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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Social Security Announces 2.0 Percent Benefit Increase for 2018

Monthly Social Security and Supplemental Security Income (SSI) benefits for more than 66 million Americans will increase 2.0 percent in 2018, the Social Security Administration announced today.
The 2.0 percent cost-of-living adjustment (COLA) will begin with benefits payable to more than 61 million Social Security beneficiaries in January 2018. Increased payments to more than 8 million SSI beneficiaries will begin on December 29, 2017. (Note: some people receive both Social Security and SSI benefits) The Social Security Act ties the annual COLA to the increase in the Consumer Price Index as determined by the Department of Labor's Bureau of Labor Statistics.
Some other adjustments that take effect in January of each year are based on the increase in average wages. Based on that increase, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $128,700 from $127,200. Of the estimated 175 million workers who will pay Social Security taxes in 2018, about 12 million will pay more because of the increase in the taxable maximum.

Information about Medicare changes for 2018, when announced, will be available at www.medicare.gov.

The Social Security Act provides for how the COLA is calculated. To read more, please visit www.socialsecurity.gov/cola.

Americans Are Retiring Later, Dying Sooner and Sicker In-Between

The U.S. retirement age is rising, as the government pushes it higher and workers stay in careers longer.

But lifespans aren't necessarily extending to offer equal time on the beach. Data released last week suggest Americans' health is declining and millions of middle-age workers face the prospect of shorter, and less active, retirements than their parents enjoyed.

Here are the stats: The U.S. age-adjusted mortality rate—a measure of the number of deaths per year—rose 1.2 percent from 2014 to 2015, according to the Society of Actuaries. That's the first year-over-year increase since 2005, and only the second rise greater than 1 percent since 1980.

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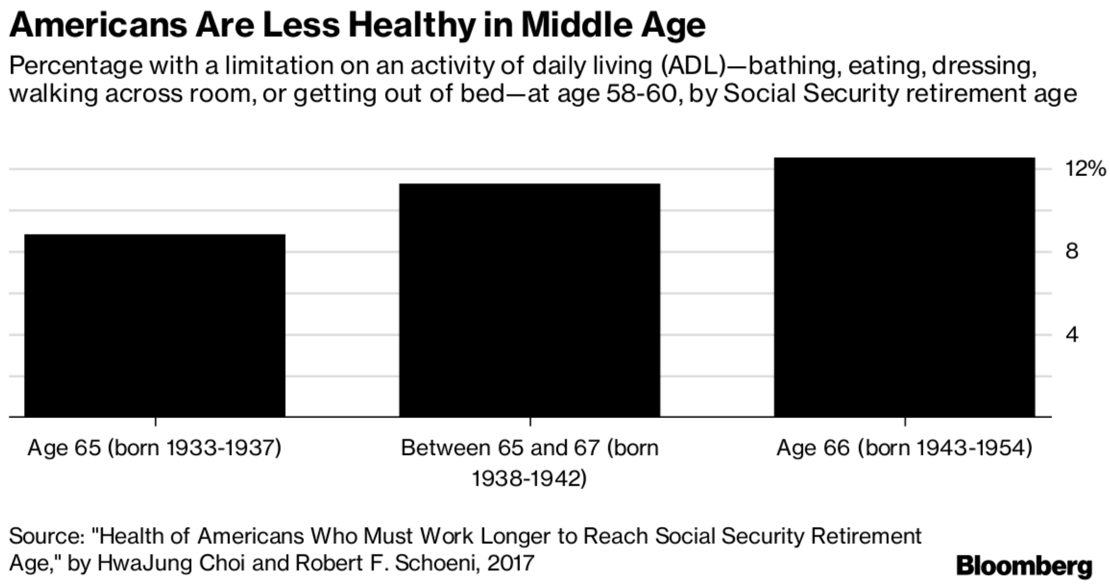
At the same time that Americans' life expectancy is stalling, public policy and career tracks mean millions of U.S. workers are waiting longer to call it quits. The age at which people can claim their full Social Security benefits is gradually moving up, from 65 for those retiring in 2002 to 67 in 2027. Almost one in three Americans age 65 to 69 is still working, along with almost one in five in their early 70s.

Postponing retirement can make financial sense, because extended careers can make it possible to afford retirements that last past age 90 or even 100. But a study out this month adds some caution to that calculation.

Americans in their late 50s already have more serious health problems than people at the same ages did 10 to 15 years ago, according to the journal Health Affairs.



University of Michigan economists HwaJung Choi and Robert Schoeni used survey data to compare middle-age Americans' health. A key measure is whether people have trouble with an "activity of daily living," or ADL, such as walking across a room, dressing and bathing themselves, eating, or getting in or out of bed. The study showed the number of middle-age Americans with ADL limitations has jumped: 12.5 percent of Americans at the current retirement age of 66 had an ADL limitation in their late 50s, up from 8.8 percent for people with a retirement age of 65.

At the current retirement age of 66, a quarter of Americans age 58 to 60 rated themselves in "poor" or "fair" health. That's up 2.6 points from the group who could retire with full benefits at 65, the Michigan researchers found.

Cognitive skills have also declined over time. For those with a retirement age of 66, 11 percent already had some kind of dementia or other cognitive decline at age 58 to 60, according to the study. That's up from 9.5 percent of Americans just a few years older, with a retirement age between 65 and 66.

