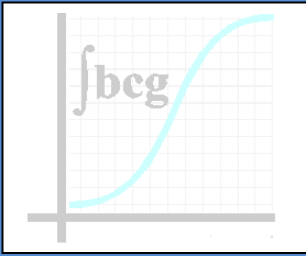

BCG Retirement News Roundup

November 2016, Volume 5, Issue 11

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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.

Inside This Issue

Public Sector/Government Plans

- City Council weighs higher pension costs for union workers, but not for Council
- Pension bill requiring quarterly payments heads to Christie's desk
- California's top court will review major public pension ruling
- Arizona pension ruling could mean $220 million in refunds to some workers
- CalPERS cuts tiny town’s pensions by 60 percent

Private Sector

- Society of Actuaries Updates Mortality Table
- Era of Low Interest Rates Hammers Millions of Pensions Around World
- PBGC Fiscal Year 2016 Annual Report Shows Increasing Deficit in Multiemployer Program
- DB Plans Are Not Totally Disappearing
- Tentative FASB Decision on Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Public Sector/Government Plans

City Council weighs higher pension costs for union workers, but not for Council

City Council moved Thursday to approve a new contract for Philadelphia's largest municipal union, which would require those workers to contribute more to their pensions.

Council members, however, were not yet ready to make the same demand of themselves.

The legislation was introduced only after it was stripped of a proposal that about 5,000 other city employees - including elected officials - also pay the higher pension costs.

Council President Darrell L. Clarke acknowledged the legislation had been watered down from what the Kenney administration had proposed. He insisted that Council members were not trying to dodge paying more toward their pensions.

"We are working with the pension representatives and the administration on crafting legislation that will reflect changes in exempt and elected officials," Clarke said, naming the groups that would have been affected under the original legislation.

The city's pension system is dangerously underfunded, having enough on hand to cover only 45 percent of its $10.6 billion obligation.

In July, AFSCME District Council 33 agreed to have its 9,000 members pay more into the fund by implementing a tiered system under which employees' contributions increase as their salary does. New members will be put in a "stacked hybrid" pension fund, which combines a traditional pension plan and a 401(k).

City officials have said they will seek similar terms with the other unions. Kenney's spokeswoman, Lauren Hitt, said it was only fair for other city employees to also make the concession.

"If we're going to ask for sanitation workers to make these sacrifices, then it's appropriate we share in that burden," she said.

Though the new contract for D.C. 33 offers employees raises, that benefit was not extended to the other employees included in the proposal from the administration. Councilman Curtis Jones Jr. said his colleagues were not keen on a change that would effectively amount to a pay cut, but said that was not the primary concern. Instead, he said, he worried the change would unfairly pressure other unions to also accept the terms. "It was the signal it sends to our labor partners: Do this or else," he said. "So we need to be clear: Is that the signal we want to send?"

Other Council members said they only learned of the proposal Wednesday afternoon and needed more time to review it.

"I think in general the response was positive," said Councilman Allan Domb, a real estate mogul who gives his Council salary to charity and has been focused on pension reform. "I just think they wanted some time to digest all of it."

Clarke noted Council members have seen their pension costs increase in recent years. He said legislation addressing elected officials and exempt employees could be introduced as soon as next week.

Any changes for elected officials would not go into effect until after the next election. Asked if the changes would mirror the concessions in the D.C. 33 contract, Clarke said he did not know. But he suggested the concessions could be greater, saying he is not sure if other proposals to date "are enough."

After this story first appeared on philly.com, Clarke's spokeswoman, Jane Roh, sent an email, raising a new concern. She said a change that would amount to a pay cut for thousands of city employees “should not be legislated with only a day's notice and no discussion with those affected.”
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Pension bill requiring quarterly payments heads to Christie's desk

State lawmakers voted overwhelmingly Monday to send Gov. Chris Christie a bill that will require the state to make quarterly payments to New Jersey's ailing public worker pension system.

The proposal, which cleared the state Senate by a 35-0 vote and the sate Assembly 72-0, is a reworked version of similar legislation Christie twice vetoed.

It would 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.

The bill's proponents say the regular payments give the state a chance to invest and earn returns.
"I'm very confident with what we've done that he's going to sign it," state Senate President Stephen Sweeney (D-Gloucester) said.

"I don't want to speak for him," he said. "(But) we've shared a lot of information."
The bill (S2810) resembles a provision of a proposed constitutional amendment that Sweeney (D-Gloucester) once backed before pulling his support over concerns about the state's ability to make the payment. Sweeney's reversal drew outrage from public worker unions.

"The Assembly has long supported this concept, including sending it to the voters this year for consideration," Assembly Speaker Vincent Prieto (D-Hudson) said.

"New Jersey's public servants who have done their part deserve better than repeated broken promises, but this bill would at least represent progress toward a more fiscally responsible approach," he said. "Having the state wait until the end of the fiscal year to make one payment is an invitation to skip it, so this would be a common sense improvement."

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 which would have the pension fund pick up the cost of borrowing if needed may address the governor's previous concerns.

Asked whether the GOP governor would support the measure, the Senate Republican leader, Sen. Tom Kean Jr. (R-Union), said he believes he will.

