammunition to die.

Given the Legislature’s divisions over gun-control issues, it is expected that Sen. Dave Luechtefeld, R-Okawville, will not call the measure for a vote.

Gay marriage
After voters in four states either backed gay marriage or opposed banning it, Rep. Greg Harris, D-Chicago, an openly gay lawmaker, is hoping the issue can get a vote under the Capitol dome.

If a proposal is not floated during the veto session or during the lame duck session in early January, a measure could come up for a vote later this spring when Democrats will control super-majorities in both chambers.
Quinn has expressed support for legalizing gay marriage in Illinois.

November 25, 2012 11:47 pm
Kurt Erickson

Retirement leader: State pension system is healthy

CHEYENNE - The head of the Wyoming Retirement System says a major overhaul of the state’s public pension program is unnecessary and potentially dangerous.

Thom Williams, executive director of the WRS, told a group of state workers and retirees Thursday that the Legislature should resist any efforts to move to a 401(k)-style defined-contribution retirement plan.

"The problem is (defined-contribution plans) are not a reliable means for providing retirement security," he said. "These defined-contribution plans oftentimes result in people running out of money."

The Wyoming Retirement System is currently run through a defined-benefits plan. This provides eligible retirees with pre-determined benefits.

Unlike the defined-contributions plan, the state manages the investments, and much of the risk is mitigated because the investments are pooled together instead of in an individual account.

But a push in the state, as well as nationwide, is to transition pension systems into defined-contribution plans.

Similar to a 401(k) plan, these allow employee and employer contributions to be invested in individual accounts.

Many have suggested this option as a way to give the state more predictability and control over its retirement funds. It is especially popular in states with pension systems that are underfunded or in trouble.

But Williams called Wyoming's public pension program healthy and the "envy" of most states.

As of this year, the state has funded 81.9 percent of its pension costs. This means the current underfunded portion of the state's bill is $1.28 billion.

The U.S. Government Accountability Office reports that most experts consider a funding ratio of 80 percent or better to be stable for government pension plans.

Williams added the Legislature has adopted several recent changes to the program to make it more sustainable.

This includes moves during the past session to block cost-of-living adjustments for most retirees and to modify benefits for new employees.

But some in the state consider it to be only a matter of time before the costs become unmanageable if the system is not restructured.

Rep. Bryan Pedersen, R-Cheyenne, argued earlier this year that the steps implemented by the Legislature during the 2012 session are only a "Band-Aid."

He said the system could be underfunded in less than 10 years if the state doesn't meet its reinvestment returns.

Pedersen sponsored legislation during the past session to create a 401(k)-style defined-contribution retirement plan only for new employees.

But the bill failed when it did not receive the two-thirds majority needed to be introduced during a budget session.

Pedersen did not seek re-election and will not serve in the 2013 Legislature. But it is possible another individual or a committee could propose a bill during the upcoming session.

The Joint Appropriations Committee is scheduled to debate possible pension changes during an upcoming December meeting.

It will be part of the committee's interim work to study:

How it could implement an annual cost-of-living adjustment through the current plan.

Whether it should consider a supplemental defined-contribution plan with employee and matching employer contributions.

If there are other types of pension plans that could be used as an alternative.

The Legislature could also take a wait-and-see approach to see if earlier tweaks to the system are successful, which is an approach that Williams favors.

Williams said he is not aware of any specific plans for legislation to be sponsored in 2013 that would create a 401(k)-style plan. But he said he wouldn't be surprised if that did happen.

"I think it is important for us to be proactive and to anticipate we are going to be defending the merits of our program," he said.

The Wyoming Retirement System Board of Directors is also opposed to moving to a 401(k)-style plan. It voted last year to recommend against making that move.

Williams' remarks Thursday came during a town hall meeting in Cheyenne sponsored by the Equality State Policy Center and the Coalition for a Healthy Retirement System.

Nearly 50 retirees and public employees attended the event.

Dan Neal, executive director of the Equality State Policy Center, encouraged the audience to contact their legislators to share their feelings about any potential pension changes.

"This issue really hits people in a core part of their lives," he said. "And so that is part of the reason there are about 50 people here instead of 10 or 15."

