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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Overview

State and local pension plans hold over $3.6 trillion in retirement fund investments for participants and their beneficiaries, with returns on these investments accounting for an estimated 60 percent of the money paid out in pension benefits each year. In recent decades, public pension funds, in a bid to boost returns, have shifted funds away from low-risk, fixed-income investments—such as government and high-grade corporate bonds—to a greater reliance on equities and alternative investments. This strategy change can provide higher returns, but it increases the complexity of fund portfolios, as well as the risk of losses.

The rules governing plan trustees and administrators—those individuals, known as fiduciaries, with the authority to invest and manage these assets—have not always kept pace with this trend. Fiduciaries have a legal duty to exercise “great care” in managing plan assets. The origins of these duties date back centuries to what is known as the common law of trusts, which is widely recognized but uncodified law.

The common law of trusts provided adequate regulation when state and local pension funds were primarily invested in low-risk and fixed-income investments. But the increased complexity and risk associated with contemporary retirement system portfolios has created a need for clear standards governing the investment decisions made by those responsible for doing so.1 These more complex investments also require more expertise.

Research shows that when compared with private pension funds in the United States and all pension funds in Canada and Europe, U.S. public pension funds underperform by about 50 basis points per year, tend to invest more in risky assets, and use higher target rates for investment returns.[2] Also, U.S. public pension plans— particularly those whose trustees have limited financial expertise—can be ill-equipped to make these types of investment decisions, which can have a negative impact on fund performance.[3]

For example, an independent audit in South Carolina showed that rapid diversification into alternative investments was difficult for a new, underresourced pension investment commission. In a study of the 73 largest state-sponsored plans across 50 states, The Pew Charitable Trusts found that the South Carolina Retirement System had a 10-year return of only 5 percent in 2015, compared with a 6.6 percent return for comparable funds. That ranked the state 40th out of the 41 similar-size funds. Below-average investment performance has accounted for nearly $4 billion of the state's unfunded pension liability with losses that occurred during a period of heightened concern about fiduciary accountability. In response, lawmakers enacted reforms in April 2017 that streamline the state's complex governance structure and create clearer lines of accountability.

Weak governance practices also played a key role in the serious fiscal distress facing the Dallas Police and Fire Pension System in recent years. In part because of failed local real estate investments, the pension fund is the lowest-performing of more than 100 city and state-sponsored pension funds studied. Investment underperformance, combined with the cost of a generous supplemental benefit plan, accounts for about $1.4 billion in unfunded liabilities—a deficit that will cost taxpayers more than $50 million annually for decades.

When states adopt accepted and common standards into written law, they can help ensure that plan fiduciaries act prudently in choosing investments. Clear statutory standards of fiduciary accountability can also boost confidence among participants and beneficiaries that fund assets will be carefully invested and administered.

Pension experts largely agree on what these fiduciary provisions should include, but codification varies widely from state to state, in contrast to the rules that govern employer-sponsored private sector retirement plans—rules for which are standardized under the federal Employee Retirement Income Security Act of 1974 (ERISA).[4]

Following the shift in the 1990s toward more complex pension investments, legal experts from all 50 states drafted several model laws, including the Uniform Management of Public Employee Retirement Systems Act of 1997 (Model Act). In 1997, the National Conference of Commissioners on Uniform State Laws recommended that every state adopt these measures. Some states followed the guidance, but many have proved slow to act.

Pew identified eight key fiduciary duties and standards included in the Model Act that are particularly important to state and local pension plans.

The six core duties spelled out in the act require trustees or other fiduciaries to discharge their responsibilities with respect to a retirement system (bolding is added for emphasis):[5]

"(1) solely in the interest of [retirement system] participants and beneficiaries;

(2) for the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses [for] administering the system;

(3) with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose;

(4) impartially, taking into account any different interests of participants and beneficiaries;

(5) incurring only costs that are appropriate and reasonable; and

(6) in accordance with a good-faith interpretation of the law governing the retirement program and system."

The Model Act also identifies two other key responsibilities for trustees as they consider how to manage their systems' assets. Among their duties, trustees:

- "Shall diversify the investments of each retirement program or appropriate grouping of programs unless the trustee reasonably determines that, because of special circumstances, it is clearly prudent not to do so."

- "May consider benefits created by an investment in addition to investment return only if the trustee determines that the investment providing these collateral benefits would be prudent even without the collateral benefits (i.e., what are known as economically targeted investments or ETIs)."6

This brief reviews the laws of the 50 states to see how many have codified the Model Act's core fiduciary standards for pension funds. The extent to which these provisions have been incorporated in state law is one measure of the strength of a state's governance of state and local pension funds. State law should also provide explicit protections for both beneficiaries and taxpayers. And the absence of clear governing standards can lead to problems for retirement funds.

Pew's review of the eight Model Act standards in place across the country finds that:

- Three of the most basic and general fiduciary standards and duties described above have been incorporated in the laws of most states.
    - Every state requires fiduciaries to act for the exclusive purpose of providing benefits to beneficiaries.
    - Only Delaware, Georgia, and Hawaii do not specifically require that investments be managed in a prudent manner.

  - Thirty-nine states require that pension fund investments be diversified to protect beneficiaries and to reduce the likelihood of significant losses.
- Codification of the five other duties and standards varies widely. For example:
  - Although many states require that certain types of investments be made in-state, the guidance for selecting among these investments is inconsistent and wide-ranging.
  - Just seven states explicitly require that all economically targeted investments be held to a standard of care, skill, and caution under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use even without collateral benefits.

Pension investment practices and varieties have become increasingly complex, and fiduciary law is only one component of effective plan governance and management. Others include pension funding policies, investment expertise, and plan transparency. Adoption of fiduciary standards does not guarantee profitable investments, but failure to incorporate the core standards in states' regulatory frameworks disregards long-established expert recommendations and could put plans and their participants at risk.

Twenty-One Percent of Investment Managers Plan to Lower Fees

Today, only 69% of assets in retirement plans are in actively managed funds, down significantly from 84% in 1996.

Twenty-one percent of investment managers plan to lower their fees in 2017, the Callan Institute found in its 2017 Investment Management Fee Survey.

Today, only 69% of assets in retirement plans are in actively managed funds, down significantly from 84% in 1996. The most common objection active investment managers hear from sponsors is whether they are providing the value-added services to justify their fees, cited by 49% of these investment managers.