While death rates can be volatile from year to year, Choi and Schoeni's study is part of a raft of other research showing the health of Americans deteriorating.

Researchers have offered many theories for why Americans' health is getting worse. Princeton University economists Anne Case and Angus Deaton, a Nobel Prize winner, have argued that an epidemic of suicide, drug overdoses and alcohol abuse have caused a spike in death rates among middle-age whites.

Higher rates of obesity may also be taking their toll. And Americans may have already seen most of the benefits from previous positive developments that cut the death rate, such as a decline in smoking and medical advances like statins that fight cardiovascular disease.

Declining health and life expectancy are good news for one constituency: Pension plans, which must send a monthly check to retirees for as long as they live.

According to the latest figures from the Society of Actuaries, life expectancy for pension participants has dropped since its last calculation by 0.2 years. A 65-year-old man can expect to live to 85.6 years, and a woman can expect to make it to 87.6. As a result, the group calculates a typical pension plan’s obligations could fall by 0.7 percent to 1 percent.

Ohio PERS proposes reducing retirees’ COLAs

Ohio Public Employees Retirement System, Columbus, proposed reducing future cost-of-living adjustments for current and future retirees, a fund spokesman said.

The changes, which are expected to reduce OPERS' unfunded liability by about $4 billion, were approved by the pension fund board Wednesday. They require approval by the Ohio Legislature.

Under OPERS' plan, all future cost-of-living adjustments (currently a fixed 3%) would be tied to the consumer price index and capped at 2.25%, starting in 2019.

For members who retired between 2010 through 2012, however, the new inflation-based COLA would not take effect until 2021, said an announcement on the pension fund's website.

COLAs for future retirees would be postponed to two years after retirement.

Under current law, OPERS has a 30-year window to pay off its unfunded liabilities, which totaled about $20 billion in 2016. Should the pension fund not be able to meet that goal, COLAs would be frozen for the next calendar year. On the flip side, should inflation exceed 3% for an extended period of time, the board could increase the COLA to 3% if the pension fund's "funding is strong," the announcement said.

OPERS retirees were surveyed about potential COLA changes ahead of the pension fund's proposal.

Virginia Retirement System pension plans lower unfunded liabilities by $1.1 billion

Virginia's state-funded retirement plans have lowered their unfunded long-term liabilities by $1.1 billion over the past year, driven by a combination of robust investment returns and the early payoff of five years of pension reforms.

The Virginia Retirement System board of trustees is expected on Thursday to certify new retirement contribution rates for state employee and teacher pensions in the upcoming biennium that are roughly the same or lower than the rates currently being paid by the state and local school systems. The result will be less pressure on the new biennial budget that Gov. Terry McAuliffe will introduce in December and the General Assembly will act on early next year, but with improved long-term funding of pension plans for teachers and state employees, including state police, other law officers and judges.

"In all cases, the funded status has improved," Jose I. Fernandez, the retirement system's outside actuary, told the VRS Actuarial and Benefits Committee on Wednesday.

Fernandez attributed the improved status of the retirement system — based on pension assets and long-term liabilities at the end of the fiscal year that ended June 30 — primarily to a market return of 12.1 percent on investments by VRS, which ended the year at $74.5 billion in value.

However, VRS officials also credited the actions McAuliffe and the General Assembly took to accelerate the state's commitment to fully fund its required contributions and repay obligations it deferred in 2010 to balance the budget during the recession.

"Being true to the plan makes it easier to meet it," VRS Chairman Mitchell L. Nason said after the committee voted unanimously to recommend the new rates to the full board.

Nason, a lieutenant in the Prince William County Department of Fire and Rescue, said his employer and other local government entities prove the point. Their retirement plans generally are better funded than the state plans for a simple reason, he said. "The locals have been paying the (full) rates all along, and therefore the hole is smaller."

VRS will consider new pension contribution rates for hundreds of local government entities next month, but their retirement plans generally are 80 percent funded, based on current assets and future liabilities.

In contrast, the funded status of the two biggest state plans had declined to about 62 percent for teachers and 65 percent for state employees in 2012, the year the General Assembly and then-Gov. Bob McDonnell enacted pension reforms that committed Virginia to fully funding its share of the contribution rates required by VRS and its actuary by mid-2018.

The state met that goal early for state employees last year and teachers in this year's budget. Consequently, funded status had risen to 75.3 percent for state employees and 72.6 percent for teachers by the end of June, based on the actuarial value of the system's assets used to set rates. "What's been happening over this relatively short period of time is we've been receiving a greater percentage of the actuarial required contributions," said VRS Director Patricia S. "Trish" Bishop, who is scheduled to brief the Senate Finance Committee on the new actuarial analysis on Thursday. "When we get those contributions, we invest them."

VRS assumes a long-term investment return of 7 percent a year over 30 years. Returns had been below that target for two previous years at 1.9 and 4.5 percent, respectively, but this year exceeded the assumed rate by more than 5 percentage points.

The returns have a direct effect on the contribution rates required of government employers, such as state agencies and local school systems. If VRS were to lower its assumed long-term rate of return, rates would go up for employers. If it raised the assumed rate, rates would go down. "From year to year, we're never close to 7 percent, but over the long haul, we hope to be," explained Larry Langer, one of the consulting actuaries at Cavanaugh Macdonald, the private firm used by VRS.

