



# BCG Retirement News Roundup

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BoomerShine Consulting Group (BCG) has launched this monthly news roundup of highlighted significant articles from the retirement industry – for clients and friends. Retirement plan news has become increasingly pertinent for many audiences these days, including:

- Retirement Plan Sponsors – addressing both private and public sector issues
- Employers – dealing with complicated decision making for their plans
- Employees – educating the Boomer generation that is nearing retirement
- Industry Practitioners - helping to understand and resolve today's significant challenges

We review numerous industry news services daily and will include a collection of timely and significant articles each month concerning compliance, actuarial plan costs (including assumption debates), plan design change issues and benefit trends, as well as other related topics.

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## Public Sector/Government Plans

### How Are Pensions Protected State-by-State?

Over the last century, states have adopted the idea that pensions are a form of deferred compensation and, along with that change, has come certain protections.

This is part of an ongoing series called Finance 101 that goes back to the basics to help public officials.

Pensions both public and private started out as a worker's perk – a gratuity that could be amended or removed entirely at any time. But over the last century, that perception has given way in most states to the idea that pensions are a form of deferred compensation.

Along with that change has come certain protections via either specifically in state constitutions or through a court's interpretation of the constitution. Nearly all states have some kind of protection for pensions. Most (41) protect pensions under contract theory which prohibits states from passing a law that impairs a contract, whether public or private.

Some states (seven) have a constitutional provision that specifically states that public pension plans create a contract between the state and participant (employee) although the protections vary state-to-state. Michigan, for example, has a constitutional provision that protects benefits accrued to date while Illinois' constitution says accrued and future retirement benefits are protected. These kinds of specific protections make it impossible (barring extreme circumstances) to change an employee's retirement benefit. This rigidity is why unfunded pension liabilities in these states (Illinois in particular) are so alarming – because the law essentially prohibits the legislature to making any changes that could decrease that liability. The law only allows for changes to future employees, whose benefits are of course not included in that unfunded liability.

There may be an exception. In Detroit, a federal bankruptcy judge ruled that city's pension debt was eligible for haircuts – a ruling that stated federal bankruptcy law (where contracts can be impaired) trumps state law. That ruling is being appealed but in any case, would only apply to cities in bankruptcy.

In most other states (34), court rulings have inferred intent to create such a contract although when the protection starts and what it entails varies from state to state. In California, for example, court rulings in the 1950s have led to what's called the vested rights doctrine. "The state supreme court determined that when you essentially enter public employment and you are told that a term of your compensation is a certain benefit when you retire, that you go into your employment ... you're entitled to the

benefits you were promised when you started working,” says Teague Paterson, a partner at Beeson Tayer Bodine in California and an expert on labor law.

Therefore state courts in California have been more receptive to the argument that pensions as contracts can't be impaired. A Santa Clara County Superior Court judge ruled late last year that San Jose, which had implemented voter-approved pension cuts in 2012, was not allowed under California law to require its employees to contribute an additional 16 percent of their paychecks toward their pension or be forced to opt for a less generous plan. (The judge did rule, however, that paycuts in order to manage future benefits payments was legal.)

Fewer states (six) take the approach that pensions are protected as a matter of property. Property cannot be taken away without due process according to the U.S. Constitution. Still, these states have generally had success at amending pension benefits, notes the Center for Retirement Research's Alicia Munnell. "Courts have generally found amendments to public pension plans to be an 'adjustment to the benefits and burdens of economic life' rather than the taking of private property without just compensation," she writes in *Legal Constraints on Changes in State and Local Pension Plans*. "Thus, state officials have much more freedom to adjust pensions in states that have taken the property based approach to pension rights."

Minnesota is an outlier – it is the only state that protects pensions under the promissory estoppel theory: the protection of a promise even where no contract has been explicitly stated.

Lastly, only Texas and Indiana still apply the gratuity approach to pensions and there are still caveats. In Texas, state plans are subject to change but locally-administered plans are protected under the state constitution. And Indiana's Indiana, "the gratuity approach is followed only with respect to involuntary or compulsory plans, where the employee has no choice regarding whether to contribute to the plan or keep the compensation," says the University of Minnesota Law School's Amy Monaghan in her paper outlining the legal framework for pension protections.