By Trevor Brown
tbrown@wyomingnews.com

Report: 21 States' Pension Systems Not Fiscally Sound

State pension systems suffered a significant blow during the recession, but it didn't hit all systems equally; some fared much worse than others.

A study by investment research firm Morningstar, Inc., published earlier this week assesses the financial health of each state system, highlighting a wide disparity in the actuarial adequacy of funding levels.

An alarming number of funds face a steep uphill climb in fully funding their plans. The report found 21 states' aggregate funded ratios fell below 70 percent, which Morningstar considers the threshold for "fiscally sound" systems. Illinois (43.4 percent), Kentucky (50.5 percent) and Connecticut (53.4 percent) registered the lowest funding levels of all examined.

The common industry standard for a "healthy" system is that it's 80 percent funded when looking at obligations to retirees, although the number is the subject of debate.

Morningstar also appraised states' fiscal health by calculating the unfunded actuarial accrued liability per capita, approximating the amount for which taxpayers would be on the hook if each had to ante up to make the systems whole. By this measure, Alaska tops all other states with an unfunded liability of $10,235 per resident for its plans, followed by Illinois and Hawaii.

Other states have managed to largely shore up their funds. Eight states recorded unfunded liabilities of less than $1,000 per capita, while seven systems' aggregate funding ratios exceeded 90 percent. The report lauded Wisconsin – with a 99.8 percent funded ratio for its system -- as the nation's strongest.

While declines have slowed in recent years, the figures dating back to 2007 still signal a downward slope for most systems' funding levels. Much of this has to do with "smoothing," an accounting practice that considers deviation between actual and expected returns over several years, essentially spreading out pension gains or losses over longer periods. Since most assume a five-year smoothing period, many funds have not yet fully absorbed investment losses to their portfolios incurred during the recession.

Rachel Barkley, a Morningstar municipal credit analyst who authored the report, cited the financial health of Illinois' pension system as particularly poor. Updated data released by the state last week indicates the situation has worsened, with the aggregate funded ratio further dropping from 43 to 39 percent. The culprit in Illinois has largely been due to the failure of the state to make the necessary contributions to the pension fund to maintain its actuarial integrity compounded by less than stellar returns, she said.

"It's been chronically stressed with poor management decisions," Barkley told *Governing*.

Illinois' investment returns failed to meet assumptions, while contributions from the state and local governments ended up below the annual required contribution. The state legislature passed reforms aimed at replenishing the system in 2011, but failed to approve additional measures during a special session this fall.

Some separate retirement funds within single states are also in far worse shape than others, but this disparity is hidden because the report uses aggregate totals for all public employee systems. Minnesota's various retirement plans for rank and file and other covered employees were collectively 79.3 percent funded, for example, but its Legislators Retirement Plan was actually less than 9 percent funded.

Pension plans for teachers and education employees, which account for about half the public workforce, make up a sizable portion of states' liability. Not all states, though, contribute to teachers' pension plans. Colorado, one such state, recorded an unfunded liability per capita of $1,804 – below most others, which might give the impression that the fund is relatively healthy. But it isn't. The system's funded ratio was 57.7 percent, far worse than most states.

It's for this reason that Barkley suggests weighing the health of pensions both by actuarial calculations and by the per capita method when assessing the overall health of a pension system.

While Morningstar set a 70 percent threshold for fiscally sound systems, and other credit rating agencies peg it at 80 percent, the American Academy of Actuaries went a step further earlier this year, calling the 80 percent funded ratio a "myth." Plans should aim for accumulating assets of 100 percent of pension obligations, the association said in an issue brief.

Keith Brainard, research director for the National Association of State Retirement Administrators, said the report accurately depicted the dynamics of state pension systems. He emphasized, though, direct comparisons between state plans' financial health can be deceptive.

"Public pension plans are nuanced and distinctive creatures of state government," he said. "Sweeping statements and broad generalities about the public pension community are usually misleading at best."

The Morningstar report also cautions against direct comparisons. Benefit types vary, and multiple public entities are often responsible for contributions and liabilities associated with plans.

