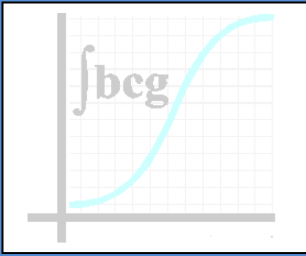

BCG Retirement News Roundup

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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

Pension Crisis: Could Buyouts Be a Solution?

State and local governments are trying unconventional ways to fund their pension liabilities, such as offering lump-sum cash payments to employees.

When it comes to chipping away at pension liabilities, there aren't a lot of options. In some places, lawmakers can freeze cost-of-living increases to pension payments or move back retirement dates for existing employees. But that's not legal everywhere. So the majority of pension reforms in the past decade have targeted new employees and focused on controlling the growth of future liabilities.
But some places are getting more creative.

In Philadelphia, where the municipal pension plan is less than half-funded, Controller Alan Butkovitz is pushing a buyout of sorts aimed at the city's most expensive workers. In exchange for taking an upfront cash payment based on their estimated lifetime benefits, the employee or retiree would accept a reduced level of pension benefits going forward. The benefits would be equivalent to what newer Philadelphia public employees are receiving now.

"We've settled on benefits right now that everyone agrees are reasonable and humane," said Butkovitz. "Their survival and living standard is protected. If you're going to give them a lump sum of money, behaviorally, people prefer that approach."
The buyouts would be offered to 31,000 city retirees and 2,500 active employees who are members of Plan 67, the city's oldest and most generous pension plan in which employees can receive up to 100 percent of their final salary in retirement. Plan 67 is responsible for $5 billion of the city's roughly $6 billion in unfunded liabilities.
If every eligible plan member takes the buyout, it would reduce Philadelphia's unfunded liability by $1 billion, according to an independent audit. And, the idea goes, those who opt for the lump-sum payment could use it as an opportunity to pay off debt or a mortgage, or start a new business.

Philadelphia isn't the only place where hamstrung officials are considering unconventional solutions for their pension plans.

In Illinois, where courts have ruled against any changes to retirees' payments, lawmakers have contemplated lump-sum payouts to reduce their unfunded pension liability. The state's public employees plan is currently 34 percent funded.

In Connecticut, Gov. Dannel Malloy is pushing a plan that would split its troubled state employees' pension fund into two, as a way of isolating the unfunded liability.
Experts say the main difficulty with these approaches is that they tend to be more complicated than they are effective. The proposal in Connecticut doesn't reduce the actual amount the government owes its retirees -- it merely pays for the more expensive pension benefits directly out of the state's annual budget so the liabilities are not on the pension fund's balance sheets.

"The split is a helpful accounting exercise, but it really comes down to: Are you really putting in today what you need for the future?" said Greg Mennis, director of The Pew Charitable Trusts' public-sector retirement systems project.
Connecticut, he added, has a history of not paying its pension bills, which is why the system is so underfunded. S&P Global Ratings said last year that the split could worsen the state's unfunded liabilities and warned it could downgrade Connecticut if it moved ahead with Malloy's proposal.

"There are no panaceas," said Mennis.
Pension buyouts have worked in the corporate sector where employees have taken a lump-sum payment at a slight haircut. But they haven't been done in the public sector, thanks to the different accounting rules for public pensions that make their liabilities appear lower than comparable corporate-sector plans, said Josh B. McGee, senior fellow at the Manhattan Institute and vice president of public accountability at the Laura and John Arnold Foundation.

That can mask what a government would actually owe an employee who wants to cash out today. Indeed, an initial analysis of Bukovitz's original idea of a straight pension buyout proved to be too expensive for the city.

