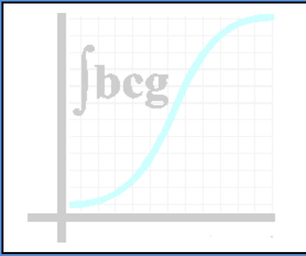

BCG Retirement News Roundup

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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

Rahm wins big over Rauner in police and fire pension bill fight

Just days after Mayor Rahm Emanuel said Gov. Bruce Rauner told Chicago taxpayers to "take a hike," Democrats delivered the same message to the governor.

In a stunning move, the Illinois House on Monday voted 72-43 to override Rauner's veto of the Chicago police and fire pension bill that had sparked a war of words between the Republican governor and Emanuel. The action came just hours after the Illinois Senate voted 39-19 to override the bill. It will now become law.

The votes mark a significant defeat for Rauner and a big win for Emanuel, whose own top aides had acknowledged last week that overriding the veto in the House was going to be a tough battle. When it first passed, the pension bill received 66 votes in the House, five short needed for an override.

Rauner blasted the bill, which defers city payments to the pension funds, as financially irresponsible by merely kicking the can down the road. Emanuel said Rauner's veto, if sustained, would have meant a $300 million property tax hike for city property owners, which Emanuel quickly dubbed the "Rauner Tax."

Never was rhetoric more heated over a political dispute between the two men, once considered good friends.

The bill passed in the House with the help of two Republicans who changed their votes from last year, an exceptionally unusual move in the often bitter Springfield political environment: Rep. David Harris, from Arlington Heights, and Rep. David McSweeney, from Barrington Hills.

On the House floor, Harris gave Emanuel credit for initiating a $500 million tax increase to pay pensions for the city's police and firefighters.

"The city is down right now. It's taking its lumps . . . I don't like to kick someone when they're down," Harris said. "I recognize that the idea of stretching out these payments is not good public policy. It isn't.

"But it's not an uncommon practice. It's done with debt restructuring all the time for bondholders. And it's a reasonable action to take," Harris said, noting the bill costs the state no money and has no impact on Rauner's "Turnaround Agenda."

"It's tough to vote against one's governor, and I don't like doing it. But I think if you disagree as I do, with the governor, and I understand where he's coming from, but I respectfully disagree with his position on this bill."

McSweeney said he voted yes because he won't support a property tax increase.

"I'm opposed to all property tax increases throughout the state," McSweeney said.

Illinois House Republican Leader Jim Durkin said the two Republican votes to override the veto surprised him.

After the override, Rauner said in a statement: "It's unfortunate that the legislature voted again to allow the City of Chicago to borrow $843 million at an interest rate of 7.75% from their pensions, putting an additional $18.6 billion on the backs of taxpayers. Clearly, those who supported this measure haven't recognized what happens when governments fail to promptly fund pension obligations. Instead of kicking the can down the road, local and state governments should instead focus on reforms that will grow our economy, create jobs and enable us live up to the promises we've made to police and firefighters."

Emanuel, who worked the phones aggressively to lobby for the override Monday, said in a statement after the victory: "On Memorial Day I particularly want to thank the Democrats and Republicans in the General Assembly for putting politics aside and doing the right thing for Chicago taxpayers, and for our first responders."

Earlier in the day, the Senate floor, Senate President John Cullerton called the bill "a negotiated settlement" and "very responsible."

On Friday, Rauner had vetoed the bill that gives Chicago more time to bring its police and fire pension systems up to full funding. The bill covers contributions to the Policemen's Annuity and Benefit Fund and the Firemen's Annuity and Benefit Fund.

The bill was approved by the House and Senate more than a year ago but wasn't sent to Rauner until late March because Cullerton had been holding the bill amid concerns Rauner would veto the legislation to squeeze cash-strapped Chicago and strengthen his own hand in the budget stalemate over the governor's demand for pro-business, anti-union reforms. The Sun-Times reported last month that Cullerton, Emanuel's closest ally in Springfield, had ended 10 months of cat-and-mouse by sending the legislation to the governor.

Shortly after the veto, House Speaker Madigan and Cullerton walked to Rauner's office for a leaders meeting. After the meeting, Madigan told reporters he thought it was "interesting" the governor "had nothing to stay about the override."

"I was raised not to cause embarrassment for people so I didn't raise it," Madigan said.
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New Jersey Supreme Court rules COLA suspension is constitutional

The New Jersey Supreme Court on Thursday ruled constitutional a 2011 law suspending cost-of-living adjustments for retirees covered by the $70.9 billion New Jersey Pension Fund, Trenton.

"We conclude that the Legislature retained its inherent sovereign right to act in its best judgment of the public interest and to pass legislation suspending further COLAs," the court ruling said.

The 6-1 vote is a victory for Gov. Chris Christie and welcome news for bond rating analysts, who worried that a pro-retiree ruling would have thrown an already shaky pension system and state budget into a tailspin. New Jersey already has the second-lowest bond rating of states.

