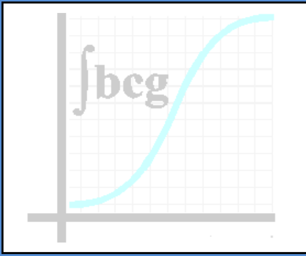

BCG Retirement News Roundup

September 2017 Volume 6, Issue 9

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

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Boomershine Consulting Group (BCG) provides this monthly news roundup of highlighted significant articles from the retirement industry – for clients and friends. Retirement plan news has become increasingly pertinent for many audiences these days, including:

- Retirement Plan Sponsors – addressing both private and public sector issues
- Employers – dealing with complicated decision making for their plans
- Employees – educating the Boomer generation that is nearing retirement
- Industry Practitioners - helping to understand and resolve today's significant challenges

We review numerous industry news services daily and will include a collection of timely and significant articles each month concerning compliance, actuarial plan costs (including assumption debates), plan design change issues and benefit trends, as well as other related topics. If you would like to discuss any of these issues, please contact us.

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Public Sector/Government Plans

PENSION PANEL AGREES TO REVIEW PLAN'S DETAILS

Facing an audience of Augusta public safety workers concerned about their retirement plans, the city pension and audit committee agreed Tuesday to go over the plan's details and survey workers for changes they want to see.

Michael Tomaszewski, an Augusta fire lieutenant who spoke on behalf of the workers, detailed in charts the higher risks public safety workers face and their desire for fairness in benefits among all workers.

"Increased cancer rates, years of potential life lost, a rate of PTSD which unfortunately rivals the military, and perhaps saddest of all, nationwide, more than twice as many public safety personnel commit suicide each year as die in the line of duty," Tomaszewski said.

The group wants the city to take an in-depth look at its Georgia Municipal Employee Benefits System plan and to include public safety stakeholders in the discussion, he said.

Unlike many government retirement programs, the plan is in good shape financially, plan actuary Rocky Joyner said earlier in the meeting.

With nearly 92 percent of projected benefits already funded by city and employee contributions, the plan is "one of the best funded plans in the state of Georgia," Joyner said.

As far as benefits go, "it's a good plan. It's not a Cadillac plan; it's a good solid plan," he said.

While the public safety workers had sought to use a higher multiplier of 2 percent or 2.5 percent in calculating their retirement benefits, Joyner said all but about 16 of Augusta's 2,293 GMEBS participants under the existing plan would have their benefits calculated by a multiplier other than 1.65 percent.

The 1.65 percent multiplier, applied against an employee's final average salary and years of service, is "in the middle of the pack for (Georgia Municipal Association) cities," he said.

An earlier GMEBS 2 plan that uses a 2.5 percent multiplier was a "completely separate plan that planning and zoning had for their very small pool of employees," Finance Director Donna Williams said. The workers hadn't paid into Social Security and the plan was closed in 2006, she said.

Commissioner Sean Frantom made a motion to "review the benefits plan that hadn't been reviewed in 10 years," and Commissioner Sammie Sias suggested using an ongoing compensation study being done by the Archer Company to gather the additional information.

Frantom also asked about the impact of adjusting employee contributions, saying increasing them to six percent could save Augusta taxpayers $1.5 million. Joyner said the current city contribution of 4.63 percent and employee contribution of four percent was a "pretty decent balance" but the city could tweak the numbers to improve the plan consistent with Georgia laws governing funding retirement plans, or could even add incentives to it if it wanted employees to retire sooner.

Joyner said the study data would allow him to return with a "shopping list of potential changes." The committee, which includes the mayor, mayor pro tem, finance director, finance committee chairman and administrator, voted 5-0 to approve Frantom's motion.