The optics are also a challenge, said McGee. "Politically, you're saying you're going to cash out and give someone a lump sum. The public perception of that is not that great."
As for what's next, Butkovitz said the pension board this month is discussing a number of issues it would like to address via a member survey, including the minimum threshold for participation, the age range of people opting in and whether those who take a lump-sum payment would also agree to financial management classes.
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Chicago Moves to Increase Utility Taxes to Bolster Pension

Chicago moved closer to keeping its largest pension fund from running out of money within the next decade.
The city council's finance committee on Thursday approved raising the levy on water and

sewer usage over the next five years to avert insolvency for the municipal pension, the most underfunded of the city's four retirement systems. Last month, Mayor Rahm Emanuel outlined his plan to get the Municipal Employees' Annuity and Benefit Fund of Chicago to 90 percent funded in 40 years. The hike still needs to be adopted by the full council, which next meets on Sept. 14.

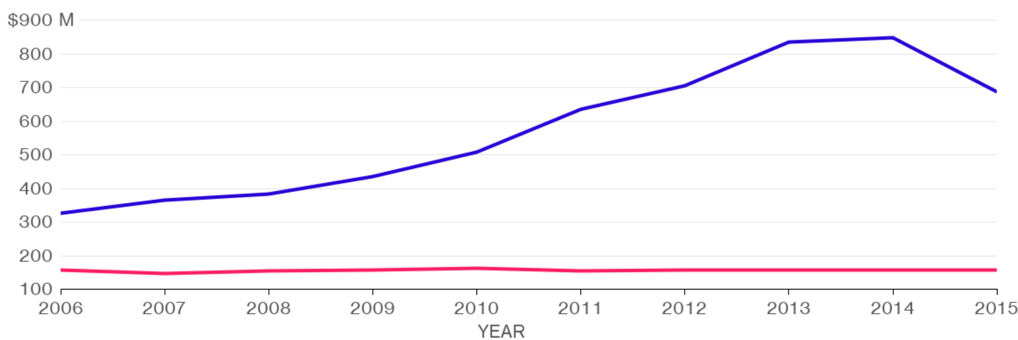
"We are going from the potential of bankruptcy to the potential of solvency" for the pensions, Carole Brown, Chicago's chief financial officer, said in response to questions from committee members. She acknowledged that the city will still need more revenue down the line. "It puts us on a path where we're addressing the needs of not only this fund but every other pension fund.''

Chicago shortchanged its pension funds for years, neglecting to put aside enough money to cover the rising cost of benefits for retirees. That failure has left the city with $34 billion of retirement debt across its four funds. The strain of the unfunded liabilities pressures its budget and led Moody's Investors Service to slash Chicago's rating to junk last year.

Chicago Shorted Municipal Pension by $4.2 Billion Over Last Decade

Without changes, the retirement fund is on track to run out of money within 10 years