Thursday's decision "eliminates a major threat to the state's fiscal stability, which is already challenged by narrow reserves and large, rapidly growing pension costs," said Baye Larsen, vice president and lead analyst for New Jersey at Moody's Investors Service, in an e-mailed statement.

"A negative ruling would have made things much worse," David Hitchcock, senior director and primary analyst for New Jersey at Standard & Poor's Ratings Services, said in an interview. "We still feel they're under pressure."

The COLA freeze had been challenged by public employee unions and other plaintiffs who argued that cost-of-living-adjustments deserved the same constitutional protection as pensions. Mr. Christie maintained that COLAs weren't covered.

"This is theft, plain and simple," said Wendell Steinhauer, president of the New Jersey Education Association, in a statement posted on the association website. "Our members were promised a COLA as part of their compensation, and they did the work required to earn it. … The state should not be able to decide after the fact not to pay them for that

work."

Mr. Christie had argued in a legal brief filed with the state Supreme Court that overturning the COLA freeze would have forced the New Jersey Pension Fund to recognize $17.5 billion in additional unfunded liabilities.

In legal documents, public employee unions had argued that COLAs were a "non-forfeitable right" — a contract protected by the state constitution.

In its Thursday ruling, the court said: "In this instance, proof of unequivocal intent to create a non-forfeitable right to yet-unreceived COLAs is lacking. Although both plaintiff retirees and the state advance plausible arguments on that question, the lack of such unmistakable legislative intent dooms the plaintiffs' position."

The COLA freeze was part of a 2011 law representing a bargain between the Republican Mr. Christie and the Democratic-controlled state Legislature. In return for several legislative changes to the pension system, such as freezing COLAs and raising retirement ages for some public employees, Mr. Christie promised to make regularly scheduled yearly state payments to the pension fund.

Public employee unions sued over the COLA freeze, but a state court judge dismissed the complaint. However, a state appeals court ruled in July 2014 that the COLA law created a contractual right for pension plan retirees to receive annual cost-of-living increases. Mr. Christie appealed that decision.

Mr. Christie reduced the state pension fund payment for the 2014 fiscal year, an action that was upheld by a state Superior Court judge, and he reduced the 2015 fiscal year payment, an action that was upheld by the state Supreme Court. The U.S. Supreme Court declined to review the case.

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2015 Annual Survey of Public Pensions

The Annual Survey of Public Pensions provides a comprehensive look at the financial activity of the nation's state and locally administered defined benefit pension systems, including cash and investment holdings, receipts, payments, pension obligations and membership information. Statistics are available at the national level and for individual states.

Total contributions were $180.2 billion in 2015, increasing 7.9 percent from $167.0 billion in 2014. Government contributions accounted for the bulk of them ($131.7 billion in 2015, increasing 8.3 percent from $121.5 billion in 2014), with employee contributions at $48.5

billion in 2015, climbing 6.5 percent from $45.5 billion in 2014. The other component of total revenue – earnings on investments – declined 68.4 percent, from $534.4 billion in 2014 to $168.7 billion in 2015. Earnings on investments include both realized and unrealized gains, and therefore reflect market fluctuations.

The total number of beneficiaries increased 4.3 percent to 10.0 million people in 2015 (from 9,559,956 people in 2014 to 9,971,726 in 2015). The payments they received rose 5.1 percent from $272.5 billion in 2014 to $286.5 billion in 2015.

Meanwhile, total assets increased 3.0 percent, from $3.7 trillion in 2014 to $3.8 trillion in 2015.

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Pennsylvania Senate rejects pension reform bill

The Pennsylvania Senate on June 23 rejected a state House bill that would have created a hybrid retirement plan for new employees participating in the state employees and teachers defined benefit plans.
The Senate voted 31-19 in favor of a “motion to non-concur,” or to reject, the reform bill that was approved by the state House on June 13.

House Bill 1499 would have established a mandatory 401(k)-type defined contribution plan for future employees. The first $50,000 of the employee's salary would be covered by the traditional defined benefit plan. Any amount of salary above the cap would be covered through the DC component.

The bill would have covered new employees in the $48.5 billion Public School Employees' Retirement System and the $26 billion State Employees' Retirement System, both in Harrisburg. The two plans have more than $56 billion in unfunded liabilities.

Pennsylvania Gov. Tom Wolf had endorsed the bill.

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The 'Silver Tsunami' Has Arrived in Government

For years, there have been warnings about the forthcoming retirements of a large segment of the public sector’s most experienced workers. Now, it appears those retirements may be

accelerating across many state and local governments.

A new Center for State and Local Government Excellence survey indicates that governments are experiencing an uptick in retirements. More than half -- 54 percent -- of surveyed governments reported an increase in retirements last year from 2014, while just 10 percent reported a decrease.

“The looming talent crisis that we’ve been talking about for years is right on our doorstep,” said Elizabeth Kellar, the center’s president.

Older workers in all sectors pushed back their retirement in the years following the Great Recession. In the center’s 2012 survey, about 46 percent of human resources representatives reported workers were postponing their retirements. That figure has declined each year since, with only 21 percent reporting retirement postponements in the latest survey.