The median fee that retirement plans pay for investments is 38 basis points (bps). By asset class it is 21 bps for fixed income, 34 bps for U.S. equities, 45 bps for non-U.S./global equities and 90 bps for alternatives. U.S. equities and non-U.S./global equities had the most dramatic movements between 2014 and 2016, with U.S. equity fees dropping 4 bps and non-U.S./global equity fees increasing 5 bps.

Investment managers are allocating a lower percentage of their revenue to bonuses: 18%, down from 24% in 2014. However, the amount of revenue allocated to cover the cost of operations increased from 42% to 60%. This may be why profit margin expressed as a percentage of revenue decreased from 34% in 2014 to 22% in 2016.

The percentage of investment management firms that offered performance-based fees dropped from 75% in 2014 to 64% in 2016. The types of funds that always use performance-based fees are all alternatives: hedge funds (60%), private equity (54%), infrastructure (38%), real estate (29%), hedge funds-of-funds (20%) and high yield fixed income (8%).

It is a common practice for investment managers to negotiate their fees, with 83% undertaking this practice, although this is down from 91% in 2014.

Callan's report is based on responses from 59 asset managers representing $1.1 trillion in assets. Survey results also incorporated responses from 279 investment management organizations, supplemented by Callan's Investment Manager Database of more than 1,600 firms.

UPDATE: This is how changes in pensions can lead to changes in worker behavior

These responses need to be factored into reform packages

Those of us who think about state and local retirement plans tend to focus on funded levels, the implications of large liabilities for borrowing costs, and the extent to which required contributions may crowd out other activities in the state's or locality's budget.

We tend to lose sight of the human resources aspects of public plans. Namely, they are part of a compensation package designed to attract talented people to teach our children, protect our lives and property, and run the government's operations.

Recently, two items -- one from Dallas and one from Rhode Island -- reminded me that it's important to pay attention to the human resources, or HR, implications of proposed pension reforms. That is, the response of individual participants to changes in their pension plan can introduce unforeseen wrinkles and additional costs into pension reform efforts.

Earlier blog posts covered the situation in Dallas (http://www.marketwatch.com/story/after-shared-sacrifice-dallas-police-and-fire-pension-problems-addressed-2017-08-07), but here's a brief recap. At the end of 2016, the Dallas Police and Fire pension plan was estimated to be about 35% funded. At the same time, Dallas had a very large and generous Deferred Retirement Option Program (DROP). The DROP balances accounted for 56% of plan assets, meaning that more than half of plan assets were available for immediate withdrawal, which seriously exacerbated the plan's financial problems. In May of 2017, the Governor of Texas signed a pension reform bill that reduced benefits, reformed the DROP program, and raised revenues.

Apparently either in anticipation of or in response to these proposed changes, 460 officers left the Dallas police force during fiscal year 2017. The city offset some of this loss with an aggressive hiring initiative, but the new hires need nine months at the police academy and seven months of field training before they hit active duty. In other words, Dallas is short-handed. To meet this shortage, Dallas is rehiring retired officers as civilians to free up current officers to return to the streets. The ex-officers will work 30-hour weeks and be eligible for city health insurance subsidies but will not accrue sick or vacation time or retirement benefits. The overall impact on the government's finances may not be significant, but the disruption in services certainly was.

In the case of Rhode Island, in November 2011 the General Assembly passed, by an overwhelming majority, legislation that moved the state-administered pension system toward a firm financial footing. The reforms suspended the cost-of-living adjustment on retiree benefits until the funded levels reach 80%, raised the retirement age, and replaced the existing defined-benefit plan with a hybrid. The legislation cut the plan's unfunded liability significantly and reduced state expenses over the next 25 years. The legislation was challenged in court, but eventually went into effect in 2014.

Not surprisingly, in the wake of these cutbacks, public employees have begun staying in their jobs longer. This response created an older, and therefore more expensive, workforce. Higher personnel costs exacerbated the pressure on Rhode Island's already-strained budget. To relieve the budget pressure, the governor has proposed to offer one-time retirement incentives -- up to $40,000 -- to 940 workers. By hiring younger -- and cheaper -- workers to fill some of the slots and by letting some of the slots go unfilled, the state will cut its costs.
The point here is not to criticize the reforms in either Dallas or Rhode Island. In both cases, they were bold efforts to solve serious financial challenges, they got all the relevant players around the table, and they spread the pain across workers, retirees, and taxpayers. Rather, the point is that big changes in compensation packages can have significant changes in worker behavior and those responses should be factored into the analysis.

CalPERS considers upping fixed-income investment, lowering volatility

The California Public Employees' Retirement System is considering more than doubling its investment in municipal bonds and other fixed-income assets while lowering volatility, according to proposals set for discussion at a workshop on Monday.

The board of directors for CalPERS, the largest U.S. pension fund, with a market value of $342.5

billion, is mulling new investment strategies at a time of low bond yields, high prices and the second-longest bull market in history.

Monday's Asset Liability Management Workshop at CalPERS' Sacramento headquarters is intended to give board members a sense of the potential impact and risk of each plan, spokeswoman Megan White said. No action will be taken at the informational meeting.

Up for review are four portfolios with bond investment allocations ranging from 44 percent to the current 19 percent.

The proposal that would increase bond investments the most would reduce the fund's expected short-term compound return rate to 5.6 percent from 6 percent while reducing volatility to 9.1 percent from 11.5 percent. The long-term expected return would lower to 7.8 percent from 8.1 percent.

To a lesser degree, two of the other portfolios would also raise fixed-income investments.

One plan keeps the asset class at 19 percent while increasing CalPERS' share of global equity to 59 percent from 50 percent. Under that proposal, the expected short-term compound return rate and long-term return rate would rise the most - to 6.4 percent and 8.5 percent, respectively. Expected volatility would also increase the most under that plan to 12.8 percent.

The other portfolios would lower global equity allocations or keep them at current levels.

All portfolios propose to maintain the current 8 percent allocation for private equity and 13 percent allocation for real assets. Under each plan, liquidity would drop to 1 percent from the current 4 percent.

CalPERS has been under increasing pressure to gain returns closer to the fund's assumed rate of return of 7 percent by 2020. The fund has been challenged in part because it is cash negative, paying out more in benefits to retirees each year than it has been collecting in contributions from workers.