Actuarially determined contribution | Actual contribution

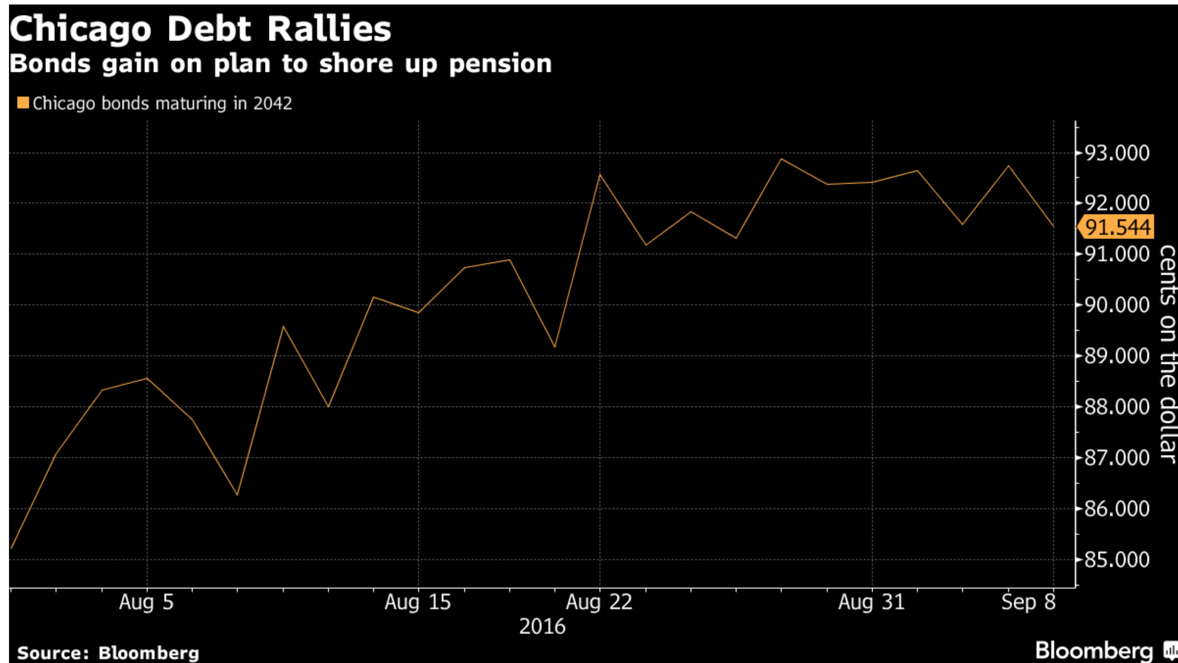


Source: Municipal Employees' Annuity and Benefit Fund annual actuarial report as of Dec. 31, 2015
Before 2015, the actuarially determined contribution was the annual required contribution, and included pension and OPEB

The city's bonds have rallied since Emanuel outlined the plan to hike the utility tax on Aug. 3. That move follows a record increase in the property tax, pushed through by Emanuel in October, to bolster the police and fire pensions. A telephone tax will help shore up the laborers' retirement system. If the plan for the municipal fund is approved, all four funds will be on a path to solvency, according to city officials. The four pensions are only 23 percent funded, according to an annual financial analysis.

A portion of the city's taxable debt, which matures in 2042, traded for an average of 92 cents on the dollar Thursday, compared to 87 cents on Aug. 3, the day Emanuel outlined his

plan. The debt yields 6 percent, down from 6.5 percent



Emanuel's plan for the municipal fund also ramps up the city's payments. Chicago will pay about $3 billion to the fund over the next six years. That compares to only $1 billion under the current funding schedule. In 2022, the city will start making the actuarially-required payment to get to 90 percent funded in 2057.

Chicago plans to seek state authorization to increase its pension payments and alter the employee contributions.

The council has to approve the higher utility rates. Over five years, water and sewer charges will rise by about 33 percent with the new tax. The higher levies will help cover the city's municipal pension bills over the next six years. After 2022, the city will need to find additional revenue to cover the stepped-up payments.

Some council members expressed concern that the tax won't fully cover the revenue needed over the full 40-year period. Brown and Alex Holt, the city's budget director, acknowledged that the work isn't done.

"We're not going to ask taxpayers today to pay for an expense that's 40 years down the line,'' Holt said. "We need to work and put a sustainable plan into place that deals with the biggest increase, which is between now and 2023, and then we need to work towards putting additional sustainable revenues or additional reforms and savings in place to deal with this issue over the 40-year time period.''

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Some public funds uneasy with fee disclosure
State proposals raise execs' fear of shutout by managers

Measures in several states focusing on alternative investment fee disclosure are causing public pension plan executives to worry they could get shut out of the best funds if managers are unhappy with the requirements.

At least eight states have considered fee disclosure for alternative investments, according to the Washington-based National Conference of State Legislatures.
Two bills have passed, one in Washington and one in California, but neither requires as much information as the fee reporting template released by the Institutional Limited Partners Association in January.

The Illinois House is expected to see a bill in November that already passed the state Senate. Legislation also is pending in Louisiana and Rhode Island. Bills have failed in three states — Alabama, Kentucky and New Jersey, the NCSL data show.

The ILPA disclosure template details fees, expenses and carried interest. So far, 53 institutional investors have endorsed the trade association's form. And half of that group now requires their general partners to use it.

But some pension plan officials have opposed disclosure legislation, fearing that alternative investment firms will shut them out of their investment offerings if firm executives don't care to provide more information.

