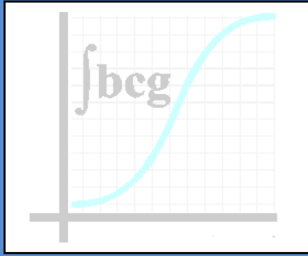

BCG Retirement News Roundup

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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. If you would like to discuss any of these issues, please contact us.

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Public Sector/Government Plans

Judge Denies Appeal of Detroit Pension Cuts

A federal judge on Thursday denied an appeal brought by Detroit pensioners, who sought a rollback of the pension cuts levied on retirees during the city's bankruptcy proceedings.

At the time of the bankruptcy, a majority of city retirees voted to have their pensions cut because they wanted to avoid the possibility of even deeper cuts.

But the group of retirees bringing the appeal argued that the pension-cutting portion of the bankruptcy plan should be retroactively removed entirely.

More from the Detroit Free Press:

Judge Bernard Friedman of the U.S. District Court in Detroit tossed out appeals by city retirees who had asked the federal court to remove pension cuts from the city's December 2014 bankruptcy settlement with thousands of creditors, deals that helped the city shed $7 billion in debt.

Detroit's lawyers asked Friedman to reject the appeals, arguing they were "equitably moot," a legal doctrine that says a bankruptcy exit plan shouldn't be reopened once it is substantially consummated, because doing so could hinder the success of the plan and harm other parties who've reached settlements.

The retirees had asked the court to remove pension settlements from the final bankruptcy exit plan, arguing that parts of the treatment of pension claims in the bankruptcy violated the U.S. Bankruptcy Code and the Michigan Constitution.

They also argued that the settlement unfairly treated pensioners who received benefits from an annuity savings fund — supplemental extra pension benefits that city workers paid into above their regular pension benefits. The city took back some of the annuity benefits paid out to workers, arguing that they were improperly paid out at the expense of the overall General Retirement System fund.

A representative for the retiree group said they would appeal the ruling to the U.S. 6th Circuit Court of Appeals.

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Pennsylvania Public School Employees posts 3.04% fiscal year return

Pennsylvania Public School Employees' Retirement System, Harrisburg, returned 3.04% net of fees in the fiscal year ended June 30, said spokeswoman Evelyn Williams.

The $51.9 billion pension fund's strongest-performing asset class was real estate, which returned a net 13.92%, followed by international equity at 9.31%.

Ranking third was domestic equities, which returned 6.53%, followed by absolute return at 4.3%, private equity/venture capital/private debt at 2.63% and fixed income at 1.93%.

Three asset classes had negative returns: Risk parity at -0.86%, master limited partnerships at -10.14% and commodities at -18.65%.

As of June 30, the actual allocation was 20.2% fixed income, 15.8% private equity/venture capital/private debt, 14.6% international equities, 12.9% real estate, 9.8% domestic equities, 9.5% absolute return, 7.2% risk parity, 4% commodities, 3.5% master limited partnerships and 2.5% cash and cash equivalents.

The target allocation is 23% each fixed income and public market equities, 16% private equity/venture capital/private debt, 13% real estate, 10% absolute return, 7% risk parity, and 4% each commodities and master limited partnerships.

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State Pension Funding Levels in U.S. Improve for a Second Year