What's more, plan management strategies and assumptions differ. Most plans assume an investment return rate of 7 to 8 percent. The Indiana Public Retirement System, though, recently adopted an assumed return rate of 6.75 percent – the nation's most conservative rate, according to the state.

The following table shows funded ratios and unfunded actuarial accrued liability per capita ratios for each state, which Morningstar compiled from CAFR reports and data from state fiscal agencies. Please consider the caveats above before making comparisons between states. Additional figures are listed in the Morningstar report.

POSTED BY MIKE MACIAG
NOVEMBER 29, 2012

Puerto Rico struggles to save pensions; After five-year recession, U.S. territory sells roads and airports to raise cash

Puerto Rico is fighting to stay afloat in a rising sea of debt.
Its economy is sputtering. Its population is shrinking. Its recent election is disputed. Its public pension fund is perilously low on cash. The U.S. territory has just been through a brutal five-year recession, something not experienced in the United States as a whole since the 1930s.

Desperate to raise cash, Puerto Rican officials have been selling off anything they can: two toll roads and the main airport so far.

To bring in tax revenue, they are trying to lure people out of the underground economy. Coffee shops, hairdressers, even outdoor market stalls are being required to issue printed receipts with every sale. The receipts carry lottery numbers, with a chance to win cars or cash, as an incentive to get shoppers to pay the island's 7 percent sales tax. Though many of Puerto Rico's problems are reminiscent of Greece's - tax noncompliance, a stagnant economy, years of issuing long-term debt to cover short-term payments - investors have had a nearly insatiable appetite for its bonds. But now their support is dwindling. Some big investors are pruning their holdings.

That is beginning to increase the cost of borrowing for Puerto Rico relative to states and municipalities elsewhere in the United States, which are benefiting from a big decline in borrowing costs. The interest rate its 30-year bonds now pay is about 2.5 percentage points higher than that for municipal borrowers, up from a difference of just 1.5 percentage points at the beginning of 2012, according to Municipal Market Data. The possibility of a credit downgrade also hangs in the air, something that could lead to more selling.

"There is no specific event looming on the horizon," said Alan Schankel, a managing director at Janney Capital Markets in Philadelphia. "But it's a problem of immense magnitude, and it's very challenging to sit here and see how they work their way out of it."

Puerto Rico needs to be able to issue bonds at attractive rates to cover its short-term financing needs. Perhaps more important, it has to figure out how to salvage its retirement funds. After shortchanging them for years, it now has the weakest major public pension system in the United States.

The main fund, which serves about 250,000 government workers, past and present, is only 6 percent funded - a small percentage of what is considered the minimum needed for a marginally healthy pension plan - and could run out of money as soon as 2014. Another fund, for about 80,000 teachers, which is 20 percent funded, will last just a few years longer if nothing is done. Police officers and teachers in Puerto Rico have chosen to stay out of Social Security and rely entirely on their pensions.
"For now, I'm not totally shaken about the possibility of the fund going broke," said Jorge Ramón Román, a 78-year-old retired instructor for the island's Civil Air Patrol. "But I do fear for the future, when I'll be an even older person, more infirm and with less of a pension."

Héctor M. Mayol Kauffman, the executive director of the pension system, said it would be impossible to cut the benefits of people who were already retired, citing court precedent.

Puerto Rican officials were racing this autumn to devise a rescue plan for the pension fund. Voters, though, pushed out Governor Luis Fortuño, who had tried austerity measures that included cutting tens of thousands of government workers, along with a revamping of the fund.

They elected Alejandro García Padilla, who promised to create 50,000 new jobs in the next 18 months. But the margin was razor-thin, and Governor Fortuño has requested a recount. Mr. García Padilla's party had dropped out of the retirement overhaul effort, but the governor-elect says he will deal with the looming pension crisis with "diligence and promptness" and has put together a task force of economists and financial advisers. "We will not leave retired government workers stranded at a bus stop in their older years," he said.