VRS officials also adopted a funding policy in 2013 to gradually pay off the pension plans' unfunded liabilities over 30 years, which has begun to reduce pressure on employer contribution rates, Langer said.

"The funding policy is designed to systematically pay off the unfunded liability, ... so this is what you should be seeing," he told the committee.

The teacher plan accounts for the biggest part of the system's unfunded liabilities at $12.3 billion, but that's $492 million less than a year ago. The state plan has unfunded liabilities of almost $5.8 billion, or about $442 million less.

Pension plans for state police, correctional and other state law officers, and judges account for the rest of the retirement system's unfunded liabilities, which total about $19.1 billion, not including liabilities for local plans that VRS will consider in November. A year ago, the unfunded liability for the five state pension plans exceeded $20.2 billion.

New contribution rates, subject to certification by the VRS board on Thursday, are generally lower than estimated a year ago. However, the rate is slightly higher for state employees because of changes in actuarial assumptions, as well as lower-than-expected payroll to collect contributions. The rate also is slightly higher for correctional and other sworn state law officers (not including state police) because of a shrinking pool of employees and payroll and changes in actuarial assumptions and methods.

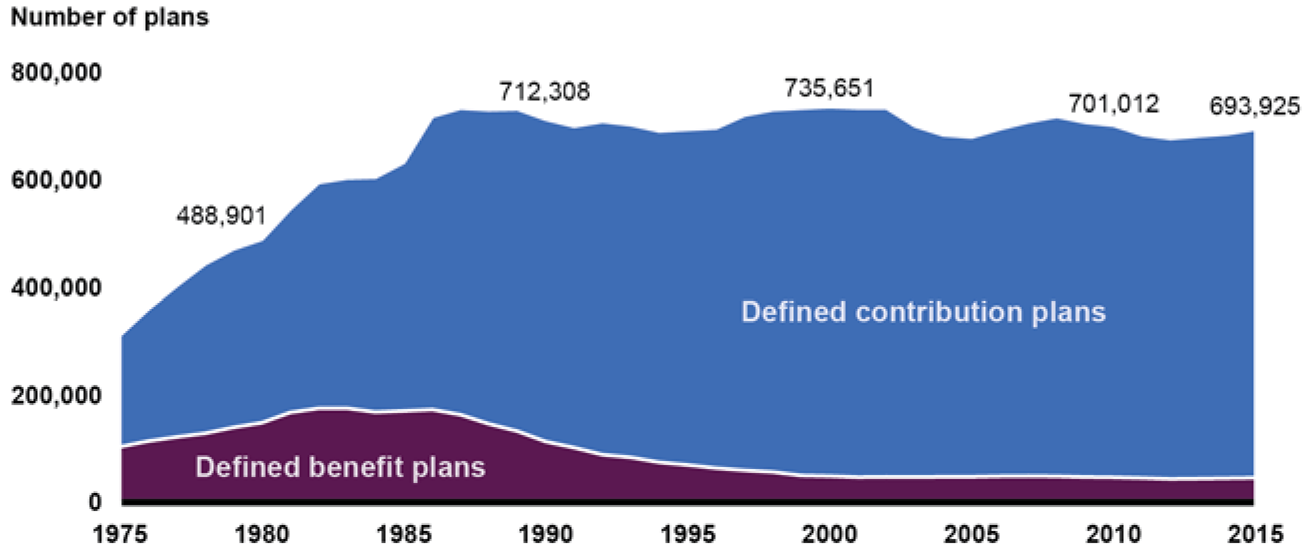
However, the new rates would be lower or roughly the same as the contributions that state agencies and local school divisions are paying now for their employees' retirement benefits, which means less pressure on local and state budgets.
"In fact, they'll save some," Nason predicted.

The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security

The U.S. retirement system, and the workers and retirees it was designed to help, face major challenges. Traditional pensions have become much less common, and individuals are increasingly responsible for planning and managing their own retirement savings accounts, such as 401(k) plans. Yet research shows that many households are ill-equipped for this task and have little or no retirement savings. In this special report, GAO examines these challenges, drawing from prior work and others' research, as well as insights from a panel of retirement experts on how to better ensure a secure and adequate retirement, with dignity, for all.

Section 1: Landscape of U.S. Retirement System Has Shifted
Fundamental changes have occurred over the past 40 years to the nation's current retirement system, made up of three main pillars: Social Security, employer-sponsored pensions or retirement savings plans, and individual savings. These changes have made it increasingly difficult for individuals to plan for and effectively manage retirement. In particular, there has been a marked shift away from employers offering traditional defined benefit (DB) pension plans to defined contribution (DC) plans, such as 401(k)s, as the primary type of retirement plan. This shift to DC plans has increased the risks and responsibilities for individuals in planning and managing their retirement. In addition, economic and societal trends—such as increases in debt and health care costs—can impede individuals' ability to save for retirement.