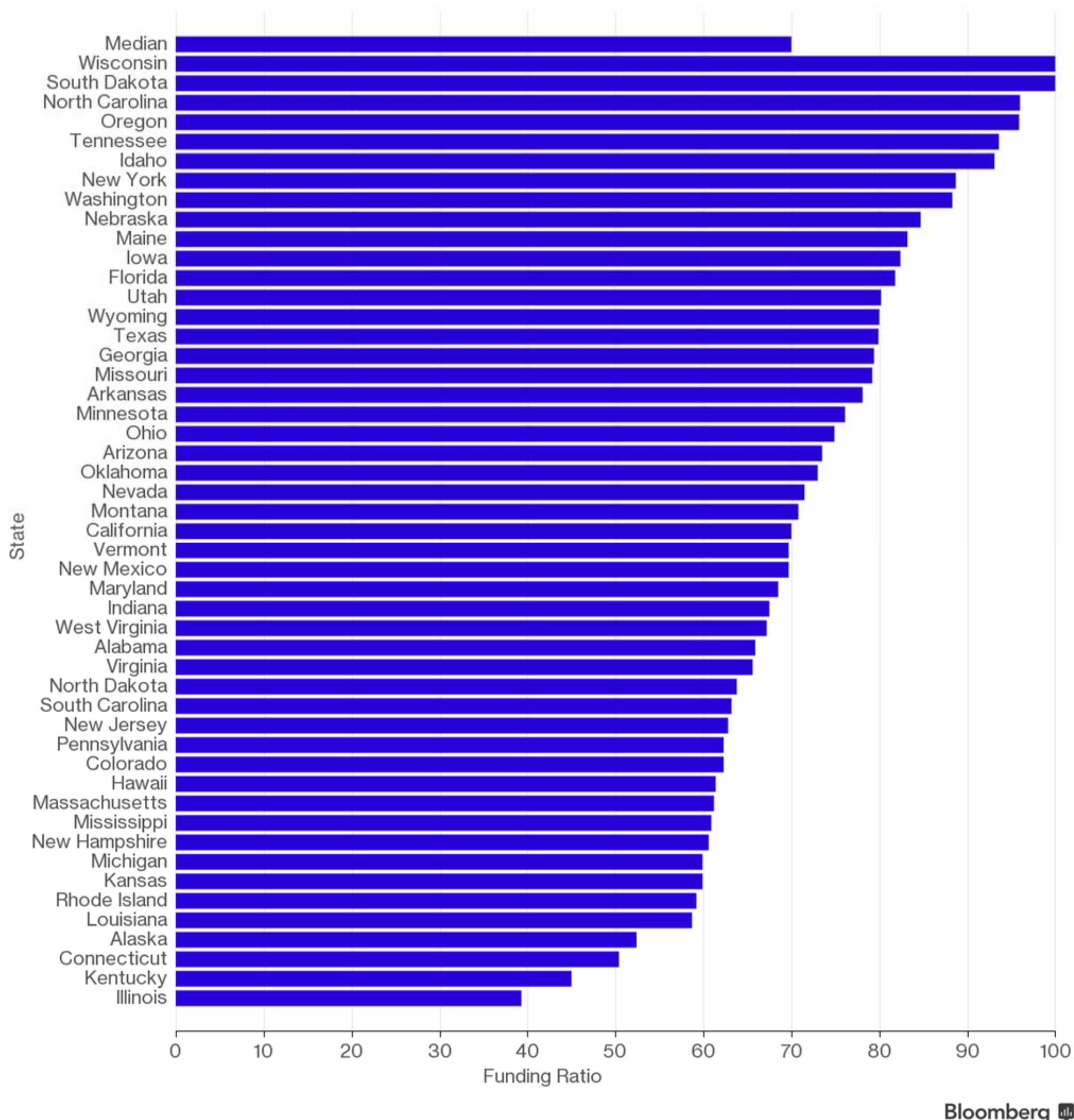
The finances of more than two-thirds of U.S. state pension plans improved in fiscal year 2014, as a soaring stock market boosted returns and many states stopped incorporating losses from the recession into their pension calculations.

The median state pension last year had 70 percent of the assets needed to meet promised benefits, up from 69.2 percent in 2013, according to data compiled by Bloomberg. It was the second straight increase in pension funding. Public pensions had median investment gains of 16.9 percent for the 12 months ended June 30, 2014 according to Wilshire Associates.

"It's generally agreed that 2014 was mostly a year of improvement for public pension funds," said Josh Gonze, who co-manages $10.5 billion of municipal bonds at Thornburg Investment

Management in Santa Fe, New Mexico. Thornburg's $7.3 billion Limited Term fund is the 13th largest open-end tax-exempt mutual fund, according to data compiled by Bloomberg.

The Federal Reserve's policy of keeping short-term interest rates near zero and an improving economy boosted the Standard & Poor's 500 Index of U.S. stocks by 24.6 percent in the 12 months through June 30, 2014 including dividends, helping to ease the strain on public pensions.