In all, 21 states protect past and future pension benefit accruals via contract or another theory of law. Though states and localities continue to test those boundaries, the protections on the whole make it very difficult for governments (outside of limiting cost-of-living increases) to reduce any unfunded liabilities they may have accrued. Munnell notes that such a structure has led to new employees taking on much of the financial burden of retirees via far less generous benefits. She advocates changing the definition of the employer-employee contract to one that is created when the service is performed, meaning only accrued benefits would be protected. "Such a standard," she writes, "would be much clearer than the morass of provisions that currently exists across the states, would enable state officials to undertake needed reforms, and would put public sector workers on an even footing with those in the private sector."

The following map shows legal protections for public employee pensions in each state. Protections for past and future benefits vary from state to state; [click here](#) for state details.

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by Liz Farmer | January 28, 2014

## Moodys: State pension burdens may have peaked

WASHINGTON - More than a quarter of U.S. states had public pension liabilities that were greater than their total revenues in fiscal 2012, Moody's Investors Service said in a report on Thursday that also indicated the struggle to pay for public employee retirement had peaked.

Altogether, the median ratio of states' adjusted net pension liabilities to their revenues grew to 63.9 percent in fiscal 2012 from 45.1 percent in fiscal 2011, according to Moody's.

But fiscal 2012 ended for most states on June 30, 2012, and since then, a run-up in financial markets has helped shrink public pension shortfalls. Investment returns provide the lion's share of the retirement systems' revenue, and in 2013, pensions' holdings reached record amounts.

That could make fiscal 2012 the high-water mark for pension problems that have rocked state governments over the last decade and led to a wave of pension reforms recently, according to Moody's..

Pension liabilities "for 2012 may reflect a cyclical peak as a result of subsequent strong market returns and a rising interest rate trend," the rating agency said.

Still, improvements in fiscal 2013 may not be enough to wipe out the biggest unfunded liabilities.

Illinois had the worst funded pension in fiscal 2012, with its burden equal to 318 percent of the state's entire revenue.

Strong equities and rising interest rates likely brought that liability down by 9 percent, Moody's estimated, but that still left the state with a \$173 billion pension bill in fiscal 2013.

After Illinois, Connecticut had the biggest pension problem in fiscal 2012, with its liability equal to 243.4 percent of state revenues, followed by Kentucky at 211.3 percent, according to Moody's.

Hawaii, Louisiana and Maryland had pension liabilities that were more than 150 percent of revenues.

Massachusetts, Maine, Texas, Kansas, New Jersey, Colorado, Pennsylvania and West Virginia rounded out the list of 14 states where pension liabilities were more than 100 percent of total government revenues.

Copyright Reuters/January 30, 2014, 3:13 PM

## Arizona high court bars cuts to public pensions

PHOENIX -- The Arizona Supreme Court ruled Thursday that the Legislature can't cut cost-of-living increases promised to judges and state elected officials.

The court unanimously upheld a Superior Court judge's ruling in favor of retired judges who challenged the Legislature's 2011 decision to cut benefits increases for retirees in the state plan for judges and other elected officials.

The Legislature cut the cost-of-living increases after the judges' retirement system lost money in the Great Recession after gradually becoming underfunded in previous years.

Denying an appeal by state officials, the high court agreed the increases are part of a promised retirement benefit and are protected by the pension clause of the Arizona Constitution. That clause bars "diminishing or impairing" public retirement benefits.

Lawyers for the retired judges had argued that the clause protected both their retirement benefits and the increases to those benefits, while lawyers for the state argued that the protection only applied to benefits with increases calculated by current methods.

Arizona is not alone in grappling with the problem of underfunded public pensions. A proposed ballot initiative in California would allow cities to renegotiate public workers' future pension and retirement benefits. Oregon's Legislature passed a law similar to what Arizona passed in 2011 that cuts future cost-of-living adjustments.

As in other states, the Arizona dispute touches on contract law because a promised pension is a contract.

However, like the trial judge, the Supreme Court declined to base its ruling on constitutional protections for contracts and chose instead to base its ruling on the constitutional provision dealing specifically with public pensions.

The Arizona justices acknowledged that they have personal stakes in the outcome of the case because they will be eligible for benefit increases upon their retirements.

However, the ruling written by Justice Robert Brutinel said the justices handled the case because none of the parties asked the justices to recuse themselves and because no other judges were available to decide it.

Stepping aside would mean the issue wouldn't be decided, "and we must decide the matter," Brutinel wrote.