"We think so and we hope so," Kean, a co-sponsor of the bill in the Senate, said.
Christie's office didn't indicate Monday how the governor would respond.

"(It's) our policy of not discussing or commenting on proposed or pending legislation until a final bill is submitted and we have had adequate time to fully review it," said Christie spokesman Brian Murray.

The bill's passing was met with only a lukewarm response from the state's largest public worker union, the Communications Workers of America, which favors a constitutional amendment to require full pension payments.

"CWA supports quarterly pension payments. However, unless the full amount due to the plan is appropriated, quarterly payments are meaningless," Hetty Rosenstein, state director of CWA NJ, said.

"When it comes to this state's pension, history shows we simply cannot rely on the word of the governor or legislature," she said. "So, without a constitutional amendment requiring payments, New Jersey's working men and women could be getting quarterly payments of nothing."

The vote on the new proposal came a week after 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 Standard and Poor's Ratings Services 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.

If Christie signs the measure, New Jersey would join California, Indiana, North Carolina and Pennsylvania in states that have rules requiring quarterly pension payments.
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California's top court will review major public pension ruling

The California Supreme Court decided Tuesday to review a ruling that would give state and local governments new authority to cut public employee pensions.

The court, meeting in closed session, unanimously accepted labor unions' appeal of a decision that said government pensions were not "immutable" and could be trimmed.

But the court will not review further arguments in the case until a court of appeal resolves another pending pension dispute. That could take months.
The case now before the state high court was decided in August by a three-judge panel of

the 1st District Court of Appeal in San Francisco.

The other pension case, which raises similar issues, is pending before a different panel of judges in the same court. That panel has not yet scheduled a hearing on it.

The court of appeal's August ruling amounted to a major change in California pensions law, scholars said.

For decades, California courts have ruled that state and local employees were entitled to the pension that was in place on the day they were hired. Pensions could be cut for current employees only if an equivalent benefit were added, making it difficult for governments to cut costs.

If upheld, the ruling could be a vehicle for reducing a shortfall of hundreds of billions of dollars in public pensions in California. Other states grappling with pension debt also could follow California's lead.

The court agreed to take the case in a brief order that did not reveal the justices' thoughts. A decision in the case is likely to be issued in several months.

The ruling stemmed from a pension reform law passed in 2012 by state legislators. The law cut pensions and raised retirement ages for new employees and banned "pension spiking" for existing workers.

Pension spiking has allowed some workers to get larger pensions by inflating their pay during the period in which retirement is based — usually at the end of their careers.
Employees have done this by cashing in years of accumulated vacation or sick pay or volunteering for extra duties just before retirement. The practice in some cases has given employees pensions that exceeded their regular salary.

The Marin County retirement system, relying on the new law, decided that pay for various on-call duties and for waiving health insurance could no longer be counted toward pensions.

Unions objected. They said many employees had been counting on the long-promised benefit and may even have accepted their jobs because of it.

In a ruling written by Justice James A. Richman, appointed by former Gov. Arnold Schwarzenegger, the appeals court said the Legislature can alter pension formulas for active employees and reduce their anticipated retirement benefits.

“While a public employee does have a ‘vested right’ to a pension, that right is only to a ‘reasonable’ pension — not an immutable entitlement to the most optimal formula of calculating the pension,” wrote Richman, joined by Justices J. Anthony Kline and Marla J. Miller, both Gov. Jerry Brown appointees.

A trial judge in the other pension case, brought by employees of Contra Costa, Alameda and Merced counties, upheld the anti-spiking provisions but allowed some employees to count pay for regular and required on-call duties toward their pensions.

Written arguments in that case were completed months ago, and the panel’s failure to schedule a hearing prompted speculation that it was waiting for the California Supreme Court to decide the Marin County dispute before ruling.

Instead, the state high court’s order amounted to a “you go first” message, said Arthur Liou, an attorney who represents unions in both pension cases.

He said the Supreme Court may have decided to wait for a decision in the second case because the justices assumed they would have to review it later anyway.

“Maybe the court wants to hear and resolve all the issues together,” Liou said, noting that both cases raise similar issues.

David P. Mastagni, who represents Alameda County deputy sheriffs in the pending case, said the Supreme Court’s decision to wait for a ruling “really to me signals they understand the gravity and significance of the issues.”

Given the complexity and importance of the dispute, he said, he was not surprised that the court of appeal has yet to schedule a hearing. The court is required to issue a decision within 90 days of a hearing.

David E. Mastagni, the elder lawyer’s son and law partner, said it was not uncommon for the California Supreme Court to postpone a decision until a lower court acts first in a similar case.

“It gives them a more complete record,” he said. “They want to have another fully developed factual background.”

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Arizona pension ruling could mean $220 million in refunds to some workers

A 2011 state law requiring employees to pay more into their retirement plans is unconstitutional, the Arizona Supreme Court ruled Thursday, meaning higher future expenses for state and local governments.

In a divided ruling, the justices said when judges took the bench they were told they would have to contribute 7 percent of their earnings to the Elected Officials Retirement Plan. Acting Supreme Court Justice Randall Howe, writing for the majority, said that became part of their contract with the state.

