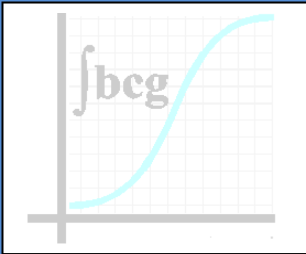


# BCG Retirement News Roundup

December 2016, Volume 5, Issue 12

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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

## Dallas Police and Fire Pension Board ends run on the bank, stops $154M in withdrawals

The Dallas Police and Fire Pension System's Board of Trustees suspended lump-sum withdrawals from the pension fund Thursday, staving off a possible restraining order and stopping $154 million in withdrawal requests.

The system was set to pay out the weekly requests Friday. Pension officials said allowing the withdrawals would leave them without the liquid reserves required to sustain the $2.1 billion fund.

"Our situation is currently critical, and we took action," board chairman Sam Friar said.

Pension officials and many police and firefighters have blamed Dallas Mayor Mike Rawlings for forcing the latest run on the bank. Dozens of retirees rushed to request withdrawals after Rawlings filed a lawsuit Monday to stop the withdrawals.
By then, more than $500 million had already gushed from the fund since the board proposed benefit cuts in August.

Rawlings told a crowd gathered Thursday afternoon at a Dallas Regional Chamber that "the bleeding has stopped. We can turn this ship around."

The crowd responded with cheers after the mayor's announcement of the board's decision.

At the pension board meeting, the mood was more somber.

Council member Philip Kingston, a board trustee, said the mayor "unquestionably" forced the pension board's hand. He said Thursday was "the worst day I've had in public office."

"Unfortunately, financially, this had to happen," he said.

Kingston said the tough decision will be worth it if it means the pension, which is hurtling toward insolvency within the next decade or so, can be saved.

On Wednesday, the city officially unveiled its plan to save the fund. The biggest target was the lump-sum program officially called the Deferred Retirement Option Plan, or DROP.

That plan, originally intended as a retention perk for veterans, made hundreds of officers, firefighters and retirees into millionaires. DROP allowed them to retire on paper, continue working and meanwhile defer their pension benefit checks into a separate account. Once they actually retired, they could remain in DROP and continue deferring their checks.

For years, DROP guaranteed at least 8 percent interest on the money. That hurt the entire fund when the investment returns couldn't keep up. The problem was made worse when the pension's current administration revealed that their predecessors had significantly overvalued risky real estate investments.

The city proposal would wipe away the DROP interest over the years wiping it away from existing DROP accounts or adjusting future monthly benefits for those who already took their money out.

Kingston had declined to comment on the plan Wednesday. But on Thursday, he called the city's plan "Draconian." But so is the pension system's request for a $1.1 billion taxpayer bailout, he said.

Both taxpayers and police and firefighters will have to share in the pain, he said.

But as the discussions about a fix continued, the pace of DROP withdrawals threatened to weaken the fund even further. While the money going out reduced future liabilities, the pace could have forced the system to sell off its assets.

The fund has about $729 million in liquid assets. It needs to keep about $600 million on hand, meaning the restrictions could have been coming at some point even without the mayor's actions. The withdrawal requests this week alone would have meant the fund would dip below that level.

The system will discuss a new withdrawal policy at January's meeting. The policy will probably include limits on withdrawals but would carve out an exception for hardships such as medical emergencies.

Until then, the only withdrawals allowed will be annual minimum required distributions for tax reasons.

Dallas Mayor Mike Rawlings pauses while speaking during a press conference after the State of the City Luncheon at Omni Dallas Hotel in Dallas, Thursday, Dec. 8, 2016. Mayor Rawlings spoke about a variety of topics including the Dallas Police and Fire Pension at the luncheon. (Jae S. Lee/The Dallas Morning News) Staff Photographer
Friar reminded members that the total restriction on DROP withdrawals is only temporary.

"We are not holding your money forever," Friar said. "This is your money."
But that did little to quell the retirees' frustrations. Several chastised board members and incorrectly stated that board members hadn't spoken out against the mayor's lawsuit.

One retired police sergeant, Pete Bailey, suggested a lawsuit could be in the offing if the system didn't pay out the requests that were made Tuesday. Friar understood that they might deal with more litigation.

"We may just have to deal with that, but that's what the board decides," Friar said. "We acted in the best interest of the pension fund today."

Deputy Mayor Pro Tem Erik Wilson, a member of the pension board, empathized with the retirees, but stood by his vote.

"I don't think everyone understood the severity beyond their own personal gain as opposed to looking at it with a global view," he said. "But I don't expect them to because they're looking out for their pension. It was difficult."

Retired Dallas police officer Jerry Rhodes, a pension meeting fixture, said he believed the board did what it had to do. Then he sarcastically lauded Rawlings.

"Merry Christmas, mayor," he said. "Hopefully you have a good Christmas because you have successfully screwed over the retirees, the firefighters and the police officers."

People in the audience attend the Board of Trustees meeting at Dallas Police and Fire Pension System in Dallas, Thursday, Dec. 8, 2016. Members of the Board of Trustees discussed a variety of topics including the possible changes to DROP policy. (Jae S. Lee/The Dallas Morning News) Staff Photographer

Retired Deputy Police Chief Julian Bernal said people who were withdrawing only a small amount to live off every month shouldn't be restricted from continuing to do so. Those people "played by the rules," he said.

"We're not the ones who created this problem," he said.

Josh Mond, the pension system's general counsel, pointed out that Bernal and others had profited off keeping their DROP accounts because he made money off the guaranteed interest rate. The rate is currently 6 percent.

Retirees will also continue to receive their monthly pension benefits.

But more than 400 retirees are still deferring at least part of their monthly checks into DROP. Executive Director Kelly Gottschalk said pension staff plans to reach out to those retirees and encourage them to stop deferring their money and take their monthly check instead. Dallas police and firefighters do not pay into Social Security nor receive any federal retirement benefits for their time in uniform.