Illinois is considered to have one of the strongest transparency bills under consideration. It would require full disclosure on fees, including management fee waivers and clawbacks of fees due to limited partners. In May, the bill was amended to resolve problems voiced by state pension fund executives, said Illinois state Sen. Daniel Biss, a Democrat who sponsored the bill.

“I believe that the situation is untenable. It is unsustainable for pension funds to not know the fees they are paying,” Mr. Biss said in an interview.

Under the amended legislation, which incorporates portions of the ILPA template, reporting requirements would not kick in until 2019. In the meantime, the Legislature will create a task force with state pension funds holding the most seats. If the task force comes up with a better proposal, that could become a new law.

“It's giving them (the pension funds) a very significant shot,” he said. ”If the pension plans don't like this bill, (this gives them a way) to find a more palatable mechanism of achieving the same goal.”

If legislators decide the task force's approach is inadequate, the current requirements of the bill will become law, he explained.

National approach

David Urbanek, spokesman for the $44.6 billion Illinois Teachers' Retirement System, Springfield, said executives at the fund prefer a national approach. “ILPA is something that could work well in Illinois,” Mr. Urbanek said. “We don't want to see a hodgepodge of regulation all over the place. That could be as bad for investment opportunity as anything else.”

Mr. Urbanek added there is a need for increased transparency that “puts us on a level playing field.” He acknowledged Mr. Biss' bill contains ILPA requirements, but said fund executives don't want to “gum up the works” with a state-by-state approach. “ILPA is preferred,” Mr. Urbanek said.

Alternative managers hired for new commitments by Illinois TRS will be asked to use the template but it won't be compulsory and there is no timeline for when the pension plan will begin asking managers to comply, he said. “We recognize that there are differences with a lot of the private equity managers. Some have more extensive back offices than others and we will take that into account.”

In California, pension plans large and small opposed the legislation, urging lawmakers to soften the requirements. The original bill, nearly as strong as the Illinois proposal, would have required firms to report the total fees paid by the companies within a particular private equity fund. A weakened version is awaiting Gov. Edmund G. Brown Jr.'s signature. The $193.4 billion California State Teachers' Retirement System, West Sacramento, had concerns about strong private equity fee disclosure requirements contained in an earlier version of the bill. CalSTRS officials argued that private equity firms declining to comply simply would no longer take on the pension fund as a client and estimated that a strong fee disclosure measure would cost the fund as much as $400 million in returns over time, Ricardo Duran, CalSTRS spokesman, said in an e-mail.

In May, the $19.5 billion Los Angeles Fire & Police Pension Plan opposed the California bill, arguing in a statement on its website that it “would require disclosure of sensitive information regarding the underlying position(s) of private equity funds,” which is considered proprietary information by the firms.

“Under existing state law, there are several private equity funds that have made the decision to exclude public pension plan investors within the state of California from investing in their respective funds due to disclosure requirements,” the statement said. “Passage of this law will most likely increase the number of private equity funds with such restrictions.”

Opposed requirement

The Los Angeles Fire & Police board also opposed a requirement that California public funds disclose information for all new commitments as well as existing investments if limited partnership agreements are amended. The requirement eventually was dropped from the legislation, and reporting requirements only apply to commitments made after Jan. 1. The bill now simply exhorts public plan officials to “undertake reasonable efforts” to obtain the same information for existing investments.

The final version of the California bill, which passed in August, also was amended to remove mention of the ILPA template and no longer requires general partners to use a standardized form of any kind. The bill only requires private equity managers to reveal the pro rata share of fees for each pension plan rather than disclose the total amount of fees paid by portfolio companies to the alternative investment manager.

Not everyone approved of the weaker bill.

Michael Flaherman, former board member of the $307.2 billion California Public Employees' Retirement System, Sacramento, pulled his support from the bill after it was “fatally weakened ... by removing the requirement for full disclosure of related-party transactions,” according to a June 26 letter of opposition he wrote to Richard Pan, chairman of the California Senate Committee on Public Employment and Retirement.