What that means, Howe said, is the state could then not unilaterally boost the judges' contribution to 10 percent in 2011 rising to 13 percent two years later, even if lawmakers said that was necessary to maintain the financial stability of the pension fund.

The case affects more than those judges on the bench as of 2011 when the law changed. It also means refunds of about $220 million to about 26,000 state and local police, firefighters and corrections officers who are in other government-run pension plans that made similar hikes in employee contributions — hikes that Thursday's ruling found illegal. What remains to be decided is how the pension funds make up the money they have to refund. They could assess the government employers retroactively or simply boost what the employers have to pay in the future to make up the money.

Employees have no financial reason to let the pension funds keep the extra money. Their retirement benefits are based on a percentage of their salaries, a figure unaffected by how much they contributed during their working years.

Joyce Garland, the chief financial officer for the city of Tucson, said she does not know what the ruling will cost taxpayers — or when. She said when the high court struck down another change in pension laws two years ago the city was given several years to pay off the additional funds needed.

Doing nothing about the loss is not a likely option.

Christian Palmer, spokesman for the three affected funds, said the ruling adds $1.3 billion in unfunded liabilities to the retirement plans, which have assets of about $8 billion but liabilities of $16 billion.

Thursday's ruling drew a stinging dissent from Justice Clint Bolick who insisted there is no contract between the government and its workers on pension contributions. He called the concept "a work of legal fiction to which the likes of John Grisham could only aspire."

And Bolick said while Thursday's ruling "portends a huge financial windfall" for those who will get back the money, it is "a burden the taxpayers will shoulder."

As it turns out, Bolick is the only actual member of the Supreme Court to have a voice in this case.

The other four justices disqualified themselves as they were on the bench when the 2011 law was approved and have a financial stake in the issue. Bolick was appointed earlier this year; the other four who heard this case are judges from lower courts who were named since 2011.

This is the second financial setback in as many years for the retirement plans.
Two years ago the justices — the actual ones — struck down another provision of the same law that reduced automatic cost-of-living increases for retired judges.

At the heart of the dispute is a provision in the Arizona Constitution that says that "public system retirement benefits shall not be diminished or impaired."

Howe said that was not a problem in the 1990s when the retirement system was generating high returns. But he said decisions to invest in tech and telecommunications companies "made the plan vulnerable to major financial shocks."

By 2011, he said, the plan's assets were just 62 percent of liabilities, down from 121 percent in 1998.

That year, in a bid to fix the problem, lawmakers made two changes.
One was that now-overturned future cost-of-living increases. Thursday's ruling involves the mandate that judges put more into the pension fund.

Two judges sued on behalf of themselves and others to strike that down.
Howe said lawmakers acted improperly.

"The law in Arizona has been clear that public employees are contractually entitled to the retirement benefits specified in their initial employment contract," he wrote for the majority. And Howe said that contract includes not just how much they get when they retire but also how much they have to pay to get those pension benefits.

Bolick, however, said even if there was a contract between the state and the judges and other employees it could be voided because it was based on the "mutual mistake" of how much the retirement funds would be earning to cover the cost of future pensions.

Thursday's ruling does not affect the much larger Arizona State Retirement System with its more than 211,000 active state and local state workers and teachers. It's formula requires employees to match employer contributions on a 50-50 basis, a ratio that has remained the same.

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CalPERS cuts tiny town's pensions by 60 percent

Doing what it has never done before, the CalPERS board voted yesterday to slash the pensions of all five former employees of a small Sierra County town, Loyalton, by an estimated 60 percent.

It's a rare situation in which Loyalton, population 769 in the last census and shrinking since the closure of a century-old sawmill in 2001, voluntarily terminated its CalPERS contract in March 2013 without paying off its $1.7 million pension debt.

A New York Times headline last month said the nation's largest public pension fund ($300 billion) giving little Loyalton a pay-up-or-else ultimatum would be a "test of 'bulletproof' public pensions."

A staff report said CalPERS went to unusual lengths to avoid blowing a big hole in the Loyalton pensions — 50 telephone calls and 10 collection notices — and waited more than three years before pulling the trigger on the deep pension cuts.

A divided Loyalton city council attempted to get back into CalPERS, talked about getting a loan with installment payments, and pleaded ignorance about the need to pay off the big debt to preserve the pensions of four retirees and one person not yet retired.

The division continued yesterday after the CalPERS board was told the Loyalton city council voted the previous day to make payments from the city budget to replace the roughly 60 percent cut in the pensions, ensuring that retirees receive 100 percent of the promised amount.

Loyalton Councilwoman Patricia Whitley, a former mayor who voted to leave CalPERS, said the council voted unanimously this week to offer the retirees a supplemental city payment

to restore their full pensions.

“It’s really not a settled thing,” said Whitley. “The employees have to agree. We have to have some sort of agreement between us, because now it becomes a contract between us and the employees.”

Loyalton Mayor Mark Marin said there was no vote at the council meeting this week, only an understanding, and he was skeptical about the retirees accepting the proposal.

