BCG Retirement News Roundup

August 2017 Volume 6, Issue 7

Boomershine Consulting Group, 3300 North Ridge Road, Suite 300, Ellicott City, Maryland 21043

www.boomershineconsulting.com 410-418-5525

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

Private Sector

Public Sector/Government Plans

States Get Creative on Pension Funding

The latest plans in California and New Jersey have observers asking: creative solution or accounting gimmick?

Most states have enacted some type of reform over the past decade to shore up their pension funds for the future. But such changes have typically done little to make a dent in the liabilities that governments already have on the books.
As those liabilities increase, states and localities are turning to more creative solutions to ease the burden.

California and New Jersey are moving forward with plans that would boost respective pension assets, dramatically decrease unfunded liabilities and reduce payouts for the immediate future. But critics of the plans say the two states are doing nothing more than moving numbers around on paper.

In New Jersey, the state is pledging its lottery -- which an outside analysis determined was valued at $13.5 billion -- as an asset to state pension funds. The action would reduce the pension system's $49 billion unfunded liability and improve its funded ratio from 45 percent to about 60 percent, according to State Treasurer Ford Scudder. The roughly $1 billion in annual lottery proceeds, which currently go to education and human services, among other programs, will now be divvied up among state pension funds. The largest share -- nearly 78 percent -- will go to the teachers' pension fund.

Although unions grumbled about the plan, it passed with little public debate as lawmakers were preoccupied by budget negotiations. Gov. Chris Christie and Scudder have hailed the lottery legislation as a foolproof way to immediately boost the health of the pension fund. But others have been less enthusiastic about the plan.

Municipal Market Analytics' Matt Fabian dubbed it an accounting scheme, noting it also places a roughly $970 million burden on New Jersey's general fund budget to pay for the programs formerly covered by the annual lottery proceeds. "We believe that, at best," Fabian wrote, "this transaction delays honestly confronting the pension liability problem."

The move hasn't impressed credit rating agencies, either.

In recent years, they have repeatedly lowered New Jersey's rating in part because of its increasing unfunded pension liabilities. "It's not a cash infusion," says S&P Global Ratings analyst David Hitchcock. What's more, he says, the state runs the risk of assuming its assets "are better than what they really are."

The ratings agencies have a more positive view of California's proposed pension funding plan.

Developed by Gov. Jerry Brown and State Treasurer John Chiang's offices, California will borrow $6 billion from its Surplus Money Investment Fund to pay down a portion of its $59 billion unfunded pension liability. The surplus fund account typically earns less than 1 percent interest because it is invested for very short periods so that it can be quickly accessed for payment. Brown and Chiang say the money in the surplus fund could be put to better use in the state's pension fund, where it can be invested for the long-term and earn a higher interest rate.

The state is making its full pension payment this year in addition to depositing the loaned money. That will result in a nearly $12 billion boost to the fund this year. The cash infusion would immediately help lower the state's annual pension bills. California would pay back its surplus fund -- plus interest -- over the course of a decade.

Moody's Investors Service has called the idea a credit positive one because it "suggests the state will aggressively counter a projected rise in its unfunded pension liabilities." Some governmental organizations, such as the California Budget and Policy Center, have also offered positive reviews, comparing the move to a refinancing of debt without the risk and exposure associated with owing money to bondholders.

But David Crane, a frequent critic of Brown and a Stanford University public policy lecturer, is skeptical the $6 billion infusion into the state's pension system will generate the 7 percent annual earnings that officials project. In addition, given the recent income tax revenue shortfalls, he cautions that the surplus fund may be needed before the state has paid it back. "Circumstances change and the state's principal responsibility is to provide services," he wrote in an op-ed.

With both of these approaches, much of their success depends on how well the pension investments perform. But no matter how that plays out, more governments are likely to follow with their own creative funding solutions.

"There's always going to be a temptation when budgets are strained to look for a way to reduce pension funding," says Hitchcock. "When a government tries to do so as a gimmick as opposed to real reform or real pension funding, [it's not] seen as a positive."

© 2017 e.Republic

Maryland state pension fund to lower rate of return

Maryland State Retirement & Pension System, Baltimore, will reduce its assumed rate of return to 7.45% over the next two fiscal years, following a vote by the board of trustees on Tuesday.

The $49.09 billion pension fund's rate now is 7.55%, which will apply for the fiscal year that started July 1, said Michael Golden, retirement system spokesman. For fiscal year 2019, the rate will be 7.5% and in FY2020, 7.45%.

© 2017 Crain Communications Inc

A FIRST LOOK AT ALTERNATIVE INVESTMENTS AND PUBLIC PENSIONS:

Center for State & Local Government Excellence has released its "First Look at Alternative Investments and Public Pensions," which explores which state and local pension plans have the largest allocations in investments outside of public equities, bonds, and cash and the broader impact of aggregate allocation shifts on returns and volatility. Since the financial crisis, public pension plans – like other large institutional investors – have moved a significant portion of their portfolios into investments outside of traditional equities, bonds, and cash. These alternative investments include a diverse assortment of assets – private equity, hedge funds, real estate and commodities. This shift reflects a search for greater yields than expected from traditional stocks and bonds, an effort to hedge other investment risks, and a desire to diversify the portfolio. Data show the allocation to alternatives more than doubling (from 9 percent to 24 percent) between 2005 and 2015.