The retirement plan for judges and elected officials — called the Elected Officials Retirement Plan, or EORP — was closed to new members last year by the Legislature because it was so badly underfunded.

Three other state retirement plans are in better shape but are also underfunded.

By BOB CRISTIE and PAUL DAVENPORT The Associated Press Published: Thursday, Feb. 20, 2014 - 2:06 am

## Maryland Treasurer Opposes Governor's \$100M Cut in Pension Funding

Maryland State Treasurer Nancy Kopp (D) has told lawmakers she opposed Gov. Martin O'Malley's (D) proposed \$100 million cut in the pension contribution, and said it would undermine trust by the state's bond rating agencies.

"I think this is a very difficult thing to defend with the rating agencies," Kopp told the House Appropriations Subcommittee on Public Safety and Administration.

Kopp was testifying as chairman of the State Retirement and Pension System Board of Trustees. As treasurer, she is also the top state official that handles Maryland's bond issues and deals with the three New York firms that rate them.

In 2011, the legislature and governor made major reforms in pensions for state employees and teachers that included higher contributions and lower benefits. At that time, the state promised in law to set aside \$300 million from those savings to beef up Maryland's chronically underfunded pension fund.

O'Malley has proposed permanently reducing that to \$200 million, but the legislature must agree to change the law.

"We set out a plan, and we were going to stick with that plan," said Kopp, who served on the special commission that had recommended the changes.

Unions for state employees and public school teachers are opposing O'Malley's proposal.

#### 'A Question of Trust'

"It's a question of trust, in all candor. . . . We trusted \$300 million, and now we're told to trust \$200 million," Kopp said.

"Making such reforms and remaining faithful to them is of great importance to the rating agencies," Dean Kenderdine, executive director of the retirement agency, told the committee in written testimony emphasizing Kopp's position. "It is fair to expect that any further renegeing on the state's reform plan will be dimly viewed."

Maryland has been able to maintain its triple-A bond rating for five decades, but the rating agencies persistently point out that its pension system is currently covered for only 65 percent of promised benefits, a lower figure than the handful of other states with triple-A ratings. One rating agency, in fact, uses a different expected rate of investment return to calculate liabilities and says Maryland has even higher pension liabilities than reported.

The State Retirement Agency assures retirees there's plenty of money to cover current pension payments to 138,000 retirees, who were paid almost \$3 billion in fiscal 2013.

Unfunded liabilities means the amount of money the state would owe all the plan participants — an additional 192,000 active participants — if the state went bankrupt.

#### Pension Fund Under-Performance

An essential component of the pension fund is the return on its \$40 billion investment portfolio, which contributes more money than either the state or its employees to the pension fund.

At the same hearing Thursday on the budget for the retirement agency, legislative analyst Michael Rubinstein asked the agency to defend its poor performance compared to other states.

"The system's investments returned 10.6 percent in fiscal 2013, which exceeded both the actuarial funding target and its own plan benchmark," said Rubinstein's report. "However, the fund performed poorly in comparison to other large public pension plans."

"The fund's movement away from public equity at a time when it is performing well continues to place it at a disadvantage relative to the performance of its peers, whose allocations to public equity tend to be greater," Rubinstein said.



## Diversity to Reduce Volatility

SRA Chief Investment Officer Melissa Moyer defended the plan's diversification, saying it was designed to reduce volatility — the up and down swings in the stock market. The Maryland fund has a lower percentage of its investments in stocks than some other pension systems, and stocks have been performing well recently.

"During periods of very strong stock returns, the system's performance will likely lag more aggressive funds," Kenderdine's testimony said. "Conversely, the system would likely outperform those funds during time periods when public equity does not perform well."

Investment banker Jeff Hooke, a persistent critic of the system's investment strategy, told the legislators that the Maryland underperformance by 1.8 percent compared to funds comparable in size cost the system \$720 million in earnings last year, and \$3.5 billion over the last 10 years.

As he has in the past, Hooke again recommended that the system stop paying Wall Street managers \$275 million in fees for active management, hedge funds and private equity by using stock index funds.

"Pension fund trustees and staff are no doubt trying to beat the averages, but their tactics aren't working," Hooke said.

"We do index a lot in the portfolio," Moyer responded, with 65 percent of U.S. stock holdings matching a broad portfolio of stocks. "Indexing is not a panacea. We're actually big believers in indexing, but we don't believe it is the only thing that should be done."