“The employees are not going to go for this,” Marin said. “The city is so broke. They will start paying the benefits. But what happens if the city goes bankrupt? Then people are screwed.”

Marin said some of the retirees are talking to an attorney about possible legal action. A CalPERS staff report said there is a risk that a pension cut could trigger an employee lawsuit against the city requiring CalPERS involvement.

Whitley has said a 50 percent pay raise that may not have been legitimate increased the cost of unaffordable pensions. The CalPERS report said Loyalton generously increased its pension formula to “2.7 at 55” in 2004, more than the “2 at 55” for most state and school workers.

Marin said he has been told that the vote to leave CalPERS may have been illegal because it was done as an “emergency” action. He said city council members wanted to divert the pension contribution to a city museum and other uses.

“PERS has been really good to us,” said Whitley. “They have at least listened to us and taken it to heart. So we have gained some mutual respect, I think. This is really their first case, I guess.”

Marin said he thinks “Pandora’s box” was opened by the CalPERS vote to let Loyalton off the hook for its pension debt: “It’s going to open it up big time. There is going to be other cities doing this crap, because Loyalton got away with it.”

Putting a lien on Loyalton assets or attaching its revenue were mentioned at the CalPERS board in September. But the financially distressed city would be further harmed, the board was told, and cities often are able to block attempts to take their revenue.

Modest annual pensions are shown for three Loyalton retirees in 2015 on Transparent California, a searchable public database on the internet that lists the pay and pensions of

state and local government employees and retirees:

Patsy Jardin $48,174, John Cussins $36,034, and Orville McGarity $6,814.

The giant California Public Employees Retirement System, with more than 2,000 pension plans for more than 3,000 government employers, maintains a pool to pay the pensions of retirees in terminated pension plans.

The Terminated Agency Pool paid $4.7 million to 716 retirees and beneficiaries from 93 terminated plans last fiscal year. The pool has a large surplus and was 261.9 percent funded as of June 30, 2014.

If its financial health allows, the pool can under state law continue to pay the full pensions of retirees whose employers did not pay off their debt — but not when, like Loyalton, the employer voluntarily terminates its CalPERS contract.

So, apparently for the first time, CalPERS declared an employer, Loyalton, in default and cut the pensions of its retirees "in proportion" to the amount of the debt. The Loyalton debt was 39.5 percent funded as of March 31, 2013.

An updated calculation could change the estimate of a 60 percent pension cut. Until then, said Whitley, Loyalton won't know whether the payments offered retirees will be more or less than the annual contributions the city had been making to CalPERS.

The large CalPERS termination fee for Loyalton's five modest pensions, $1.66 million, is the amount CalPERS expects to need to make the lifetime payments with no new contributions from the city or active employees.

CalPERS had been using its investment earnings forecast, now 7.5 percent, to calculate termination fees before switching in 2011 to a risk-free bond rate, 3.25 percent recently, that sharply boosts the regular debt or "unfunded liability."

A federal judge in the Stockton bankruptcy said a termination fee that boosted the city's pension debt from $211 million to $1.6 billion was a "poison pill" if the city tried to move to another pension provider, such as a county pension system.

Several small cities that considered leaving CalPERS did not after looking at the high termination fee, among them Pacific Grove, Villa Park, and Canyon Lake. CalPERS has given employers a hypothetical termination fee in their annual plan valuations since 2011.

The CalPERS viewpoint: If the terminated pool falls short under the collapse of a large

pension plan, the funds of all the state and local government plans in CalPERS could be used to cover the shortfall, possibly jeopardizing their ability to pay pensions.

The CalPERS board president, Rob Feckner, said in a news release the Loyalton pension cuts, made with regret, are part of a fiduciary duty to keep CalPERS funding secure by ensuring that employers adhere to contracts.

“When they don’t, the law requires us to act,” he said. “The people who suffer for this are Loyalton’s public servants, who had every right to expect that the city would pay its bill and fulfill the benefit promises it made to them.”

As for two other delinquent employers given demand letters, the CalPERS staff report said, the California Fairs Financing Payment made a “significant” payment last month and expects to be “fully current by June 30, 2017.”

The Niland Sanitary District is voluntarily terminating its CalPERS plan. The staff report said there is reason to doubt Niland’s claim of no active employees since 2013, which will be checked by an audit.

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Private Sector

Society of Actuaries Updates Mortality Table

On October 20, 2016, the Society of Actuaries released their annual update to the RPEC_2014 mortality table model and improvement scale. The new model incorporates three additional years of U.S. mortality data (2012-2014). The model's year–over-year stability was also enhanced by modifying two input variables. The updated improvement scale based on this version is named MP-2016.

The age-adjusted mortality improvement rates in the United States for those between the ages of 50 and 95 decreased for periods ending in 2009 and 2014. Based on the declining improvement in mortality, the rates in scale MP-2016 are lower than those in MP-2015. What does this mean for plan sponsors? The adoption of MP-2016 (and a 4.0% discount rate) would likely decrease the Projected Benefit Obligation (liability) of plans for accounting purposes by around 1.5% to 2.0% from measurements using MP-2015.