The brief begins to explore the implications for state and local pension plans of moving away from traditional stocks and bonds to other types of assets. The scope of the inquiry is narrow; it does not address fees, disclosure, or administrative issues. It does not assess how these alternative assets are utilized within each plan's overall investment strategy. Rather, the analysis investigates two basic questions: (1) which plans have made the largest shift to alternatives? and (2) how has the shift affected investment returns and volatility? The discussion proceeds as follows. The first section provides a quick overview of alternative investments. The second section documents the extent to which state and local pension plans engage in alternative investing.

The third section attempts to find a link between plan characteristics and the proportion of the overall investment portfolio allocated to alternatives, and uncovers no systematic relationship. The fourth section looks at the relationship between alternatives and investment performance, finding lower after-fee returns, primarily due to poor hedge fund performance. Hedge funds do reduce volatility, but their effect is offset by the greater volatility associated with real estate and commodities. The final section concludes that, while the focus on returns and volatility may be too narrow and the time periods analyzed too short to draw any definitive conclusions, the relationship between alternatives and public plan performance merits further analysis.

The brief's key findings include:

- Public pension plans have boosted their holdings in alternative assets, defined as private equity, hedge funds, real estate, and commodities.
- This shift reflects a search for higher returns, a hedge for other investment risks, and diversification.
- The question is how the shift has affected returns and volatility over two periods: 2005-2015 and 2010-2015.
- In terms of returns, a 10-percent increase in the average allocation to alternatives was associated with a reduction of 30-45 basis points, primarily due to hedge funds.
- In terms of volatility, alternatives did not have a statistically significant effect. Hedge funds reduced volatility, but real estate and commodities increased it.
- This analysis is only a first look at this area; further research is clearly warranted.

© 2017 cypen.com

Pension Plans Had a Great Year, But Retirees Likely Won't Benefit From It

One good investment year isn't enough to fix struggling systems' problems.

Public pension plans are reporting double-digit investment returns, and some are even finishing with record highs this year.

The high earnings are due to a robust stock market and are welcome news after two straight years of below-average returns for most pension plans. But finance experts say the investment boost likely won’t translate into an equally impressive reduction in pension debt because of the increasing cost of pensions.

"Government contributions tend to be insufficient to reduce unfunded liabilities -- even if the plans meet their target," says Tom Aaron, vice president and senior analyst at Moody's Investors Service. Pension plans rely heavily on investment earnings because annual payments from current employees and governments aren’t enough to cover yearly payouts to retirees. As it stands, roughly

80 cents on every dollar paid out to retirees comes from investment income.

The average annual investment earnings target for pension plans is 7.4 percent. By Aaron's calculations, pension plans would need investment returns of nearly 11 percent to prevent unfunded liabilities from growing.

Many plans are actually on track to beat that lofty figure this year, reporting returns between 10 and 14 percent, according to a Governing analysis. But it's becoming much harder for pension plans to gain ground than to lose it.

	Annual Return (%)
California Public Employees' Retirement System	11.2
California State Teachers' Retirement System	13.4
Connecticut State Employees' Retirement System	14.3
Connecticut Teachers' Retirement Board	14.4
Connecticut Municipal Employees' Retirement Fund	13.1
Municipal Employees' Annuity and Benefit Fund of Chicago	12.4
Florida Retirement System*	13.3
Kentucky Employees Retirement System*	11.2
Maryland State Retirement System (all plans)	10
New York City Teachers Retirement System*	12.4
New York City Employees Retirement System*	12.7
New York State Common Retirement Fund (state and local)	11.4
North Carolina Retuirement System (all plans)	10.6
Rhode Island Retirement System (all plans)	11.6

** Plan reporting 11 months of 12-month fiscal year.*
SOURCE: Retirement system investment reports and press releases.

For example in 2016, low investment earnings prompted the average funding ratio of pension plans -- which refers to how much money is set aside to meet obligations to retirees -- to slide down 5 points to 68 percent funded, according to Boston College’s Center for Retirement Research. Meanwhile, the positive returns this year have the center projecting an average funding increase of only 3 percentage points.

Aaron and the center attribute this difficulty to the fact that governments are not paying enough into pensions in the first place.

Obviously, a plan's fiscal health can make it even more difficult to play catch-up.

That's been the case in Chicago. Its municipal employees' $4.3 billion pension fund last year had just 19 percent of the assets it needed to meet all its liabilities. It reported an impressive 12.4 percent investment gain, but those earnings weren't nearly enough to make up for the pension payments going out of the fund. In the end, its asset level actually dropped by about $31 million, which means its funded status likely won't improve.