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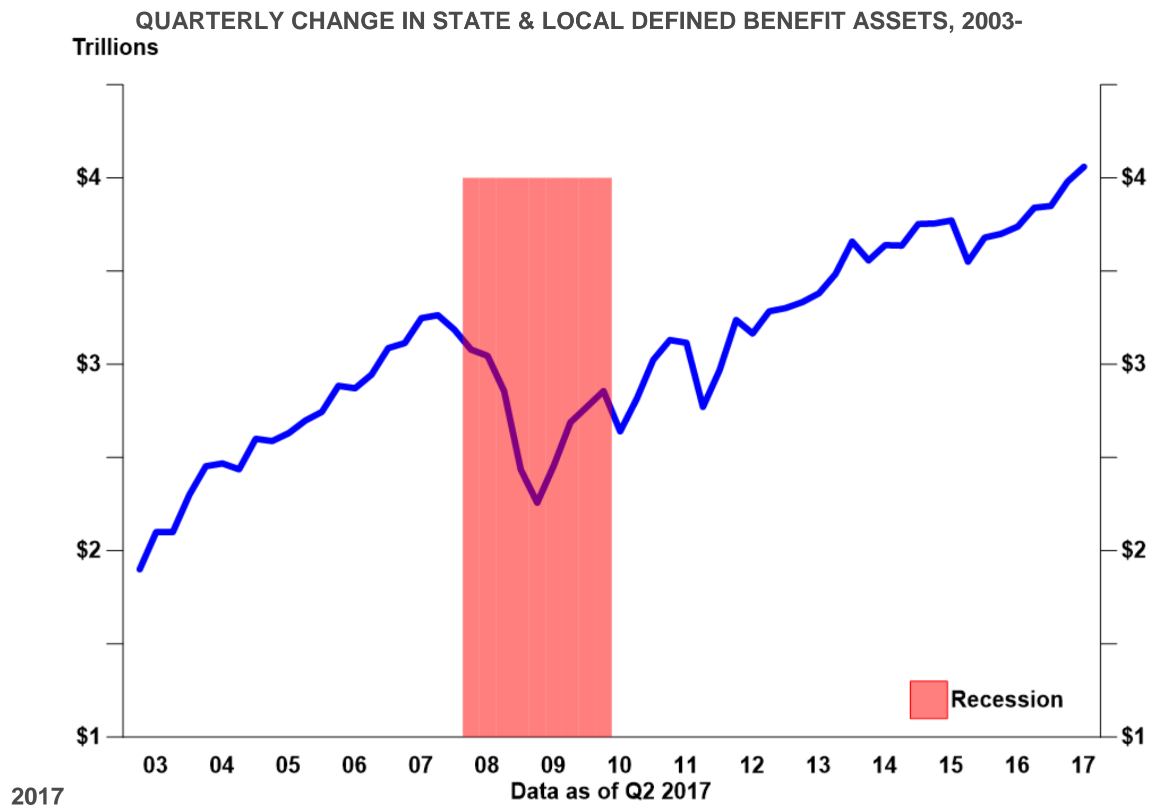
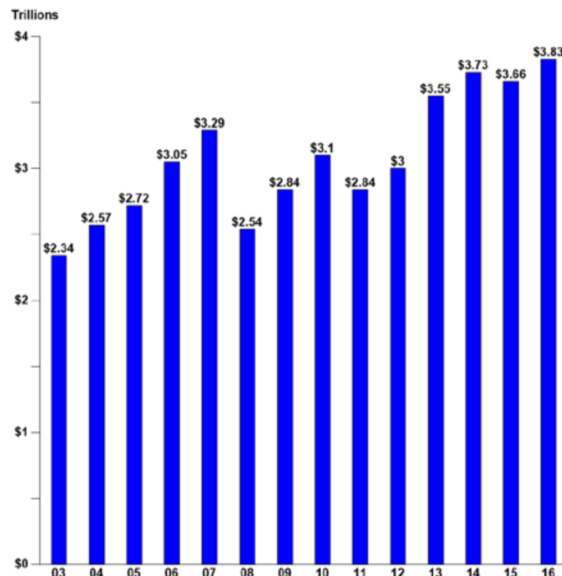
Public Pension Assets
Quarterly Update (Q2 2017)

The Federal Reserve publishes data on state and local defined benefit assets on a quarterly basis. As of the second quarter of 2017 (June 30), public pension assets were a record $4.06 trillion, an increase of approximately 2.0 percent, from $3.98 trillion as reported for the prior quarter and higher from the same quarter one year ago by some $320 billion, or 8.6 percent. The next release is scheduled for December 2017.



Annual Update

The Federal Reserve reported in June that the combined value of defined benefit plan assets held by state and local governments as of Q4 2016 increased by 4.6 percent, to $3.83 trillion, from $3.66 trillion as of Q4 2015.



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Employees, retirees may see pension cut; Largest public system in Ohio looks to improve finances.; COLUMBUS BUREAU

Ohio's biggest public pension system is considering cutting the cost of living allowances for its 1 million members as a way to shore up the longterm finances of the fund.

Ohio Public Employees Retirement System trustees Wednesday discussed options that could affect all current and future retirees, including tying the cost of living allowance to inflation and capping it and delaying the onset of the COLA for new retirees.