Trends in Private Sector Retirement Plans since 1975



Source: GAO analysis of data from the U.S. Department of Labor. | GAO-18-111SP

Section 2: Individuals Face Three Key Challenges in Planning and Managing Their Retirement
GAO's prior work has found that many individuals face the following challenges in their efforts to provide for a financially secure retirement at a time when increases in longevity further raise the risk of outliving their savings:

- Access: Accessing retirement plans through their employers.
- Saving: Accumulating sufficient retirement savings.
- Retirement: Ensuring accrued savings and benefits last through retirement.
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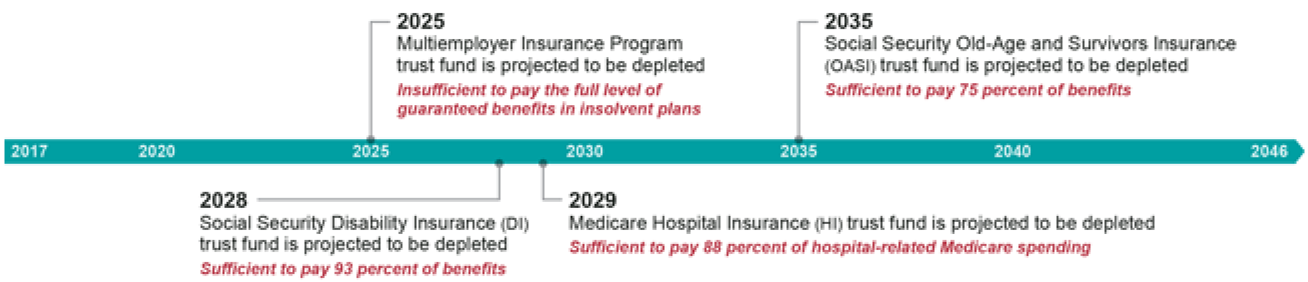
Section 3: U.S. Retirement System Is Threatened by Fiscal Risks and Benefit Adequacy Concerns
The three pillars of the current retirement system in the United States are anticipated to be unable to ensure adequate benefits for a growing number of Americans due, in part, to the financial risks associated with certain federal programs.

- Social Security's retirement program (Old-Age and Survivors Insurance):
  Beginning in 2035, this program is projected to be unable to pay full benefits. Long-term fiscal projections show that, absent fiscal policy changes, the federal government is on an unsustainable path, largely due to spending increases driven by the growing gap between federal revenues and health care programs, demographic changes, and net interest on the public debt.

- Private employer-sponsored plans:
  DB plans: On the decline; also, the Pension Benefit Guaranty Corporation (PBGC) which insures most DB plans, is at risk due to substantial liabilities, especially in its multiemployer program.
  DC plans: On the rise, but with more risk and responsibility for individuals; many individuals are not saving enough in these plans to provide an adequate retirement.
- Individual savings: Outside of employer-sponsored plans, individuals' retirement savings are often low or nonexistent, which may increase their reliance on various federal and state safety net programs.

Timeline of Projected Fiscal Risks for Certain Federal Programs



Sources: GAO analysis of data from the Social Security Administration, the Centers for Medicare and Medicaid Services, and the Pension Benefit Guaranty Corporation. | GAO-18-111SP

Section 4: The Need to Re-evaluate the Nation's Approach to Financing Retirement

Over the past 40 years, the nation has sought to address the issues facing the U.S. retirement system in a piecemeal fashion. This approach may not be able to effectively address the interrelated nature of the challenges facing the system today. Fundamental economic changes have occurred, as well as the shift from DB to DC plans, with important consequences for the system. Further, it has been nearly 40 years since a federal commission has conducted a comprehensive evaluation of the nation's approach to financing retirement. A panel of retirement experts convened by GAO in November 2016 agreed that there is a need for a new comprehensive evaluation. The experiences of other countries can also provide useful insights for ways to improve the system.

Matter for Congressional Consideration

Congress should consider establishing an independent commission to comprehensively examine the U.S. retirement system and make recommendations to clarify key policy goals for the system and improve how the nation promotes retirement security.

Private Sector

The Society of Actuaries Publishes Annual Mortality Improvement Scale Update, MP-2017

The Society of Actuaries (SOA) today released its annually-updated mortality improvement scale for pension plans, MP-2017, which reflects that age-adjusted U.S. population mortality rates increased 1.2 percent between 2014 and 2015. This is the first year-over-year mortality rate increase since 2005. The updated scale suggests that life expectancies declined slightly, which may also decrease pension plan obligations slightly. The SOA's preliminary estimates suggest that implementing the MP-2017 improvement scale could reduce a pension plan's pension obligations by 0.7 – 1.0 percent, when calculated using a four percent discount rate.

MP-2017 incorporates the latest publicly available mortality data from the Social Security Administration (SSA) through 2013. Additionally, MP-2017 includes 2014 and preliminary 2015 data, developed by the SOA and obtained from the SSA, Centers for Disease Control and Prevention (CDC), Centers for Medicare and Medicaid Services (CMS), and the U.S. Census Bureau. The updated improvement scale reflects a slight decline in life expectancy, stemming from an increase in mortality from eight of the 10 leading causes of death in the U.S., as reported by the CDC. For example, the life expectancy for a 65-year-old-male pension plan participant declined to 85.6 years using the MP-2017 scale, compared to 85.8 under MP-2016. Additionally, the average life expectancy for a 65-year-old female pension plan participant declined to 87.6 with MP-2017, from 87.8 with the MP-2016 scale.