Since the election, yields on the island's 30-year bonds have continued to widen. "I don't think that there's a default that's about to happen, but a default isn't the only bad thing that can happen when you've got bonds," Mr. Schankel said. Puerto Rico's bonds are just a notch or two above junk status. If they fall to junk level, at least some institutions would be forced to sell, potentially setting off a chain reaction. And individual investors could get a jolt if they saw the value of their holdings fall. Many people own Puerto Rican debt without knowing it, through their mutual funds.

"The concern is that Puerto Rico is a systemic risk to the municipal bond market because it's so widely held," said Robert Donahue, a managing director with Municipal Market Advisors.

Three days after the election, Standard & Poor's, citing "prolonged inaction on pension reforms," said that there was at least a one-in-three chance that it would downgrade Puerto Rico's credit by early 2013.

Juan Carlos Batlle, president of Puerto Rico's Government Development Bank, called the warning "a bit premature," in testimony before the new government's transition committee, saying that the new government would maintain fiscal discipline. The central question for Mr. García Padilla is the same one that faced his predecessor: How to get Puerto Rico's economy growing fast.

In addition to selling assets and restructuring bonds to postpone payments due, officials have also been pitching Puerto Rico as a hot new tax haven for hedge funds, real estate investors and other high-paying businesses, hoping to attract jobs and create growth.

That strategy has worked in the past, attracting a number of big pharmaceutical companies - but last year Mr. Fortuño's government burdened those companies with a big excise tax to help pay for tax cuts for nearly everyone else. There are hopes that the U.S. Treasury will grant the affected companies a separate tax break to cushion the blow.

Manufacturing jobs have been dwindling for years, and the economy went into a tailspin in 2006, after lawmakers hit an impasse and the government ran out of cash, forcing a two-week shutdown. Puerto Rico created a special entity, called the Cofina, much like the Municipal Assistance Corp. that helped New York stay afloat during the fiscal crisis of 1975.

The Cofina has borrowed to balance the budget every year and has virtually used up its borrowing capacity of $15 billion. But the budget deficit, while smaller than before, keeps coming back. In 2009, it was $2.9 billion, according to the Center for the New Economy, a research group in San Juan; now it is closer to $1 billion.

Outstanding public debt has exploded to about $67 billion, although tallies differ, depending on what types of debt are counted. Relative to personal income, Puerto Rico's public debt is almost 10 times that of Hawaii, which has the highest debt-to-income ratio among the 50 states, according to Moody's Investors Service.

Puerto Rico does not have the extra $2 billion it would need to pay its retirees each year if it exhausted its retirement fund. A collapse of the fund would set off a broader fiscal emergency, with officials forced to make excruciating choices - whether to pay teachers and the police, fix roads, provide drinking water and pay all those far-flung bondholders on time.

Republican members of the Joint Economic Committee warned this autumn that some state pension funds were at risk of running out of money and that "governors and mayors will inevitably come to Washington requesting bailouts."

The group recommended imposing penalties now - like federal aid cuts - on laggard states, to show that bailouts were out of the question. The report, issued in September, did not mention territories, however.

An outside audit of Puerto Rico's pension system in 2009 found that it had been mismanaged practically from its inception in 1951. Lawmakers never appropriated enough money to cover the benefits, but layered on more and more extras - Christmas bonuses, summer bonuses, medication bonuses, health plan contributions and others.

There was even a provision that allowed people to enlarge their lifetime benefits 50 percent with a single extra day's work. Mr. Ramón said his benefits were not exactly princely - after 31 years of service, he gets just $1,000 a month and the government deducts health premiums from it.

But even modest benefits can be costly when retirees draw them over many years - Mr. Ramón retired at 54, for example - and when the government fails to set aside anywhere near enough money in advance.

Mr. Ramón said he had been following news about the pension fund intently.

"I am quite aware that this is not a problem unique to Puerto Rico," he said, "but that doesn't calm your nerves."

The International Herald Tribune
November 28, 2012 Wednesday

Private Sector

Retirees Sue To Halt Verizon's $7.5 Billion Sell off Of 41,000 Pensions

VERIZON COMMUNICATIONS INC. ("VZ-N") - Retirees Sue To Halt Verizon's $7.5 Billion Sell-off - Of 41,000 Pensions

Management retirees of Verizon Communications Inc. have filed a federal lawsuit to halt their former employer's plan to sell off 41,000 Employee Retirement Income Security Act (ERISA) protected pensions to the Prudential Insurance Company of America (NYSE: PRU) in exchange for providing Prudential with $7.5 billion in Verizon retirees' pension assets. If the pension spinoff, which was expected to close in December, is not halted, beginning in January 2013, Prudential will replace retirees' pensions with insurance annuities that are not ERISA-protected.