No decision has been made and trustees will discuss the options again in October. So far, some 72,000 members responded to an OPERS survey about possible changes. OPERS spokesman Todd Hutchins said 70 percent of retirees responding to the survey report that they prefer that the COLA be capped, rather than frozen.

OPERS is the latest of the five public pensions systems in Ohio to consider benefit cuts.

The State Teachers Retirement System of Ohio in April voted to indefinitely suspend the COLA for retired teachers. Trustees said they weren't certain that the cut would be enough to shore up the finances of the $72-billion fund.

Ohio Police & Fire Pension Fund is expected to hire a consultant to help restructure its health care benefits. OP&F announced in May it would switch in January 2019 to issuing stipends to each retiree, who can then use the money to purchase coverage.

School Employees Retirement System, which covers janitors, bus drivers and cafeteria workers, is taking steps to link its cost of living allowance to inflation, cap it at 2.5 percent, and delay its onset for new retirees.

Combined, Ohio's five public pension systems have 1.9 million members, beneficiaries and retirees and have nearly $200 billion in investments.

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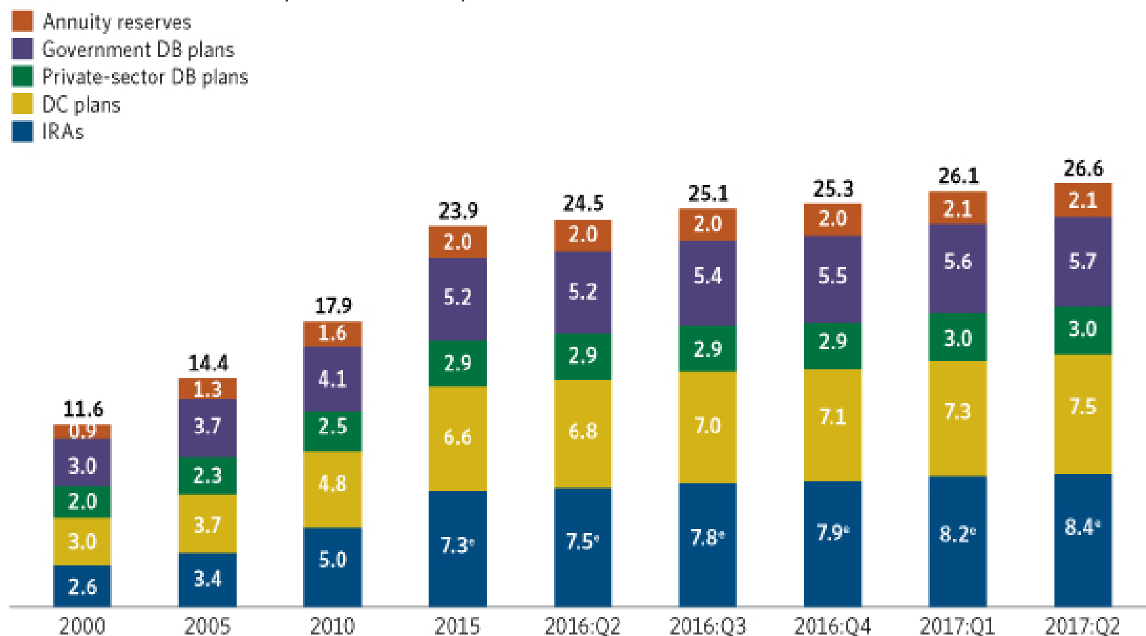
Retirement Assets Total $26.6 Trillion in Second Quarter 2017

Total US retirement assets were $26.6 trillion as of June 30, 2017, up 1.9 percent from March 31, 2017. Retirement assets accounted for 34 percent of all household financial assets in the United States at the end of June 2017.

US Total Retirement Market

Trillions of dollars, end-of-period, selected periods



[e] Data are estimated.