The board's DROP decision comes in the middle of a members election to voluntarily cut benefits and cede some control back to the city. The measures need 65 percent support to pass.

But stopping the withdrawals will also provide stability for the system as they try to reconcile the city's plan with their own. Significant changes will have to be approved by the Legislature. And while both sides are far apart on some issues, they know they have a better chance if they come in with an agreement.

City officials were pleased with Thursday's step. City Manager A.C. Gonzalez praised the decision, saying it was "action desperately needed to be taken." Council member Adam McGough said he was likewise "thankful for the board's decision" and looked forward to solving the problems with the fund.

And Rawlings, who will keep his lawsuit pending, just in case, said the decision to restrict withdrawals was necessary to move forward.

"This thing was going down and all we were doing was rearranging some deck chairs," he said. "Now we've righted the ship. We can fix it and get it in good shape."

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## Gov. Malloy and State Employee Unions Reach Agreement on Pensions That Will Support the Employee Retirement System While Strengthening the State's Financial Obligations

Governor Dannel P. Malloy and representatives from the State Employees Bargaining Agent Coalition (SEBAC) today announced that after months of productive negotiations between the administration and SEBAC representatives, an agreement has been reached to modify the funding calculation and amortization schedule for the State Employee Retirement System (SERS) to help avoid the fiscal cliff the state would otherwise face in the coming years. The purpose of the agreement, which now heads to the General Assembly for approval, is to allow the state to fully fund its pension obligations on a stable, predictable basis while continuing to support the state's retirement system.

Over many decades, legacy costs, insufficient contributions, and lower-than-assumed returns on investments have left Connecticut with an unfunded liability of nearly $15 billion for SERS. Since 2011, Governor Malloy has remained committed to fully funding pension payments – which have increased 90 percent since he took office – to resolve the unfunded liability and move the state into more sound financial footing. In addition, a 2011 agreement with SEBAC made state employee benefits more affordable, and also required current employees to increase their retiree health care contribution. Subsequently, the administration worked with the Center for Retirement Research at Boston College to conduct a forensic analysis of the past problems and make suggestions for the future.

Today's agreement – which does not impact benefits or employee contributions – builds on that work to provide budget stability for taxpayers, businesses, and investors. The state can now move ahead on a clear path to resolving one of the state's most significant liabilities without undermining benefits or underfunding our responsibilities. Inaction could have resulted in state payments – out of the General Fund – eclipsing $4 to $6 billion for each year in the 2030s. In order for the state to meet those obligations, there would have been drastic cuts to services or unprecedented tax increases. This agreement will help avoid a fiscal cliff and put the state on a more sustainable course the taxpayers demand.

Specifically, the agreement includes:
Reducing the assumed rate of return from 8 percent to 6.9 percent. By adopting a more conservative assumption for our future investment performance, the impact of market downturns is greatly reduced, which makes it less likely that future funding shortfalls will occur.
Transitioning from level percent of payroll to level dollar amortization over five years. The prior funding system used a level percent of payroll calculation that back-weighted

repayment of the debt, resulting in payments in the years approaching 2032 that would have grown precipitously.

Moving to Entry Age Normal cost methodology to align with industry best practices.

Maintaining 2032 as the payoff date for the unfunded liability accrued through December 31, 1983 (about $4.3 billion in unfunded liability); and

Extending the amortization period for the balance of the unfunded liability in a new 30-year period. By extending the date for a portion of the existing funding shortfall from 2032 to 2046, responsibility for repaying this debt (which was accumulated over decades) is not disproportionately borne by only the next 14 years of tax-payers.

The new 30-year amortization period will include a new mechanism to SERS, which will allow for future gains or losses to be amortized over 25 years, thus absorbing market shocks or actuarial variance over a longer period of time rather than back loading the amortization period and resulting in large actuarial required contribution (ARC) payments that would destabilize the budget. Connecticut's pension liability has been building since 1939 and a single generation of taxpayers should not be responsible for resolving the entirety of the problem.

"I am very grateful to SEBAC leadership that we were able to reach this much-needed and forward-looking agreement. It was incumbent upon us to reform this system before facing the fiscal crisis that could have resulted from $4 to $6-billion-dollar annual ARC payments," Governor Malloy said. "This agreement does not alter employee benefits or employee contributions in any way – it simply allows the state to fully fund its obligations at realistic amounts that will end with Connecticut resolving the unfunded liability and emerging with a system that is fully funded. We are holding true to the ideal of improving the financial landscape for future generations."

"I applaud Governor Malloy and SEBAC for finding resolution to these very complex issues. These negotiations highlight how committed we all are to addressing the budget challenges facing the state – keeping our promises to the men and women who have given years of service to Connecticut, and ensuring budget sustainability. I congratulate the Governor and SEBAC on this success and thank them for their work," Lt. Governor Nancy Wyman said.

"Under the new methodology, the state will remain on schedule to vanquish $4.3 billion in unfunded liability by 2032 and will resolve the remainder of the unfunded liability by 2046 – but with the ARC smoothing out over the new 30-year schedule to remain between $1.5 billion and about $2.3 billion, providing much needed stability and predictability to the budget and to the marketplace," Office of Policy and Management Secretary Ben Barnes said. "I would like to thank the leadership of SEBAC for being great partners throughout this process and helping us reach an agreement that will improve the state's finances and help

support the SERS system into the foreseeable future. I would also like to thank Treasurer Denise Nappier and Comptroller Kevin Lembo for their contributions."

A new valuation of SERS will be completed based on these changes and should be ready and available in the coming weeks. The new valuation will give a more accurate and complete projection of ARC payments in the out-years.