The board, which decides on an investment plan every four years, is scheduled to select its next portfolio in December. The new allocations would go into effect on July 1, 2018

OregonSaves Serves as a Test for State-Sponsored Auto-IRAs

As the first state-sponsored retirement savings program rolls out in Oregon, here's what employers in Oregon and other states that are planning such programs should know.

"We are pioneers and understand the world is watching," said Scott Morrison, chief product officer at Ascensus, the Oregon plan's administrator. "Folks from the HR industry, financial services companies and other states will be looking at the Oregon plan as the blueprint for these programs."

The Oregon Retirement Savings Program—which is commonly referred to as OregonSaves— is an automatic individual retirement account (auto-IRA) arrangement through which deductions will be made from employee wages each pay period.
Only employers that don't offer their own retirement savings plans will be required to participate and to automatically enroll employees. Workers will have 30 days to opt out of the program, and they may also adjust the amount that is invested from the default rate of 5 percent.

Though Oregon was the first state to roll out auto-IRAs, other states are in the planning process—such as California, Connecticut, Illinois and Maryland. Employers doing business in these states may eventually be subject to different programs in different states for different employees. They will need to ensure that they are aware of the various statutory and regulatory state-plan rules for each applicable location, said Dominic DeMatties, an attorney with Alston & Bird in Washington, D.C.

"Employers that are subject to state-run programs must take steps to ensure they understand whether and when they are subject to the program," he said.

The best approach is to be aware of the evolving rules and requirements and to meet registration deadlines, noted Kirsten Stewart, an attorney with Sherman & Howard in Denver. "In Oregon, it appears that the state has tried to streamline the process and will provide a good deal of technical assistance."

Phased-In Program
Ascensus ran a series of pilot programs in 2017, Morrison explained. It started with 11 employers for the first pilot in July and expanded in subsequent pilots. OregonSaves is now prepared for the first wave of large employers, he said.

Businesses with 100 or more employees were required to register by Nov. 15. Phased-in registration deadlines for smaller employers will be as follows:

Number of Employees	Enrollment Deadline
50 to 99	May 15, 2018
20 to 49	Dec. 15, 2018
10 to 19	May 15, 2019
5 to 9	Nov. 15, 2019
4 or fewer	May 15, 2020

Workers are more likely to save for retirement if they can do so through their employer, but nearly half of employees don't have access to an employer plan, such as a 401(k), Morrison said. He noted that the median business that falls under the mandate has four employees.

"So it's very important to have an easy website interface and make it really simple for small business owners to go in every week, make changes as necessary, click a button and be done," he said. "We really tried to reduce it down to a process that takes a few minutes per pay cycle and is simple to administer."

Employers will have some administrative responsibilities, however. Employers that fall under the mandate will need to facilitate contributions, complete an enrollment process and provide data on participating employees, Stewart said. There is also a notice requirement that employers need to meet.

It's important to note that an employer can't make its own contributions on behalf of employees—only contributions from employees' compensation are permitted. Contributions have to be forwarded within seven days, and changes in elections need to be monitored and followed.

Employers should designate an individual at the company who will be responsible for facilitating the program, DeMatties said.

Narrow Legal Challenge

Although employers that already offer workers a retirement savings plan don't have to participate in OregonSaves, they do have to certify that they offer a plan.

On Oct. 12, the ERISA Industry Committee filed a lawsuit against the Oregon Retirement Savings Board, claiming that this requirement violates the federal Employee Retirement Income Security Act (ERISA). The committee requested an injunction to block the reporting rule.

"While the complaint is narrowly focused on the technical argument that plan reporting is a core ERISA function governed exclusively by federal law, the practical implications for employers are the uncertainty and administrative complexity surrounding compliance with state-sponsored retirement savings plans, especially as more states implement them," DeMatties said.

"Companies that offer a retirement plan—particularly if they have employees in multiple states—are concerned about the imposition of a series of state-specific compliance and reporting burdens, including added costs and potential penalties for mistakes, on top of existing federal requirements," he added.

Private Sector

PBGC single-employer, multiemployer deficits moving in opposite directions

The PBGC's single-employer insurance program's deficit improved in fiscal year 2017, while the multiemployer program's deficit worsened, said the Pension Benefit Guaranty Corp.'s annual report for fiscal year 2017, released Thursday.
The single-employer deficit dropped to $10.9 billion as of Sept. 30, the end of the fiscal year, down from $20.6 billion last year. The multiemployer deficit rose to $65.1 billion from $58.8 billion the previous year.
The PBGC attributed the continued improvement in the single-employer program to premium and investment income, and increases in the rates used to measure future plan liabilities.

The rising deficit in the multiemployer program was primarily attributed to the 19 additional multiemployer plans that were terminated in fiscal year 2017 or are projected to run out of money within the next 10 years.

In fiscal year 2017, the agency provided $141 million in assistance to 72 insolvent multiemployer plans, up from the $113 million that was provided to 65 plans in fiscal year 2016.

Absent any changes in law, the multiemployer program is still expected to run out of money by the end of 2025, with the possibility that it could run out sooner.

"We are pleased that the financial condition of the single-employer program is improving, consistent with our projections," said PBGC Director W. Thomas Reeder Jr. in a news release accompanying the report. "Our attention is focused on the dire financial condition of the multiemployer program. We are engaged with trustees of troubled plans to help them protect benefits and extend plan solvency. We will continue to work with the administration, Congress and the multiemployer plan community to create solutions so that PBGC's guarantee is one that workers and retirees can count on in the future. The longer the delay in making the changes needed to improve the solvency of the multiemployer program, the more disruptive and costly they will be for participants, plans and employers."

2017 End of Year Plan Sponsor "To Do" List Qualified Retirement Plans

As 2017 comes to an end, we are pleased to present you with our traditional End of Year Plan Sponsor "To Do" Lists. This year, we are publishing our "To Do" Lists in four separate Employee Benefits Updates. Part 1 covered health and welfare plan issues, Part 2 covered the annual cost of living increases, Part 3 covered executive compensation issues and this Part 4 covers qualified plan issues. Each Employee Benefits Update provides you with a "To Do" List of items on which you may want to take action before the end of 2017 or in early 2018. As always, we appreciate your relationship with Snell & Wilmer and hope that these "To Do" Lists help focus your efforts over the next few months.

This List does not address the various qualified retirement plan proposals that may be part of any proposed tax legislation being discussed by Congress as of the date this "To Do" List is published. When, and if, changes are made, we will publish additional newsletters and blogs highlighting those changes.