Baby boomers at or near retirement age make up a large share of senior-level managers in many agencies. Compared to the private sector, public-sector workers tend to be older and possess higher levels of education.

In Virginia, nearly 12 percent of state workers were eligible for retirement, and another quarter of the workforce was eligible to retire within five years as of last year, according to the state Department of Human Resource Management. Similarly, in Washington state 31 percent of executive branch employees are age 55 or older.

While it’s rare for a large swath of public employees to retire all at once, the expiration of union contracts or cuts to retirement benefits have led to spikes in retirements in a few states. In New Jersey, for example, union officials contend that threats of benefit cuts by Gov. Chris Christie led more workers to retire last year. What’s been called the “Silver Tsunami” will instead play out over a number of years given that the youngest baby boomers just turned 52 years old.

Senior-level fire department staff are one segment that’s been hit particularly hard with retirements, said Kellar. That's partially because public safety personnel are generally eligible to retire earlier than other public employees.

The survey also found that 40 percent of governments experienced year-over-year increases in employees quitting (excluding retirements), while just 11 percent reported declines. That’s up from last year, when 28 percent of responding governments said more employees were quitting. Kellar said poor salary increases or pay freezes that have persisted

for years may be one explanation. Another contributing factor could be large numbers of younger workers seeking new employment as they tend to switch jobs more than veteran employees.

At the same time, governments report that they're also hiring more workers. Sixty percent of survey respondents hired more employees last year than in 2014, compared to just 8 percent hiring fewer workers. More recently, employment estimates published by the federal Labor Department suggest overall local government employment picked up modestly over the first few months of this year. Meanwhile, state government job estimates have remained mostly flat for more than a year now.

The extent to which individual local governments are able to hire more workers or replace those who retire varies greatly as property taxes and other major sources of revenue have yet to fully recover from the recession in some jurisdictions.

Not surprisingly, recruiting and retaining qualified workers were identified as the most important workforce issues to governments in the survey. Not too far behind were succession planning and staff development.

That's something the Los Angeles County, Calif., government -- which saw retirements climb 20 percent in 2015 -- is already working on. To prepare the workforce, management-level employees participate in experienced-based and classroom learning programs. Each of the county's 34 departments are expected to maintain and carry out their own succession plans.

Most participants in the survey, which was conducted this spring, represented local governments and were members of either the International Public Management Association for Human Resources or National Association of State Personnel Executives.

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Private Sector

Ironworkers union in Baltimore wants to cut pension benefits to save fund

Before the 40-story Transamerica Building became Baltimore's tallest skyscraper in 1973, it was a skeleton of steel beams and concrete that Graham B. Henry Jr. helped flesh out.

Henry, now 71 and retired, worked on the Key Bridge, the second Bay Bridge, and too many other projects to name. He and his contemporaries built Baltimore's modern skyline.

It was backbreaking, dangerous work, balancing on beams 30 stories above the sidewalk or high on incomplete bridges. Henry loved the work, even though he once fell 40 feet while working on an overpass on Interstate 83.

"It gave you freedom to be a human being," he said. "You could just be free."

Now Henry finds himself out on a ledge again, but not by choice. Ironworkers Local 16, the union that represents Henry and more than 1,100 other retirees and workers in the Baltimore area, has asked the federal government for permission to cut pension benefits.

It is a move designed to save, or at least extend the life of, the union's severely underfunded pension fund. With about 620 retirees drawing from the pension and only about 300 workers paying into it, the union estimates that the fund will run out of money in 2032 unless it takes action.

Long considered taboo for unions, cutting benefits to retirees is allowed now under a recent federal law that aims to extend the life of private pensions running out of money. Union leaders think the move could keep the pension funded for 30 more years, long enough to bring in a new generation of workers who can support it in the long run.

"If we continue to put money into this pension plan [at the current rate], we're going to put ourselves out of business," said Thomas Brune, the union's business manager. "And then they'll get nothing for it."

While some of Local 16's members, like Henry, begrudgingly understand the need for shared sacrifice, others are angry and wonder whether they should get out now. Their response exposes the significant challenge ahead for the union in retaining members and attracting newcomers to contribute to a pension that, even if the cuts are approved, has no guarantee that it won't go broke in their lifetime.

It is a predicament shared by dozens of pooled retirement funds, called multi-employer funds. These pensions, largely covering trade unions, promised to provide members a certain amount of money each month, so long as they worked enough years and contributed their share.

But times changed. Fewer young people want to be construction workers, miners and welders, and advances made jobs more efficient, requiring fewer workers. Pensions built on assumptions of steady growth are becoming unstable.

The federal government has deemed 33 such funds, including Ironworkers Local 16's, in "critical and declining" condition, meaning that they risk running out of cash, lack a way to bring in new money and, under a 2014 law, may apply to cut benefits.