Attorneys Curtis L. Kennedy of Denver and Bob Goodman of Dallas representing retirees in conjunction with the 128,000 member non-profit Association of BellTel Retirees Inc. (www.BellTelRetirees.org) have filed for a request for an immediate temporary restraining order to be followed by a hearing to consider a preliminary injunction in the United States District Court, Northern District of Texas, Dallas Division charging that Verizon's plan to transfer the retirees' pensions from the Verizon Management Pension Plan into Prudential issued insurance annuities violates federal ERISA law.

On October 17 Verizon surprised 41,000 pre-January 1, 2010 company management retirees when it disclosed the transaction. Retirees claim the conversion to an annuity wipes out the federally insured pension safety net provided by the Pension Benefit Guaranty Corporation (PBGC) and is an effort to sever retirees ERISA protections, as well as the company's fiduciary responsibilities to the very retirees who built their company. The Verizon Management Pension Plan currently has approximately 100,000 participants, including plaintiffs.

Retiree association President C. William Jones said, "On behalf of 41,000 Verizon retirees scattered across the country, who are being given no choice, no voice and no protection in the transfer of their pension assets, we are calling upon the company to reverse this action and halt this predatory business transaction that will impact many retired Americans, who labored a lifetime to fund their earned pension benefits." Retirees note that Prudential could also sell or transfer all or part of its ownership of the annuity asset to another company. While Prudential looks and sounds like a solid insurance company, the retirees say America's history is littered with the carcasses of many once-great and too-big-to-fail financial powerhouses such as: AIG, Kentucky Central Life Insurance Co, Executive Life, The Equitable Life Assurance Society (Equitable Life), Lehman Brothers and Bear Stearns.
Should the insurer experience a default or asset shortfall, the PBGC would be replaced with a patchwork network of state guaranty associations, many of which are underfunded.

Corporate retirees, like Verizon's who are at least 65 years of age, are insured by the PBGC, up to the limit of $55,800 per year, per retiree for an unlimited number of years. By spinning off the 41,000 pensions to an annuity provider, Verizon retirees' PBGC protections are replaced by insufficient and varying coverage -- generally determined by state of residence at the time of impairment -- from $100,000 - $500,000 (lifetime per person cap). //st -- Eight states and one U.S. territory -- AK, AZ, IN, MA, MS, MO, NH, NV and Puerto Rico -- limit total lifetime coverage for annuity holders in case of a default or shortfall to a lifetime maximum of $100,000; -- 28 others -- CA, CO, DE, HI, ID, IL, IA, KS, LA, ME, MD, MI, MN, MT, NE, NM, ND, OH, RI, SD, TN, TX, UT, VT, VA, WV, WY - go up to $250,000 lifetime coverage; -- 10 states and District of Columbia use a $300,000 top end -- AL, AR, FL, GA, NC, OK, OR, PA, SC, WI; -- Just 4 -- CT, NJ, NY, WA -- go up a ceiling of $500,000;

Mr. Jones said, "Retirees and their spouses, especially in states with the lowest protection levels, will be seriously harmed and left with as little as two years pension replacement in case of insurer default. Verizon's pension spin-off and conversion to a non-PBGC insurance annuity offers zero protection or upside for tens of thousands of Ma Bell's orphans."

The case is: William Lee and Joanne McPartlin and Plan Beneficiaries of the Verizon Management Pension Plan vs Verizon Communications Inc. in the United States District Court, Northern District of Texas, Dallas Division (Case No: 3:12-CV-04834-D) Media Contact: NYSE closing price for VZ-N Date: 2012/11/28 Closing Price: 43.56

PBGC Provides Maximum Guaranteed Benefit for 2013

The Pension Benefit Guaranty Corporation (PBGC) posted a table showing the applicable present values of the maximum PBGC guaranteed benefit for the 2013 plan year. Technical Update 07-04 provides guidance on and methodology for determining the PBGC values.