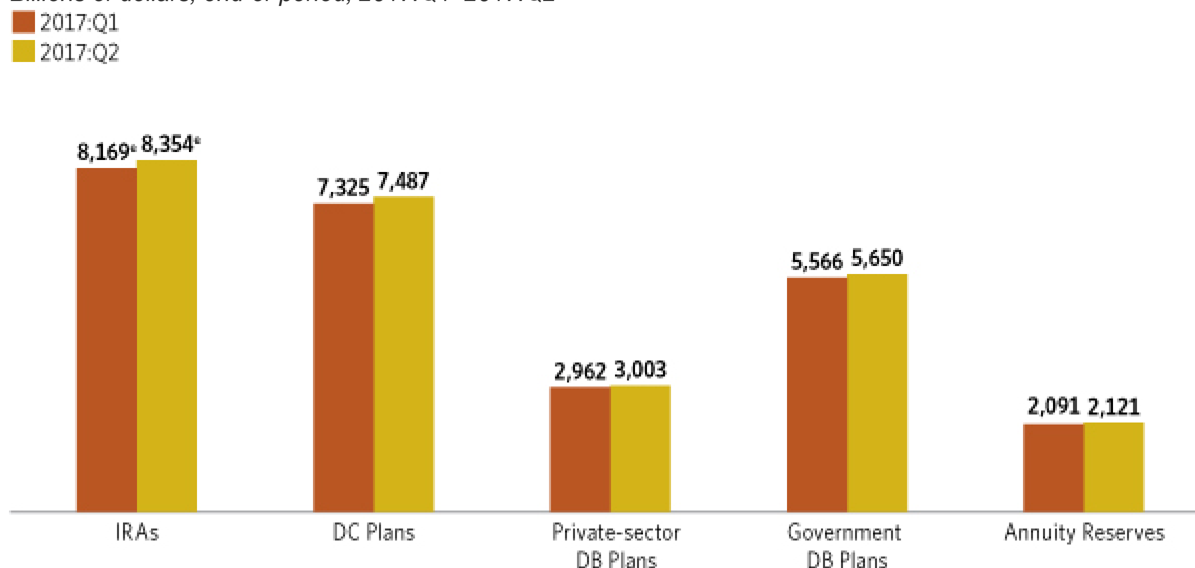
Note: For definitions of plan categories, see Table 1 in "The US Retirement Market, Second Quarter 2017." Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

Retirement assets generally rose in the second quarter of 2017. Assets in individual retirement accounts (IRAs) totaled $8.4 trillion at the end of the second quarter of 2017, an increase of 2.3 percent from the end of the first quarter. Defined contribution (DC) plan assets rose 2.2 percent in the second quarter of 2017 to $7.5 trillion. Government defined benefit (DB) plans— including federal, state, and local government plans—held $5.7 trillion in assets as of the end of June, a 1.5 percent increase from the end of March. Private-sector DB plans held $3.0 trillion in assets at the end of the second quarter of 2017, and annuity reserves outside of retirement accounts were $2.1 trillion.

Retirement Assets by Type

Billions of dollars, end-of-period, 2017:Q1–2017:Q2



[e] Data are estimated.

Sources: Investment Company Institute and Federal Reserve Board

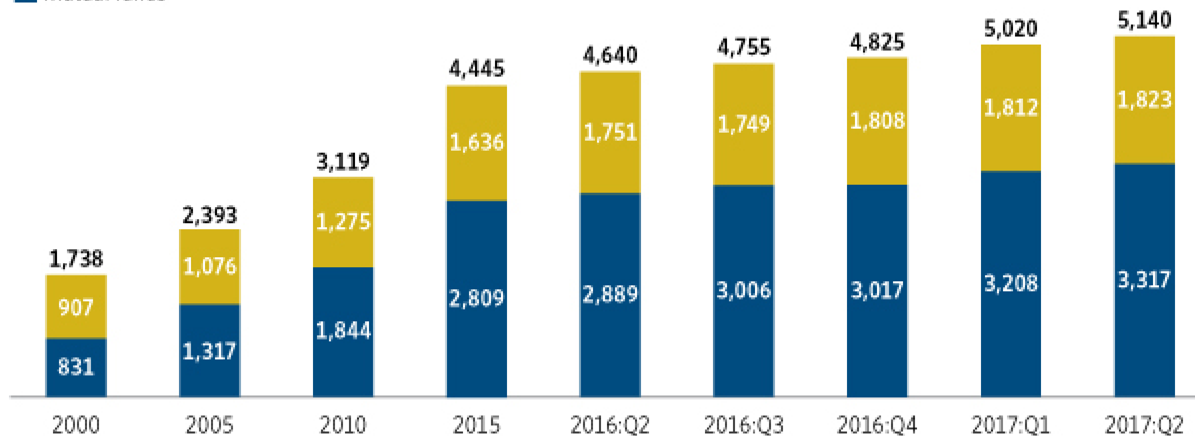
Defined Contribution Plans

Americans held $7.5 trillion in all employer-based DC retirement plans on June 30, 2017, of which $5.1 trillion was held in 401(k) plans. In addition to 401(k) plans, at the end of the second quarter, $575 billion was held in other private-sector DC plans, $949 billion in 403(b) plans, $297 billion in 457 plans, and $526 billion in the Federal Employees Retirement System's Thrift Savings Plan (TSP). Mutual funds managed $3.3 trillion, or 65 percent, of assets held in 401(k) plans at the end of June 2017. With nearly $2.0 trillion, equity funds were the most common type of funds held in 401(k) plans, followed by $918 billion in hybrid funds, which include target date funds.