It is unknown if and/or how the IRS will incorporate these changes into the mortality tables used for pension valuations, lump sum calculations and other purposes.

Our best guess is that the IRS will not incorporate annual improvement to the projection scale since they are already in the process of creating tables for use in 2018. See Findley Davies' September 8, 2016 Mortality Table Update.

The Society of Actuaries conducted the analysis with cooperation from the Social Security Administration, the Centers for Disease Control and Prevention, and the Centers for Medicare and Medicaid Services.

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Era of Low Interest Rates Hammers Millions of Pensions Around World

Central-bank moves pull down returns for government-run funds, making it difficult to meet mounting obligations to workers and retirees.

Central bankers lowered interest rates to near zero or below to try to revive their gasping economies. In the process, though, they have put in jeopardy the pensions of more than 100 million government workers and retirees around the globe.

In Costa Mesa, Calif., Mayor Stephen Mensinger is worried retirement payments will soon eat up all the city's cash. In Amsterdam, language teacher Frans van Leeuwen is angry his pension now will be less than what his father received, despite 30 years of contributions. In Tokyo, ex-government worker Tadakazu Kobayashi no longer has enough income from pension checks to buy new clothes.

Managers handling trillions of dollars in government-run pension funds never expected rates to stay this low for so long. Now, the world is starved for the safe, profitable bonds that pension funds have long needed to survive. That has pulled down investment returns and made it difficult for funds to meet mounting obligations to workers and retirees who are drawing government pensions.

As low interest rates suppress investment gains in the pension plans, it generally means one thing: Standards of living for workers and retirees are decreasing, not increasing.

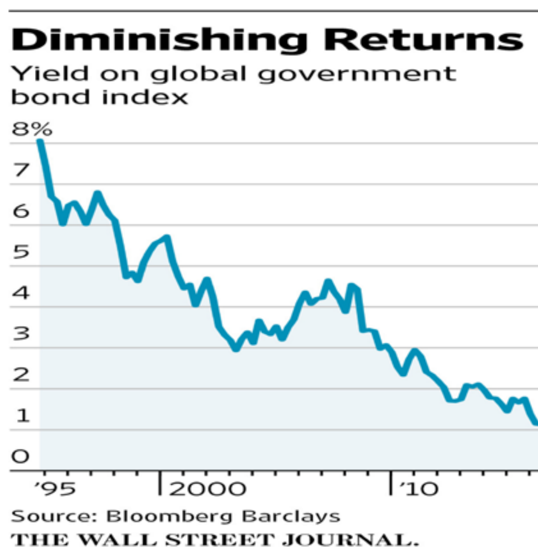
"Unless ordinary people have money in their pockets, they don't spend," the 70-year-old Mr. Kobayashi said during a recent protest of benefit cuts in downtown Tokyo. "Higher interest rates would mean there'd be more money at our disposal, even if slightly."

The low rates exacerbate cash problems already bedeviling the world's pension funds. Decades of underfunding, benefit overpromises, government austerity measures and two recessions have left many retirement systems with deep funding holes. A wave of retirees world-wide is leaving fewer active workers left to contribute. The 60-and-older demographic is expected to roughly double between now and 2050, according to the United Nations.

Government-bond yields have risen since Donald Trump was elected U.S. president, though few investors expect a prolonged climb. Regardless, the ultralow bond yields of recent years have already hindered the most straightforward way for retirement funds to recover—through investment gains.

Pension officials and government leaders are left with vexing choices. As investors, they have to stash away more than they did before or pile into riskier bets in hedge funds, private equity or commodities. Countries, states and cities must decide whether to reduce

benefits for existing workers, cut back public services or raise taxes to pay for the bulging obligations.



"Interest rates have never been so low," said Corien Wortmann-Kool, chairwoman of the Netherlands-based Stichting Pensioenfonds ABP, Europe's largest pension fund. It manages assets worth €381 billion, or $414 billion. "That has put the whole system under pressure." Only about 40% of ABP's 2.8 million members are active employees paying into the fund.

Pension funds around the world pay benefits through a combination of investment gains and contributions from employers and workers. To ensure enough is saved, plans adopt long-term annual return assumptions to project how much of their costs will be paid from earnings. They range from as low as a government bond yield in much of Europe and Asia to 8% or more in the U.S.

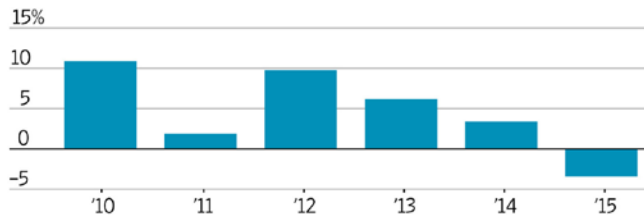
The problem is that investment-grade bonds that once churned out 7.5% a year are now barely yielding anything. Global pensions on average have roughly 30% of their money in bonds.

Low rates helped pull down assets of the world's 300 largest pension funds by $530 billion in 2015, the first decline since the financial crisis, according to a recent Pensions & Investments and Willis Towers Watson report. Funding gaps for the two biggest funds in Europe and the U.S. have ballooned by $300 billion since 2008, according to a Wall Street Journal analysis.