It doesn't help, Aaron says, that Chicago retirees nearly outnumber the active workers still paying into their pensions. "That's the absolute worst time to be underfunded because you have this negative cash flow dynamic going on," he says, "so that makes the plan even more susceptible to volatility."

On the other hand, New York state's pension fund, which is nearly 94 percent funded and earned an 11.4 percent return on investments, saw its total assets increase to a record high $192 billion -- a boost of more than $13 billion over the prior year's balance even after making payouts.

Many pension systems are seeking to remedy their funding issues by lowering their investment targets. In the short-term, that would increase a plan's overall liability, which would make them appear worse off -- even after a year of good returns.

But over time, that would increase governments' annual pension payments, which is better for a system's long-term fiscal health.
© 2017 www.governing.com.

No Change for Social Security Combined Trust Fund Reserves Depletion Year Says Board of Trustees: Disability Fund Improves by Five Years

The Social Security Board of Trustees today released its annual report on the long-term financial status of the Social Security Trust Funds. The combined asset reserves of the Old-Age and Survivors Insurance, and Disability Insurance (OASDI) Trust Funds are projected to become depleted in 2034, the same as projected last year, with 77 percent of benefits payable at that time. The DI Trust Fund will become depleted in 2028, extended from last year's estimate of 2023, with 93 percent of benefits still payable.

In the 2017 Annual Report to Congress, the Trustees announced:

- The asset reserves of the combined OASDI Trust Funds increased by $35 billion in 2016 to a total of $2.85 trillion.
- The combined trust fund reserves are still growing and will continue to do so through 2021. Beginning in 2022, the total annual cost of the program is projected to exceed income.
- The year when the combined trust fund reserves are projected to become depleted, if

Congress does not act before then, is 2034 – the same as projected last year. At that time, there will be sufficient income coming in to pay 77 percent of scheduled benefits.

"It is time for the public to engage in the important national conversation about how to keep Social Security strong," said Nancy A. Berryhill, Acting Commissioner of Social Security. "People understand the value of their earned Social Security benefits and the importance of keeping the program secure for the future."

Other highlights of the Trustees Report include:

- Total income, including interest, to the combined OASDI Trust Funds amounted to $957 billion in 2016. ($836 billion in net contributions, $33 billion from taxation of benefits, and $88 billion in interest)
- Total expenditures from the combined OASDI Trust Funds amounted to $922 billion in 2016.
- Social Security paid benefits of $911 billion in calendar year 2016. There were about 61 million beneficiaries at the end of the calendar year.
- Non-interest income fell below program costs in 2010 for the first time since 1983. Program costs are projected to exceed non-interest income throughout the remainder of the 75-year period.
- The projected actuarial deficit over the 75-year long-range period is 2.83 percent of taxable payroll – 0.17 percentage point larger than in last year's report.
- During 2016, an estimated 171 million people had earnings covered by Social Security and paid payroll taxes.
- The cost of $6.2 billion to administer the Social Security program in 2016 was a very low 0.7 percent of total expenditures.
- The combined Trust Fund asset reserves earned interest at an effective annual rate of 3.2 percent in 2016.

The Board of Trustees usually comprises six members. Four serve by virtue of their positions with the federal government: Steven T. Mnuchin, Secretary of the Treasury and Managing Trustee; Nancy A. Berryhill, Acting Commissioner of Social Security; Thomas E. Price, M.D., Secretary of Health and Human Services; and R. Alexander Acosta, Secretary of Labor. The two public trustee positions are currently vacant.

View the 2017 Trustees Report at www.socialsecurity.gov/OACT/TR/2017/.

© socialsecurity.gov

Private Sector

IRS Delay in Implementing New Mortality Tables Affects Pension Liability Valuation

The Internal Revenue Service's (IRS) delay until 2018 of implementation of updated mortality tables for pensions gives defined benefit (DB) plan sponsors some extra time to prepare for significant changes tied to increased participant longevity. But the delay also may affect pension liability valuation in up to three ways, according to investment consulting firm Cambridge Associates.

The three areas of pension liability that may be touched by the delay are minimum required contributions, variable-rate Pension Benefit Guaranty Corporation (PBGC) premiums, and lump-sum distributions to terminated vested participants.

In an April client brief about the implementation delay for the 2014 mortality assumptions known as RP-2014, Cambridge Associates said: "Practically speaking, this means that for the remainder of 2017, the liability valuation of these three purposes is temporarily lower (and funded status therefore temporarily higher), than it would be once the new tables are adopted."

History of New Tables

The Society of Actuaries on Oct. 27, 2014, released the final RP-2014 mortality tables and the MP-2014 mortality improvement scale for determining participant longevity in pension benefit calculations, updating tables from the year 2000.

The IRS and U.S. Treasury Department usually evaluate options for updating the mortality tables as mandated by federal law, and they generally issue proposed regulations to make the changes available for comment before they are enacted. Pension plans then set their own mortality, or "generational," tables based on these underlying lifespan assumptions.