Broad numbers mask big difference in the health of public pensions between states. Eight of 13 states whose funding level declined were states with below average funding levels.

“We have states that seem to be in genuine trouble,” Gonze said, listing Illinois, Kentucky, Alaska and New Jersey. “And clearly states that are not in any trouble at all.”

Illinois, with a pension shortfall of more than $100 billion, remains the state with worst-funded retirement system, with a ratio of assets to liabilities of 39.3 percent, followed by Kentucky at 45 percent and Connecticut at 50.4 percent.

In May, the Illinois Supreme Court struck down a 2013 pension overhaul saying it violated the state constitution’s ban on reducing worker retirement benefits. The ruling highlighted the lack of legal flexibility some states have in addressing their pension funding deficits.

Accounting Change

New Jersey’s pensions are projected to run out of assets to pay liabilities between 2021 and 2032, depending on the retirement system, under new accounting rules that most states began implementing in 2014, according to Moody’s Investors Service.

New Governmental Accounting Standards Board rules require public pensions to use a lower discount rate to value liabilities for plans with projected asset depletion dates and market value rather than the actuarial value of assets among other things.

Puerto Rico, Illinois and New Jersey are the three issuers whose pension funding deficits are serious enough that Thornburg is avoiding their securities, Gonze said. Thornburg’s limited term fund focuses on debt maturing in 10 years or less.

More Retirees

Loop Capital Markets, in a report last month, said it expects “continued bifurcation” among governments in terms of the fiscal health of their pensions.

“A combination of strong pension protections, coupled with low funded levels, should be especially noted as they indicate escalating budgetary pressure,” Loop’s report said. “For those perennially struggling with funding pension payments and low funded levels, these pressures are not expected to abate without significant change in plan fundamentals.”

State that had the biggest improvement in funding include Idaho, whose, pension funding ratio rose 7.6 percentage points to 93.1 percent and Oklahoma, whose actuarial value of assets divided by actuarial accrued liabilities gained 6.5 percentage points to 73 percent.

In the last six years Idaho’s pension funding has improved by 19.2 percentage points, the most of any state, according to data compiled by Bloomberg.

Michigan's pension funding ratio has declined the most during that period to 59.9 percent from 83.6 percent. Michigan is one of three states, including Alaska and Ohio that have more retired public employees than active members, according to Loop.

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Virginia's state, teacher pension plan funding improves

RICHMOND — The Virginia Retirement System is expected to adopt contribution rates for state retirement plans Thursday that reflect declining unfunded pension liabilities for state employees and teachers.

"It's good news — the funded status is improving for all of the [state and teacher] pension plans," said Jose I. Fernandez, principal and consulting actuary at Cavanaugh McDonald Consulting LLC, in a presentation Wednesday to the VRS Benefits and Actuarial Committee.

The committee adopted rates for the full VRS Board of Trustees to consider Thursday for retirement contributions in the two-year budget that Gov. Terry McAuliffe will propose in December for adoption by the General Assembly next year.

The recommended rates are lower than those VRS adopted two years ago, but the amount that the state will actually pay will rise because of a four-year-old commitment to fully fund the pension contributions that VRS and its actuary say are necessary to meet future obligation, by fiscal 2019.

The recommended rates are based on the financial condition of the $68.1 billion retirement system on June 30, the end of the 2015 fiscal year. The system earned a 4.6-percent return on investment in the fiscal year, below the 7-percent return assumed in VRS rates, but smoothing of assets over a five-year period reduced total pension liabilities by $1.8 billion to $20.8 billion.

The funded status rose above 71 percent for the state employee retirement plan from 67.9 percent a year ago, reducing the plan's unfunded liability by about $587 million.

The teacher retirement plan, financed by state and local school district contributions, improved its funded status to 69.2 percent from 65.4 percent, reducing the plan's unfunded liability by more than $1.1 billion.

The funded status also improved on an actuarial basis in retirement plans for state police, judges, and sworn law officers, such as correctional officers and game wardens.

VRS sets rates on an actuarial basis, smoothing gains and losses over five years, rather than on a current market basis, which would have raised unfunded liabilities for the five pension plans by $600 million because investments returned less than the expected in the last fiscal year.