These values apply to benefits with annuity starting dates in 2013. The 2013 table was developed using the 417(e) segment rates for August 2012 (1.13%, 3.71%, 4.52% respectively) for plan years beginning in 2013 and the 417(e) applicable mortality table for 2013.

The PBGC also announced the 2013 maximum guaranteeable monthly benefit for a 65-year old retiree is $4,789.77 (as compared with $4,653.41 for 2012).

Fact sheet on PBGC Guarantees for Single Employer Pension Plans

IRS Extends Deadline for Amending Defined Benefits Plans to Satisfy Section 436 Requirements

The Internal Revenue Service released Notice 2012-70, extending the deadline set forth in Notice 2011-96, to amend a defined benefit plan to satisfy the requirements of § 436 of the Internal Revenue Code and provides relief from requirements of § 411(d)(6).

Section 401(b) provides a period during which a plan may be amended retroactively to comply with the Code’s qualification requirements. The filing of a determination letter application for an individually designed plan generally requires the plan to be restated to take into account changes in qualification requirements and guidance that are listed in the Cumulative List of Changes in Plan Qualification Requirements in effect at the time the application is filed.

To ensure that a plan amendment for § 436 is not required to be included in a plan that is filed for a determination letter with the IRS when the IRS will not consider such an amendment in its review of the determination letter application, Notice 2011-96 is modified. In particular, the deadline to adopt an interim amendment for § 436 is extended to the latest of:

- the last day of the first plan year that begins on or after January 1, 2013,
- the last day of the plan year for which § 436 is first effective for the plan, or
- the due date (including extensions) of the employer’s tax return for the tax year (determined in accordance with section 5.06(2) of Rev. Proc. 2007-44, in the

case of a tax-exempt employer) that contains the first day of the plan year for which § 436 is first effective for the plan.

If an application for a determination letter for an individually designed plan is filed on or after February 1, 2013 (or, in the case of a plan described in section 104 or 105 of PPA '06, as amended, the first day of the plan year for which § 436 is first effective for the plan, if later), the restated plan submitted with the application must incorporate an amendment with respect to § 436. As noted in section 12.03 of Rev. Proc. 2007-44, the filing of a determination letter application may accelerate the time by which the plan must be amended to satisfy the requirements of § 436.

Weathering the Economic Storm: Retirement Plans in the United States, 2007-2012;
Transamerica Study Reveals Resilient Retirement Benefits and Continued Employer, Worker Commitment to Retirement Security;

The Transamerica Center for Retirement Studies®, as part of its 13th Annual Retirement Survey , has published " Weathering the Economic Storm: Retirement Plans in the U.S., 2007-2012 " to evaluate how American workers and company-sponsored retirement plans have fared during these past five difficult years.

"The findings reveal surprisingly good news and less bad news than some would expect," said Catherine Collinson, president of Transamerica Center for Retirement Studies®. "The research brings to light opportunities to improve our current retirement system that can significantly and positively impact workers' ability to achieve retirement readiness without necessarily requiring sweeping legislation or widespread reforms."

Retirement Benefits Stayed Relatively Intact and Feature Adoption Increased
Unlike more extreme cost-cutting measures by employers, like downsizing or layoffs, retirement benefits have remained mostly intact during the Great Recession, with a notable exception of a drop in the number of companies offering defined benefit plans or "traditional pension plans" from 19 percent in 2007 to 16 percent in 2012. Regarding 401(k) or similar plans, the percentage of employers who sponsor a plan increased from 72 percent in 2007 to 82 percent in 2012, an increase which was mostly found among small companies with 10 to 499 employees and which was more likely attributable to the closings of unstable companies that did not sponsor a plan versus healthy companies adopting new plans.

The survey also sheds new light on the current state of employers' matching contributions to 401(k) plans. Among employers who sponsor a plan, the survey found that the percentage offering matching contributions declined from 80 percent in 2007 to 70 percent in 2012. However, matching programs are regaining lost ground: of the 17 percent of employers who said they decreased or suspended their match since 2008, half had already reinstated it.