"The SOA is a data-driven organization committed to annually updating the mortality improvement scale as new data is available," said Dale Hall, managing director of research for the SOA. "MP-2017 gives pension actuaries and plan sponsors current information to measure retirement obligations and make forward-looking mortality improvement assumptions. However, every plan is different, and it's important for actuaries and plan sponsors to perform their own calculations and decide how to reflect the impact of emerging mortality changes in their own plan valuations."
The MP-2017 report includes additional resources for pension actuaries, including a sensitivity analysis to model the impact of different improvement model assumptions on annuity factors for plan funding. The report was developed by the SOA's Retirement Plans Experience Committee (RPEC).

Warning! Increased costs ahead: IRS issues final rule and other guidance on mortality tables for defined benefit plans

Despite many voiced concerns, the IRS took the final step in updating mortality tables that directly impact the funding costs for most single-employer defined benefit plans. Defined benefit plans must use these mortality tables to calculate the actuarial liabilities for minimum funding requirements and the amount of lump sum distributions.

The updated mortality tables reflect improvements in mortality since the last issuance of the tables in 2008 and, thus, may increase minimum funding obligations for sponsors of defined benefit plans. Increased longevity built into the updated tables would also boost lump sum payouts for most defined benefits plans, causing larger cash outflows from the plans.

The final rule is generally applicable for plan years beginning on or after January 1, 2018. However, in certain circumstances the final rule provides a limited one-year transition period until January 1, 2019. Plans sponsors and their actuaries may need to carefully consider whether the plans can take advantage of the transition period.

Background

Plan sponsors of defined benefit plans are required to use IRS-approved mortality tables to determine the minimum funding level, adjusted funding target attainment percentage and PBGC variable rate premiums for their plans, as well as the minimum lump-sum distribution amounts and maximum benefits for participants. In order to reflect the projected trends and actual mortality experience of defined benefit plan participants, the IRS should review and update the mortality tables at least every ten years.

Between 2014 and 2016, the Society of Actuaries issued several reports demonstrating its study of mortality improvements for private pension plan participants. Following these reports, the IRS announced in December 2016 its proposed rule updating the 2008 mortality tables and technical rules for developing substitute mortality tables. During a public hearing on the proposed rule, its critics voiced serious concerns about the sufficiency of the economic impact analysis conducted by the IRS. The rule's opponents pointed out the expected significant increase in plan funding costs, the timing required to adopt the updated tables and the requirements of Executive Order 13771, which calls for two existing regulations to be cut before new regulations are issued.

The IRS dismissed the cost and timing concerns, and asserted that the final rule is not subject to the requirements of Executive Order 13771 because it merely transfers payments rather than increasing costs. The final regulations left plan sponsors in no doubt that they need to gear up (and quickly) for the use of the updated tables.

Impact on costs and plan administration

The updated mortality tables reflect the fact that people are living longer—by about two to three years. The expanded longevity tends to both increase a plan's liabilities and make lump-sum distributions more expensive.

Many plan sponsors already use the updated mortality tables to calculate their plan's funded status. For those plans that do not yet do so, however, beginning in 2018, minimum funding levels for defined benefit pension plans and the calculation of variable-rate premiums for PBGC will be affected—potentially significantly—by the use of the updated mortality tables. Estimates of the likely funding increase vary depending upon a particular plan's benefit design and participant demographics.

Note that cash balances plans likely will not be significantly impacted. These plans pay a lump sum equal to a participant's current account balance without regard to mortality assumptions. In fact, for cash balance plans that use the updated mortality tables to convert account balances to annuity forms the impact of the regulations may be favorable. The periodic annuity payments may be smaller with the use of the updated mortality tables. Depending on a plan's actual mortality experience, the total annuity payout over time may be larger or smaller. Meanwhile, additional cash would be available in the plan for investments.

On September 11, 2015, PBGC issued a final rule on Reportable Events and Other Notification Requirements under section 4043 of ERISA that revised, among other things, the active participant reduction event described in § 4043.23 of the regulation. This event occurs when, as a result of a single cause (such as a reorganization or layoff), or through employee attrition, the number of active participants in a plan is reduced below 80 percent of the number at the beginning of the year or below 75 percent of the number at the beginning of the prior year.

Transition period

Although the updated tables must be used to determine minimum lump sum distributions in plan years beginning in 2018, a limited transition period is available under the final rule for minimum funding calculations.

If a plan sponsor concludes that the use of the updated mortality tables prescribed under the final rule would be administratively impracticable or would result in an adverse impact that is more than de minimis, the plan sponsor may use the previously applicable mortality tables determined in accordance with former regulations provided a plan-specific mortality table is not used for plan funding purposes. The plan sponsor must inform the plan actuary of its intent to use the previously applicable mortality tables.

The IRS guidance does not explain what constitutes a “de minimis” adverse business impact for purposes of the transition relief. Additional guidance would be welcome. Meanwhile, plan sponsors —especially those with small- and mid-sized plans—may want to start a dialog with their actuaries and legal counsel regarding the feasibility of delaying until the 2019 plan year the use of the updated mortality tables for minimum funding purposes.

Companion guidance: Notice 2017-60 and Revenue Procedure 2017-55

In addition to the regulations, IRS issued two pieces of companion guidance.