401(k) Plan Assets

Billions of dollars, end-of-period, selected periods

Other investments
Mutual funds



Sources: Investment Company Institute, Federal Reserve Board, and Department of Labor

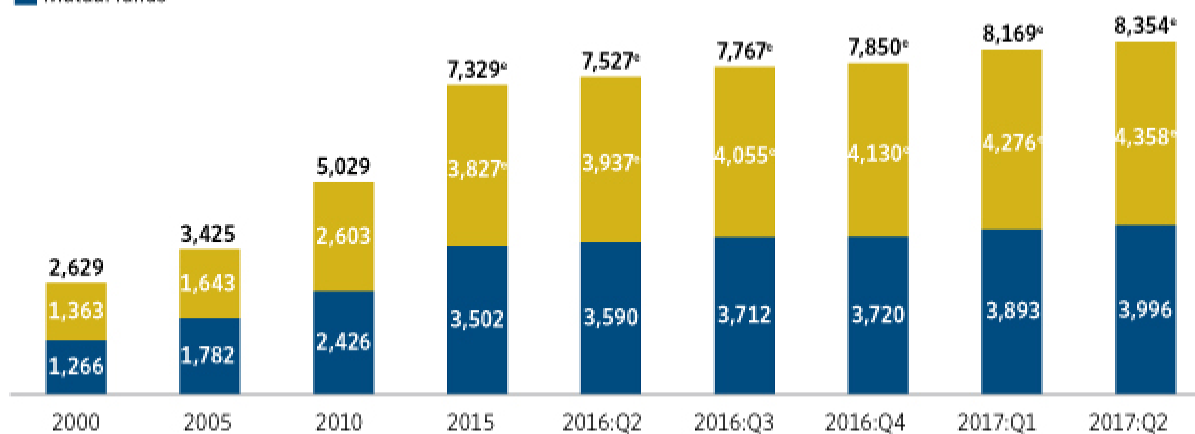
Individual Retirement Accounts

IRAs held $8.4 trillion in assets at the end of the second quarter of 2017. Forty-eight percent of IRA assets, or $4.0 trillion, was invested in mutual funds. With $2.2 trillion, equity funds were the most common type of funds held in IRAs, followed by $884 billion in hybrid funds.

IRA Market Assets

Billions of dollars, end-of-period, selected periods

Other investments
Mutual funds



[e] Data are estimated.

Sources: Investment Company Institute, Federal Reserve Board, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

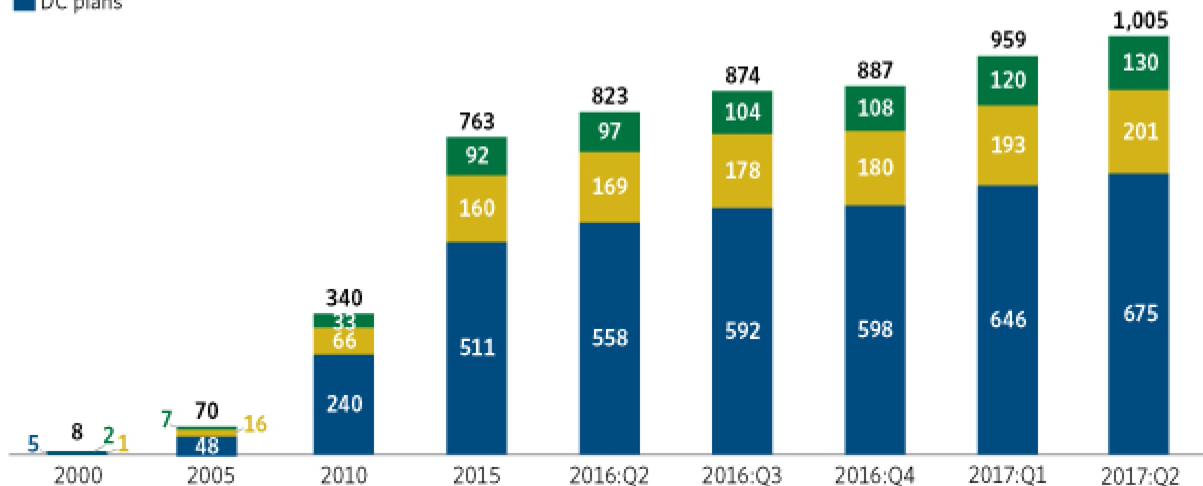
Other Developments

Target date mutual fund assets grew 4.8 percent in the second quarter, topping $1 trillion at the end of June 2017. Retirement accounts held the bulk of target date mutual fund assets. Eighty-seven percent of these assets were held through DC plans (67 percent) and IRAs (20 percent).