Mr. Flaherman added that the amended bill “would set back the cause of private equity transparency.” California public pension plans might believe that receiving pro rata information on the cost is substantially the same as full disclosure, but it is not, he argued. “What they ... perhaps may not understand is that, most of the time, a private equity firm purchases a portfolio company with capital from multiple vehicles, only one of which is the capital from the private equity vehicle in which a California pension system is an investor,” he explained.

Private equity firms do not share with limited partners the portion of fees attributable to vehicles other than the one in which a particular investor has allocated capital, Mr. Flaherman wrote.

California Treasurer John Chiang sponsored the bill and his office worked with the

investment staffs of CalPERS and CalSTRS, said Grant Boyken, Los Angeles deputy treasurer, in an interview.

“I wouldn't say it was watered down,” Mr. Boyken said. “We talked to stakeholders about what is workable and would be passed through the state Legislature.”

Template endorsement
Even though the ILPA requirement is not in the final version of the bill, CalPERS officials endorsed the ILPA's reporting template and require compliance from all alternatives managers, said Joe DeAnda, spokesman for the pension fund.

Earlier this year, CalPERS asked its general partners to release carried interest information and received a 97% compliance rate, he added.

The CalPERS board gave an earlier version of the bill qualified support because of some wording it wanted added concerning pension funds' fiduciary responsibilities, Mr. DeAnda said. The fiduciary wording was later remedied through amendments, he said.

Mr. DeAnda declined to comment further on the bill. He pointed out, however, that CalPERS no longer invests in venture capital because years ago a number of VC firms stopped investing with public pension plans over disclosure issues.
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Financial Economics Principles Applied to Public Pension Plans [Working Draft]

The following paper, Financial Economics Principles Applied to Public Pension Plans, originated as a work-in-process of the former Pension Finance Task Force, a group that was jointly sponsored by the American Academy of Actuaries and the Society of Actuaries. Several members of the Task Force were the principal authors and contributors to the draft paper.
Producing a final paper could not be achieved to the satisfaction of the Academy and the SOA. Publishing a final paper in the names of their organizations required a level of peer review and editing that had not been completed. Accordingly, this paper is not being issued in the name of the Pension Finance Task Force, which has now been disbanded. It does not reflect the position of either the SOA or the Academy, or of any group that speaks for the profession.
Having said that, the SOA has a long record of supporting research and education on a variety of issues related to public pension finance, including the application of principles of

financial economics to liability measurement. On that topic, the SOA believes this draft paper reflects the perspectives of knowledgeable actuaries and other individuals whose viewpoint is important and worthy of presentation and discussion. The SOA has therefore decided to make the draft paper available at this time.
The Society of Actuaries believes this is a work product of the former Pension Finance Task Force, with the copyright co-owned by the SOA and the Academy. The principal authors disagree and have not consented to the publication of the paper or to have their names listed as authors of this draft paper.
https://www.soa.org/Files/Sections/financial-economics-public-pension-plans.pdf
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AN EXAMINATION OF STATE PENSION PERFORMANCE: 2006 TO 2015:

Alternative consultants Cliffwater, LLC, has issued a new research report entitled "An Examination of State Pension Performance: 2006 to 2015." The research report found that most state pensions are under intense public scrutiny due to budgetary pressures from large and growing contributions necessary to correct underfunding. The causes and cures for pension underfunding are multidimensional and often contested. The report focuses on the management of state pension assets, an important but not well understood aspect of pension funding. While capital markets largely drove returns for state pensions, we find a wide range of 10-year return outcomes among state pensions, most of which is attributable to implementation (fund/manager selection) rather than differences in asset allocation. Cliffwater found that fund/manager selection by state pensions, in aggregate, has been accretive to return over the study period. It concluded that the role of investments in helping solve pension underfunding will largely be determined by the future health of the capital markets, particularly for equity securities. The report shows that, overall, state pensions continue to take advantage of what the capital markets offer in returns, and the importance of individual state policy and manager decisions that can significantly contribute to return outcomes. Here are some of the key findings:

- State pensions collectively earned a 6.8% median annualized return over the 10 years ended June 30, 2015, but underperformed their 8.0% median actuarial interest rate assumption for the same period.