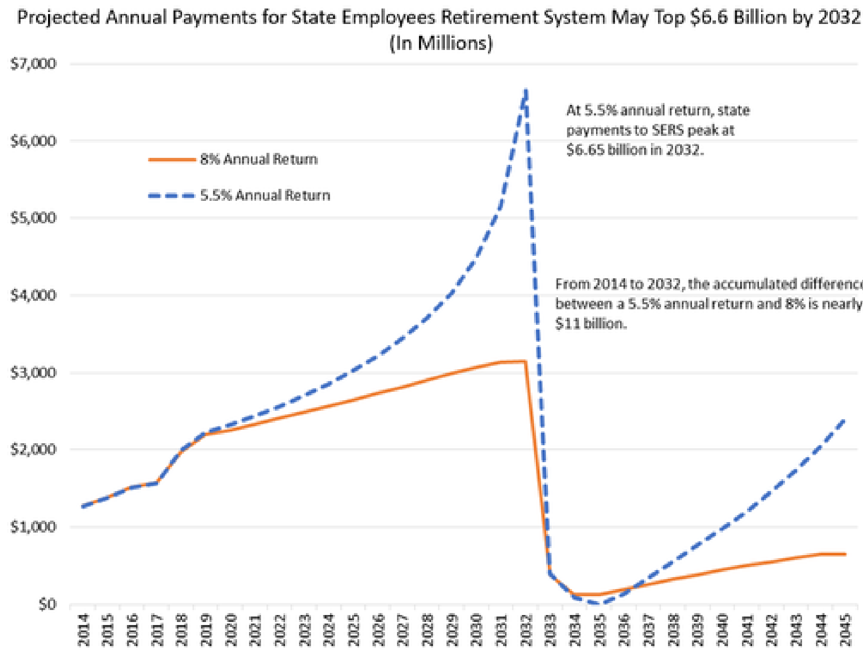
Background:
SERS was funded at 41.5 percent as of June 30, 2014 – among the lowest rates in the nation.

SERS was established in 1939, but not pre-funded until 1971. The years of unfunded benefits saddled us with billions in unfunded liabilities.

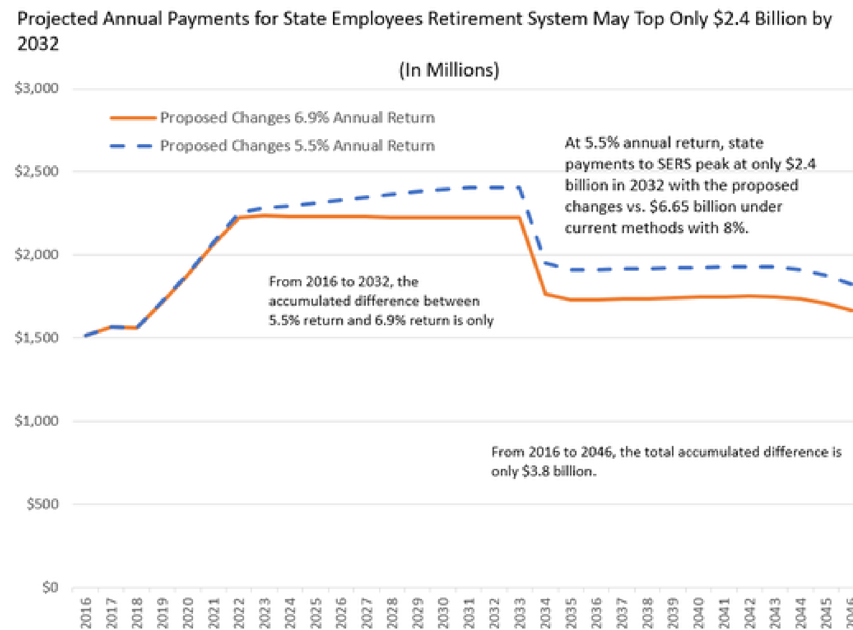
Historically, Connecticut has fallen short when it comes to calculating the appropriate payment to keep the unfunded liability from growing and then making the full payment.
Prior to 2000, SERS calculated amortization payments would have reduced the unfunded liability- if paid- but failures to prioritize these payments led the State to underpay for many years. At Governor Rowland's insistence, from 2000 onward, the amortization payment was calculated using a methodology that allowed the unfunded liability to grow for many years before declining. So, while the State paid more of its required contribution after 2000, the contributions were inadequate to keep the unfunded liability from growing.
The use of "level-percent-of-payroll" has added a combined $2.3 billion in unfunded liabilities to SERS, while underpayment of the required contribution, however calculated, has added a combined $3.2 billion in unfunded liabilities to SERS.

Actuarial experience has accounted for $4.1 billion in unfunded liabilities for SERS since 1985. One contributing factor may be the ad-hoc early retirement incentive programs (ERIP) introduced in 1989, 1992, 1997, 2003, and 2009. These programs directly impact the retirement patterns of members and likely cause dramatic deviations from the existing actuarial assumptions for retirement. Overall, we estimate that at least $1.5 billion, or just over a third, of the $4.1 billion is directly due to the ad-hoc ERIPs.
The remaining portion comes from deviations in other assumptions such as mortality, turnover, and salary growth, and likely includes some residual impacts of the ERIPs.

Under the current system:




Under the new agreement:

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## N.J. considers new investment to bolster public worker pensions

New Jersey lawmakers are considering a new tool to boost the state's underfunded pension system: Allow the Treasury Department to purchase unlimited bonds from the state's transportation fund.

Gov. Christie and the Democratic-controlled Legislature this year raised the gas tax to replenish the Transportation Trust Fund, which finances maintenance and new projects for roads, bridges, and mass transit.

Even with that new revenue, policymakers in Trenton expect to borrow $1.2 billion annually to help finance new capital projects.

Rather than pay interest to Wall Street, some lawmakers want that money going to the $73 billion pension system for some 770,000 active and retired public workers.