For your convenience, we have broken this "To Do" List into five categories, which are accessible via the menu on the left.

All Qualified Plans "To Do" List

- Adopt Design Changes by the End of the Plan Year: If an employer made any design changes during the year, the plan generally must be amended to reflect those design changes by the last day of the 2017 plan year (i.e., December 31, 2017 for calendar year plans).

- Consider the Required Amendments List: The Internal Revenue Service (IRS) eliminated the five-year determination letter remedial amendment cycles for individually designed plans and limited the scope of the determination letter program for such plans effective as of January 1, 2017. The IRS will now provide plan sponsors with an annual Required Amendments List (RA List) that includes the changes in qualification requirements that that are first effective in the year in which the RA List is published. Plan sponsors generally have until the end of the second year following the year in which the IRS releases the RA List to make the required amendments. The 2016 RA List, released by the IRS on December 13, 2016, does not include any changes that generally would require amendments to most plans. It includes only one change that relates to collectively bargained defined benefit plans. The IRS has not yet released the 2017 RA List. Plan sponsors should watch for the release of the 2017 RA List and, if necessary, prepare to address the items on the 2017 RA List and amend their plans by December 31, 2019. See our February 3, 2017 SW Benefits blog post for more information.

- Update Summary Plan Description if Needed: Summary Plan Descriptions (SPDs) must be updated once every five years if the plan has been amended during the five-year period and once every 10 years for other plans.

- Consider Compliance with Department of Labor's Fiduciary Rules: In early 2016, the Department of Labor (DOL) finalized its fiduciary conflict of interest regulations (the Fiduciary Rule), which expand both who is considered a fiduciary and what may be considered advice under ERISA. The new definition of the term "fiduciary" set forth in the Fiduciary Rule was set to become effective on April 10, 2017, while certain other provisions were intended to phase in, with full compliance scheduled for January 1, 2018. However, on February 3, 2017, President Trump issued an executive memorandum calling for a full examination of the impact of the Fiduciary Rule. On April 7, 2017, the DOL published a final rule that officially delayed the applicability of the Fiduciary Rule to June 9, 2017, while retaining the January 1, 2018 full compliance date. The DOL released Frequently Asked Questions and Field Assistance Bulletin No. 2017-02 on May 22, 2017 which, among other things, explained that the DOL, Treasury Department and IRS will not pursue claims against fiduciaries who are working diligently to bring themselves into compliance with the Fiduciary Rule. This non-enforcement policy will last until January 1, 2018. Finally, on August 31, 2017, the DOL proposed an 18-month extension from January 1, 2018 to July 1, 2019 of the special transition period for the Best Interest Contract (BIC) Exemption and the Principal Transactions Exemption. In spite of the delays and uncertainty around the Fiduciary Rule, employers should continue to review existing relationships to determine whether service providers are fiduciaries and decide whether they need to make any changes to these relationships in light of the new rules. See our May 25, 2017 SW Benefits blog post for more information.

- Consider Impact of New Disability Claims Regulations: On December 19, 2016, the DOL issued regulations that revise the ERISA claims procedure regulations for employee benefit plans that provide disability benefits (the New Disability Claims Regulations). The New Disability Claims Regulations were scheduled to take effect for all claims for disability benefits filed on or after January 1, 2018, however, the DOL has proposed a 90-day delay. In other words, if the proposed rule is finalized, the New Disability Claims regulations will take effect for all claims for disability benefits filed on or after April 1, 2018. The DOL will use this 90-day delay to seek additional input and consider whether it should rescind, modify, retain, or further delay the New Disability Claims Regulations. The New Disability Claims Regulations are based on the ACA's enhanced claims and appeals regulations for group health plans. The scope of the New Disability Claims Regulations are broader than employers may realize and apply to any plan, regardless of how it is characterized, that provides benefits or rights that are contingent on whether the plan determines an individual to be disabled. This can include ERISA-governed short-term disability plans, long-term disability plans, qualified retirement plans (e.g., a 401(k) plan), nonqualified retirement plans, and health and welfare plans. See our August 29, 2017 SW Benefits blog post for more information.

- Review 2018 Plan Limits: Become familiar with the 2018 plan limits. See our October 31, 2017 SW Benefits blog post for more information.

Section 401(k) Plans “To Do” List

- Comply with Items on All Qualified Plans “To Do” List: The items on the All Qualified Plans list also apply to Section 401(k) plans.

- Consider Amending Plan to Permit Use of Forfeitures for QNECs and QMACs: On January 18, 2017, the IRS issued proposed regulations that will allow employers to use forfeitures to make qualified nonelective contributions (QNECs) and qualified matching contributions (QMACs). Under the regulations currently in effect, QNECs and QMACs must meet certain distribution requirements and must be fully vested when contributed to the plan. The IRS proposes to change the regulations to require that QNECs and QMACs be fully vested when allocated to participants’ accounts. The changes will apply to plan years beginning on or after the date on which the regulations are finalized. However, the IRS made clear that employers may rely on the regulations now, and if the final regulations are more restrictive than the proposed regulations, they will not have retroactive effect. Employers who wish to use forfeitures to make QNECs and QMACs should review and, as necessary, amend their plans.

- Consider Amending Plan to Document 2016 Disaster Relief: The IRS provided disaster relief in 2016 for individuals impacted by the Louisiana storms and by Hurricane Matthew. As described in IRS Announcements 2016-30 and 2016-39, the IRS relaxed the existing standards for hardship distributions and loans from qualified retirement plans for those affected by these disasters. The IRS permitted employers to offer these hardship distributions and loans even if their plans did not provide for them. Employers who did so must amend their plans to allow for hardship distributions and/or loans by December 31, 2017.