The rates adopted Thursday will not be fully funded in the 2016-2018 budget that McAuliffe will propose and the Assembly will adopt, but the state has committed to funding 89 percent of the rate for state employees and almost 90 percent for teachers under pension reforms adopted in 2012.

The General Assembly already has boosted funding for the state plan to 90 percent, effective in mid-August. VRS officials say the assembly should keep the funding at 90 percent, which would raise the rate slightly for the next two years, but reduce costs over the long term.

"There's no question we're going to stay at 90 [percent]," said House Appropriations Chairman S. Chris Jones, R-Suffolk, who cited close collaboration among the House, Senate, and McAuliffe administration on pension funding.

"My desire is we continue the progress we've made and go to 100 [percent] sooner than later," Jones said.

When the General Assembly included an additional $32 million in the current budget this year to accelerate funding of state employee pension obligations to 90 percent, it estimated savings of $85 million over 20 years.

McAuliffe and the legislature also included an additional $193 million in the budget to accelerate repayment of liabilities in the teacher plan that the state had deferred in 2010 in order to balance the budget in the depths of recession.

That year, the assembly and then-Gov. Bob McDonnell deferred payment of $720 million of state pension obligations to avoid employee layoffs and deep cuts in programs. The total deferred was $1.1 billion, after including the local share of teacher retirement contributions that were not paid for the 2010-2012 biennium.

However, the state committed to repaying the deferred amount over 10 years. The repayment is reflected in the rates that the VRS board will consider Thursday. The state has repaid more than $533 million of the deferred liabilities, and is due to fully retire the debt in six years.

The accelerated repayment of deferred contributions to the teacher plan is expected to save the state and localities $34 million over six years.

The rates adopted Thursday also will include a small contribution to a 401(k)-style plan under a hybrid model that applies to most state and local employees hired after Jan. 1, 2014. The hybrid plan includes the traditional defined benefit pension plan and a defined contribution plan.

Only about 19,000 teachers, state employees and judges are part of the hybrid plan out of the 234,000 employees covered by the five pension plans.

VRS will adopt rates for employees of local governments and political subdivisions next month.

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CalPERS moves toward reducing assumed rate of return after surplus return years

CalPERS' finance and administration committee on Tuesday will discuss a plan that reduces the pension fund's assumed rate of return only in good investment years.

The $296.2 billion California Public Employees' Retirement System, Sacramento, has been considering a plan to reduce its 7.5% assumed rate of return as part of efforts to reduce volatility and risk in its overall portfolio.

The policy — which reduces the assumed rate of return by five basis points when CalPERS' investment returns exceed its assumed rate of return by four percentage points in any given year — was developed from one of two proposals made earlier this year.

The other plan would have required reductions in the rate of return at set points once every four-year period if performance was not robust enough to merit a decrease in the return rate.

The proposal is expected to be voted on at the committee's next meeting in November, and then go to the full board for a vote that month.

Under the plan, for each additional three-percentage-point increase in returns up to 13 points above the assumed rate of return, an additional reduction of five basis points is taken. A final increment of four percentage points to 17 points above the assumed return rate would lead to an additional reduction of five basis points.

The maximum reduction in the assumed rate of return allowed under the plan would be 25 basis points in a given year.

Under that most optimistic scenario, CalPERS would reduce the current 7.5% rate of return to 7% in two years.

CalPERS spokesman Joe DeAnda said there was general consensus among CalPERS board members and staff that the other plan that would have reduced the assumed rate of return periodically regardless of positive investment returns would have placed too much of a financial burden on municipalities, the state and school districts.

Even under the new plan, the three employer groups would have to make additional contributions to fund the less-risky portfolio.

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Private Sector

2016 Increases for Retirement Plans, Social Security

October 20, 2015

The Social Security Administration just announced benefit increases, or lack thereof, effective in 2016. For the second time in the past six years, current retirees will not receive a cost-of-living increase in 2016, due to a decline in the CPI-W between the third quarter of 2014 and the third quarter of 2015.

Since there will be no cost-of-living increase next year, the maximum amount of earnings subject to Social Security tax will remain at $118,500 during 2016, (although the 'bend points' used to calculate Social Security benefits will increase by 3.5% in 2016, based on a corresponding increase in the 'national average wage' during 2014.)