One important lesson all DB plan sponsors can benefit from now is that the rules for valuing pension liabilities—and funded status—can be "dramatically" different for different purposes, the Cambridge Associates client brief said.

The brief points out several issues that plan sponsors may have to address soon:

Contributions to the plan may have to rise. Because funded status determines the level of minimum required contributions, a drop in funded status means higher required contributions must make up the deficit.

Premiums due to the PBGC may jump dramatically for certain plans because a lower funded status also means higher PBGC premiums.

Lump-sum distributions may gain attention. Paying out benefits while the plan is underfunded results in a lower funded status in percentage terms, the brief said. Depleting funds means it will be harder to compensate for shortfalls with investment returns.

Sponsors should expect to see their IRS funded status decline in 2018 to roughly the same amount as they saw their accounting funded status decline when RP-2014 was first used on their financial statements, Cambridge Associates said. Generally, a plan's IRS funded status under recent federal rules is significantly higher than for accounting or economic purposes due to the use of a higher liability discount rate.

As for PBGC premiums, which already are on the rise from controversial hikes brought about by the federal laws mentioned above, plan sponsors can expect a "double whammy" in 2018 as a result of variable-rate PBGC premiums. They will face both higher rates per $1,000 of underfunding from the previous legislation and new, greater levels of underfunding due to the IRS adopting the new mortality tables, the investment consulting firm wrote.

At the same time, the reality of increased longevity and longer-term retirements may lead some employees to work beyond a pension plan's "normal retirement age," offsetting somewhat the increased liabilities brought about by the latest mortality assumptions.

Uses for Mortality Tables

Among other things, mortality tables are used to figure a DB plan's minimum funding requirements, or targets, as required by federal regulations. The Pension Protection Act of 2006 (PPA) established a minimum funding ratio of 80% (pension assets divided by liabilities) in most cases. The tables also let plan sponsors establish present value requirements each year. The net present value of individuals' pensions calculates their value in current dollars. Net present value accounts for the fact that the payments will be spread out over several years and could be invested and paying a return in that time period.

The regulations that govern the use of the new mortality tables by DB plans allow plan sponsors to apply the projection of mortality improvement in one of two ways: through use of static tables like the ones released July 31, 2015, or through use of generational tables, the IRS said.

"Sponsors should ensure that they are equipped with a comprehensive pension strategy that encompasses both funding and investment policies" as well as potential "derisking" options ahead of 2018 IRS implementation of the altered mortality tables, Cambridge Associates recommended.

© 2017 BLR®—Business and Legal Resources 100 Winners Circle, Suite 300, Brentwood, TN 37027 800-727-5257

The Kline-Miller Multiemployer Pension Reform Act of 2014

Changes to Multiemployer Pension Plans

On December 16, 2014, the Kline-Miller Multiemployer Pension Reform Act of 2014 (MPRA) was enacted into law. In MPRA, Congress established a new process for multiemployer pension plans to propose a temporary or permanent reduction of pension benefits if a plan is projected to run out of money before paying all promised benefits.

MPRA requires the Treasury Department, in consultation with the Pension Benefit Guaranty Corporation (PBGC) and the Department of Labor, to review a multiemployer pension plan's application to reduce benefits and determine whether it meets the requirements set by Congress.

It is important to note that most multiemployer pension plans are sufficiently funded and will not be eligible to apply for a reduction of pension benefits under MPRA. To find out if MPRA could impact you, contact your pension plan.

The resources on this page provide additional information about MPRA and the Treasury Department's process for reviewing applications to reduce benefits paid by multiemployer pension plans that are in critical and declining status.

On May 6, 2016, Secretary Lew sent a letter to Congress regarding the Kline-Miller Multiemployer Pension Reform Act of 2014.

New York State Teamsters Conference Pension and Retirement Fund Application to Reduce Benefits

On August 3, 2017, the Board of Trustees of the New York State Teamsters Conference Pension and Retirement Fund (Fund) was notified that its application to reduce pension benefits under the Multiemployer Pension Reform Act of 2014 (MPRA) was approved by Treasury. As a result, the proposed benefit reduction will now be subject to a vote of participants and beneficiaries of the Fund. Ballots will be mailed to participants on or around August 14, 2017. Please check back on this website for more information about the vote.

Unless a majority of participants and beneficiaries vote to reject the proposed benefit reduction, the proposed benefit reduction will go into effect on October 1, 2017.

Under a special rule in MPRA, even if a majority of eligible participants and beneficiaries votes to reject the proposed benefit reduction, the proposed benefit reduction (or a modified version of the proposed reduction) can still be made. This special rule applies for a pension plan if the estimated cost to PBGC of providing guaranteed benefits if that plan runs out of money is over $1 billion (indexed for inflation). Under this special rule, the person who has been appointed to be the PBGC's Participant and Plan Sponsor Advocate may recommend possible modifications to the proposed benefit reduction. It has not yet been determined whether this special rule applies to the Fund.