"That's the hardest part of this — I don't think anyone did anything wrong. All these things just came together to prevent us from delivering on what we said we would deliver," said Ted Goldman, a senior pension fellow at the American Academy of Actuaries. "There's only two ways out of this: Come up with more money somehow or cut benefits."

Since 1974, pension plans that run out of money have relied on federal pension insurance. But that fund, too, is expected to run out of money for such pooled plans by 2025. In an effort to protect the federal fund, Congress passed legislation that gives the worst-off pensions the ability to take action themselves.

Under the law, plans can seek federal permission to cut benefits to retirees if doing so would extend the fund's life by 30 years. Proposals must leave intact benefits for retirees over age 80 and cannot cut payments to less than what would be offered by federal pension insurance.

Opponents say the law is unfair to retirees, many of whom have little means to make up the lost income.

Karen Ferguson, director of the activist Pension Rights Center, called cutting retiree benefits "unconscionable." She fears the new rules could pave the way for cuts to other programs that support retirees. Her group is pushing for a better legislative solution.

"It's an issue far greater than the 1,106 participants in this Local 16 plan," Ferguson said.

While dozens of pensions are eligible to seek benefit cuts, Ironworkers Local 16 is among the handful that have applied. Under its proposal, cuts would be based on a retiree's age and years of service, with the youngest retirees and those with the fewest years in the

union facing the most severe cuts.

Henry expects his $1,559 monthly checks to be cut by about $300, or 20 percent, if the plan is approved. He isn't happy about it, but he understands.

"If the young people working have to take a hit, so should we," he said.

If the U.S. Treasury Department approves the plan, the union would have to take it to members for a vote.

Brune has gone over the numbers dozens of times and figures that to support its pension, the union needs to reverse a years-long trend of declining work hours, nearly doubling its 2015 total of 338,000 hours to 650,000. That means bringing on new members and landing more projects to put them to work.

The union's leaders not only must attract new workers, but they have to convince existing members like Dustin Pritchett to stay.

The 30-year-old welder does not want to leave a union he considers family, but isn't sure how much longer he can afford to stay.

"I have to look out for myself," said Pritchett, of Fallston. "No one else is going to."

As it is, after union fees and $200 he pays to support his 7-year-old daughter, Pritchett's take-home pay is about $500 a week. And he questions whether the pension would even be there when he retires.

That he could earn more without his union membership is tempting, but he likes the flexibility the union gives him in selecting projects. Still, the union has lost at least a dozen members this year.

Brune thinks the union's goals are plausible, with the Treasury's help. Big redevelopment projects on Baltimore's horizon, such as Sparrow's Point and Sagamore Development's $5.5 billion Port Covington, are expected to provide a surge in construction jobs that will put more union members to work.

But whether the Treasury will approve the plan remains to be seen. It did not approve the one plan it has reviewed. The Central States Pension Plan, which represents more than 411,000 people, sought to cut retiree benefits to avoid running out of cash in 2025.

The Treasury said the union did not meet its obligation to prove how the cuts, which were to be distributed unevenly among retirees, would salvage the fund for decades to come.

It is unclear how the Central States plan will respond, what will become of the federal pension insurance fund — which would be crushed under Central States' weight — and what the Treasury decision means for those, like the Ironworkers, who are still awaiting their fate.

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Wall Street splits with smaller firms over fiduciary rule lawsuit

(Bloomberg) — Some of the biggest Wall Street banks opposed an industry decision to sue the Department of Labor over its new broker rules, exposing a fissure between the companies and their smaller competitors, people familiar with the matter said.

Debate over the high-profile litigation has roiled SIFMA, one of several trade groups that sought to overturn the regulation in federal court in Dallas earlier this month. In a sign of the discontent, the association's board held a vote on whether to join the case, a rare occurrence because it usually operates by consensus on such matters, the people said.

Read more: Fiduciary rule: Bulletproof to first attack?

"They never said it in any board discussion on the matter, nor did they say so to me," Bentsen said SIFMA CEO Kenneth Bentsen, referring to Wells Fargo allegedly threatening to quit the organization if it joined a suit against the Department of Labor. (Image: Bloomberg News)

While the suit was ultimately approved with the strong backing of regional brokerage firms, tensions flared during conference calls and meetings leading up to the court filing, the people said. At one point, Wells Fargo threatened to quit SIFMA, if it joined the suit, the people said.

SIX-YEAR BATTLE

The dissenters, which also included Morgan Stanley, Bank of America and J.P. Morgan Chase, argued that it was time to move on after a bruising six-year lobbying battle that the Obama administration won by portraying brokers as riven with conflicts that drive up costs for retirement savers. Rather than take another reputational hit by trying to overturn a rule billed as pro-consumer, the big firms said they preferred putting the effort into complying with it.

Opponents continue with legal challenges as legislators have tried unsuccessfully to shoot down the rule. On Wednesday, members of Congress failed to override President Obama's veto of a resolution that would have scraped the regulation.

Read more: Obama vetoes resolution to block DoL fiduciary rule

The DoL requirements, adopted in April, call for brokers to put clients’ interest first, an obligation known as fiduciary duty. The policy affects trillions of dollars held in IRAs and 401(k) plans, and is likely to spur massive changes in how advisers interact with clients.