First, and most relevant from plan sponsors, is Notice 2017-60 that contains the mortality table for use in determining the minimum present value of certain optional annuity forms of payment. The mortality table is a modified, unisex version of the mortality tables the Internal Revenue Code prescribes for plan funding purposes. The new mortality table will apply to annuity starting dates occurring during stability periods beginning in the 2018. The Notice also contains static (rather than generational) mortality tables used in limited instances (for plan years that begin in 2017 with valuation dates occurring in 2018, and for plan sponsors that, as described above, can demonstrate impracticability or adverse business impact of the tables’ use in 2018).

The 2017 regulations also updated guidance on the use of plan-specific substitute mortality tables for purposes of the minimum funding and present value determination. In the simultaneously issued Revenue Procedure 2017-55, the IRS modified and simplified the procedure for requesting approval of the substitute tables. Plan sponsors first requesting approval for a substitute table for the plan year beginning in 2018 may, instead of submitting the application seven months in advance, file it by February 28, 2018, so long as they request a 90-day extension of the IRS 180-day review period.

What do plan sponsors need to do now?

Plan sponsors should meet with their plan actuary in order to understand the impact the updated tables will have on their plan’s liability, and should verify with the actuary that their minimum funding contributions and lump-sum distribution amounts are correctly calculated under the applicable mortality tables. Plan sponsors should then decide upon their desired approach—within the available options—to accommodate any expected increases in the amount and duration of their plan’s liabilities.

Participant communications also should be reviewed to ensure accuracy before annuity and lump-sum distribution amounts are communicated to participants.

Most plans incorporate the IRS-mandated mortality tables by a reference to Section 430 or 417 of the Internal Revenue Code. For those plans, no amendment is required to reflect the updated tables. For a plan that expressly provided for the use of the prior tables, an amendment would be required. However, the IRS regulations and companion guidance do not address any plan amendment deadlines. Plan sponsors should consult their legal counsel for any necessary amendments to their plans.

In addition, employers with small- and mid-sized plans should evaluate whether they should take advantage of the transition relief for the 2018 plan year. Employers with large plans may wish to reevaluate whether they would benefit from generating their own mortality assumptions.

NEPC: Funded Status Improves for Corporate and Healthcare Defined Benefit Plans

NEPC, LLC, one of the industry's largest independent, full-service investment consulting firms, today announced the results of the 2017 Defined Benefit Plan Trends Survey, a gauge of plan sponsors' strategic vision for their pension funds.

The most notable survey finding this year is the increase in over-funded plans, with nearly one in five (19%) respondents reporting a funded status of more than 101%. This is a 10% increase from 2016, making it the highest funded status since the survey's inaugural year in 2011. Of these plans, 65% invest in alternatives and 55% use liability-driven investment strategies, with a majority of users implementing with derivatives. The rising of variable rate premiums, implemented by the Pension Benefit Guaranty Corporation (PBGC), also had a strong influence on the improved funded status as a quarter of plan sponsors were considering additional contributions in the 2016 survey.

Plan sponsors have also been more open to reviewing and changing their glide paths. A majority (70%), formally reviewed their glide path in 2017. Of those 70%, 35% implemented a change by modifying future trigger points, and 12% re-risked the portfolio.

"The PBGC rate premium decision has had a major and lasting impact on plan sponsors and their strategies," said Brad Smith, partner in NEPC's Corporate Practice. "Not only have we seen an increase in over-funded plans to help hedge against these premiums, we're also seeing plans accelerate the de-risking process and move down the glide path more quickly. With so much at stake, we don't expect plan sponsors' anxiety toward rate premium increases to subside."