- Consider Providing Disaster Relief Made Available in 2017 and Amending Plan as Necessary: The IRS also provided disaster relief in 2017 for individuals affected by Hurricanes Harvey, Irma and Maria and by the California Wildfires in Announcements 2017-11, 2017-13 and 2017-15. As it did in 2016, the IRS relaxed the existing standards for hardship distributions and loans from qualified retirement plans for those affected by these disasters. Employers are permitted to offer hardship distributions and loans even if their plans do not provide for them. Employers who do so must amend their plans to allow for the hardship distributions and loans by December 31, 2018. Congress also got involved on the disaster relief front. On September 29, 2017, the Disaster Tax Relief and Airport and Airway Extension Act of 2017 was enacted to offer additional disaster relief to those affected by Hurricanes Harvey, Irma and Maria. The Act permits eligible retirement plans to make qualified hurricane distributions to participants of up to $100,000 (across all IRAs and employer plans). These distributions are not subject to the excise taxes that otherwise would apply to early distributions from retirement plans. Participants can retain the distribution and mitigate the tax burden by including the amount of the distribution in gross income evenly over a three-year period. In the alternative, participants can pay the amount of the distribution back to the plan within three years without subjecting the distribution to income taxes. The Act also permits employers to relax plan loan limitations for participants with a principal residence in the hurricane areas. Employers can permit these participants to request a loan of up to $100,000 (rather than the standard loan limitation of (1) $10,000 or 50 percent of the participant's vested account balance or (2) $50,000, whichever is less). Employers who offer qualified hurricane distributions or loan relief to participants must amend their plans by December 31, 2019 to make the necessary changes.

- Provide Section 401(k)/401(m) Safe Harbor Notice by December 2, 2017 for Calendar Year Plans: If a plan has a Section 401(k)/401(m) contribution safe harbor, an employer must provide the safe harbor notice at least 30 days, but not more than 90 days, before the beginning of each plan year (i.e., December 2, 2017 for calendar year plans).

- Provide Annual Automatic Enrollment Notice by December 2, 2017 for Calendar Year Plans: If a plan has an automatic contribution arrangement, an eligible automatic contribution arrangement (EACA), a qualified automatic contribution arrangement (QACA), or any combination thereof, an employer must give an annual automatic enrollment notice at least 30 days, but not more than 90 days, before the beginning of each plan year (i.e., December 2, 2017 for calendar year plans).
- Provide Annual Qualified Default Investment Alternative (QDIA) Notice by December 2, 2017 for Calendar Year Plans: If an employer is relying on the QDIA safe harbor, it must give an annual notice at least 30 days, but not more than 90 days, before the beginning of each plan year (i.e., December 2, 2017 for calendar year plans).

- Provide Participant Fee Disclosure Information: Plans are required to provide to participants and beneficiaries on an annual basis a comparative chart of detailed investment-related information about the plan's designated investment alternatives. DOL guidance requires this information to be provided at least annually.

- Provide Participant Benefit Statements: Defined contribution plans must provide individual benefit statements at least annually, although plans that permit participants to direct the investment of their accounts must provide the statement at least quarterly. Defined contribution plans also must provide the statement upon request.

- Distribute Summary Annual Report: Employers should distribute a summary annual report, which is a summary of the information reported on the Form 5500. The summary annual report is generally due nine months after the plan year ends. If the Form 5500 was filed under an extension, the summary annual report must be distributed within two months following the date on which the Form 5500 was due.

- If Adding Qualified Automatic Contribution Arrangement or Eligible Automatic Contribution Arrangement for 2017, Adopt Amendment Before the 2017 Plan Year: Neither a QACA nor an EACA may be adopted mid-year. Accordingly, if an employer wishes to add a QACA or an EACA to its plan for the 2017 plan year, it must adopt an amendment by December 31, 2017 for calendar year plans.
- Consider Amendments to Safe Harbor Plans: Employers may make mid-year changes to a safe harbor plan in light of guidance the IRS issued in 2016. Mid-year amendments are limited and in many cases will require an updated safe harbor notice. To the extent an employer wants to make changes to a safe harbor plan, it should consider doing so before year end and, depending on the change, before providing the safe harbor notice described above. For additional information on permissible mid-year changes to a safe harbor plan, see our February 22, 2016 SW Benefits blog post.

Defined Contribution Plans (Other Than Section 401(k) Plans) “To Do” List

- Consider Amending Plan to Document 2016 Disaster Relief: Please see our description of this issue under “Section 401(k) Plans ‘To Do List’” above.

- Consider Providing Disaster Relief Made Available in 2017 and Amending Plan as Necessary: Please see our description of this issue under “Section 401(k) Plans ‘To Do List’” above.

- Provide Annual Qualified Default Investment Alternative (QDIA) Notice by December 2, 2017 for Calendar Year Plans: If an employer is relying on the QDIA safe harbor, it must give an annual notice at least 30 days, but not more than 90 days, before the beginning of each plan year (i.e., December 2, 2017 for calendar year plans).

- Provide Participant Fee Disclosure Information: Plans are required to provide to participants and beneficiaries on an annual basis a comparative chart of detailed investment-related information about the plan’s designated investment alternatives. DOL guidance requires this information to be provided at least annually.

- Provide Participant Benefit Statements: Defined contribution plans must provide individual benefit statements at least annually, although plans that permit participants to direct the investment of their accounts must provide the statement at least quarterly. Defined contribution plans also must provide the statement upon request.

- Distribute Summary Annual Report: Employers should distribute a summary annual report, which is a summary of the information reported on the Form 5500. The summary annual report is generally due nine months after the plan year ends. If the Form 5500 was filed under an extension, the summary annual report must be distributed within two months following the date on which the Form 5500 was due.

Defined Benefit Plans “To Do” List

- Comply with Items on All Qualified Plans “To Do” List: The items on the All Qualified Plans list also apply to defined benefit plans.

- Consider Adoption of Amendment for Plans with Bifurcated Distribution Options: If a defined benefit plan permits participants to receive bifurcated distribution options (e.g., a portion of the accrued benefit is paid in a lump sum and the remainder of the benefit is paid in the form of an annuity), the plan sponsor may want to consider whether the current plan terms comply with the final regulations issued under Section 417(e). Notice 2017-44 provides model amendments that a sponsor of a defined benefit plan may use to comply with these requirements. The Notice and regulations also provide for certain anti-cutback relief if the amendment is adopted on or before December 31, 2017. Plan sponsors who wish to add a bifurcated benefit option in the future also may use the model amendments to add such distribution option to a plan.

- Consider Impact of New Mortality Tables. The IRS and Treasury issued updated mortality tables that are to be used for funding defined benefit plans and for calculating lump sum and other accelerated distributions. The new mortality tables are generally effective for plan years beginning on or after January 1, 2018. Plan sponsors, however, may be able to delay the new mortality tables for a period of one year for funding calculations. Plan sponsors should consult with their actuaries to understand the impact of the morality tables on their plans. Plan sponsors also should review their plans to determine whether the existing plan language will automatically incorporate the new mortality tables into the plan or whether a plan amendment is needed.