© Len Lazarick (Len@MarylandReporter.com) is the editor and publisher of MarylandReporter.com, where this article first appeared.

## For Public-Employee Pension Plans, Better Funding Policies Are Essential for Better Funding

WASHINGTON—The American Academy of Actuaries issued important new analysis of the factors that contribute to well-governed public-sector employee pension systems, and funding policy decisions that have led to the underfunding of many plans throughout the United States in recent years.

"The nature of public pension plans throughout the country — that they are unique to the jurisdictions that create them and the beneficiaries they serve — does not readily lend itself to having a national discussion on what works and what doesn't," said

Academy President Tom Terry. “Underfunding typically results when sponsors do not make contributions required by a plan’s funding policy on a consistent basis, or when a funding policy is out of balance — that is, overly emphasizing one objective at the expense of others. The American Academy of Actuaries wants to advance the public debate — among taxpayers, public employees, and plan sponsors — on this problem by describing the objectives and principles needed for a balanced, disciplined approach.”

The Academy’s issue brief, “Objectives and Principles for Funding Public Sector Pension Plans,” recommends that funding policies for public pension plans:

- Recognize that several competing objectives need to be balanced: security for the promised benefits; making contributions stable and predictable; and ensuring that the costs borne by different generations of taxpayers and employees are handled equitably.
- Communicate how the objectives have been balanced and how the costs are expected to be met.
- Provide a procedure that determines amounts to be contributed at specific points in time — and an enforcement mechanism up to a “legally enforceable contribution demand of plan members to prefund the benefits on an actuarially determined basis.”
- Target the accumulation of sufficient assets for an employee by retirement and establish a plan to make up for any variation in actual assets within a reasonable period.
- Identify any risks that could make it difficult to achieve the objectives.
- Provide for clear disclosure of the effectiveness of contribution policies over time.
- Ensure that funding results are monitored and adjustments made as needed.

© This issue brief was developed by the Academy Pension Practice Council’s Public Plans Subcommittee.  
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## Private Sector

### Summary Plan Descriptions Used as Plan Documents Pose Risk

More than half of medium-size and large employers use their health benefits summary plan descriptions as their plan documents, which raises compliance concerns because summary plan descriptions should not be used this way, according to a survey report by HighRoads, a benefits plan management and health-care compliance company.

The Employee Retirement Income Security Act requires that summary plan descriptions be understandable to the average plan participant. But plan documents often are highly technical and difficult for those unfamiliar with benefits law to understand.

ERISA "stipulates that there should be two separate documents, a plan document and an SPD," Kim A. Buckey, principal, compliance communications services for HighRoads, told Bloomberg BNA in a Jan. 23 e-mail.

In the Fifth Annual Compliance Trends Survey Report, which was released Jan. 22, 56 percent of respondents said that they use two separate documents. However, the respondents might have been confusing the concept of a summary plan description with the concept of a wrap plan document, the report said.

A wrap plan document incorporates, or wraps around, one or more summary plan descriptions, HighRoads said. Sixty-seven percent of respondents said they had a wrap plan document.

The 2013 HighRoads survey was the first time that respondents were asked if they used their summary plan descriptions as plan documents, Buckey said.

#### Compliance Issues

"While ERISA does not spell out much in the way of requirements for plan-document content or format, it is very prescriptive with respect to SPDs, detailing what content should be included and specifically stating that the SPD be written so as to be understood by the average plan participant and not containing jargon. Since plan documents tend to be very legal documents, that would seem to conflict with the notion of using an SPD as a plan document," Buckey said.

In some cases, courts have ruled that such plans are not in compliance because "a plan document cannot simultaneously describe itself and summarize itself in one document," she said.

Despite the risks associated with noncompliance, 66 percent of respondents said they have a formal compliance strategy and 69 percent said that they have teams devoted to governance, compliance, or to both, the report said. Nearly a third of employers said that they have neither a governance nor a compliance team, it said.

About half of the companies with a combined compliance and governance function or with one function or the other used their summary plan descriptions as plan documents, Buckey said.

"Fifty-six percent of those with both compliance and governance functions used their SPDs as plan docs or vice versa, as did 57 percent of those with only a compliance function and 50 percent of those with only a governance function," Buckey said.