Regulations currently prohibit the State Investment Council from buying more than 10 percent of any one bond issue. Forthcoming legislation sponsored by Senate President Stephen Sweeney (D., Gloucester), Sen. Dawn Addiego (R., Burlington), and Assemblyman Adam Taliaferro (D., Gloucester) would eliminate that cap for transportation bond sales.

The investment board would retain its authority over how to invest pension funds. If the board were to authorize the purchase of $1.2 billion in transportation bonds, with an estimated interest rate of 5 percent, that would net $60 million annually for the pension system, Sweeney noted.

"It's not a lot of money, but every penny you can squeeze is a lot of money to put the pension back into fiscal health," Sweeney said at a Statehouse news conference Thursday.

New Jersey's pension system is the worst-funded in the nation, according to Bloomberg News, with just 37.5 cents to pay for each $1 in benefits.

Sweeney's announcement Thursday comes after the Legislature passed a bill last month that would require the state to make quarterly contributions to the pension system, rather than making one payment at the end of the fiscal year.

That bill, which is designed to increase investment income, awaits action from Christie.

Neither move is seen as a panacea to solving New Jersey's pension obligations. In August,

the investment council voted to slash the fund's allocation to hedge-fund managers by more than 50 percent, citing the sector's poor performance and high fees.
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## Christie signs bill requiring N.J. to make quarterly pension payments

Gov. Chris Christie on Thursday signed a bill that will require the state to make quarterly payments to New Jersey's ailing public worker pension system.
The bill is a reworked version of a measure Christie twice vetoed.
The new law will require governor to make pension payments on a quarterly basis by Sept. 30, Dec. 31, March 31 and June 30 of each year, instead of at the end of the fiscal year in June. In exchange, the pension fund would reimburse state treasury for any losses incurred if the state has to borrow money to make a payment.
State lawmakers voted overwhelmingly last month to approve the measure. It cleared the state Senate by a 35-0 vote and the state Assembly 72-0.

The legislation (S2810) resembled a provision of a proposed constitutional amendment that would have required the state to make a full pension payment suggested by actuaries each year.

However, Senate President Stephen Sweeney (D-Gloucester), who pushed the amendment, pulled his support for it over concerns about the state's ability to make the payment which drew outrage from public worker unions.
On Thursday, Sweeney said making pension quarterly pension payments "will provide greater stability to state finances, produce ongoing savings for the taxpayers and help make the pension funds more secure.m A scheduled timetable for making the already-required payments will help correct the costly and irresponsible mistakes of the past when contributions were delayed, deferred or ignored altogether."
In his 2014 veto of the bill, Christie called it "an improper and unwarranted intrusion upon the longstanding executive prerogative to determine the appropriate timing of payments" so those expenditures line up with tax collection cycles.
But the change in the bill to have the pension fund pick up the cost of borrowing if needed may address the governor's previous concerns.
Hetty Rosenstein, state director Communications Workers of America, praised the bill, but stressed she's focused on demanding the state make full payments.
"CWA supports quarterly pension payments," she said. "However, unless the full amount due to the plan is appropriated, quarterly payments are meaningless. History shows we simply cannot rely on the word of the governor or Legislature when it comes to the

pension."
Last month, the state's credit rating dropped for a record 10th time during Christie's administration.
Standard and Poor's Global Ratings lowered the state's rating from "A" to "A-". The move comes after the rating agency revised its outlook for New Jersey from stable to negative over concerns with the declining pension funding levels and rising retirement liabilities.
Decades of underfunding have weakened the pension system, as have more recent poor investment returns. The fund lost 0.87 percent in the fiscal year that ended in June, based on unaudited figures, and investment returns in the year before were 4.16 percent.
As of July 1, 2015, New Jersey's state and local pension funds have just 37.5 percent of the funding it needs to pay for future benefits. That is based on new reporting standards that require the state to project lower investment returns and had bleak consequences for the state's estimates.
New Jersey joins California, Indiana, North Carolina and Pennsylvania in states that have rules requiring quarterly pension payments.
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## STATE AND LOCAL GOVERNMENTS' FISCAL OUTLOOK 2016 UPDATE

United States Government Accountability Office has issued new data regarding “State And Local Governments' Fiscal Outlook 2016 Update.” The state and local government sector continues to face fiscal challenges which contribute to the nation’s overall fiscal challenges. GAO’s simulations suggest that the sector could continue to face a gap between revenue and spending during the next 44 years, as reflected by the simulated operating balance measure. The simulation assumes that the tax structure is unchanged in the future and that the provision of real government services per capita remains relatively constant. GAO’s simulations also suggest that while the gap narrows and ultimately closes near the end of the model’s simulation period, state and local governments would need to make policy changes to avoid fiscal imbalances before then.

In the long term, the model suggests that total tax revenues as a percentage of gross domestic product will gradually increase during the simulation period, driven largely by increases in personal income tax revenues. This gradual increase follows a decline between 2007 and 2009 in both personal and sales tax revenues as a percent of GDP, and declines between 2009 and 2015 in property tax revenues as a percent of GDP. Meanwhile, another driver of the sector’s operating balance in the long term is the rising health-related costs of state and local expenditures on Medicaid, and the costs of health care compensation for state and local government employees and retirees. Since most state and local governments are required to balance their operating budgets, the fiscal conditions indicated by our simulations continue to suggest that the sector would need to make policy changes to avoid

fiscal imbalances in the future. That is, absent any intervention or policy changes, state and local governments are facing, and will continue to face, a gap between receipts and expenditures in the coming years.