Target Date Mutual Fund Assets

Billions of dollars, end-of-period, selected periods

Other investors
IRAs
DC plans



Note: Components may not add to the total because of rounding.

Source: Investment Company Institute

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This Missouri City Just Switched to a Pension

The narrative promoted by anti-pension ideologues is that defined benefit pensions are a thing of the past. These pension critics falsely claim that cities and states are abandoning pensions. One city in Missouri is proving them wrong. The city of Webster Groves switched from a defined contribution 401(k) plan to a defined benefit pension through the Local Government Employees Retirement System (LAGERS) and is seeing great results.

LAGERS is a statewide public pension system for local government employees in Missouri. It is the largest retirement system in the state and serves 33,000 active members who work for almost 700 employers. LAGERS provides a secure retirement for firefighters, EMTs, librarians, and many other local government employees. The system is also 95% funded, a clear sign of the strength of the system.

It is not surprising then that the city of Webster Groves would want to join LAGERS. Before 2013, Webster Groves offered a defined contribution 401(k) plan to its employees, including its police officers and firefighters. After the Great Recession ravaged their savings, city employees began asking about other retirement plan options. City leadership began studying the possibility of joining LAGERS. Before making the final decision, city leaders asked public employees to vote and 93% voted in favor of joining the pension system.

As one Webster Groves police officer said, joining LAGERS was a “huge breath of fresh air.” Many city employees didn’t know how to manage their money in their 401(k) plan and didn’t know how much they would have in retirement, due to the risky and unreliable nature of 401(k) plans. A Webster Groves firefighter said it best: LAGERS “provides predictability and stability.”

Since joining LAGERS, Webster Groves has had police officers move from other cities to join the force in Webster Groves in order to earn a pension. This is not surprising, as public pensions remain a valuable tool for recruiting and retaining public employees. Many cities and states, such as Palm Beach, FL, and the state of Utah, have struggled with recruitment and retention after moving away from a defined benefit pension plan.

Webster Groves is not an outlier in Missouri either. According to LAGERS, in the past five years, 78 local governments have joined the system. Of those, more than half switched from offering a defined contribution plan to offering a LAGERS pension. The others either merged their defined benefit plan with the LAGERS plan or offered no retirement plan at all and chose the security of a LAGERS pension over the risk of a 401(k) plan.

Webster Groves describes itself as “a small town in a big city.” Like many towns and cities across the nation, Webster Groves has provided for the retirement security of its public employees by offering a defined benefit pension.

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Private Sector

Plan sponsors ask for more analysis before mortality tables are updated

Plan sponsor groups are urging the IRS and Treasury Department to do a more careful analysis before finalizing updated mortality tables that could become effective as early as January 2018.
In an Aug. 31 letter to the Office of Management and Budget's regulatory review section, officials from the Committee on Investment of Employee Benefit Assets and the American Benefits Council raised concerns about the regulatory process, arguing that further economic impact analysis was needed, in light of potentially significant increases in both plan liabilities and volatility.
The proposed regulations, which were sent to OMB for approval on Aug. 9, "would introduce an unprecedented new source of volatility into funding and premium obligations, clearly meriting close economic analysis," the letter said.

Industry experts told Treasury officials at an April 13 hearing on the updates proposed in December that not having the rules finalized by the end of summer would make 2018 implementation impossible, particularly for lump-sum calculations and communications, some of which have already started for 2018.

They also cited President Donald Trump's executive order calling for existing regulations to be cut before new regulations are issued, and for regulatory review of "significant" regulation.
Plan sponsors and consultants also met with IRS and OMB officials on Aug. 23 to urge further analysis.

"It would be very disappointing — and contrary to the law — if the regulation is finalized now, depriving the public of the opportunity to comment on the analysis underlying the regulation. It would be equally disappointing if the regulation is made effective for 2018, leaving companies across the country a tiny amount of time to prepare for billions of dollars of additional liabilities — hundreds of millions for some individual companies alone," said Kent Mason, American Benefits Council outside counsel, in an email.