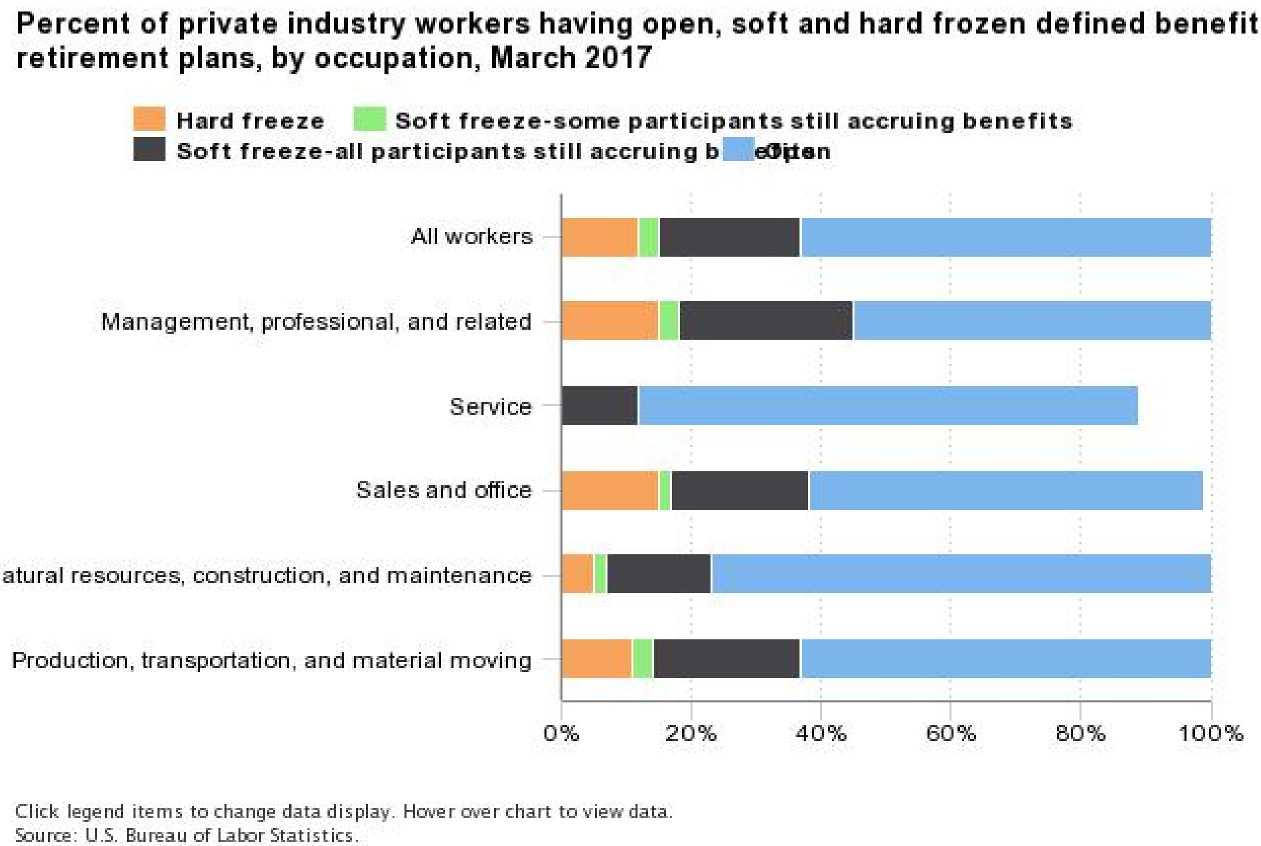
The use of liability reduction strategies decreased this year by 12% to 75%. In 2016, 87% of plan sponsors considered or implemented lump-sum payouts, the most popular choice. The liability reduction decrease is likely a result of plans having issued them and seeing diminishing returns. When asked if they'd consider lump-sum payouts over the next six months, only 22% of plan sponsors answered, "yes."

PBGC rate premium increases continue to shape plan sponsor behavior when deciding how to de-risk portfolios. Eighty percent of plan sponsors indicated that they will make changes to their plan strategy in the next six months. Of those who said they would make a change, higher contributions (24%) and partial risk transfer (34%) are the preferred strategies.

As plan sponsors learn from the past and begin hedging against unpredictable markets, their optimism continues to grow. Fifty-six percent of respondents are bullish on the stock market in the next 12 months, up from 51% in 2016.

63 percent of defined benefit retirement participants in plans open to new participants

In March 2017, 63 percent of private industry workers participating in defined benefit retirement plans were in plans that were open to new participants. Twenty-five percent of workers were in soft-freeze plans, or plans that no longer allow new employees to participate but allow all or some workers in the plan to continue accruing benefits. The remaining 12 percent of workers were in frozen, or hard-freeze plans. Participants in frozen plans stop accruing benefits on the date the plan is frozen, and the benefit is calculated as of the day the plan was frozen.



Out of the 25 percent of private industry workers in soft-freeze defined benefit retirement plans, 22 percent were in plans for which all participants are still accruing benefits. The remaining 3 percent were in plans where some participants are still accruing benefits.

Among occupational groups, 77 percent of workers in both services and natural resources, construction, and maintenance participated in open defined benefit plans, the highest percentage among occupational groups in March 2017. Fifty-five percent of workers in management, professional, and related occupations had open plans.

2018 Limitations Adjusted As Provided in Section 415(d), etc. Notice 2017-64

Section 415 of the Internal Revenue Code (the Code) provides for dollar limitations on benefits and contributions under qualified retirement plans. Section 415(d) requires that the Secretary of the Treasury annually adjust these limits for cost-of-living increases. Other limitations applicable to deferred compensation plans are also affected by these adjustments under § 415. Under § 415(d), the adjustments are to be made under adjustment procedures similar to those used to adjust benefit amounts under § 215(i)(2)(A) of the Social Security Act.

Cost-of-Living Adjusted Limits for 2018

Effective January 1, 2018, the limitation on the annual benefit under a defined benefit plan under § 415(b)(1)(A) is increased from $215,000 to $220,000.

For a participant who separated from service before January 1, 2018, the participant's limitation under a defined benefit plan under § 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2017, by 1.0197.

The limitation for defined contribution plans under § 415(c)(1)(A) is increased in 2018 from $54,000 to $55,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of § 415(b)(1)(A). After taking into account the applicable rounding rules, the amounts for 2018 are as follows:

The limitation under § 402(g)(1) on the exclusion for elective deferrals described in § 402(g)(3) is increased from $18,000 to $18,500.

The annual compensation limit under §§ 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from $270,000 to $275,000.

The dollar limitation under § 416(i)(1)(A)(i) concerning the definition of "key employee" in a top-heavy plan remains unchanged at $175,000.

The dollar amount under § 409(o)(1)(C)(ii) 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, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from $215,000 to $220,000.