- Two-thirds of state pension returns exceeded a 6.5% return for a passive 65/35 mix of stock and bond index funds.

- The 6.8% median state pension return fell within a wide 4.8% to 8.4% range of

individual state returns, with the top performing state plan outperforming the bottom performing state plan by a cumulative 63.8% over 10 years, demonstrating the potential for significant financial consequences underlying investment policy and implementation decisions.

- State pension returns were volatile year to year, with a median standard deviation of return equal to 12.7%. Standard deviations for individual state pensions ranged from a low of 9.9% to a high of 15.6%. By comparison, standard deviations for global equities and U.S. bonds were 18.7% and 3.5%, respectively.

- The report found that differences in 10-year state pension returns had only a small relationship to risk taking, as measured by standard deviation, with a 0.14 correlation and accounting for only 0.3% of the 3.6% range in 10 year state pension returns. This implies that 3.3% of the 3.6% 10 year return range was attributable to implementation decisions of individual state pensions.

- Aggregate asset allocation remained unchanged from the prior year, with state pension assets averaging 50% to public equities, 26% to fixed income (including cash), and 24% to alternative investments. The last two fiscal years reflect stability in asset allocation that had seen public equity allocations decline from 61% in 2006.

- Private equity continues its history of providing the highest asset class returns, with an 11.9% median return over the 10-year study period.

- State pension real estate returns vary widely over the 10-year study period with a 6.6% median return falling below the 6.8% median state pension total fund return. Differences in how state pensions allocate within real estate explain the wide 5.8% range in individual state pension real estate outcomes over the 10-year study period and should be an area of greater attention by allocators.

- Risk-adjusted returns for state pensions were largely neutral with respect to hedge fund allocations. State pensions with hedge fund allocations experienced, on average, lower return and lower risk over the 10 year period.

- State pensions outperform professionally managed defined contribution plan returns by 0.8% annually over the last 10 years.

To read the entire report visit: https://www.cliffwater.com/research. (September 6, 2016).

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Private Sector

Changes to Form 5500: Lessons from the life of a beta fish

Last week my wife and I helped our daughter pack for her freshman year of college. As we sorted her belongings, I noticed Conrad, her beta fish, swimming around in his little bowl. Conrad has a pretty decent life: no predators (unless you count my younger children!), clean water, and a daily supply of food. But one thing Conrad does not have is privacy. His existence is totally transparent, and he has nowhere to hide in his fish bowl.

This kind of transparency, or a close approximation of it, is what the IRS, the Department of Labor (DOL), and the Pension Benefit Guaranty Corporation (PBGC) have in mind with many of the proposed revisions to the Form 5500 annual reporting package for retirement and health/welfare plans, announced on July 11, 2016.

I'm going to focus on changes affecting defined contribution (DC) plans. These changes would require plan sponsors to provide more detailed information on plan features, operations, and investments in order to, among other things, create more transparency. For example, key suggested revisions would:

Increase transparency of fees and expenses by requiring a separate Schedule C (Service Provider Information) for each service provider to a plan. In addition, this schedule would be revised to more closely align with the service provider fees and expenses that must be disclosed to plan sponsors under ERISA section 408(b)(2).

Enhance the ability to "mine" data from Form 5500 by, for example, requiring information previously accepted as an attachment to be entered directly into the form.

Allow easier recognition of trends across DC plans by adding plan-level questions about, for example, Roth, education, advice, safe harbor, auto enrollment/auto escalation, and matching contribution features.

Provide clearer understanding of daily operations of a plan by adding IRS and DOL compliance-related questions about issues including required minimum distributions, uncashed checks, hardship withdrawals, participant fee disclosure notices, and summary plan descriptions.

Improve clarity around certain assets classes (e.g., alternative investments), plan expenses, and qualified accountant information, by revising Schedule H (Financial information).