United Furniture Workers Pension Fund A Application to Reduce Benefits

On July 20, 2017, the application of the Board of Trustees of the United Furniture Workers Pension Fund A (Fund) to reduce pension benefits under the Multiemployer Pension Reform Act of 2014 (MPRA) was approved. The proposed benefit reductions will now be subject to a vote of participants and beneficiaries of the Fund. Unless a majority of participants and beneficiaries vote to reject the benefit reduction, the reduction will go into effect on September 1, 2017.

Ballot materials were mailed on August 3, 2017. The voting period opens August 3, 2017, at 12 01 a.m. ET and closes August 24, 2017, at 8 p.m. ET.

The Treasury Department will be hosting 3 conference calls to explain the voting procedures and take questions on those procedures. The teleconferences will be held on the following dates and times:

Wednesday, August 9, 2017 at 11 a.m. ET

Wednesday, August 9, 2017 at 7 p.m. ET

Saturday, August 12, 2017 at 1 p.m. ET

The dial-in number is 1-800-369-2065. When prompted, the passcode is 8572802.

Final Regulations Released

On April 26, 2016, the Treasury Department released final regulations implementing the Kline-Miller Multiemployer Pension Reform Act (Kline-Miller). These regulations finalize the proposed and temporary regulations that were issued in June 2015 and September 2015 and address stakeholder comments.

The final regulations do not change the basic requirements for applications to reduce pension benefits. They provide further clarifications based on information received during the public comment period..

Notice

If you are a participant in a multiemployer pension plan that has submitted a benefit suspension application, the plan's Board of Trustees is required to provide notice of the application to reduce benefits to you. That notice is also required to include an individualized estimate of the effect of the proposed benefit reductions on you. If you have questions about how proposed benefit reductions will specifically impact you, please contact the plan administrator. Contact information for the plan administrator is available in the summary plan description for your pension plan.

Other Details

Under Kline-Miller, Treasury is responsible for determining whether the application for a reduction of benefits meets the requirements set by Congress. Benefits cannot be reduced until after the following actions take place:

The plan sponsor must notify participants and beneficiaries of the application for a benefit reduction and provide an individualized estimate of reduced benefits

Participants and beneficiaries must have an opportunity to comment on the application

Treasury must review and, if the application satisfies all of the Kline-Miller requirements, must approve the application

Participants and beneficiaries must have an opportunity to vote on the benefit reduction

Treasury has up to 225 days to approve or deny an application, and, if an application is approved, 30 days to administer a vote on the proposed benefit reductions.

Copyright © www.treasury.gov

Corporate Employers Flee Pensions With Gap Topping $375 Billion

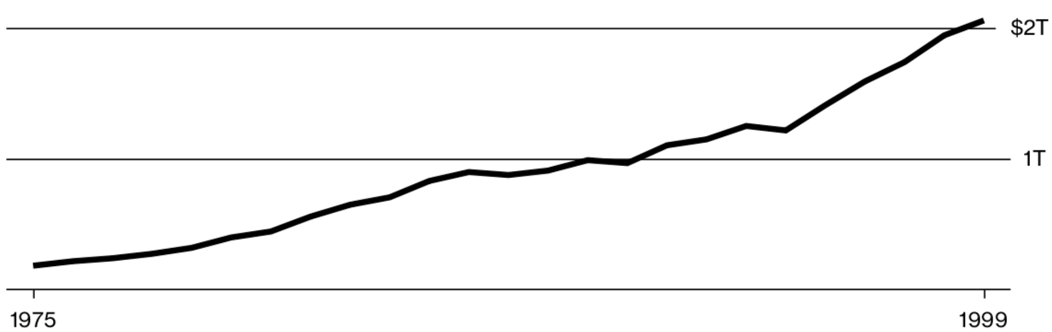
Booms and busts in the market made it tough for companies to keep up.

The vast majority of S&P 500 companies don't have enough money set aside to meet all their obligations to current and future retirees. There's a total gap of at least $375 billion for the 200 largest plans. This is how they got here.

1975 to 1999

Assets in U.S. pension plans go from $186 billion to more than $2 trillion. A booming stock market helps the funds grow, since many are largely invested in equities.

U.S. pension assets (defined benefit plans)



Graphic by Bloomberg Businessweek; Data: Department of Labor

2000 to 2005

The dot-com bubble bursts and markets tumble, pushing many big corporate pension plans into the red after having a surplus. Bankruptcies of companies including United Airlines Inc. put a burden on the Pension Benefit Guaranty Corp., the government agency that backstops plans.

2006

President George W. Bush signs the Pension Protection Act, which promises to make pensions safer—and less likely to end up in the hands of the PBGC.