These changes will affect benefits for currently retired individuals, as well as those contemplating retirement. Employers who sponsor retirement plans that are 'coordinated' with Social Security in some fashion will also see an impact on benefits earned and payable under such plans.

IRS limits

IRS will soon release limits applicable to retirement plans for various purposes in 2016, based on the 0.11% increase in CPI-U between the third quarter of 2014 and the third quarter of 2015. Based on this tiny increase, we expect no increases in key 2016 limits. The table below summarizes our calculations for 2016, along with values for 2015 and 2014:

IRS limits	2016*	2015	2014
Defined benefit dollar limit [415(b)]	$ 210,000	$ 210,000	$ 210,000
Defined contribution dollar limit [415(c)]	53,000	53,000	52,000
Qualified plan pay cap [401(a)(17)]	265,000	265,000	260,000
401(k) deferral limit [402(g)]	18,000	18,000	17,500
Catch-up contribution limit [414(v)]	6,000	6,000	5,500
Highly compensated threshold [414(q)]	120,000	120,000	115,000

** Based on October Three calculations*

PBGC amounts

The increase in national average wages also drives some key amounts used in calculating PBGC premiums. Relevant amounts for 2016 (along with 2015 and 2014) are summarized below:

PBGC premium amounts	2016	2015	2014
Headcount premium	$ 64	$ 57	$ 49
Variable premium (% of UVB)*	3.0%	2.4%	1.4%
Variable premium cap	$ 500	$ 418	$ 412

** 2016 based on October Three calculations*

We note that 2016 headcount premium ($64) and variable premium cap ($500) are set by law (but will increase in future years), while the variable premium rate (3.0%) is based on the 3.5% increase in national average wages during 2014.

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Society of Actuaries: Updated mortality data could reduce pension liabilities

New mortality data released by the Society of Actuaries Thursday show smaller improvements in longevity than previously reported last year that could slightly reduce liabilities for pension plan sponsors.

“While people still are seeing (mortality) improvements, the rate of improvements is a little bit less,” said Dale Hall, managing director of research at the Society of Actuaries, in an interview. Plans that adopt the most recent data could see plan liabilities drop up to 2%, depending on the demographics of individual plans.

The most recent update incorporates newly available data from the Social Security Administration for 2010 and 2011, which changes the improvement scale within the society's mortality table that was updated in October 2014. The new improvement scale will help plan actuaries measure obligations.

Mr. Hall said the Society of Actuaries plans to update mortality tables and improvement scales more frequently, and is looking at other sources of data, such as Medicare. “Our goal was to incorporate new data as it becomes available. We want to make sure that we have the most current information available to our members. We are actively looking to see what we can build into a more timely process,” he said.

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Law Does Not Provide for a Social Security Cost-of-Living Adjustment for 2016

With consumer prices down over the past year, monthly Social Security and Supplemental Security Income (SSI) benefits for nearly 65 million Americans will not automatically increase in 2016.

The Social Security Act provides for an automatic increase in Social Security and SSI benefits if there is an increase in inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The period of consideration includes the third quarter of the last year a cost-of-living adjustment (COLA) was made to the third quarter of the current year. As determined by the Bureau of Labor Statistics, there was no increase in the CPI-W from the third quarter of 2014 to the third quarter of 2015. Therefore, under existing law, there can be no COLA in 2016.

Other adjustments that would normally take effect based on changes in the national average wage index also will not take effect in January 2016. Since there is no COLA, the statute also prohibits a change in the maximum amount of earnings subject to the Social Security tax, as well as the retirement earnings test exempt amounts. These amounts will remain unchanged in 2016. The attached fact sheet provides more information on 2016 Social Security and SSI changes.

The Department of Health and Human Services has not yet announced Medicare premium changes for 2016. Should there be an increase in the Medicare Part B premium, the law contains a “hold harmless” provision that protects approximately 70 percent of Social Security beneficiaries from paying a higher Part B premium, in order to avoid reducing their net Social Security benefit. Those not protected include higher income beneficiaries subject to an income-adjusted Part B premium and beneficiaries newly entitled to Part B in 2016. In addition, beneficiaries who have their Medicare Part B premiums paid by state medical assistance programs will see no change in their Social Security benefit. The state will be required to pay any Medicare Part B premium increase.