Pension Pressure

Low interest rates have pulled down investment returns for government pension funds, contributing to gaps between assets and liabilities at funds in the Netherlands and California, and negative returns at the fund that manages reserves for Japan's public-pension system.

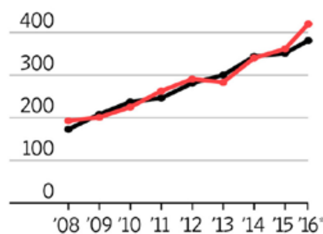
Annual asset growth of world's top 300 pension funds



■ Assets ■ Liabilities

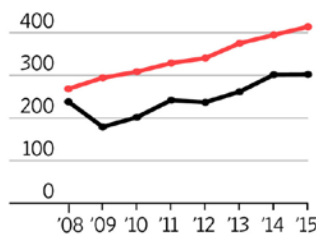
ABP, Netherlands

$500 billion

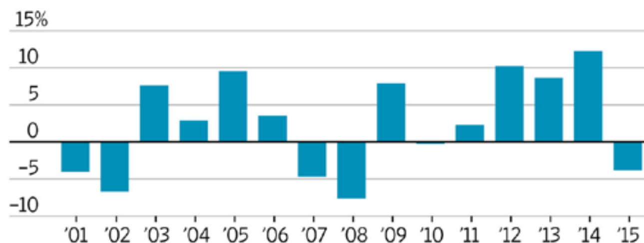


California Public Employees' Retirement System

$500 billion



Annual returns of Government Pension Investment Fund, Japan



*ABP data for 2016 are through the third quarter.

Sources: P&I, Willis Towers Watson (top 300); fund documents THE WALL STREET JOURNAL.

Few parts of Europe are feeling the pension pain more acutely than the Netherlands, home to 17 million people and part of the eurozone, which introduced negative rates in 2014. Unlike countries such as France and Italy, where pensions are an annual budget item, the Netherlands has several large plans that stockpile assets and invest them. The goal is for profits to grow faster than retiree obligations, allowing the pension to become financially self-sufficient and shrink as an expense to lawmakers.

ABP currently holds 90.7 cents for every euro of obligations, a ratio that would be welcome

in other corners of the world. But Dutch regulators demand pension assets exceed liabilities, meaning more cash is required than actually needed.

This spring, ABP officials had to provide government regulators a rescue plan after years of worsening finances. ABP's members, representing one in six people in the Netherlands, haven't seen their pension checks increase in a decade. ABP officials have warned payments may be cut 1% next year.

"People are angry, not because pensions are low, but because we failed to deliver what we promised them," said Gerard Riemen, managing director of the Pensioenfederatie, a federation of 260 Dutch pension funds managing a total of one trillion euros.

Benefit cuts have become such a divisive issue that one party, 50PLUS, plans for parliamentary-election campaigns early next year that demand the end of "pension robbery."

"Giving certainty has become expensive," said Ms. Wortmann-Kool, ABP's chairwoman.

That is tough to swallow for Mr. van Leeuwen, the Amsterdam language teacher. Sitting on a bench near one of the city's historic canals, he fumed over how he had paid the ABP every month for decades for a pension he now believes will be less than he expected.

Japan is wrestling with the same question of generational inequality. Roughly one-quarter of its 127 million residents are now old enough to collect a pension. More than one-third will be by 2035.

The demographic shift means contributions from active workers aren't sufficient to cover obligations to retirees. The government has tried to alleviate that pressure. It decided to gradually increase the minimum age to collect a pension to 65, to require greater contributions from workers and employers and to reduce payouts to retirees.

A typical Japanese couple who are both 65 would collect today a monthly pension of ¥218,000 ($2,048). If they live to their early 90s, those payouts, adjusted for inflation, would drop 12% to ¥192,000.

The Japanese government has turned to its $1.3 trillion Government Pension Investment Fund for cash injections six of the past seven years. That fund, the largest of its kind in the world, manages reserves for Japan's public-pension system and seeks to earn returns that

outpace inflation. The more it earns, the more it can shore up the government's pension system.

In February, Japanese central bankers adopted negative interest rates for the first time on some excess reserves held at the central bank so commercial banks would boost lending. The pension-investment fund raised a political ruckus in August when it said it lost about ¥5.2 trillion ($49 billion) in the space of three months, the result of a foray into volatile global assets as it tried to escape low rates at home.

The fund's target holdings of low-yielding Japanese bonds were cut to 35% of assets, from 60% two years ago, and it has added heaps of foreign and domestic stocks. It is now considering investing more in private equity.

The government-mandated target is a 1.7% return above wage growth. "We'd like to strive to accomplish that goal," said Shinichiro Mori, a deputy director-general of the fund's investment-strategy department.

The fund posted a loss of 3.8% for the year ended in March because of the yen's surge and global economic uncertainty. It was its worst performance since the 2008 global financial crisis. Mr. Mori said performance "should be evaluated from a long-term perspective," citing returns of ¥40 trillion ($376 billion) since 2001.