Until the lawsuit, banks, mutual funds and insurers presented a united front against the plan, contesting it on Capitol Hill and at the Labor Department. They argued that it would raise costs for savers, cause brokers to drop less-affluent clients and narrow investment choices.

POTENTIAL BLOWBACK

SIFMA sued along with the U.S. Chamber of Commerce, the Financial Services Roundtable, the Financial Services Institute and several other groups. Cases against regulators often are filed by trade associations to protect individual companies from any potential blowback from the government or the public.

In an interview, Kenneth Bentsen, SIFMA’s president and chief executive officer, said he doesn’t comment on board deliberations. Still, he stressed that Wells Fargo never said the bank was considering resigning its membership if the suit went forward.

“They never said it in any board discussion on the matter, nor did they say so to me,” Bentsen said.
In a statement, SIFMA said it followed a “standard procedure” in assessing whether to sue.

“Given the judgment of the board, particularly members with significant direct exposure, that the department acted inappropriately in crafting its rule that will cause harm to the retirement market, the board determined that it was necessary to challenge the rule,” the group said.

VOICE VOTE

SIFMA chose to hold a voice vote on the suit, so there was no official tally. Still, it was clear that the majority of members supported the move, the people said.

Spokesmen for J.P. Morgan, Morgan Stanley and Bank of America declined to comment.

Wells Fargo declined to discuss specifics of the lawsuit debate, except to say in a statement that the bank "continues to have a strong relationship with SIFMA" and other trade associations.

"We support a best interest standard and believe that professional financial advisers have a crucial role to play in encouraging retirement saving and investing," Wells Fargo said in the statement. "Our firm has been an active advocate for our clients and financial advisers during the DoL's rulemaking process, and we have a robust process in place for reviewing and implementing the final rule."

BUSINESS MODEL

SIFMA counts hundreds of securities firms, banks and asset managers among its members. Their diversity of size and business model fueled the internal debate, the people said.

Member firms that advocated for the suit included Raymond James, Ameriprise, Baird, Janney Montgomery Scott and Stephens, the people said.

Representatives of some of the regional firms questioned whether the biggest banks were withholding support for the suit for competitive reasons. They noted that complying with all of the new rules will be much costlier for smaller firms and could put some of them out of business.

Such concerns led a number of the smaller brokers to form a new trade group earlier this year called the American Securities Association. Its agenda is partly to differentiate regional brokerages from their Wall Street counterparts.

The smaller firms also argued that the big banks opposed the suit because they have shifted many of their customers into accounts that charge based on assets -- a setup that already requires putting clients' interests first.

SUITABILITY STANDARD

Smaller firms are much more reliant on the typical brokerage account where investors pay a commission for trading. Labor's fiduciary rule upends that practice, replacing a standard that lets brokers recommend products they deem suitable, a lesser requirement.

On the other side, many larger firms were pleased that Labor's final regulation pushed back full compliance to January 2018, one of several ways the department offered concessions in response to industry concerns.

Another issue some big banks had with the lawsuit was the potential for it to damage advisers' reputations, the people said.

President Obama personally touted the new protections, and some firms were reluctant to participate in a case that could be spun by opponents as anti-investor. The industry, they noted, has yet to recover from the public perception that fat-cat bankers helped bring on the financial crisis eight years ago.

GOLDMAN SACHS
Not all of SIFMA's largest members took the same position on the case.

Goldman Sachs, which hasn't played much of a role in the fiduciary debate because the vast majority of its clients aren't affected, stayed neutral. And some of the big banks that opposed the suit said they wouldn't stand in the way of filing it, though most didn't want to pay for it.

Some members said that splitting the legal costs may trigger another dust-up. Those bills, the people said, are estimated to be $1 million to $2 million, depending on whether there is an appeal.

The trade groups hired Eugene Scalia, a former top lawyer at the DoL who has a strong record of getting courts to strike down government regulations. He recently successfully argued that MetLife shouldn't be subject to heightened Federal Reserve oversight, a case the government is appealing.

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A SUMMARY OF THE 2016 ANNUAL REPORTS

Each year the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. This message summarizes the 2016 Annual Reports.

Both Social Security and Medicare face long-term financing shortfalls under currently scheduled benefits and financing. Lawmakers have a broad continuum of policy options that would close or reduce the long-term financing shortfall of both programs. The Trustees recommend that lawmakers take action sooner rather than later to address these shortfalls, so that a broader range of solutions can be considered and more time will be available to phase in changes while giving the public adequate time to prepare. Earlier action will also help elected officials minimize adverse impacts on vulnerable populations,

including lower-income workers and people already dependent on program benefits.