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Teamsters’ Pension Fund Warns 400,000 of Cuts

A prominent Teamsters pension fund, one of the largest, has filed for reorganization under a new federal law and has sent letters to more than 400,000 members warning that their benefits must be cut.

Any reorganization of the decades-old Central States Pension Fund would take months and would probably be a brutal battle as workers, retirees, union leaders and employers all seek to protect competing interests. It is a multiemployer plan, the type led jointly by a union and a number of companies, that has caused consternation for many years, because if it failed, it could wipe out a federal insurance program that now pays the benefits of tens of thousands of retirees.

If the reorganization ultimately proves successful, however, it could serve as a model for other retirement plans with similar, seemingly intractable financial problems.

Cutting retirees' pensions has generally been illegal, except under the most dire circumstances. But the executive director of the Central States fund, Thomas Nyhan, said that reducing payouts to make the money last longer was the only realistic way of avoiding a devastating collapse in the next few years.

"What we're asking is to let us tap the brakes a little now, and let us avoid insolvency," he said. "The longer we wait to act, the larger the benefit reductions will have to be."

He said the Central States fund had been hit by powerful outside forces — the deregulation of the trucking industry, declining union membership, two big stock crashes and the aging of the population — and it was currently paying out $3.46 in pension benefits to retirees for every dollar it received in employer contributions.

"That math will never work," Mr. Nyhan said. He said the fund was projected to run out of money in 10 to 15 years, an almost unthinkable outcome for a pension fund that became a political and financial powerhouse in the 1960s, when trucking boomed with the construction of the interstate highway system. Central States became famous back then for financing the construction of hotels and casinos in Las Vegas.

In 1982, the Teamsters were barred from investing their retirees' money because of the union's ties to organized crime. Under a federal consent decree, the fund's investment duties were shifted to a group of large banks, where they have remained. The restructuring plan would not change that.

In the coming months, the Treasury Department will review the Central States restructuring plan, to make sure it complies with the new law. It will also receive comments from affected people through a special master, Kenneth Feinberg, who has been retained by the Treasury to iron out conflicts that have come up in other special circumstances, such as the dispute over whether workers at bailed-out companies could receive contractual bonuses.

The Treasury is expected to decide whether to approve the proposal by next May. If it does, Central States' roughly 407,000 members will then vote on it. Those facing large cuts would be unlikely to vote in favor of the restructuring. But others might see it as an acceptable way to make their pension plan viable over the long term. Active workers will continue to accrue benefits, for example, and Mr. Nyhan said his projections showed that the restructuring could make the pension fund last for 50 more years.

Mr. Nyhan acknowledged that the process would be emotionally charged. Even if a majority votes no, however, the law requires the Treasury Department to impose the changes, once it approves them, because the Central States fund is so large that it qualifies as "systemically important." That means that if it collapsed, it could take down the multiemployer wing of the Pension Benefit Guaranty Corporation, jeopardizing the retirees who currently get their pensions through the program. (The federal insurance program for single-employer pensions would not be affected by a possible failure of the multiemployer program.)

In the past, multiemployer pension plans were popular because they gave small companies the chance to offer traditional pensions, and they permitted workers to move from job to job, taking their benefits with them. About 10 million Americans participate in multiemployer pension plans, many of them in sectors like trucking, construction and retailing, where unions are a powerful presence.

Such pension plans were also said to be financially stronger than single-employer pension plans, because if one company went out of business, others would keep contributing to the pooled trust fund that paid the benefits. Both types were insured by the federal government's pension insurance program, but companies taking part in multiemployer plans paid much smaller premiums and the coverage was very limited — no more than $12,870 per year, compared to around $54,120 a year for a single-employer pension.

Many Teamsters have earned pensions that exceed the multiemployer insurance limit and would be hit hard if the Central States fund failed.