- Consider Required Amendments List: As described above, the 2016 RA List includes one possible change relating to restrictions on accelerated distributions from collectively bargained single employer defined benefits plans when the employer is in bankruptcy. Plan sponsors of collectively bargained defined benefit plans should review the terms of the plan to determine if an amendment is required. If a plan amendment is required, plan sponsors have until December 31, 2018 to adopt such amendment.

- Post Portions of Form 5500 on Company's Intranet: A plan sponsor of a defined benefit plan that maintains an intranet website for the purpose of communicating with employees (and not the public) is required to post portions of the defined benefit plan's Form 5500 on the intranet.

- Comply with Annual Funding Notice to Participants: Single employer defined benefit plan sponsors must provide participants with an annual notice of the plan's funding status within 120 days of the end of the plan year to which the notice relates. Plans with fewer than 100 participants do not have to provide the notice until the Form 5500 annual report is due for the plan year.

- Comply with Participant Notice Requirement if Adjusted Funding Target Attainment Percentage is less than 80 Percent: In addition to the annual funding notice described above, Section 101(j) of ERISA requires a plan administrator to provide a notice to participants if the plan is subject to any restrictions on the payment of benefits. These restrictions become applicable if the plan's adjusted funding target attainment percentage is less than 80 percent. Plan administrators are not required to provide this notice to participants and beneficiaries who are in pay status.

- Provide Participant Benefit Statements: Defined benefit plans should provide individual benefit statements every three years or upon request. Alternatively, defined benefit plans may satisfy the requirement by annually notifying participants that the pension benefit statement is available and how they may obtain such statement.

- Provide Suspension of Benefits Notice, if Applicable: If required by the terms of the plan, plan administrators must provide notice of the suspension of benefits to participants who continue employment beyond normal retirement age and to rehired retirees. This notice should be given during the first month during which the benefit is suspended.

Section 403(b) Plans "To Do" List

- Adopt Design Changes by the End of the Plan Year: If an employer made any design changes to the plan during the year, it generally must amend its plan to reflect those design changes by the last day of the 2017 plan year (i.e., December 31, 2017 for calendar year plans).

- Consider Amending Plan to Document 2016 Disaster Relief: Please see our description of this issue under "Section 401(k) Plans 'To Do List'" above.

- Consider Providing Disaster Relief Made Available in 2017 and Amending Plan as Necessary: Please see our description of this issue under "Section 401(k) Plans 'To Do List'" above.

- Update Summary Plan Description if Needed: SPDs for a Section 403(b) plan that is subject to ERISA must be updated once every five years if the plan has been amended during the five-year period and once every 10 years for other plans.

- Provide Safe Harbor Notice by December 2, 2017 for Calendar Year Plans: If a Section 403(b) plan uses an ACP contribution safe harbor, an employer must provide the safe harbor notice at least 30 days, but not more than 90 days, before the beginning of each plan year (i.e., December 2, 2017 for calendar year plans).

- Provide Annual Automatic Enrollment Notice by December 2, 2017 for Calendar Year Plans: If a Section 403(b) plan is subject to ERISA and has automatic deferrals, an employer must give an annual automatic enrollment notice at least 30 days, but not more than 90 days, before the beginning of each plan year (i.e., December 2, 2017 for calendar year plans).

- Provide Annual Qualified Default Investment Alternative (QDIA) Notice by December 2, 2017 for Calendar Year Plans: If a Section 403(b) plan is subject to ERISA and an employer is relying on the QDIA safe harbor, it must give an annual notice at least 30 days, but not more than 90 days, before the beginning of each plan year (i.e., December 2, 2017 for calendar year plans).

- Provide Participant Benefit Statements: Section 403(b) plans that are subject to ERISA must provide individual benefit statements at least annually, although plans that permit participants to direct the investment of their accounts must provide the statement at least quarterly. Plans must also provide the statement upon request.

- Distribute Summary Annual Report: Section 403(b) plans that are subject to ERISA must distribute a summary annual report, which is a summary of the information reported on the Form 5500. The summary annual report is generally due nine months after the plan year ends. If the Form 5500 was filed under an extension, the summary annual report must be distributed within two months following the date on which the Form 5500 was due.

- If Adding an ACP Contribution Safe Harbor for 2017, Adopt Amendment Before the 2017 Plan Year: ACP contribution safe harbors may not be adopted mid-year. Accordingly, if an employer wishes to add an ACP contribution safe harbor to its Section 403(b) plan for the 2017 plan year, it must adopt an amendment by December 31, 2017 for calendar year plans.

- Comply with Form 5500 Reporting Requirements: Section 403(b) plans that are subject to

ERISA must comply with standard Form 5500 filing requirements, including an annual plan audit for large plans (i.e., plans with 100 or more participants) and detailed financial information for small Section 403(b) plans (i.e., plans with fewer than 100 participants).

U.S. Department of Labor Releases Advance Copies Of Form 5500 Annual Return/Report for 2017

The U.S. Department of Labor's Employee Benefits Security Administration, the IRS, and the Pension Benefit Guaranty Corporation (PBGC) today released advance informational copies of the 2017 Form 5500 annual return/report and related instructions. The "Changes to Note" section of the 2017 instructions highlight important modifications to the Form 5500 and Form 5500-SF and their schedules and instructions. Modifications are as follows:

- IRS-Only Questions. IRS-only questions that filers were not required to complete on the 2016 Form 5500 have been removed from the Form 5500, Form 5500-SF and Schedules, including preparer information, trust information, Schedules H and I, lines 4o, and Schedule R, Part VII, regarding the IRS Compliance questions (Part IX of the 2016 Form 5500-SF).
- Authorized Service Provider Signatures. The instructions for authorized service provider signatures have been updated to reflect the ability for service providers to sign electronic filings on the plan sponsor and Direct Filing Entity (DFE) lines, where applicable, in addition to signing on behalf of plan administrators.
- Administrative Penalties. The instructions have been updated to reflect an increase in the maximum civil penalty amount assessable under the Employee Retirement Income Security Act section 502(c)(2) required by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. Department regulations published on Jan. 18, 2017, increased the maximum penalty to $2,097 a day for a plan administrator who fails or refuses to file a complete or accurate Form 5500 report. The increased penalty under section 502(c)(2) is applicable for civil penalties assessed after Jan. 13, 2017, whose associated violation(s) occurred after Nov. 2, 2015 – the date of enactment of the 2015 Inflation Adjustment Act.
- Form 5500/5500-SF-Plan Name Change. Line 4 of the Form 5500 and Form 5500-SF have been changed to provide a field for filers to indicate the name of the plan has changed. The instructions for line 4 have been updated to reflect the change. The instructions for line 1a have also been updated to advise filers that if the plan changed its name from the prior year

filing(s), complete line 4 to indicate that the plan was previously identified by a different name.