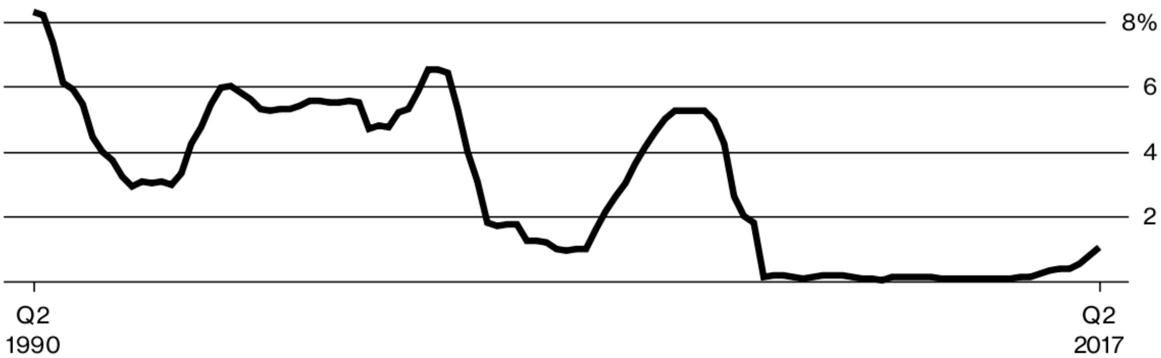
2008

The new law puts stricter funding requirements on companies with plans but comes just in time for the financial crisis and a brutal recession. Pension plans lose about 15 percent of their value in a single year.

Post-Crisis

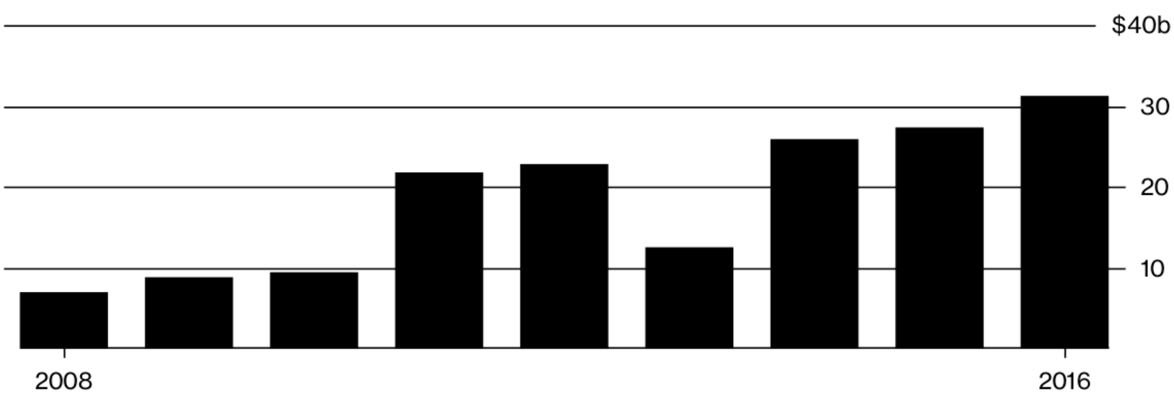
The market climbs back, though not enough to make pensions whole. That's partly due to low interest rates: The accounting value of a pension liability rises when rates fall, because it becomes more difficult to earn the money needed to meet future costs. Companies are also spending money on stock buybacks and acquisitions to boost shareholder returns, sometimes at the expense of pension obligations. General Electric Co. has spent $45 billion on buybacks in recent years—and has a pension shortfall of $31 billion. The company says it will put $3 billion into its plan in 2017 and 2018.

Effective federal funds rate



Graphic by Bloomberg Businessweek; Data: Federal Reserve Bank of New York

GE's pension deficit



Graphic by Bloomberg Businessweek; Data compiled by Bloomberg

Now

Companies are eager to get out of the pension business. Most prefer 401(k) plans, where the employee alone bears the risk of falling short at retirement. More are also offloading their pension plans, paying insurance companies to take them on instead. Only about two dozen companies in the S&P 500 have overfunded pensions. Nine of them are banks.

©2017 Bloomberg L.P.

Phased Retirement Gets a Second Look

Employees want to ease into retirement. Why don't more employers let them?

Most Americans ages 61 to 66 who are still employed maintain a full-time work schedule. However, while about one-quarter of workers in this age group say they had planned to reduce their work hours as they transitioned to retirement, fewer than 15 percent subsequently reported that they were partially retired or were gradually retiring from their jobs, according to a new report from the U.S. Government Accountability Office (GAO).

The June report, Older Workers: Phased Retirement Programs, Although Uncommon, Provide Flexibility for Workers and Employers, looks at employer-based programs in which older employees can reduce their working hours, often with a knowledge-transfer component that passes along their expertise to younger colleagues.

"As the large Baby Boomer generation retires, the workforce will lose much of their knowledge and experience," stated the report by Charles A. Jeszeck, the GAO's director of Education, Workforce and Income Security Issues. Encouraging phased retirement is one way to mitigate this loss, he noted.