Mr. Kobayashi, the former Tokyo government worker, said the government's effort to boost returns by making riskier investments was supposed to "increase benefits for everyone, even if only slightly. It didn't turn out that way…And they are inflicting the loss on us."

Mr. Kobayashi joined roughly 2,300 people who marched in downtown Tokyo in October to protest government plans to cut pension benefits further.

In the U.S., the country's largest public-pension plan is struggling with the same bleak outlook. The California Public Employees' Retirement System, which handles benefits for 1.8 million members, recently posted a 0.6% return for its 2016 fiscal year, its worst annual result since the financial crisis. Its investment consultant recently estimated that annual returns will be closer to 6% over the next decade, shy of its 7.5% annual target.

Calpers investment chief Ted Eliopoulos's strategy for the era of lower returns is to reduce costs and the complexity in the fund's $300 billion portfolio. He and the board decided to

pull out of hedge funds, shop major chunks of Calpers' real-estate and forestry portfolios and halve the number of external money managers by 2020.

"Calpers isn't taking a passive approach to the anticipated lower return rates," fund spokeswoman Megan White said. "We continue to reassess our strategies to improve performance."

Yet the Sacramento-based plan still has just 68% of the money needed to meet future retirement obligations. That means cash-strapped cities and counties that make annual payments to Calpers could be forced to pay more.

That is a concern even for cities such as affluent Costa Mesa in Orange County, which has a strong tax base from rising home prices and a bustling, upscale shopping center.

The city has outsourced government services such as park maintenance, street sweeping and the jail, as a way to absorb higher payments to Calpers. Pension payments currently consume about $20 million of the $100 million annual budget, but are expected to rise to $40 million in five years.

The outsourcing and other moves eliminated one-quarter of the city's workers. The cost of benefits for those remaining will surge to 81 cents of every salary dollar by 2023, from 37 cents in 2013, according to city officials.

The mayor, Mr. Mensinger, is hopeful for a state solution involving new taxes or a benefits overhaul, either from lawmakers in Sacramento or from a California ballot initiative for 2018 that would cap the amount cities pay toward pension benefits for new workers.

Weaker cities across California could face bankruptcy without help, said former San Jose Mayor Chuck Reed, who oversaw a pension overhaul there in 2012 and is backing the 2018 initiative that would shift onto workers any extra cost above the capped levels. "Something is broken," he said. "The plans are all based on assumptions that have been overly optimistic."

Costa Mesa resident James Nance, 52, worries the city's pension burden will affect daily life. "We could use more police," said the self-employed spa repairman. "I'd like to know the city is safe and well protected, but I know there have been tremendous cutbacks."

Costa Mesa ended the latest fiscal year with an $11 million surplus, its largest ever. But that

will soon disappear, Mr. Mensinger said, as pension costs swallow up $2 of every $5 spent by the city.

“We have this gigantic overhead cliff called pensions.”

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PBGC Fiscal Year 2016 Annual Report Shows Increasing Deficit in Multiemployer Program

The Pension Benefit Guaranty Corporation today released its Fiscal Year 2016 Annual Report showing the deficit in its multiemployer insurance program rose to $58.8 billion. The increase was driven by additional multiemployer plans that are expected to run out of money within the next 10 years, and by decreases in interest factors used to value PBGC's liabilities.

PBGC's single-employer insurance program showed improvement; its deficit narrowed from $24.1 billion, at the end of FY 2015, to $20.6 billion at the end of FY 2016. This was primarily due to investment and premium income and a low level of plan terminations during the year.

"The improvement in the financial condition of the single-employer program is a welcome result. However, it is clear that more reform is needed to stabilize multiemployer pension plans and to extend the solvency of PBGC's multiemployer program," said PBGC Director Tom Reeder. "First and foremost, we need to protect the promises that have already been made to workers and retirees. We are committed to working with Congress on long-term solutions that include increasing multiemployer premium revenues and reforming the premium structure."

PBGC's mission is to enhance retirement security by preserving pension plans and protecting participants' benefits. PBGC protects the pension benefits of nearly 40 million Americans in private-sector pension plans and PBGC is already responsible for the benefits of about 1.5 million people in failed plans who otherwise may have lost their pensions. The agency operates two separate insurance programs: one that covers single-employer plans, and another that insures multiemployer plans. By law, the two insurance programs are operated and financed separately.

Multiemployer Program Deficit Rises to $58.8 Billion

As of September 30, 2016, PBGC's multiemployer program had liabilities of $61.0 billion and assets of only $2.2 billion, resulting in a negative net position or "deficit" of $58.8 billion, up from $52.3 billion a year earlier. During FY 2016, PBGC provided $113 million in financial assistance to 65 insolvent multiemployer plans, an increase from the previous year of $103 million paid to 57 plans. PBGC's obligations to provide financial assistance will increase dramatically in the coming years, when more and larger multiemployer plans run out of money and require PBGC assistance to provide benefits at the guarantee level set by law.

PBGC's multiemployer program income is very small relative to its deficit, and to the increase in its liabilities during FY 2016. Income for the multiemployer program totaled $425 million, comprised of $282 million in premium revenue and $143 million in investment income. In contrast, multiemployer program liabilities increased by $6.8 billion. This was primarily due to a drop in interest factors used to measure the value of PBGC's future financial assistance payments, and the identification of 11 additional multiemployer plans that terminated or are projected to run out of money within the next 10 years.