Despite state and local pension asset balances increasing in recent years, GAO's simulations suggest that state and local governments may still need to take steps to manage their pension obligations in the future. Real pension asset values increased around 15 percent between 2012 and 2015, from approximately $2.56 trillion in 2012 to $2.93 trillion in 2015. Real pension assets for 2015 now exceed the 2007 historical high of $2.85 trillion. However, we have reported in past work that while most state and local government pension plans have assets sufficient to cover benefit payments to retirees for a decade or more, plans have experienced a growing gap between assets and liabilities over the longer term. GAO's simulations suggest that state and local governments will need to increase their pension contributions, absent any changes to benefits or employee contributions in the future. Alternatively, state and local governments may need to take steps to manage their pension obligations by reducing benefits or increasing employees' contributions. GAO-17-213SP (December 2016).

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# Private Sector

## NEPC: Most corporate plans looking at lump sums, annuity contracts

The majority of U.S. corporate pension plans facing increased PBGC premiums in 2017 are considering lump-sum payouts to former employees or purchasing a group annuity contract from an insurance company, a new NEPC survey says.

Of the 184 corporate pension plan executives representing around $280 billion that were surveyed in August, 45% said they are considering lump-sum offers to former employees who are vested in their plans but who have yet to retire, while 27% plan to purchase annuities.

Thirty-nine percent of surveyed executives said they are not planning any changes, while 25% are considering higher contributions to the plan. Multiple answers were accepted.
In a budget deal approved in late 2015, Pension Benefit Guaranty Corp. premiums will rise to $80 per participant by 2019 from $57 in 2015, while variable-rate premiums of $30 per $1,000 of underfunding in 2015 will increase to $41 by 2019.

Because of the increases, “plan sponsors have been scrambling on what to do ever since,” said Brad Smith, partner in NEPC's corporate practice, in a news release announcement of the survey results. Updated mortality tables from the Society of Actuaries have also provided concerns as well, as workers' longevity continues to increase, causing liabilities to rise, according to the release.

Those rising liabilities have lowered funding ratios, meanwhile, which continue to vex plan sponsors who want to derisk their plans using these methods. While an 80% funding ratio is required to be able to make lump-sum payment offers to vested former employees who have yet to retire, 28% of surveyed plans have a ratio of less than 80%, up from 21% in 2015.

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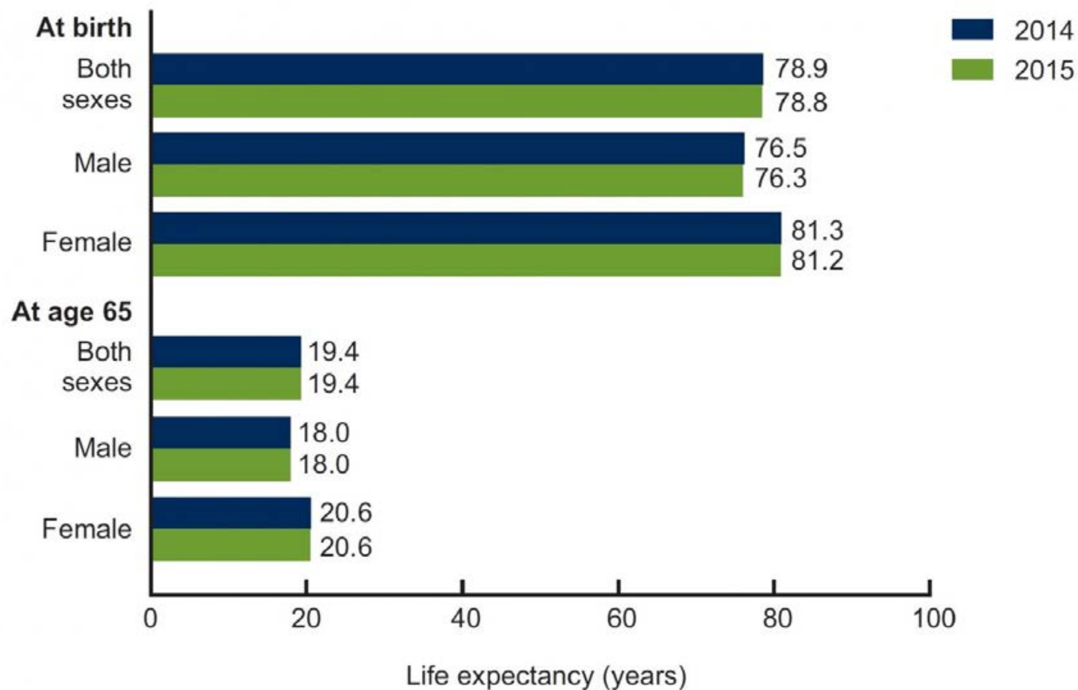
## U.S. life expectancy declines for the first time since 1993

For the first time in more than two decades, life expectancy for Americans declined last year — a troubling development linked to a panoply of worsening health problems in the United States.

Rising fatalities from heart disease and stroke, diabetes, drug overdoses, accidents and other conditions caused the lower life expectancy revealed in a report released Thursday by the National Center for Health Statistics. In all, death rates rose for eight of the top 10 leading causes of death.




"I think we should be very concerned," said Princeton economist Anne Case, who called for thorough research on the increase in deaths from heart disease, the No. 1 killer in the United States. "This is singular. This doesn't happen."

A year ago, research by Case and Angus Deaton, also an economist at Princeton, brought worldwide attention to the unexpected jump in mortality rates among white middle-aged