Social Security and Medicare together accounted for 41 percent of Federal program expenditures in fiscal year 2015. The unified budget reflects current trust fund operations. Consequently, even when there are positive trust fund balances, any drawdown of those balances, as well as general fund transfers into Medicare's Supplementary Medical Insurance (SMI) fund and interest payments to the trust funds that are used to pay benefits, increase pressure on the unified budget. Both Social Security and Medicare will experience cost growth substantially in excess of GDP growth through the mid-2030s due to rapid population aging caused by the large baby-boom generation entering retirement and lower-birth-rate generations entering employment. For Medicare, it is also the case that growth in expenditures per beneficiary exceeds growth in per capita GDP over this time period. In later years, projected costs expressed as a share of GDP rise slowly for Medicare and are relatively flat for Social Security, reflecting very gradual population aging caused by increasing longevity and slower growth in per-beneficiary health care costs.

Social Security

The Social Security program provides workers and their families with retirement, disability, and survivors insurance benefits. Workers earn these benefits by paying into the system during their working years. Over the program's 80-year history, it has collected roughly $19.0 trillion and paid out $16.1 trillion, leaving asset reserves of more than $2.8 trillion at the end of 2015 in its two trust funds.

The Bipartisan Budget Act of 2015 was projected to postpone the depletion of Social Security Disability Insurance (DI) Trust Fund by six years, to 2022 from 2016, largely by temporarily reallocating a portion of the payroll tax rate from the Old Age and Survivors Insurance (OASI) Trust Fund to the DI Trust Fund. The effect of updated programmatic, demographic and economic data extends the DI Trust Fund reserve depletion date by an additional year, to the third quarter of 2023, in this year's report. While legislation is needed to address all of Social Security's financial imbalances, the need remains most pressing with respect to the program's disability insurance component.

The OASI and DI trust funds are by law separate entities. However, to summarize overall Social Security finances, the Trustees have traditionally emphasized the financial status of the hypothetical combined trust funds for OASI and DI. The combined funds satisfy the Trustees' test of short-range (ten-year) close actuarial balance. The Trustees project that

the combined fund asset reserves at the beginning of each year will exceed that year's projected cost through 2028. However, the funds fail the test of long-range close actuarial balance.

The Trustees project that the combined trust funds will be depleted in 2034, the same year projected in last year's report. The projected 75-year actuarial deficit for the combined Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds is 2.66 percent of taxable payroll, down from 2.68 percent projected in last year's report. This deficit amounts to 1.0 percent of GDP over the 75-year time period, or 20 percent of program non-interest income or 16 percent of program cost. A 0.06 percentage point increase in the OASDI actuarial deficit would have been expected if nothing had changed other than the one-year shift in the valuation period from 2015 through 2089 to 2016 through 2090. The effects of recently enacted legislation, updated demographic and economic data, and improved methodologies decrease the actuarial deficit by 0.08 percent of taxable payroll, causing the small net improvement in the actuarial balance.

Social Security's total income is projected to exceed its total cost through 2019, as it has since 1982. The 2015 surplus of total income relative to cost was $23 billion. However, when interest income is excluded, Social Security's cost is projected to exceed its non-interest income throughout the projection period, as it has since 2010. The Trustees project that this annual non-interest deficit will average about $69 billion between 2016 and 2019. It will then rise steeply as income growth slows to its sustainable trend rate as the economic recovery is complete while the number of beneficiaries continues to grow at a substantially faster rate than the number of covered workers.

After 2019, interest income and redemption of trust fund asset reserves from the General Fund of the Treasury will provide the resources needed to offset Social Security's annual deficits until 2034, when the reserves will be depleted. Thereafter, scheduled tax income is projected to be sufficient to pay about three-quarters of scheduled benefits through the end of the projection period in 2090. The ratio of reserves to one year's projected cost (the combined trust fund ratio) peaked in 2008, declined through 2015, and is expected to decline steadily until the trust funds are depleted in 2034.

Under current projections, the annual cost of Social Security benefits expressed as a share of workers' taxable earnings will grow from 14.1 percent in 2015 to roughly 16.6 percent in 2038, and will then decline slightly before slowly increasing after 2050. Costs display a

slightly different pattern when expressed as a share of GDP. Program costs equaled 5.0 percent of GDP in 2015, and the Trustees project these costs will increase to 6.0 percent of GDP by 2035, decline to 5.9 percent of GDP by 2050, and thereafter rise slowly reaching 6.1 percent by 2090.

Medicare

The Medicare program has two separate trust funds, the Hospital Insurance Trust Fund (HI) and the Supplementary Medical Insurance Trust Fund (SMI). HI, otherwise known as Medicare Part A, helps pay for hospital, home health services following hospital stays, skilled nursing facility, and hospice care for the aged and disabled. SMI consists of Medicare Part B and Part D. Part B helps pay for physician, outpatient hospital, home health, and other services for the aged and disabled who have voluntarily enrolled. Part D provides subsidized access to drug insurance coverage on a voluntary basis for all beneficiaries and premium and cost-sharing subsidies for low-income enrollees.