- Schedule MB. The instructions for line 6c have been updated to add mortality codes for several variants of the RP-2014 mortality table and to add a description of the mortality projection technique and scale to the Schedule MB, line 6 – Statement of Actuarial Assumptions/Methods.
- Form 5500-SF-Line 6c. Line 6c has been modified to add a new question for defined benefit plans that answer “Yes” to the existing question about whether the plan is covered under the PBGC insurance program. The new question asks PBGC-covered plans to enter the confirmation number – generated in the “My Plan Administration Account system” – for the PBGC premium filing for the plan year to which the 5500-SF applies. For example, the confirmation number for the 2017 premium filing is reported on the 2017 Form 5500-SF.

The advance copies of the 2017 Form 5500 are for informational purposes only and cannot be used to file a 2017 Form 5500 annual return/report. Pension and welfare benefit plans that are required to file an annual return/report regarding their financial conditions, investments and operations each year generally satisfy that requirement by filing electronically the Form 5500 or Form 5500-SF and any required attachments under the all electronic EFAST2 system for submission, receipt, and processing of the Form 5500 and Form 5500-SF.

In-Depth: What to Expect from 2018 PBGC Premiums, Mortality Rates

Due to its late timing, the Internal Revenue Service’s Q4 update to the 2018 mortality rate has sent a shockwave through the pension industry.

While changes to the mortality tables were proposed in January, and expected to be announced sometime within H2 2017, the changes were not made official until the middle of Q3. In addition to the October 4 changes, the Social Security Administration announced benefit changes that will also go into effect next year, including a cost-of-living increase for current retirees and a 1.2% bump in the maximum amount of Social Security taxable earnings.

The timing of the updates has caused a rumbling throughout the industry, with many pension plan CIOs, actuaries, and members of the pension community scratching their heads on how to prepare their plans for the shift, in addition to collectively asking, “Why update these tables now?”

“I would say many of our members and pension administrators are asking the same question, although there are several different ways to describe it, and the IRS would want to make sure that plans are using updated mortality. They have, in the ruling, enabled plans to consider deferring at least for minimum funding if it becomes a hardship on them. But, also, the lump sum information would go in straight away with 2018 plan year,” Dale Hall, managing director of research, Society of Actuaries, told CIO. “I think if you asked a lot of people over the past couple months, could the IRS do something like this, the answer would be [yes], but I think to some extent they may have also been listening to the industry to say, ‘Hey, things get challenging as the window towards 2018 closes.’”

For plan sponsors, the updated and more conservative tables mean increases to lump-sum distribution, Pension Benefit Guaranty Corporation (PBGC) premiums, and funding liabilities. Funding liabilities and their funding targets, which affect funding ratios used to set benefit restrictions and determine contributions, including when lump sums can be offered, may increase up to 5% each.

“To look at the regulation at the beginning of October and say that it’s effective in the next two or three months is a significant issue for them. And, also, it impacts the year-end financials for the companies themselves, and have to be reflected in the company’s balance sheet,” Dennis Simmons, executive director for the Committee on Investment of Employee Benefit Assets (CIEBA), told CIO. “There’s the pension obligations, and then how do you come up with the money for PBGC premiums? And it is in a lot of ways just another death by a thousand cuts, if you will, in terms of trying to be committed to defined benefit plans.”

To avoid PBGC premiums, which will now have even higher liabilities used to determine variable rate premiums than initially stated, plan sponsors will have to increase their pension contributions, which many have been doing for some time. While the impact will vary from plan to plan, cash balance hybrid plans may not see significant impacts, according to Dave Suchsland, senior retirement consultant at Willis Towers Watson in Philadelphia, as told to the Society for Human Management earlier this year when the updated mortality tables were proposed.

“Many plan sponsors have been using roughly comparable assumptions in their corporate financial statements for the past two years,” Suchsland said. “As a result, we expect that, relative to the current IRS funding assumptions, the proposed rule will generally increase liabilities for the funding valuation, which ultimately will result in higher pension plan contribution requirements beginning in 2019.”

For private plans, experts are pointing towards the ever-growing trend of liability-driven investments (LDI) as one way to stave off the premiums.

"What we're seeing private plans talking about doing is [viewing] these new mortality tables as one more reason to try and de-risk their plan, and they can do that through a couple of different ways. One is to improve their funding value that's at risk: their fluctuation of their assets and liabilities; and they can do that over time by adopting a liability-driven investing strategy that shifts them into a portfolio that more closely resembles that of an annuity insurer," Scott Hawkins, Conning's director of insurance research, told CIO. Hawkins said plans are "likely" to continue this path.

Hawkins also mentioned that another way plans can deal with the growing premiums is with risk-transfer agreements. "They can decide that they will remove some of their risk for some retirees by going to an annuity company and purchasing a group annuity pension risk transfer for that section of those members. [This] removes the liability from the employer, and it is assumed by the insurance company," Hawkins said.

A third option is longevity swaps, he said. "They can even do [this]: If they got to the point where they've got a plan that's funded, and they made the investment shift, they can purchase a longevity swap where they will approach an insurer or a reinsurer to just have that insurance company take up the longevity risk, because they've already managed the investment risk in their portfolio," he said. "Their longevity exposure, that fluctuation in expected length of life, is an issue, so they'll have that insurer pick up that risk. They're not having an annuity buyout or buy-in, but they're doing an LDI plus a longevity swap."

Simmons and Hall also agreed that risk-transfers and LDI strategies will continue an upward trend in the wake of these changes.

"There's a percentage of plans [that] were already considering those options, but this can only nudge someone who can be on the fence [about LDI strategies and pension-risk transfers] in that direction," Simmons said.

"I think many plans have been considering that in the past, and just looking at the pension plan that I have, the risk overall from my corporation that I want to bear, are there small or larger things that I want to do to transfer that risk elsewhere," said Hall. "I'm sure many other consulting firms have been talking to plans about those options, and I think it still remains to be seen if there is any pre-synthetic activity given the new mortality tables in place, but it certainly adds a little bit to the discussion."