Many of the proposed changes, and the increased transparency they bring, could be a good thing for plan sponsors. After all, the compilation of industrywide data can provide helpful information to plan sponsors looking to benchmark their plan design against others. Benchmarking often leads to plan design enhancements that improve participant retirement outcomes. Of course, transparency into any individual plan could also produce

an entirely different outcome. For example, the proposal indicates that the IRS and DOL could use the Form 5500 data for targeted enforcement of plans with compliance issues noted on the form. It wouldn't be surprising for these plans to be subject to future audits.

While proposed changes to the Form 5500 are significant, it's important to remember that these are just proposals for now, and most of the changes would not go into effect until the 2019 plan year. There is much more to come, especially since industry comments are not even due until December 5, 2016. In the meantime, plan sponsors should continue to ensure that plan operations remain compliant and be prepared to face transparency closer to what Conrad experiences in his fish bowl. The difference for plan sponsors is, unlike for Conrad, there may be predators lurking, especially if the plan operations are not as "clean" as his fish bowl!

All investing is subject to risk, including the possible loss of the money you invest.

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Defined benefit plan participants can receive lump sum and annuity under new rules

Defined benefit plan participants will have greater flexibility in choosing how to receive their pension benefits under final regulations issued by the IRS (T.D. 9783). The regulations finalized proposed rules issued in 2012 that permit participants to elect to receive split benefits of monthly annuity payments together with a lump-sum payout without disqualifying the plan. The IRS believes plan participants are better served against the possibility that they will outlive their retirement benefits when they can choose to bifurcate their benefits between the two options. The rules are designed to enable participants to receive a portion of the plan benefit as a stream of monthly payments while taking the remainder in a single, lump-sum cash payment. The regulations encourage these split options by changing the minimum present value requirements for defined benefit plan distributions to permit plans to simplify the treatment of certain optional forms of benefits that are paid partly in the form of an annuity and partly in a more accelerated form. Defined benefit plans are allowed to apply actuarial assumptions on interest rates and mortality benefits only to the portion of the distribution being paid as a lump sum. The partial annuity portion of the benefit is determined using the plan's regular conversion factors. The final regulations adopt the proposed rules (REG-110980-10) with a few changes in response to comments. One change was to the approaches to bifurcating the benefits so the minimum present value requirements applied only to a portion of the accrued benefit. The proposed rules outlined three methods, which some commenters criticized as unclear. Under the final rules, there are two options. Under the first option, a plan is permitted to bifurcate the accrued benefit so that the plan provides that the requirements of Regs. Sec.

1.417(e)–1(d) apply to a specified portion of a participant's accrued benefit as if that portion were the participant's entire accrued benefit. This rule does not impose any requirements on the distribution options for the remaining portion of the accrued benefit. An alternative rule permits a plan that distributes a specified single-sum amount to a participant to be treated as satisfying the requirements under Regs. Sec. 1.417(e)–1(d) for that payment, provided the remaining portion of the participant's accrued benefit satisfies a minimum requirement. Under that minimum requirement, the portion of the participant's accrued benefit, expressed in the normal form of benefit under the plan and commencing at normal retirement age (or at the current date), must be no less than the excess of (1) the participant's total accrued benefit in that form over (2) the annuity payable in that form that is actuarially equivalent to the single-sum payment, determined using the applicable interest rate and the applicable mortality table. The regulations contain numerous examples of the bifurcation rules. The changes under these regulations apply to distributions with annuity starting dates in plan years beginning on or after Jan. 1, 2017, but taxpayers may apply the rules to earlier periods.