"Although any reductions in benefits are disappointing, it is somewhat comforting to note that during tough economic times, employers were more likely to suspend their matching contributions than drop their plans altogether, which would have had far worse implications," said Collinson.

A significant number of employers who sponsor a plan have also made more features available to workers in the last five years, with the proportion of large companies offering "automatic" features increasing from 31 percent (2007) to 45 percent (2012) and, among them, 84 percent have adopted a Qualified Default Investment Alternative. The percentage of plan sponsors adopting the Roth feature to their 401(k) plans has increased from 19 percent (2007) to 32 percent (2012).

One likely reason retirement benefits have continued to receive support from employers through a tumultuous economic environment is that a vast majority of employers, at 82 percent (2012), reported that they consider a retirement plan an important tool for attracting and retaining talent.

Workers Remained Committed To Saving for Retirement, But Less Confident
Despite the troubled economy, workers have remained committed to saving for retirement even though the survey found a drop in those who are confident about their ability to comfortably retire from 59 percent in 2007 to just 51 percent in 2012.

Among workers offered a 401(k) or similar plan, participation rates stayed strong and steady at 77 percent; and, in 2012, annual salary deferral rates returned to their 2007 level of seven percent (median) after having dipped slightly to six percent (median) in 2009/10 and 2011. "As evidenced by relatively stable participation and salary deferral rates, we can see that workers have stayed committed to contributing to their 401(k) plans even through tough times," said Collinson.

Unfortunately, the recession affected retirement savings in other ways, as some workers had to dip into their savings, taking loans or hardship withdrawals from their accounts, including many who became unemployed or underemployed.
Workers reported higher levels of total household retirement savings (estimated median) in 2012 than in 2007.

Total Savings in Household Retirement Accounts (Estimated Median)

	2007	2012
Echo Boomers	$8,615	$15,213
Gen X	$32,106	$41,821
Baby Boomers	$74,781	$99,320

"The survey found significant increases in retirement savings, yet the reality is that the level of savings in both 2007 and 2012 is inadequate for many workers to meet their future retirement income needs. Perhaps it is the combination of difficult economic conditions and increased awareness of saving shortfalls that has fueled workers' decline in confidence," said Collinson.

American workers have also adjusted their expectations of retirement. Many are now planning to work longer and delay retirement. The survey found that the majority of workers (56 percent) plan to work past age 65, including 43 percent who plan to work past age 70 or do not plan to retire. More than half (54 percent) plan to continue working after they retire. Yet only one in five has a back-up plan if forced into retirement sooner than expected.

"Delaying retirement is an important way to help bridge a shortfall in savings," said Collinson, "but planning not to retire is not a retirement strategy. It's important to have a backup plan for life's unforeseen circumstances, such as a job loss or health issues, which could derail the best of intentions – “Improving America's Retirement Confidence”

As America faces the fallout of the Great Recession and Baby Boomers are beginning to retire, concerns about retirement security are at an all-time high. While the current retirement system is facing criticism, it is unlikely that any of the proposed alternative systems would have proved to be immune to the adverse economic conditions of the last five years. Any system that relies on employee contributions, as most of the proposals do, would encounter the same challenges in educating employees about the need to save, and providing sufficient savings incentives to cash-strapped individuals and families. In fact, the survey results provide compelling evidence that the current system's employer-based retirement plans have helped workers continue to save for retirement amidst financial hardships experienced by both individuals and businesses.

Employers play a critical role in helping workers save for retirement, the most obvious of which is through providing access to retirement plans. The impact of employers depends on their commitment to offering specific features, planning tools, and retirement income options as part of their plans. As workers plan to extend their work lives, employers should find additional opportunities to help them through their transitions into retirement. Arguably, their most important role is as a facilitator.

"Although financial market performance cannot be controlled, by coming together to give more workers access to retirement plans, investment fund choices, education, and distribution options, employers, policymakers and the retirement services industry can mitigate adverse impacts of economic declines and help workers ultimately achieve retirement readiness," said Collinson.