But in recent years, some multiemployer plans ran into severe trouble as more and more participating companies went bankrupt, leaving growing numbers of "orphaned" workers and retirees for the surviving companies in the pool to cover. Companies in the more troubled plans said lenders would no longer give them credit. Last December, Congress enacted the Multiemployer Pension Reform Act of 2014, which set up a legal framework for distressed pension plans to restructure.

According to a summary provided by the Central States pension fund, its restructuring plan would work by slowing the rate at which active Teamsters will build up their benefits in the coming years, and by lowering the payouts to current retirees, with certain exceptions.

Retirees who are 80 or older will not have their pensions cut, and those over 75 will receive smaller cuts than younger retirees. Disability pensions will continue to be paid in full.

A group of about 48,000 workers and retirees who earned their benefits by working at United Parcel Service will continue to have their pensions paid in full, thanks to labor contracts between the Teamsters and the company. UPS was for many years the largest employer in the Central States pension fund, but it withdrew from the fund in December 2007 after making one large final payment. After the stock market crash the following year, UPS and the Teamsters negotiated a separate agreement calling for UPS to shelter those workers from any cuts the Central States pension fund might have to make.

The group that seems exposed to the largest pension cuts consists of about 43,400 "orphans," or retirees still in the pension fund, even though their former employers no longer exist. Their pensions will be cut to 110 percent of what they would get from the Pension Benefit Guaranty Corporation, or at most, $14,158.

Active workers will not lose any of the benefits they have earned up until now. But in their coming years of work, they will accrue benefits at the rate of 0.75 percent of the contributions their employers pay into the fund. In the past, their accrual rate was 1 percent.

The restructuring will also abolish a rule that bars pensioners from returning to the work force to supplement their reduced pensions.

The president of the International Brotherhood of Teamsters, James P. Hoffa, wrote to Mr. Nyhan last month, saying the new restructuring law "creates the false illusion of participatory democracy," because it required a vote "that can simply be ignored." Although Mr. Hoffa is president of the union, he has no say over the pension fund, which is run by a group of trustees from the companies and the union.

"Participants and beneficiaries get to vote, but their vote only counts if they vote to cut their own pensions," Mr. Hoffa said. "The people who conceived that cynical scheme should be ashamed." He said he preferred legislation introduced by Senator Bernie Sanders of Vermont, which if enacted would close tax loopholes and redirect the money to supporting troubled multiemployer pension plans.

Mr. Nyhan said he liked Senator Sanders's proposal too, but recalled that a similar bill was introduced in 2010, when Democratic Party lawmakers controlled Congress, but was never approved. He said he thought it was even less likely that today's fiscally hawkish, Republican-controlled Congress would enact such a bill. It was not safe to wait and see if the Sanders bill would pass, he said, because the passage of time made the insolvency more likely.

"The easy thing for my board to do would be ignore the problem," he said. "We just don't think this is the responsible thing to do."

"We need either less liabilities or more money, and Congress is telling us we're not getting more money," he said.

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New PBGC Director Discusses Initiatives

The agency is looking for ways to simplify DB plan calculations.

Asked what issue he's gotten the sense is the most urgent from his first four days on the job, W. Thomas Reeder, the newly confirmed director of the Pension Benefit Guaranty Corporation (PBGC), jokingly told PLANSPONSOR he is most surprised by what his roles and responsibilities with the agency actually are.

On a more serious note, he shared with attendees of the American Retirement Association's 2015 ASPPA Annual Conference that the agency is very focused on multiemployer plans right now. "We need to do what we can with plans that cannot pay benefits," he said. "We want to make sure the Multiemployer Pension Reform Act (MPRA) legislation is administered as fairly as possible."

Aside from that, according to Reeder, the PBGC is looking for ways to simplify defined benefit (DB) plan calculations. He encouraged suggestions from the industry.

The agency is also close to making a proposal for a missing participants program, and "we are considering extending it to other plans," Reeder said. "The program will be an alternative to setting up individual retirement accounts for missing participants."

The PBGC issued a request for information in 2013 concerning a missing participants program. According to Reeder, its proposal is "pretty far along."

Reeder concluded, "The agency is still looking to expand coverage and improve adequacy of DB plans, but at the very least, we must ensure the payment of benefits that are already promised."

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