### Writing Teams

The number of employers with plan-document writing teams that consist of at least six people increased to 27 percent in 2013 from 19 percent in 2012, and the number of employers with two- to five-person writing teams dropped to 55 percent in 2013 from 71 percent in 2012, Buckey said.

In 18 percent of companies, the summary plan document writing team consists of one person who is "likely highly overworked," the report said.

Twelve percent of the employers surveyed in 2013 said that writing or updating their documents was their biggest challenge, up from 6 percent in 2012, but about the same as in HighRoads' 2011 survey, when 13 percent cited writing or updating of documents as the biggest challenge, Buckey said.

### Updating Declines

Fewer employers planned to update their summary plan descriptions in 2013 than in 2012, the report said.

Sixteen percent of employers planned to rewrite their summary plan descriptions in 2013 for readability, compared with 33 percent in 2012, and 67 percent of employers planned content updates in 2013, compared with 87 percent in 2012, the report said.

Twenty-six percent of employers said that they annually updated and distributed summary plan descriptions to their active employees, the report said.

Sixty-seven percent of employers said they preferred informing participants about plan changes through summaries of material modifications, and 46 percent of employers preferred notifying participants about plan changes through annual enrollment material, the report said.

The report also found that 45 percent of employers are using or planning to use social media to communicate with employees and retirees.

The analysis is based on data from a range of industries that represent about 5 million plan participants, the report said.

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Monday, February 10, 2014

## The 401(k) cash-out: A brewing retirement savings crisis?

When you change jobs, do you take the money and run? A large and growing number of young and low-income workers do just that with their 401(k)s, and it's damaging their chances of building adequate retirement savings down the road.

Data released today by Fidelity Investments shows that 35 percent of all participants in plans it administers cashed out their 401(k) balances when leaving their jobs last year, and the trend was even worse for young and lower-income workers. Four out of 10 workers (41 percent) age 20 to 39 cashed out, and 51 percent of workers who left jobs grossing under \$30,000 cashed out.

Fidelity has been tracking cash-out data only since 2009, but a study of the overall retirement market released last year shows an accelerating trend. HelloWallet, a firm that provides software-based financial guidance tools for employers and employees, analyzed Federal Reserve data and found that \$60 billion was cashed out from workplace plans in 2010, up from \$36 billion in 2004.

"The overall trend is a large and systematic increase in the rate of money coming out of 401(k) accounts for non-retirement spending," says Matt Fellowes, HelloWallet's chief executive officer. The firm's study found that 401(k) breaches were most likely to occur in low-income households living on the financial edge - that is, those that had no liquid emergency savings, sometimes missed bill payments, lacked health insurance or carried credit card balances.

The 401(k) business continues to be a tale of two cities.

Fidelity, the plan administrator with the country's largest base of participants, noted strong growth in its account holders' 401(k) balances. That was largely the result of the stock market's surge last year. The average balance at the end of the fourth quarter was a record high of \$89,300, up 15.5 percent from a year earlier. For pre-retirees age 55

and older, the average balance was \$165,200. A full 78 percent of the increase was due to market gains.

But the cash-out data underscores how economic stress is preventing a major segment of American workers from saving - even when they have access to a retirement plan at work. (Just 58 percent of full-time workers ages 25 to 64 were offered some form of pension at work in 2010, according to the Center for Retirement Research at Boston College.)

Cashing out - compared with leaving savings in a former employer's plan or rolling over to an IRA - comes with major downsides. Cash-outs before age 59 1/2 are subject to a 10 percent penalty in most cases. (One exception: The 10 percent penalty isn't applied to savers at least 55 years old who retire, quit or are laid off under the 72(t) section of the IRS code.)

Withdrawn sums also are taxed as ordinary income. Together, penalties and taxes can eat up a substantial portion of the withdrawn funds. Fidelity provides this example: A 36-year-old saver cashes out a \$16,000 nest egg. Assuming 20 percent federal and state tax withholding rates, \$3,200 would be withheld by the employer, and she would be hit with an additional \$1,600 in penalties - reducing her net withdrawal to \$11,200.

Even more important, she will miss out on the compound growth that would have accrued by leaving the money in a 401(k) or IRA for the long haul. At age 67, the nest egg would be worth \$87,500 in today's dollars, Fidelity calculations show, assuming a 4.7 percent annual real return and no additional contributions. (The growth calculation doesn't include fees or taxes that would be paid on withdrawal.)