The Trustees project that the Medicare Hospital Insurance (HI) Trust Fund will be depleted in 2028, two years earlier than projected in last year's report. At that time dedicated revenues will be sufficient to pay 87 percent of HI costs. The Trustees project that the share of HI cost that can be financed with HI dedicated revenues will decline slowly to 79 percent in 2043, and will then rise gradually to 86 percent in 2090. HI expenditure is projected to exceed non-interest income throughout the projection period, as it has in every year since 2008. The HI fund again fails the test of short-range financial adequacy, as its trust fund ratio is already below 100 percent of annual costs and is expected to decline in a continuous fashion until reserve depletion in 2028.

The HI Trust Fund's projected 75-year actuarial deficit is 0.73 percent of taxable payroll, which amounts to 0.3 percent of GDP through 2090, or 19 percent of non-interest income or 16 percent of program cost. This estimate is up from 0.68 percent of taxable payroll projected in last year's report. A 0.01 percentage point increase in the HI actuarial deficit would have been expected if nothing had changed other than the one-year extension of the valuation period to 2090. The remaining 0.04 percentage points worsening of the actuarial balance is primarily due to higher projected utilization rates and lower projected taxable payroll, especially in the near term.

The HI trust fund depletion date of 2028 is two years earlier than projected last year despite the modest changes in projected long-term finances because the revisions to

projected income and cost are concentrated in early years of the projection, and also because last year's report projected only modest positive trust fund balances in 2028 and 2029.

For Supplementary Medical Insurance (SMI), the Trustees project that both Part B (which pays doctors' bills and other outpatient expenses) and Part D (which pays for prescription drug coverage) will remain adequately financed into the indefinite future because current law provides financing from general revenues and beneficiary premiums each year to meet the next year's expected costs. However, the aging population and rising health care costs cause SMI projected costs to grow steadily from 2.1 percent of GDP in 2015 to approximately 3.5 percent of GDP in 2037, and then more slowly to 3.8 percent of GDP by 2090. General revenues will finance roughly three-quarters of these costs, and premiums paid by beneficiaries almost all of the remaining quarter. SMI also receives a small amount of financing from special payments by States and from fees on manufacturers and importers of brand-name prescription drugs.

The Trustees project that total Medicare costs (including both HI and SMI expenditures) will grow from approximately 3.6 percent of GDP in 2015 to 5.6 percent of GDP by 2040 and will increase gradually thereafter to about 6.0 percent of GDP by 2090.

In recent years U.S. national health expenditure (NHE) growth has slowed considerably. There is uncertainty regarding the degree to which this slowdown reflects the impacts of the recent economic downturn and other non-persistent factors or structural changes in the health care sector that may continue to produce cost savings in the years ahead. The Trustees are hopeful that U.S. health care practices are in the process of becoming more efficient as new payment models become more prevalent and providers anticipate less rapid growth of reimbursement rates in both the public and private sectors than has occurred during the past several decades.

For a number of years, the methodology the Trustees have employed for projecting Medicare finances over the long term has assumed a substantial reduction in per capita health expenditure growth rates relative to historical experience. In addition, the Trustees have been revising down their projections for near-term Medicare expenditure growth in light of the recent favorable experience, in part due to effects of payment changes and delivery system reform that are changing how health care is practiced. However, the Trustees have not assumed additional, specific cost saving arising from structural changes

in the delivery system that may result from new payment mechanisms in the Medicare Access and CHIP Reauthorization Act of 2015 and the cost-reduction incentives in the Affordable Care Act, or from payment reforms initiated by the private sector.

Notwithstanding the assumption of a substantial slowdown of per capita health expenditure growth, the projections indicate that Medicare still faces a substantial financial shortfall that will need to be addressed with further legislation. Such legislation should be enacted sooner rather than later to minimize the impact on beneficiaries, providers, and taxpayers.

Conclusion

Lawmakers have many policy options that would reduce or eliminate the long-term financing shortfalls in Social Security and Medicare. Lawmakers should address these financial challenges as soon as possible. Taking action sooner rather than later will permit consideration of a broader range of solutions and provide more time to phase in changes so that the public has adequate time to prepare.

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ICI Recordkeeper Data Show Retirement Plan Participants Continued to Save in 2015

The Investment Company Institute issued the following news release:
Americans continued to save for retirement through defined contribution (DC) plans in 2015, according to ICI's latest study of retirement plan savers' actions. The study, "Defined Contribution Plan Participants' Activities, 2015," is based on DC plan recordkeeper data covering more than 26 million participant accounts in employer-based DC plans.
DC Plan Participants Continued to Save; Withdrawal Activity Remained Low
DC plan participants continued to contribute to their 401(k)s paycheck-by-paycheck in order to save and invest in their future, even as stock market prices changed little over the first half of the year, fell in the third quarter, and recovered in the fourth quarter.
- The vast majority of DC plan participants continued contributing to their plans. Only 2.6 percent of DC plan participants stopped contributing in 2015, compared with 2.8 percent in 2014 and 2.7 percent in 2013.
- Most DC plan participants stayed the course in their asset allocations, as stock values were essentially flat for the year. In 2015, 9.7 percent of DC plan participants changed the asset allocation of their account balances and 7.6 percent changed the asset allocation of their contributions. These levels of reallocation activity were in line with reallocation activity