In the most recent Projections Report, PBGC estimated that its multiemployer 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 then. If the multiemployer insurance program becomes insolvent, PBGC will only be able to provide enough financial assistance to pay a small fraction of guaranteed benefits in insolvent plans.

Single-employer Program Deficit Shrinks to $20.6 Billion

As of September 30, 2016, PBGC's single-employer program had liabilities of $117.9 billion and assets of $97.3 billion, resulting in a negative net position or "deficit" of $20.6 billion. In FY 2016, the agency paid $5.7 billion in benefits to nearly 840,000 retirees from more than 4,700 failed single-employer plans. The figures are up slightly from $5.6 billion paid to about 826,000 retirees during the previous year.

During FY 2016, PBGC assumed responsibility for more than 46,000 additional people in 76 trusteed single-employer plans. As in recent years, however, PBGC did not incur any large losses from completed or probable plan terminations.

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DB Plans Are Not Totally Disappearing

Data extracted by the Department of Labor's (DOL)'s Employee Benefits Security Administration (EBSA) from 2014 Form 5500 reports finds defined benefit (DB) retirement plans are not disappearing.

The total number of retirement plans increased in 2014 to approximately 685,000 plans—a

0.6% increase over 2013. The number of defined contribution (DC) plans grew by 0.5%, while the number of DB plans increased by 1.6%.

The data also shows the total amount of assets held by retirement plans increased 5.5% to $8.3 trillion in 2014. DB plan assets increased 4.2% to nearly $3.0 trillion, while DC plan assets increased by 6.3% to $5.3 trillion.

However, the report notes that in 2014, 21.4% of DB plans report being fully frozen. Also, 14.9% of total DB plan assets were frozen in 2014.

In 2014, there were 89.9 million active participants in private-sector retirement plans. Approximately 14.5 million were active participants in DB plans, and 75.4 million were active participants in DC plans.

Plans Paying Out More Than They Receive

DC plan contributions increased by 7.0%, to $403.5 billion in 2014, the Form 5500 data shows. DB plan contributions decreased by 13.9% to $97.9 billion.

In total, retirement plans disbursed $650 billion for payment of benefits in 2014, with $221.6 billion being disbursed from DB plans and $428.4 billion from DC plans. These payments were made either directly to retirees, beneficiaries, and terminating employees or to insurance carriers for payment of benefits. These amounts reflect an 11% increase for DC plans and a 3.5% decrease for DB plans.

Overall, retirement plans disbursed $148.6 billion more than they received in contributions. DB plans disbursed $123.7 billion more than they collected in contributions, while DC plans disbursed $24.9 billion more than they received in contributions.

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Tentative FASB Decision on Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

At its November 2, 2016 meeting, the U.S. Financial Accounting Standards Board (FASB) affirmed decisions improving the presentation of net periodic pension cost and net periodic postretirement benefit cost from the proposed Accounting Standards Update, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

The Board will require all employers, including not-for-profit organizations, that offer defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to:

Separate their net periodic pension cost and net periodic postretirement benefit cost into

the service cost component and other components.

Present the service cost component in the same line item (or items) as other compensation costs arising from services rendered by the pertinent employees during the period. Service cost would be the only component eligible for capitalization, if appropriate, as part of an asset such as inventory or property, plant, and equipment.

Report in the income statement the other components as defined in paragraphs 715-30-35-4 and 715-60-35-9 separately from the service cost component and outside a subtotal of income from operations, if one is presented. If other components are presented in a separate line item (or items) in the income statement, that line item (or items) should be described appropriately.

Require an entity to disclose the line item (or items) in the income statement where the entity presented the other components (of net periodic pension cost and net periodic postretirement benefit cost).

Transition and Adoption

The Board affirmed its decisions from the proposed Update to:

Apply the amendments retrospectively for the presentation in the income statement of the service cost component and other components of net periodic pension cost and net periodic postretirement benefit cost.

Apply the amendments prospectively, on and after the effective date, for the capitalization in assets of the service cost component of net periodic pension cost and net periodic postretirement benefit cost.

Disclose the nature of and reason for the change in accounting principle in the first interim and annual reporting periods in which the entity adopts the amendments.

The Board decided:

To provide a practical expedient to permit entities that have difficulty in determining the disaggregation of the service cost component and other components for the prior comparative periods to use the amounts disclosed in their pension and other postretirement benefit plan footnote as the basis for applying retrospective presentation requirements.

If an entity applies the practical expedient, the entity would be required to disclose the

reason for applying that practical expedient and other qualitative information about the capitalization of net benefit cost.

The forthcoming amendments will be effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

The forthcoming amendments will be effective for entities other than public business entities for annual reporting periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019.

Early adoption will be permitted for all entities.

The Board concluded that it has received sufficient information and analysis on the proposed amendments to the guidance for pension cost and other postretirement benefit costs to make an informed decision on the issues presented. The Board also concluded that the expected benefits of the proposed amendments justify the costs.

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