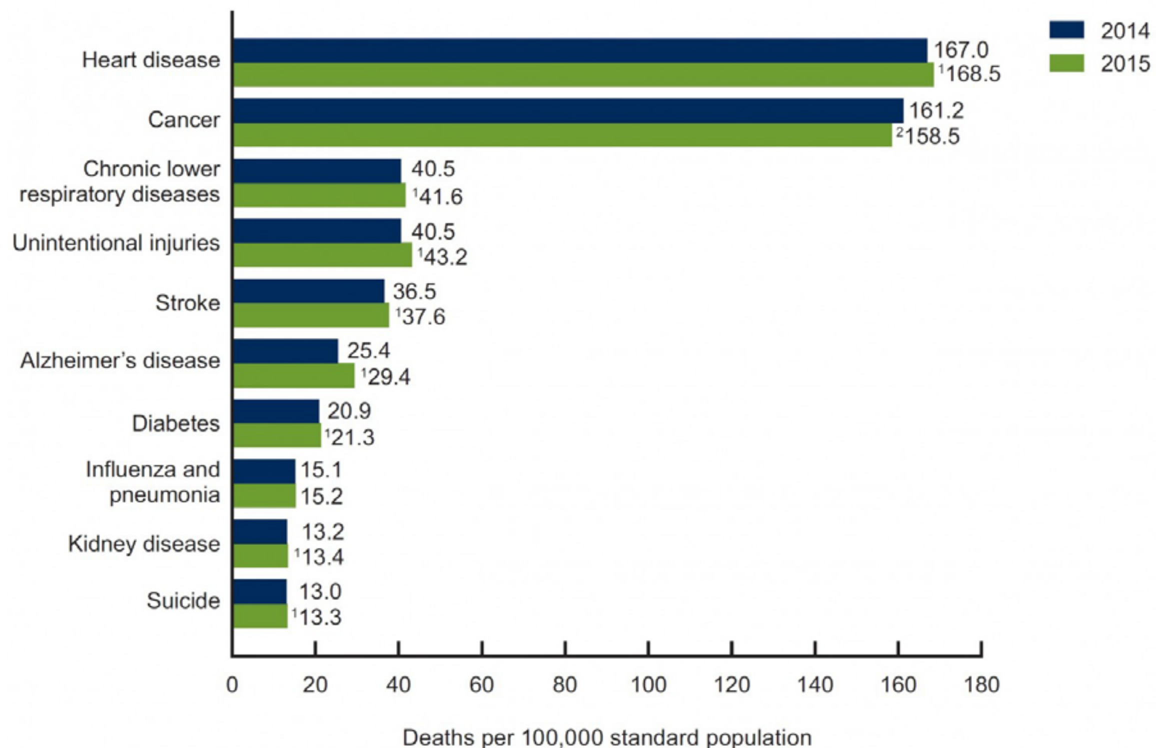
Americans. That trend was blamed on what are sometimes called diseases of despair: overdoses, alcoholism and suicide. The new report raises the possibility that major illnesses may be eroding prospects for an even wider group of Americans.

[A new divide in American death]

Its findings show increases in "virtually every cause of death. It's all ages," said David Weir, director of the health and retirement study at the Institute for Social Research at the University of Michigan. Over the past five years, he noted, improvements in death rates were among the smallest of the past four decades. "There's this just across-the-board [phenomenon] of not doing very well in the United States."

Overall, life expectancy fell by one-tenth of a year, from 78.9 in 2014 to 78.8 in 2015, according to the latest data. The last time U.S. life expectancy at birth declined was in 1993, when it dropped from 75.6 to 75.4, according to World Bank data.

The overall death rate rose 1.2 percent in 2015, its first uptick since 1999. More than 2.7 million people died, about 45 percent of them from heart disease or cancer.



Experts cautioned against interpreting too much from a single year of data; the numbers could reverse themselves next year, they said.

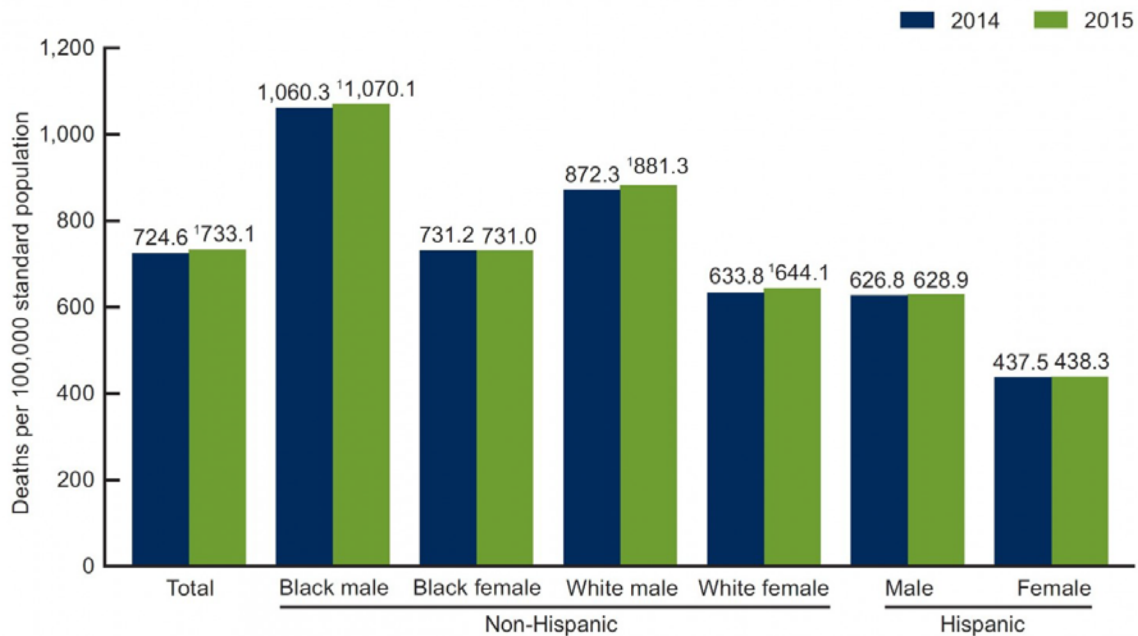
“This is unusual, and we don’t know what happened,” said Jiaquan Xu, an epidemiologist and lead author of the study. “So many leading causes of death increased.”

The report’s lone bright spot was a drop in the death rate from cancer, probably because fewer people are smoking, the disease is being detected earlier and new treatments have been developed recently, experts said.