Cash-out rates have been rising because of economic stress facing retirement savers. "The population we really see cashing out at higher rates are younger and lower-income participants," says Jeanne Thompson, a Fidelity vice president. "They're paying off debt, especially student loans, or they want to buy a car or first home. It looks like a source of quick cash to them."

A second HelloWallet study last year identified debt pressures as a special worry among 401(k) savers. Debt loads increased 9 percent from 1992 to 2010. Among near-retirement households (age 50-65), debt soared 69 percent over that time period.

## WEIGHING THE OPTIONS

Problems with pension "leakage" have prompted some policymakers to call for tighter rules aimed at preventing early withdrawals. But some experts worry that might dampen contributions by workers worried about gaining access to their money in a tight spot.

Ramped-up education efforts by plan sponsors might help. Most employers send out termination kits to departing workers that lay out options, including leaving savings in

the company plan or rolling over to a new employer's plan or an independent IRA. "Sponsors can elect to have one of our reps call to walk through the options, although not all of them do," says Thompson.

But the short-term nature of 401(k) accounts for some workers raises questions about how these savings are invested. Twenty-five percent of all 401(k) accounts are terminated after just three years, and 50 percent are gone after seven years, according to Federal Reserve data. Some have been rolled over, but many have been cashed out.

With such a short tenure, most assets in these accounts are accumulated through savings deferrals by workers and employer matches - not market returns. Yet the lion's share of young workers are auto-enrolled and invested by default in "target date" funds with a heavy weighting toward risky equities.

Does that point to the need to rethink how workplace plans are structured for some workers, who are less likely to stick with their investments for the long term - perhaps defaulting them into more conservative, guaranteed-return mutual funds?

"That's a very provocative point," says Fellowes.

© By Mark Miller

CHICAGO Thu Feb 13, 2014 12:32pm EST

## MLB teams can elect to cut pensions

PORT ST. LUCIE, Fla. -- Major League Baseball owners, despite earning more than \$8 billion in revenue in 2013, voted in January to allow individual teams to slash or eliminate pension-plan offerings to their non-uniformed personnel.

The vote, tabled a year earlier when the intention became public, quietly took place Jan. 16 at the quarterly owners meetings in Paradise Valley, Ariz., the same gathering at which instant-replay expansion unanimously was approved.

The retirement plans of any baseball employee not wearing a big league uniform may be affected by the decision, including secretaries, scouts, front-office executives, and minor league staff.

Some of those personnel, particularly at the minor league level and in amateur scouting, make less than \$40,000 a year and rely on pensions in retirement.

Rob Manfred, MLB's chief operating officer, noted no team has yet acted to reduce employee pension benefits.

"The change in the rule does not require a club to change anything," Manfred said. "All 30 clubs are free to leave their plans exactly where they are and, in fact, no club has made a change. This change gives the clubs the ability to put together what they feel is a competitive pension program in their particular market."

Manfred also vehemently objected to any characterization that the owners are going after baseball's employees while owners and players continue to reap huge sums.

"Large corporations all over America make adjustments in their pension plans," Manfred said. "That's like saying because the top line is billions of dollars, they shouldn't be making changes to their pension plans."

"The fact of the matter is that the structure of one's pension, and the appeal of that pension to employees, varies greatly depending upon the makeup of your workforce. We have traditionally had defined-benefit pension plans in baseball, but a lot of young people would rather have a defined-contribution plan [401(k)]."

"So I just don't think it's so simple as to boil it down to there's a bunch of money and they're taking away people's benefits. First of all, I'm going to say again: Nobody has changed any benefits. And it remains to be seen whether or not that's going to happen. And, point two, I think that the motivation to make a change in the pension area in general is driven by the desire to be competitive in their markets and provide the kind of benefits that people want in today's economy."

The owners technically voted to repeal the "compatibility rule." That rule mandated that each team provide a pension to employees through the Non-Uniformed Personnel Pension Plan, or provide something of equivalent quality.

Now, any individual team will be free to reduce the quality -- or eliminate the pension offering entirely.

Some benevolent owners are expected to keep the quality of the current pension offering intact, potentially including the Colorado Rockies. Others, like the Kansas City Royals, who are owned by former Wal-Mart CEO David Glass, would appear likely to greatly reduce or eliminate their employees' pension benefits, according to sources.

Manfred, however, disputed the suggestion that the vote means some clubs assuredly will reduce or eliminate their pension plans over time.