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Nondiscrimination Relief for Closed Defined Benefit Plans Extended

Employers that sponsor both a closed defined benefit plan and a defined contribution plan will be allowed to continue to use the aggregated plans to comply with the nondiscrimination requirements of Sec. 401(a)(4) under guidance issued by the IRS on Monday (Notice 2016-57). This relief, which was first issued in Notice 2014-5, will now be available for plan years beginning before 2017, as long as the plan satisfies the conditions of Notice 2014-5. The remaining provisions of the nondiscrimination regulations under Sec. 401(a)(4) continue to apply. Closed defined benefit plans provide ongoing accruals but have been amended to limit those accruals to some or all of the employees who participated in the plan on a certain date. Often defined benefit plans are closed when an employer switches to a defined contribution plan. Earlier this year, the IRS issued proposed regulations (REG-125761-14) that would allow employers to maintain closed defined benefit plans without running afoul of the nondiscrimination rules. Those regulations would generally apply to plan years beginning after they are adopted as final, and the IRS does not anticipate finalizing them before the relief issued in Notice 2014-5 would have expired, so it is extending the relief for one more year.

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United States : PBGC Lessens Burden for Plan Sponsors, Reduces Late Premium Penalties

The Pension Benefit Guaranty Corporation is reducing penalties for late payment of premiums in an effort to reduce regulatory costs and make it easier for plan sponsors to maintain traditional pension plans.

"We're committed to reducing the regulatory burdens of sponsoring a pension plan," said PBGC Director Tom Reeder. "This change is one of the ways we can help employers that are keeping their defined benefit pension plans and providing the security of lifetime income for workers and retirees," Reeder said.

As premiums have risen, so have the penalties for late payment because they are calculated as a percentage of the premiums.

The final rule implementing the changes first proposed in April, is slated for publication in the Federal Register on September 23, 2016. Under the final rule, penalty rates and caps are both cut in half. For sponsors with good payment histories that pay promptly following notification of late payment, PBGC will reduce the penalty an additional 80 percent.

The changes apply to both single-employer and multiemployer plans, and will apply to late premium payments for plan years beginning in 2016 or later.

How the New Rule Reduces Penalties

Currently, PBGC uses a two-tiered penalty structure that rewards self-correction. If a sponsor corrects a deficiency before PBGC notifies them, a lower rate of 1 percent of the late payment per month is incurred. If a delinquency is corrected only after the company is notified, PBGC charges a higher rate of 5 percent.

Penalties in the first category are capped at 50 percent of the late amount, and in the second category, 100 percent.

The following example illustrates how the new rule differs from the old rule.

Example - Consider a situation where a $100,000 premium is paid two months late.

Scenario 1 ("self-correction") - The plan discovered the underpayment and corrected it before PBGC sent notice. Under the old rule, PBGC would have assessed a $2,000 penalty (1

percent x $100,000 x 2 months). Under the new rule, the penalty is half that amount, or $1,000 (percent x $100,000 x 2 months).

Scenario 2 - The payment was made after PBGC notified the plan that it was past due. Under the old rule, PBGC would have assessed a $10,000 penalty (5 percent x $100,000 x 2 months). Under the new rule, PBGC will assess a $5,000 penalty (2 percent x $100,000 x 2 months).

In addition, if the sponsor has a good payment history and pays promptly after being notified of the underpayment, PBGC will automatically waive 80 percent of that amount reducing the penalty from $5,000 to $1,000.

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IRS Updates Defined Benefit Mortality Tables for 2017

Internal Revenue Service (IRS) Notice 2016-50 updates static mortality tables for defined benefit pension plans under §430(h)(3)(A) of the Internal Revenue Code (Code) and §303(h)(3)(A) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). These tables apply for purposes of calculating the funding target and other items for valuation dates occurring during calendar year 2017.

The notice includes a modified unisex version of the mortality tables for use in determining minimum present value under §417(e)(3) of the Code and §205(g)(3) of ERISA for distributions with annuity starting dates that occur during stability periods beginning in the 2017 calendar year.

Previously, it was anticipated that proposed regulations revising the base mortality rates would be issued and applied beginning in 2017. The Treasury Department and the IRS still expect to issue proposed regulations revising the rates and projection factors in §1.430(h)(3)-1. However, in order to give sufficient time for notice and comment on the proposed regulations, the Treasury Department and the IRS expect that the final regulations will apply beginning in 2018.

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