The largest rate jump for any cause of death was for Alzheimer’s disease, which went from 25.4 to 29.4 deaths per 100,000 people. But several experts attributed that to greater reporting of the disease as a cause of death, not by any huge growth in the number of people who died.

[A group of middle-aged whites in the U.S. is dying at a startling rate]

Death rates rose for white men, white women and black men. They stayed essentially even for black women and Hispanic men and women. “It’s just confirming this deterioration in survival for certain groups,” said Ellen Meara, a professor at the Dartmouth Institute for Health Policy and Clinical Practice. She wonders what factors might be protecting Hispanic men and women from the negative trend.




According to the new report, males could expect to live 76.3 years at birth last year, down from 76.5 in 2014. Females could expect to live to 81.2 years, down from 81.3 the previous year.

Life expectancy at age 65 did not fall, another indication that the diseases behind the lower life expectancy occur in middle age or younger. At 65, men can expect to live 18 more years, while women survive an average of 20.6 more years, the data shows. Infant mortality rose slightly, according to the report, but the difference was not considered statistically significant.

Heart disease was responsible for more than 633,000 deaths in 2015, up from a little more than 614,000 the previous year. Cancer killed more than 595,000 people.

“We’re seeing the ramifications of the increase in obesity,” said Tom Frieden, director of the Centers for Disease Control and Prevention. “And we’re seeing that in an increase in heart disease.”

The number of unintentional injuries — which include overdoses from drugs, alcohol and other chemicals, as well as motor vehicle crashes and other accidents — climbed to more than 146,000 in 2015 from slightly more than 136,000 in 2014. Public health authorities have been grappling with an epidemic of overdoses from prescription narcotics, heroin and

fentanyl in recent years. Xu said overdose statistics were not yet ready to be released to the public.

Deaths from suicide, the 10th-leading cause of death in the United States, rose to 44,193 from 42,773 in 2014.

Several experts pointed out that other Western nations are not seeing similar rises in mortality, suggesting an urgency to determine what is unique about health, health care and socioeconomic conditions in the United States.

“Mortality rates in middle age have totally flat-lined in the U.S. for people in their 30s and 40s and 50s, or have been increasing,” Case said. “What we really need to do is find out why we have stopped making progress against heart disease. And I don’t have the answer to that.”

Meara noted that more people need better health care but that “the health-care system is only a part of health.” Income inequality, nutrition differences and lingering unemployment all need to be addressed, she said.

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## White House Opposes Bill Creating Newfangled Pension Plan

The White House opposes a discussion draft bill that would permit significant changes to collectively bargained pension plans, and is urging Congress not to include the measure on the menu of a year-end budget bill.

The draft bill as currently constructed undermines defined benefit plans and isn't well-designed, the administration said in a recent letter obtained by the pension consumer advocate Pension Rights Center. Instead, the White House urged Congress to hold hearings to permit analysis and debate on the proposal.

It’s widely believed that House Education and the Workforce Committee Chairman John Kline (R-Minn.) is seeking to have Republican Party House leadership include the proposal in a must pass year-end budget bill.

Karen Friedman, executive vice-president of the Washington-based PRC said that it will be an “outrageous betrayal of retirees” if the draft bill becomes law under a year-end budget bill. She added that the proposal needs to first get full input from all interested parties so it

can become part of a comprehensive solution to resolve the crisis affecting many multiemployer plans and their participants.

Multiemployer plans are generally collectively bargained and involve more than one contributing employer.

Under the draft bill, certain multiemployer plans would be permitted to create new hybrid pension plans that proponents say incorporate the best features of defined benefit and defined contribution plans. These multiemployer plans could establish composite-defined contribution-type plans in addition to existing legacy defined benefit plans.

Who Does It Protect?

Proponents of the draft bill say that it will provide more protection for plan participants than if their employer were to withdraw from the plan and replace it with a 401(k) plan. Opponents dispute that notion.

“Under the draft legislation, a current defined benefit plan would have first call on retirement plan contributions before they could be allocated to a composite plan. There is no provision of comparable strength under current law, and the administration’s comments fail to recognize the extent to which this requirement strengthens the funding of current defined benefit plans,” Joshua Shapiro, senior actuarial adviser at Groom Law Group Chartered in Washington, told Bloomberg BNA in an e-mail.

Shapiro previously was the deputy executive director for research and education at the National Coordinating Committee for Multiemployer Plans in Washington. The NCCMP has lobbied on behalf of the proposal.

In a Dec. 2 statement to Bloomberg BNA, Bethany Aronhalt, press secretary for Kline’s committee, said that the committee appreciates “all the support, feedback, and ideas for improving the discussion draft” it has received.

"Employers and union leaders have long expressed the urgent need to provide America’s working families new options to plan for retirement, and we welcome the administration’s interest in an effort that is vitally important to workers, employers, and taxpayers,” she said.

Administration Concerns

In its letter posted on the PRC's website, the Obama administration said it was concerned that the bill “would put workers’ and retirees’ existing pension benefits at greater risk and that the new type of pension it would create would unacceptably shift the risk to workers without adequate safeguards or transparency.”

The “draft neither provides for appropriate governance for composite plans nor does it include an appropriate regulatory and enforcement structure for either legacy or composite plans. It also weakens protections for plan participants by depriving them of insurance in case their plan fails,” the administration said.

Composite plans, like defined contribution plans, would relieve plan sponsors of investment and interest rate risk. They wouldn’t, however, participate in the Pension Benefit Guaranty Corporation’s plan insurance system.