A full list of recommendations is available online; some tips for employers and policymakers include:

Recommendations for Employers (with their Retirement Plan Providers)

1. Proactively encourage participation in existing retirement plans. Consider adding automatic enrollment and automatic escalation features to increase participation rates and salary deferral rates.
2. Add, increase and/or reinstate matching contributions to 401(k) plans. Consider structuring the match to promote higher salary deferrals (as a hypothetical example, instead of just matching 50 percent on the first 6 percent of deferrals, consider adding a small match - such as 10 percent or 15 percent - on the deferrals between 6 and 10 percent).
3. Promote the educational resources offered by the company's retirement plan provider and encourage employees to take advantage of them.

Recommendations for Policymakers

1. Expand qualified retirement plan coverage by increasing the tax credit for employers to start a plan, providing incentives to encourage plan sponsors to cover part-time workers, and implementing reforms to multiple employer plans.
2. Expand the Saver's Credit by raising the income eligibility requirements so that more tax filers are eligible.
3. Extend the 401(k) loan repayment period for terminated plan participants and eliminate the six-month suspension period following hardship withdrawals.

For the full survey results, additional policy recommendations and resources about retirement planning, visitwww.transamericacenter.org .

About Transamerica Center for Retirement Studies®

The Transamerica Center for Retirement Studies® ("The Center") is a non-profit, private foundation. The Center is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third-parties. For more information about The Center, please refer to www.transamericacenter.org .

About the 13th Annual Retirement Survey

Employer Survey

A telephone survey was conducted within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® between February 23, 2012 and April 2, 2012 among a nationally representative sample of 750 employers including large (500+ employees) and small (10 - 499 employees) companies. Respondents were targeted based on job title at for-profit companies and met the following criteria: business executives who make decisions about employee benefits at his or her company; employ 10 employees or more across all locations. Results were weighted as needed using weighting targets from the Dun & Bradstreet database to ensure each quota group had a representative sample based on the number of companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

Worker Survey

This survey was conducted online within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies® between January 13, 2012 and January 31, 2012 among 3,609 full-time and part-time workers. Potential respondents were targeted based on job title and full-time and part-time status. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted as needed for the number of employees at companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

Unemployed/Underemployed Survey

This survey was conducted online within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® between February 2, 2012 and February 10, 2012 among a nationally representative sample of 621 unemployed or underemployed people using the Harris online panel. Respondents met the following criteria: U.S. residents, age 18 or older; people who were fully employed in a for-profit company employing 10 or more people and are currently unemployed or underemployed. In this report, "underemployed" workers are those who are working part-time only because they are unable to find full-time employment, or working full-time but self report they consider him or herself underemployed. Results were weighted to ensure that each quota group had a representative sample based on the length of time people were underemployed or unemployed. No estimates of theoretical sampling error can be calculated; a full methodology is available.

Business Wire
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GAO Recommends Revising PBGC Premium Structure

A new Government Accountability Office (GAO) report recommends revising the Pension Benefit Guaranty Corporation's (PBGC's) premium structure so premiums are tied more directly to the risk of future claims. The PBGC agreed with the recommendation.

To help contain PBGC's deficit, Congress recently passed legislation increasing PBGC premiums. Beyond simply increasing rates, the administration has proposed granting PBGC authority to redesign its premium structure to more fully reflect the risk of new claims. To better understand the issues involved, GAO was asked to examine:

- the options available to adjust premiums to improve PBGC's financial condition;
- the potential implications of adjusting premiums; and

- the potential implementation challenges in moving to a more risk-based premium structure.

PBGC's current structure relies largely on a flat-rate premium that is based on the number of plan participants and that assesses rates equally per plan participant across all sponsors. PBGC also charges a variable-rate premium that is based on just one risk factor, plan underfunding. The GAO states one available option is further increasing rates within this current structure; however, plan underfunding alone is a poor proxy for the risk of new claims. An alternative option is to redesign premiums to incorporate additional risk factors, such as a sponsor's financial strength (as currently being explored by PBGC) or a plan's investment strategy (as is currently done in the United Kingdom).

The complete 95-page GAO report is available at http://www.gao.gov/assets/650/649838.pdf.