The limitation used in the definition of "highly compensated employee" under § 414(q)(1)(B) remains unchanged at $120,000.

The dollar limitation under § 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in § 401(k)(11) or § 408(p) for individuals aged 50 or over remains unchanged at $6,000. The dollar limitation under § 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in § 401(k)(11) or 408(p) for individuals aged 50 or over remains unchanged at $3,000.

The annual compensation limitation under § 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under § 401(a)(17) to be taken into account, is increased from $400,000 to $405,000.

The compensation amount under § 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at $600.

The limitation under § 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at $12,500.

The limitation on deferrals under § 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from $18,000 to $18,500.

The limitation under § 664(g)(7) concerning the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan is increased from $45,000 to $50,000.

The compensation amounts under § 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes is increased from $105,000 to $110,000. The compensation amount under § 1.61-21(f)(5)(iii) is increased from $215,000 to $220,000.

The dollar limitation on premiums paid with respect to a qualifying longevity annuity contract under § 1.401(a)(9)-6, A-17(b)(2)(i) of the Income Tax Regulations is increased from $125,000 to $130,000.

The Code provides that the $1,000,000,000 threshold used to determine whether a multiemployer plan is a systemically important plan under § 432(e)(9)(H)(v)(III)(aa) is adjusted using the cost-of-living adjustment provided under § 432(e)(9)(H)(v)(III)(bb). After taking the applicable rounding rule into account, the threshold used to determine whether a multiemployer plan is a systemically important plan under § 432(e)(9)(H)(v)(III)(aa) is increased from $1,012,000,000 to $1,087,000,000.

The Code also provides that several retirement-related amounts are to be adjusted using the cost-of-living adjustment under § 1(f)(3). After taking the applicable rounding rules into account, the amounts for 2018 are as follows:

The adjusted gross income limitation under § 25B(b)(1)(A) for determining the retirement savings contributions credit for married taxpayers filing a joint return is increased from $37,000 to $38,000; the limitation under § 25B(b)(1)(B) is increased from $40,000 to $41,000; and the limitation under §§ 25B(b)(1)(C) and 25B(b)(1)(D) is increased from $62,000 to $63,000.

The adjusted gross income limitation under § 25B(b)(1)(A) for determining the retirement savings contributions credit for taxpayers filing as head of household is increased from $27,750 to $28,500; the limitation under § 25B(b)(1)(B) is increased from $30,000 to $30,750; and the limitation under §§ 25B(b)(1)(C) and 25B(b)(1)(D) is increased from $46,500 to $47,250.

The adjusted gross income limitation under § 25B(b)(1)(A) for determining the retirement savings contributions credit for all other taxpayers is increased from $18,500 to $19,000; the limitation under § 25B(b)(1)(B) is increased from $20,000 to $20,500; and the limitation under §§ 25B(b)(1)(C) and 25B(b)(1)(D) is increased from $31,000 to $31,500.

The deductible amount under § 219(b)(5)(A) for an individual making qualified retirement contributions remains unchanged at $5,500.

The applicable dollar amount under § 219(g)(3)(B)(i) for determining the deductible amount of an IRA contribution for taxpayers who are active participants filing a joint return or as a qualifying widow(er) is increased from $99,000 to $101,000. The applicable dollar amount under § 219(g)(3)(B)(ii) for all other taxpayers who are active participants (other than married taxpayers filing separate returns) is increased from $62,000 to $63,000. If an individual or the individual's spouse is an active participant, the applicable dollar amount under § 219(g)(3)(B)(iii) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains $0. The applicable dollar amount under § 219(g)(7)(A) for a taxpayer who is not an active participant but whose spouse is an active participant is increased from $186,000 to $189,000.

Accordingly, under § 219(g)(2)(A), the deduction for taxpayers making contributions to a traditional IRA is phased out for single individuals and heads of household who are active participants in a qualified plan (or another retirement plan specified in § 219(g)(5)) and have adjusted gross incomes (as defined in § 219(g)(3)(A)) between $63,000 and $73,000, increased from between $62,000 and $72,000. For married couples filing jointly, if the spouse who makes the IRA contribution is an active participant, the income phase-out range is between $101,000 and $121,000, increased from between $99,000 and $119,000. For an IRA contributor who is not an active participant and is married to someone who is an active participant, the deduction is phased out if the couple's income is between $189,000 and $199,000, increased from between $186,000 and $196,000. For a married individual filing a separate return who is an active participant, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

The adjusted gross income limitation under § 408A(c)(3)(B)(ii)(I) for determining the maximum Roth IRA contribution for married taxpayers filing a joint return or for taxpayers filing as a qualifying widow(er) is increased from $186,000 to $189,000. The adjusted gross income limitation under § 408A(c)(3)(B)(ii)(II) for all other taxpayers (other than married taxpayers filing separate returns) is increased from $118,000 to $120,000. The applicable dollar amount under § 408A(c)(3)(B)(ii)(III) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains $0.

Accordingly, under § 408A(c)(3)(A), the adjusted gross income phase-out range for taxpayers making contributions to a Roth IRA is $189,000 to $199,000 for married couples filing jointly, increased from $186,000 to $196,000. For singles and heads of household, the income phase-out range is $120,000 to $135,000, increased from $118,000 to $133,000. For a married individual filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.