However, formal phased retirement programs present design and operational challenges for employers, including compliance with provisions and laws related to discrimination. Despite these challenges, most employers that the GAO interviewed that have phased retirement programs found them beneficial.

A Range of Approaches

Employers most likely to provide formal phased retirement programs had larger or technical and professional workforces, and tended to be in fields such as education, consulting and high-tech, the GAO found. The report summarizes the phased retirement programs at eight such (unnamed) companies, showing a range of approaches.

For instance, in one employer's program:

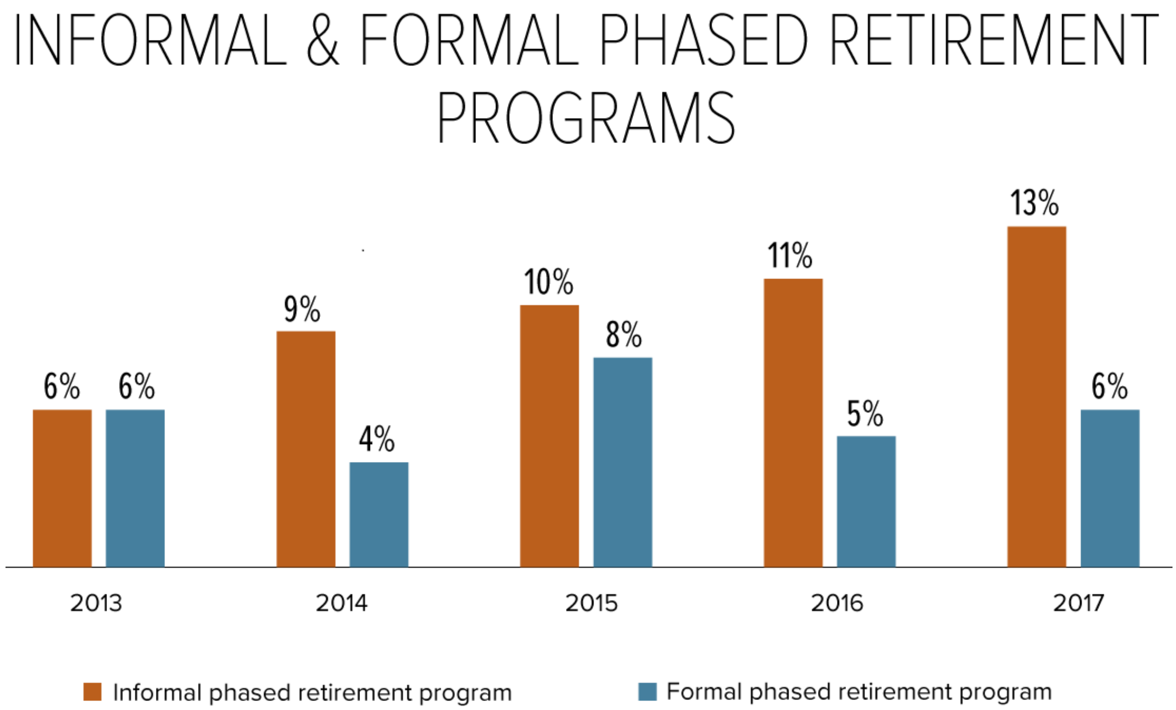
- Older employees work 80 percent of full-time hours and receive 80 percent of pay and 80 percent of their bonus money. Despite working fewer hours, workers keep their health benefits and their share of the cost is unchanged.
- The defined benefit pension formula is based on full salary for up to five years because workers appear full time on paper. The defined contribution plan contribution is based on a worker's full-time salary and reduced bonus.
- Employees are eligible to participate in the program if they are at least age 55 with 10 or more years of service, have achieved or exceeded performance expectations, and have permission from management.
- Workers can stay in the program for any length of time as long as they are meeting program standards and have their manager's approval.
- For each year the worker participates, he or she creates a proposal that includes a knowledge transfer plan with recommendations on how it will ensure business continuity.

At another employer's program:

- Participants must have reached age 60 and work at least 50 percent and no more than 80 percent of regular full-time hours.
- Participation in the program can last from six months to two years.
- The employer provides tools and guidelines to help phasing workers create a knowledge transfer plan.
- The employer provides a subsidy so that the health insurance rates for phased retirement participants are the same as if they were working full time.
- The defined contribution plan formula does not change with phased retirement, but the amount of pay on which the contribution is based changes in proportion to the worker's reduced salary.

Informal Programs More Prevalent

While formal phased retirement programs have not been widely adopted, more employers are offering informal or ad hoc programs, according to the Society for Human Resource Management's 2017 Employee Benefits survey report.



Source: Society for Human Resource Management's *2017 Employee Benefits* survey report.

One reason employers are more likely to offer informal programs is that they prefer to limit phased retirement opportunities to high-performers and those with in-demand skills and believe that an ad hoc approach makes that easier, suggested Jack Towarnicky, who has held HR and benefits leadership positions at four Fortune 500 companies, during a May 9 presentation at WorldatWork's Total Rewards conference in Washington, D.C.