"The pension mortality regulation from the Treasury Department will be a very interesting test case on the issue of regulatory reform," he added.

A Society of Actuaries report released April 26 projects that the proposed update to mortality tables will increase pension liabilities and reduce plans' funded status in the short term. Minimum required contributions will increase 11%, it said. For estimated aggregate funding targets in 2018, liabilities would increase 2.9%, or $65 billion, and the aggregate funded status would drop 1

percentage point to 96%, as calculated by the SOA. Premiums paid to the Pension Benefit Guaranty Corp., which are based on plan funding levels, would increase 12% to $9.6 billion, the SOA projects. Annuities and lump-sum payments offered to plan participants have been below fair market value because of the outdated tables.

The proposed changes give plan sponsors the option of choosing between two standard mortality tables and using custom mortality tables for plans with at least 100 participants, which could require IRS approval.

The current mortality tables are 10 years old, and are based on older life expectancy assumptions that have only seen minor annual updates. Revisiting them was also required by the Pension Protection Act of 2006, which ordered a review by the Treasury secretary every decade.
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Active Participant Reduction Reportable Events

This Technical Update 17-1 provides Pension Benefit Guaranty Corporation ("PBGC") guidance on compliance with the active participant reduction event requirements of section 4043(c)(3) of the Employee Retirement Income Security Act of 1974 ("ERISA") and PBGC's regulation on Reportable Events and Certain Other Notification Requirements (29 CFR part 4043.23(a)).

PBGC is providing an alternative method for determining whether reporting an attrition event to PBGC is required under § 4043.23(a)(2) to avoid possible duplicative reporting.

I. Background and Discussion

ERISA section 4043 and subparts A through C of the reportable events regulation require that PBGC be notified of certain "reportable events" that may present a risk to a sponsor's ability to continue a plan.

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.

Interpretation of § 4043.23

Since publication, PBGC has received questions from practitioners about whether the regulatory text requires a plan that files a single-cause event notice to file an "attrition event" notice at a later date due to the same active participant reduction. This was not PBGC's intent.

PBGC plans to issue a new proposal to clarify this and avoid duplicative reporting. Because PBGC has not yet issued a rule, there is a need for interim guidance to avoid duplicative reporting while complying with the existing (unamended) regulation.

II. Guidance

To determine whether reporting is required for an attrition event for a plan year, a potential filer may disregard any cessations of active participant status reported to PBGC for single-cause events during the plan year or preceding plan year. Specifically:

- When determining whether the number of active plan participants at the end of the plan year is less than 80 percent of the number of active participants at the beginning of the plan year, plans may include in the year-end active participant count participants who ceased to be active participants during the plan year due to a reported single-cause event.

- When determining whether the number of active plan participants at the end of the plan year is less than 75 percent of the number of active participants at the beginning of the preceding plan year, plans may include in the year-end active participant count participants who ceased to be active participants during the current or prior plan year because of a reported single-cause event.

Example

Assume:

- Plan A has a calendar year plan year
- Plan A had 1,000 active participants at the beginning of 2015 and 1,100 active participants at the beginning of 2016.
- On 2/1/2016, 230 active participants ceased to be active participants as a result of a single-cause event. This event represents more than a 20 percent reduction since the beginning of 2016, so Plan A was required to (and did) submit a single-cause event notice (i.e., Form 10) to PBGC.
- At the end of 2016, Plan A had 720 active participants.

To determine whether an attrition event must be reported for 2016, the 230 participants reported to have ceased active participant status are added to the 12/31/2016 active participant count. On that basis, the number of active participants at 12/31/2016 is 950 (720 + 230). Because the applicable one-year attrition percentage is not less than 80 percent (i.e., 950/1,100= 86%)[1] and the applicable two-year attrition percentage is not less 75 percent (i.e., 950/1,000 = 95%), there is no reportable attrition event for 2016.

Effect of final rule. As noted above, PBGC plans to issue a new rule to amend the reportable events regulation. When PBGC publishes a final rule amending the reportable events regulation, this Technical Update will be superseded with respect to reportable events to which the final rule applies, except to the extent that the final rule provides otherwise.

III. Further Guidance and Other Effect

This Technical Update updates the guidance provided in the instructions to the PBGC Form 10.
This Technical Update has no effect on any other requirements under other PBGC regulations other than the reportable events regulation.

IV. Disclaimer

This guidance represents PBGC's current thinking on this topic. It does not create or confer any rights for or on any person or operate to bind the public. If an alternative approach satisfies the requirements of the applicable statutes and regulations, you may use that approach. If you want to discuss an alternative approach (which you are not required to do), you may contact PBGC.