observed over the past several years.
- DC plan withdrawal activity remained low and was in line with the prior years' activity. Only 3.4 percent of DC plan participants took withdrawals in 2015, compared with 3.6 percent 2014 and 3.5 percent in 2013. Only 1.6 percent of DC plan participants took hardship withdrawals during 2015, similar to the past few years.
- Loan activity was slightly lower than a year earlier, though still elevated compared with seven years ago. At the end of December 2015, 17.4 percent of DC plan participants had loans outstanding, compared with 17.9 percent at the end of December 2014. Loan activity continues to remain elevated compared with seven years ago (at year-end 2008, 15.3 percent of DC plan participants had loans outstanding).
DC plans are an important component of Americans' retirement saving; assets in all DC plans represented more than one-quarter of assets in the total retirement market and accounted for about one-tenth of U.S. households' aggregate financial assets at year-end 2015.
ICI has been tracking participant activity through recordkeeper surveys since 2008. This update provides results from ICI's survey of a cross section of recordkeeping firms representing a broad range of DC plans.
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PBGC Reports - Multiemployer Program Needs Substantial Premium Increases; Single-Employer Program Likely to Eliminate Deficit by 2025

The Pension Benefit Guaranty Corp. issued the following news release:

The Pension Benefit Guaranty Corporation today issued two reports on the prospects of PBGC's insurance programs, the Projections Report and the MPRA Report. While the financial position of the agency's single-employer program is likely (but not certain) to improve, the agency's multiemployer program is likely to run out of funds by 2025. Substantial increases in premium revenue will be needed to avoid cuts in multiemployer insurance program guarantees.

In a letter transmitting the reports to Congress, PBGC's Board Chair, Secretary of Labor Tom Perez, wrote: "Insolvency of PBGC's multiemployer insurance program would devastate the retirement benefits of 1 million to 1.5 million participants and their families... We must address the funding and other challenges of the multiemployer insurance program before it is too late."

Multiemployer plans are typically much less well funded than single-employer plans and a

much higher share of multiemployer participants will need to rely on PBGC guarantees. Tens of thousands of employers, including many small businesses, provide lifetime retirement benefits for their employees by participating in multiemployer pension plans. Multiemployer plans have been hurt by long-term demographic and economic trends.

PBGC provides financial assistance to multiemployer plans when they run out of money so the plan can pay benefits up to the PBGC guarantee level and plan administrative expenses. Under the Multiemployer Pension Reform Act of 2014 (MPRA), PBGC may also provide limited assistance prior to insolvency if a number of conditions are met.

This year, premium revenue in the multiemployer program is projected to be less than $300 million, even after fully reflecting the increase enacted as part of MPRA. For PBGC to meet its average projected financial assistance obligations through 2035, the MPRA Report projects that premiums will need to increase to over four and one half times the premiums that are expected under current law.

The report shows the importance of carefully designing those increases to avoid exacerbating the amount of premiums needed. A well designed increase may encourage additional contributions and continued participation in plans and strengthen the multiemployer system. A poorly designed increase may accelerate plan insolvency. This would hurt participants and lead to even larger premiums. The President's 2017 Budget proposed a structure for increased premiums under the multiemployer program at a level that would eliminate most of the risk of the multiemployer program becoming insolvent within 20 years.

The MPRA Report is a one-time publication required under the Multiemployer Pension Reform Act of 2014. Its purpose is to notify Congress whether current premium revenue is sufficient to meet PBGC's future financial assistance obligations to multiemployer plans for 10 and 20-year periods beginning in 2015; and, if insufficient, the additional premiums that will meet, but not exceed, the agency's obligations.

PBGC's Multiemployer Program Still Likely to Exhaust Assets by the End of 2025

PBGC's FY 2015 Projections Report examines the 10-year projection of the multiemployer program using different simulations of the economy and alternate scenarios for the number of plans approaching insolvency that will apply to cut benefits or request early PBGC assistance. Under each scenario, the results show that the program is likely to run out of money by the end of 2025, and that there is considerable risk that it could run out before that date.

PBGC's multiemployer deficit is also projected to remain high - on average, across all simulations, the report shows a projected deficit of $53.4 billion in today's dollars by 2025.

Single-Employer Program Continues Trend of Likely Improvement

Projections for the agency's single-employer program show somewhat better prospects for the program but are generally consistent with findings in last year's Projections Report. The program's financial position remains likely (but not certain) to improve, with the potential to eliminate the deficit in the next decade.

Each year PBGC issues its Projections Report, as required by the Employee Retirement Income Security Act. The report is PBGC's actuarial evaluation of its future operations and financial status. To make its projections, PBGC uses separate Pension Insurance Modeling Systems for single-employer and multiemployer plans. Each modeling system runs many simulations drawn from hundreds of economic scenarios to derive a range of possible future outcomes. No single projection, however, represents expected results under either program.

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