"Honestly, I'm not quite sure that is correct. I just don't know what's going to happen," Manfred said. "I really don't. This is a complicated area. Changing pensions isn't easy in general. And I think the clubs are going to be really careful about making any change, and particularly making a change that would affect their competitiveness."



A source told ESPNNewYork.com that Chicago White Sox owner Jerry Reinsdorf chastised owners for being petty with the lives of ordinary people during an earlier attempt to pass this plan.

Existing pension commitments should not be affected, so previously promised money will not disappear.

MLB players' pension benefits, and those of other uniformed big league personnel, are unaffected.

"Businesses all over the country are cutting pension programs," said Mark Conrad, director of the sports business specialization program at the Gabelli School of Business at Fordham University. "I think it's going to be a rarer sight to find even a major corporation having a classic pension. They seem to be replacing them more with 401(k)-type programs.

"In part what they will say -- and I'm not saying they're right -- is administrative costs tend to be higher [with pension plans]. It could be a situation where payments down the line could amount to lots of money, depending on how long retirees live."

Said Joel Maxcy, a labor economics expert at Temple University: "In general, corporations will look for any way to reduce labor costs if they can. And company-funded pension plans, which are an expensive obligation, are a target. Since the '90s, old-style defined-benefit pensions -- paid by the employer -- have been more and more replaced with defined-contribution plans, including 401(k)s, paid by both employee and employer, and even by just the employee.

"Companies facing bankruptcy reorganization often take that opportunity to 'adjust' pension obligations. This includes some of the big and famous like GM and American Airlines recently. Of course, bankruptcy in no way applies to MLB, who have seen significant prosperity this decade.

"So, to sum up, pension reductions are sought particularly when firms face financial distress. However, the MLB owners' action, given their current financial situation, the quiet vote, and that the lowest-paid group is the one that loses out, seems especially malevolent."

## Companies bracing for 1-2 retirement punch

Despite the growing drumbeat in Washington to stimulate more retirement savings, the prospect for real change is dim, and retirement plan sponsors are braced for more bad news from Congress and the White House.

The next delivery will come in early March, when President Barack Obama unveils a 2015 budget that is expected to propose curtailing the tax advantages of workplace retirement savings for higher-income earners, in a bid to direct more of the tax preference for retirement savings to getting more low- and middle-income people into the habit of saving.

Like his 2014 budget, Mr. Obama's 2015 version is likely to limit the value of all tax deductions, defined contribution exclusions and IRA deductions to 28% of income — and include an overall cap on all retirement accounts, including pensions, that could bring in \$1 billion per year in new tax revenue.

Based on current tax brackets, the 28% limit would reduce the tax advantages of retirement savings for people earning more than \$183,000 or couples earning more than \$225,000. The overall cap for all tax-preferred retirement accounts would limit them to providing an annual retirement income of \$205,000, which would currently cap tax-preferred accounts at \$3.4 million, but could go lower as interest rates rise.

Going by the last two budgets, Mr. Obama could also repeat his call for \$25 billion more in federal revenue from corporate pension plan sponsors in the form of higher Pension Benefit Guaranty Corp. premiums.

The objective of these expected proposals, Mr. Obama said in his Jan. 28 State of the Union address, is to “fix an upside-down tax code that gives big tax breaks to help the wealthy save, but does little to nothing for middle-class Americans.” To help lower-income workers save for retirement, Mr. Obama unveiled a new “MyRA” retirement savings program (Pensions & Investments, Jan. 28).

The prospect of new tax treatment for retirement savings concerns public pension industry officials. As a shift to defined contribution plans forces public employees to take a greater role in contributing to and managing the investment of their own retirement assets, diminishing the current tax treatment “creates further risks for the retirement security of both the public and private workforce,” Tom Mueller, president of the National Association of Government Defined Contribution Administrators, wrote to members of Congress in 2013. He didn't return phone calls for this story.

Curbing retirement tax incentives for high-income taxpayers is also a priority for Sen. Ron Wyden, D-Ore., new chairman of the Finance Committee, who would like to simplify the current system of tax-preferred savings incentives. But with a two-year

federal budget already approved and midterm elections looming, the prospect of big tax changes for retirement savings this year is dim.

“It’s a political talking point, but it’s not a real thing,” said Howard Gleckman, resident fellow at the Tax Policy Center in Washington, a joint venture of the Urban Institute and the Brookings Institution.