Friedman said that the letter was being circulated among legislators. In addition, she said that groups representing "angry retirees" who oppose the draft bill intend to meet with members of Congress during the week of Dec. 5 in an attempt to prevent the measure from becoming part of the budget bill.
The lame-duck legislative session is expected to adjourn on Dec. 9.
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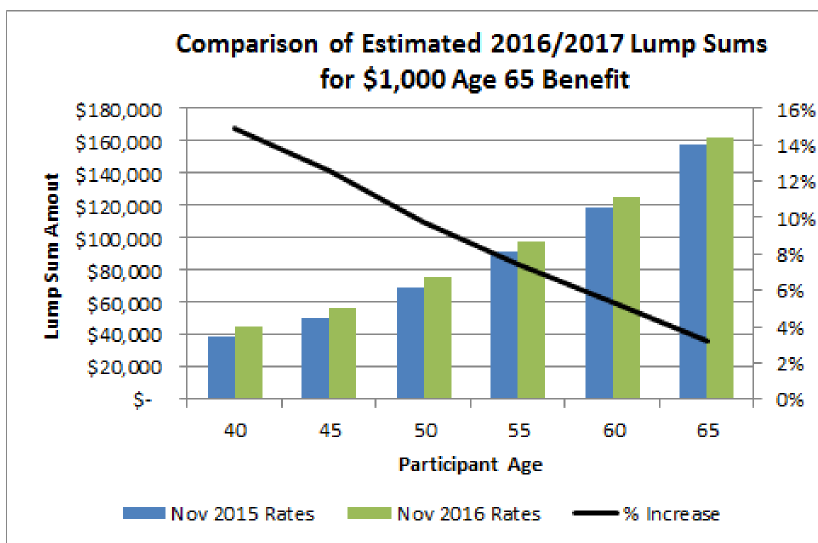
## 2017 Pension Lump Sums Are Looking More Affordable

How quickly things change! A month ago we were anticipating very expensive 2017 lump sum costs for defined benefit (DB) pension plans due to continually low interest rates. However, rates have been on a strong rebound since the election and now 2017 lump sums are looking much more affordable.
The IRS recently released the November 2016 417(e) interest rates which are used by many DB plans as the reference rates for lump sum payments. These three segment rates are 20 to 35 basis points higher than the October 2016 rates, though overall they are still lower than the November 2015 rates.

| 417(e) Interest Rates | | |
|---|---|---|
| Segment | November 2015 | November 2016 |
| Segment 1 | 1.76% | 1.79% |
| Segment 2 | 4.15% | 3.80% |
| Segment 3 | 5.13% | 4.71% |

This post shares a brief update of the impact these rates could have on 2017 lump sum payout strategies.
Glass Half Full: 2017 Lump Sum Costs Are Going Up, But Less Than Expected

The table and chart below show the possible difference in lump sum values at sample ages assuming payment of a $1,000 deferred-to-65 monthly benefit. The calculations compare the November 2015 rate basis to the November 2016 basis.




| Estimated Lump Sum Value of $1,000 Monthly Benefit (Deferred to 65) | | | | |
|---|---|---|---|---|
| **Age** | **Nov 2015 Rates** | **Nov 2016 Rates** | **$ Change** | **% Change** |
| 40 | $ 38,900 | $ 44,700 | $ 5,800 | 15% |
| 45 | $ 50,200 | $ 56,500 | $ 6,300 | 13% |
| 50 | $ 68,800 | $ 75,500 | $ 6,700 | 10% |
| 55 | $ 91,200 | $ 98,000 | $ 6,800 | 7% |
| 60 | $ 118,800 | $ 125,200 | $ 6,400 | 5% |
| 65 | $ 157,300 | $ 162,300 | $ 5,000 | 3% |

Although the projected 2017 lump sum costs are still higher than 2016, the increases are only half of what we were expecting a month ago. It remains to be seen if rates continue their upward trend, but the reduction in anticipated lump sum cost increases may encourage more plan sponsors to embrace pension risk transfer (PRT) strategies like lump sum windows for terminated vested participants.

The November lump sum rates aren't the end of the story for 2017 PRT opportunities either. If rates continue to increase, then plan sponsors will want to consider using a different reference period for the temporary lump sum window to reflect the higher rates. Even if rates don't rise anymore, 2017 will likely be the last year to pay lump sums without reflecting new mortality assumptions in 2018.

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## U.S. Treasury Approves Reduced Pension Benefits for Iron Workers Fund

On December 16, 2016, the U.S. Treasury Department notified the trustees of the Iron Workers Local 17 (Cleveland area) Pension Fund that their application to reduce pension benefits under the Kline-Miller Multiemployer Pension Reform Act of 2014 (the "MPRA") was approved. This is the first time Treasury has approved a union pension plan's proposed reduction of benefits under the 2014 law. In May 2016, Treasury turned down the proposed "rescue plan" from the Central States Pension Fund, concluding that the plan did not have a reasonable chance of success to save the Central States Fund from insolvency. Treasury has also recently rejected a number of other smaller union pension plan proposals. For example, proposals from the pension funds of Teamster Local 469 in New Jersey and of Iron Workers Local 16 in Baltimore were both rejected by Treasury last month.

The MPRA application submitted to Treasury called for reducing benefits "indefinitely" to allow the plan to remain solvent with enough assets to pay the reduced level of benefits. The primary considerations in Treasury's approval:

Without the cuts, the entire pension fund will be insolvent within a decade, according to Fund projections. Iron Workers Local 17 earlier this year reported $224 million in long-term liabilities and only $90 million in assets.

Treasury found that the pension fund's calculations and assumptions were realistic, based on what it could accomplish with the cuts, as well as its projections for future income from investments. This is largely what makes Local 17's request for cuts different from Central States' and other rejected plan proposals.

As a result of Treasury's approval, the proposed benefit reductions will now be subject to a vote of participants and beneficiaries of the Pension Fund, whose vote will decide whether the proposed reductions will either go into effect or will be rejected. Ballots will be mailed to participants and beneficiaries no later than December 31, 2016. Under the MPRA statute, the veto by plan participants can be overridden by Treasury, but only if the plan is "systemically important" (meaning, if its insolvency would cost the PBGC losses of more than $1 billion).

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