An informal approach, however, "could pose legal issues regarding nondiscrimination based on who is offered the right to shift to part time, but this hasn't been tested" in the courts, said Towarnicky, who noted he was speaking for himself and not on behalf of any organization.

Employees' desire for phased retirement opportunities is growing, and eventually that will drive more employers to offer formal programs that they can use to attract and retain talent, Towarnicky said.

"Increasingly now and in the future, the lines between employment and retirement are going to become almost imperceptible," and HR will be challenged with finding ways to respond, Towarnicky noted, or older employees will depart with their knowledge and find organizations that will allow them to work fewer hours.

"If you're thinking that people are going to call it quits at 65, it's just not going to happen," Towarnicky remarked. "A lot of employers still have this full-stop concept. People end up having to leave the organization."

However, companies such as financial services firm S&T Bancorp are making concerted efforts to hire part-time retirees, he pointed out.

He also referenced Northern Arizona University's phased retirement program as an interesting model.

Working Longer and Its Consequences

A July report from Deloitte, Navigating the Future of Work, found that "The prospect of older generations working for longer periods as their physical capability to remain employed improves could affect the pace at which younger talent and ideas renew organizations—and potentially intensify the intergenerational competition for jobs. It could also lead to a substantial increase in seniors participating in the 'gig economy,' out of post-retirement desire or necessity."

Benefit Decisions

When putting phased retirement opportunities in place, employers must decide whether to maintain full health care and retirement plan benefits for those who are phasing into retirement—which is the approach most likely to keep older employees onboard.

Alternatively, they can classify program participants as part-time employees not entitled to group benefits, or provide a different benefit approach such as subsidies for program participants to purchase health care on the individual market or through public exchanges.

Organizations with defined benefit pension plans can permit near-retirees to reduce their hours worked and use partial distributions from their pension plans to make up for their reduced wages (IRS rules allow in-service distributions from defined benefit plans under certain circumstances.) Also, the salary component of the pension formula should be designed—or amended if necessary—so that, for instance, it is based on a plan participants' three consecutive highest-earning years, rather than their final three years of employment.

If choosing not to offer full benefits for phased retirees, organizations should keep close watch on these employees' hours to ensure their part-time status is maintained, Towarnicky said.

A Phased Retirement Disconnect

Employers recognize that their employees envision transitioning to retirement in a variety of ways, according to Transamerica Center for Retirement Studies 17th Annual Retirement Survey report, published in August.

The survey, conducted from Nov. 20 to Dec. 20, 2016, among a nationally representative sample of 1,802 employers, revealed that:

- Almost half (47 percent) say that many of their employees envision a phased transition that involves reducing hours (33 percent) and/or working in a different capacity (27 percent).
- 44 percent of employers believe that many workers envision working as long as possible in their current or similar position until they cannot work anymore.
- 35 percent of employers believe that many employees envision a planned stop, i.e., when they reach a certain age (25 percent) or savings amount (18 percent).

Despite employers' recognition that many of their employees envision a flexible or phased transition into retirement, few have programs in place to support them:

- Only 39 percent of employers offer flexible schedules.
- Even fewer enable their employees to shift from full-time to part-time (31 percent) or take on positions that are less stressful or demanding (27 percent).

Yet most employers (71 percent) nevertheless consider themselves to be "aging-friendly" by offering opportunities, work arrangements, and training and tools need for employees of all ages to be successful.

Employers also are missing an opportunity to ensure smoother transitions when their employees do retire, the findings indicate: only 27 percent encourage employees to participate in succession planning, training and mentoring.

© 2017 SHRM. All Rights Reserved

Treasury Announces Steps to Wind Down myRA Program

The U.S. Department of the Treasury today announced that it will begin to wind down the myRA program after a thorough review by Treasury that found it not to be cost effective. This review was undertaken as part of the Administration’s effort to assess existing programs and promote a more effective government.

Demand for and investment in the myRA program has been extremely low. American taxpayers have paid nearly $70 million to manage the program since 2014.

“The myRA program was created to help low to middle income earners start saving for retirement. Unfortunately, there has been very little demand for the program, and the cost to taxpayers cannot be justified by the assets in the program. Fortunately, ample private sector solutions exist, which resulted in less appeal for myRA. We will be phasing out the myRA program over the coming months. We will be communicating frequently with participants to help facilitate a smooth transition to other investment opportunities,” said Jovita Carranza, U.S. Treasurer.

Retirement savers have options in the private sector that offer no account maintenance fees, no minimum balance, and safe investment opportunities.

Participants in the myRA program are being notified of the upcoming changes, including information on moving their myRA savings to another Roth IRA. Participants are encouraged to visit www.myRA.gov for additional information or to call myRA customer support with any questions.

“We are committed to promoting retirement savings, and, as Treasurer, I plan to devote a substantial amount of my time to ensuring more Americans have the tools and knowhow to save for retirement,” said Carranza.

©www.treasury.gov