A more immediate concern

The more immediate concern in Congress is how to pay for some of the pressing big-ticket items like unemployment insurance and Medicare fixes, and politically attractive moves like repealing military pension cuts. As Congress takes up those issues, the trick is providing “pay-fors” to offset their price tags.

That’s what really has retirement experts on guard. “Pension plans have been viewed recently as easy sources of revenue,” said Donald Fuerst, senior pension fellow at the American Academy of Actuaries in Washington.

“It would be much better to take a holistic approach, but instead, what we get are things that are very much driven by revenue,” said Alan Glickstein, senior retirement consultant at Towers Watson & Co. in Dallas. “That does not bode well.”

Robert Holcomb, executive director for legislative and regulatory affairs for J.P. Morgan Retirement Plan Services, Kansas City, Mo., expects the revenue hunt to focus on Roth IRAs, and making it easier to convert to them, within a plan, from accounts that currently defer tax payments. The account holders would have to pay income taxes at conversion, which would produce tax revenue. They then would pay no taxes when withdrawing the money in retirement. “Over and over we’ve seen Congress return to Roth as a potential pay-for. That’s one thing that we’ll be keeping an eye on,” Mr. Holcomb said on a Feb. 13 briefing call.

Another federal revenue-raising idea being considered in Congress is more pension funding relief, which was first used to pay for highway funding in the Moving Ahead for Progress in the 21st Century Act of 2012. Reducing required minimum pension contribution requirements for corporate plan sponsors would result in more taxes on the corporations, increasing federal tax revenue collections, at least on paper.

Smoothing touted as boon

The concept — known as pension smoothing because it lets plan sponsors stretch their contributions over more years by using higher rates to value funding obligations — is touted on Capitol Hill as a boon to plan sponsors. But it only helps those who find the short-term fix worth the effort.

It is also getting criticized by both the political right and left as a budget gimmick. While it reduces the amount of tax-exempt pension contributions made for a while, “you are just changing the timing of when (sponsors) pay taxes,” said Ed Lorenzen, a senior adviser with the Committee for a Responsible Federal Budget, a Washington group of congressional budget process veterans.

According to the Congressional Budget Office, every dollar saved in pension contributions means 25 cents more in taxes paid by corporations on average. “When you have something that works on paper without actually taking away anything from anybody, it is going to appeal to Congress,” Mr. Lorenzen said.

### PBGC premium hikes

What did hit all defined benefit plan sponsors was MAP-21's PBGC premium hike to produce \$9 billion in federal revenue. That was followed by a second PBGC premium hike in December 2013 to bring in another \$8 billion in revenue to close a federal budget deal.

That budget deal did not address the PBGC's estimated \$36 billion deficit, and using the higher premiums to pay for other federal budget items won't help, said Rachel Greszler, a senior policy analyst with the Heritage Foundation in Washington.

With the PBGC multiemployer program in the deepest fiscal hole, raising single-employer premiums at all “is effectively forcing the financially sound pension plans to pay for financially unsound pension plans because PBGC could in theory tap those premiums and in effect translates into private-employer plans paying for multiemployer plans,” Ms. Greszler said. (Current law does not allow the PBGC to use single-employer premiums for the multiemployer program.)

If the president brings up PBGC premiums again in his new budget, “it's just money on the table, asking for (Congress) to take it,” said Deborah Forbes, executive director of the Committee on Investment of Employee Benefit Assets, Bethesda, Md., which represents the 120 U.S. companies with the largest U.S. corporate pension funds that control more than \$1.5 trillion in retirement plan assets.

## Bill seeks to create retirement plans

ANNAPOLIS, Md. — Maryland lawmakers are sponsoring a measure to make retirement plans available to private sector workers who are not currently covered by employer-sponsored plans.

Sen. James Rosapepe, Sen. Richard Madaleno and Del. Tom Hucker are sponsoring legislation. A hearing is scheduled for Thursday morning before the Senate Pensions Subcommittee.

A press conference has been scheduled for noon Thursday to talk about the measure. The lawmakers will be joined by SEIU, AARP and Maryland Business, a small business advocacy organization.

Under the bill, Maryland private sector employers who do not currently offer a retirement plan to their employees would be required to offer employee-funded retirement plans. A state-sponsored, nonprofit plan would be available to employees in the firms.

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