However, plans can find some relief as there is some flexibility for transition. If plans find it administratively impractical to implement these regulations, plan sponsors can go through an IRS procedure for a one-year deferral.

“That gives at least for minimum funding and the section 430 part of this the ability to say ‘the use of these tables is going to be very hard for me to implement or would result in an adverse business impact that is pretty large,’ and they can defer by a year,” Hall said. “One thing that is not deferrable, though, is when you implement the lump sum distribution. Those are definitely required to be used by participants retiring in 2018.”

While Hall does not think too many plans taking advantage of the deferral could create an even larger unfunded liability gap between them, he is concerned as to when plans decide to utilize this deferral, if at all.

“Ultimately, everyone will be on the same scale of these new tables and we’ll jump to where everyone is out building those targets on the same basis. I’m not sure it creates a bigger problem necessarily, it’s just when are plans going to recognize the use of the new tables: sooner or later?”

Hawkins said that asset owners and plan sponsors will “need to be cognizant of both parts of their risk exposure” to prepare for the changes.

“The one that’s always more immediate is their investment challenge; how do we reduce that volatility and funding status? That can be done by investment, but over the long term, as they make those improvements and reduce that volatility, longevity becomes a bigger and bigger factor. At that point, they may turn to other solutions, be it annuity buyouts, buy ins, or longevity swaps, to help mitigate that risk,” he said. “What these mortality tables do is make those longevity risks a little bit more apparent to them.”

To help find the answers in the limited time asset owners have, Hawkins said they can start by looking at the tables’ impact on their plans, then consider what’s going on in terms of minimum contributions, and what that, in turn, will do to their PBGC premiums.

“Those are immediate financial impacts they may have to face, [and] they should be figuring out what that is,” he said. “Surveys have shown that plan sponsors are very aware of this, trying to figure out how they de-risk their exposure to both investment and longevity risk. This accelerates the concerns and the issues that plan sponsors are dealing with.”

Pension Plan Limitations for 2018

On October 19, the Internal Revenue Service issued Notice 2017-64, containing the cost-of-living adjustments applicable to retirement plan limitations under the Internal Revenue Code (the "Code"). These changes will take effect on January 1, 2018, and are based on the fact that the Consumer Price Index increased by 2.2% last year. Many of the limitations are being increased, while others remain unchanged. Below is a summary of some of the more important limitations.

Limitations Increased

- The limitation on the annual benefit under a defined benefit plan is increased from $215,000 to $220,000 (Code section 415(b)(1)(A)).
- The annual contribution limitation for defined contribution plans is increased from $54,000 to $55,000 (Code Section (415(c)(1)(A)).
- The annual deferral limit for 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan are increased from $18,000 to $18,500 (Code sections 402(g)(1),402(g)(3)).
- The annual compensation limit is increased from $270,000 to $275,000 (Code sections 401(a)(17), 404(l),408(k)(3)(C) and 408(k)(6)(D)(ii)).
- The dollar limitation for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from $1,080,000 to $1,105,000, whereas the dollar amount used to determine the lengthening of the 5-year distribution period is increased from $215,000 to $220,00 (Code section 409(o)(1)(C)(ii)).
- The limitation concerning the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan is increased from $45,000 to $50,000 (Code section 664(g)(7)).
- The annual deferral limit for deferred compensation plans of state and local governments, and tax-exempt organizations is increased from $18,000 to $18,500 (Code section 457(e)(15)).
- The compensation threshold pertaining to the definition of "control employee" for fringe benefit valuation purposes is increased from $105,000 to $110,000, and the compensation limitation is increased from $215,000 to $220,000 (Regs. sections 1.61-21(f)(5)(i) and 1.61-21(f)(5)(iii)).
- The dollar limitation on premiums paid with respect to a qualifying longevity annuity contract is increased from $125,000 to $130,000. (Code section 1.401(a)(9)-6 and Regs. section A-17(b)(2)(ii)).
- The threshold used to determine whether a multiemployer plan is systemically important is increased from $1,012,000,000 to $1,087,000,000 (Code sections 432(e)(9)(H)(v)(III)(aa) and

432(e)(9)(H)(lll)(bb)).

Limitations Unchanged

- The annual compensation threshold for purposes of the definition of “key employee” remains at $175,000 (Code section 416(i)(1)(A)(i)).
- The annual deferral limitation for SIMPLE retirement accounts remains at $12,500 (Code section 408(p)(2)(E)).
- The maximum amount of catch-up contributions that individuals age 50 or over may make to SIMPLE 401(k) plans or SIMPLE retirement accounts remains at $3,000 (Code section 414(v)(2)(B)(ii)).
- The compensation threshold for simplified employee pensions (SEPs) remains at $600 (Code section 408(k)(2)(C)).
- The maximum amount of catch-up contributions that individuals age 50 or over may make to 401(k) plans, 403(b) plans, SEPs and governmental 457(b) plans remains at $6,000 (Code section 414(v)(2)(B)(i)).
- The maximum amount the can be contributed to an IRA remains at $5,500. The IRA catch-up contribution limit for IRAs remains unchanged at $1,000 (Code section 219(b)(5)(A)).

The following chart is a quick reference guide to key limitations for 2012 – 2018

	2018	2017	2016	2015	2014	2013	2012
401(k)/403(b)/457 Elective Deferral Limit	$ 18,500	$ 18,000	$ 18,000	$ 18,000	$ 17,500	$ 17,500	$ 17,000
Defined Contribution Plan Annual Limit	$ 55,000	$ 54,000	$ 53,000	$ 53,000	$ 52,000	$ 51,000	$ 50,000
Defined Benefit Plan Annual Limit	$220,000	$215,000	$210,000	$210,000	$210,000	$205,000	$200,000
Annual Compensation Limit	$275,000	$270,000	$265,000	$265,000	$260,000	$255,000	$250,000
Catch-Up Contribution Limit	$ 6,000	$ 6,000	$ 6,000	$ 6,000	$ 5,500	$ 5,500	$ 5,500
Highly Compensated Employee Compensation Threshold	$120,000	$120,000	$120,000	$120,000	$115,000	$115,000	$115,000
Key Employee Compensation Threshold	$175,000	$175,000	$170,000	$170,000	$170,000	$165,000	$165,000