V. Contact Information

For questions about this Technical Update 17-1, contact Daniel S. Liebman, Acting Assistant General Counsel for Legal Policy, Office of the General Counsel at Liebman.Daniel@PBGC.gov
(link sends e-mail), or by calling 202-326-4400 ext. 6510; or Kristina Archeval, Senior Advisor of the Corporate Finance and Restructuring Department at Archeval.Kristina@PBGC.gov
(link sends e-mail), or by calling 202-326-4070 ext. 4189.

[1] Although the statute calls for comparing counts at the beginning of year count to counts at year-end for this purposes, because plans tend to have year-end counts readily available, the regulation provides that the year-end count for the prior year may be substituted for the beginning of the count for the current year (and vice versa).

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PBGC Premiums Driving DB Plan Sponsors to Fund, De-Risk

"Companies feel that the time is right to reduce or eliminate their pension funding shortfalls." says Matt McDaniel, partner, Mercer.

Eighty percent of defined benefit (DB) plan sponsors have accelerated funding, largely due to increasing Pension Benefit Guarantee Corporation (PBGC) fees and the prospect of lower corporate taxes, according to results of the Mercer/ CFO Research 2017 Risk Survey, "Adventures in Pension Risk Management."

"Two years ago, mortality assumptions dominated as the main influencing factor. Today, PBGC premiums and market conditions have emerged as most cited reasons. Companies feel that the time is right to reduce or eliminate their pension funding shortfalls." says Matt McDaniel, partner, Mercer. "Continuing the trend we found in our 2015 survey, the migration toward pension risk transfer and de-risking carries on at an accelerated pace."

Specifically, respondents say they are now contributing more than the minimum level of funding to their DB plans either because they want to reach specific thresholds or because they aim to fully fund the plan over a shorter period of time than regulations require. PBGC premiums tripled between 2011 and 2016 and are expected to quadruple by 2019—which has had a notable effect on plan sponsors.

When asked about reasons why they either have increased funding or would consider doing so, 40% of respondents decided to increase funding to reduce the cost of future PBGC premiums, and nearly 33% are also considering funding for that same reason. According to Mercer, that combined total of nearly 73% is a notable increase from the 2015 survey results, which found only about 60% citing PBGC premiums as a deciding factor to fund above requirement.

Nearly 60% of survey respondents intend to terminate their plans within the next ten years. Most have a funding deficit they must overcome first. "Sponsors who want to develop a successful pension exit strategy have to make sure they create a process that evaluates and changes the asset allocation, lowering pension risk as frozen plans move closer to termination." says McDaniel. "DB plan sponsors should weigh considerations such as the plan's objective, their time horizon, the magnitude of their obligations and the state of the economy."

De-Risking Accelerates

More than eight in ten respondents say they either have a “dynamic de-risking strategy in place” (42%) or “are currently considering one” (40%), citing a desire to avoid volatility in their financial statements as a main reason. More than half of respondents (55%), however, say they struggle with finding enough internal resources to manage their pension plan. As such, 52% of those surveyed delegate some or all investment execution to a third party through an outsourced chief investment officer (OCIO) model.

Nearly 75% of Mercer’s survey respondents say they have already offered lump-sum payments to certain participants since 2012—up from 59% from the 2015 Mercer CFO survey findings. About 50% of all respondents consider it likely that their companies will take some form of lump-sum, risk-transfer action in the next couple of years—for many of these sponsors, this will be a second or third lump-sum offer.

A significant number of sponsors have implemented an annuity buyout for some pension participants, where an insurer assumes responsibility for the sponsor’s retirement liabilities. Among survey respondents, more than half (55%) have either completed such an annuity buyout or are considering it.

Many companies are held back by the misconception that such annuities are either “expensive” (37%) or “very expensive” (25%). Specifically, these respondents estimate that the cost of an annuity would require their pensions to post a projected benefit obligation (PBO) of more than 110%. However, Mercer’s experience shows the majority of transactions occur between 100% and 110% of PBO.

The full report can be found here.

The survey collected 175 responses, mostly from CFOs, CEOs and finance directors, with 80% of responses representing DB pension plan assets of between $100 million and $5 billion. More than half (53%) of respondents represent companies with annual revenues of between $500 million and $5 billion. Respondents come from a broad range of industries, with the most sizeable clusters in aerospace/defense and business/professional services.

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Economic optimism and increasing sales may fuel growth in retirement benefits; Millennial business owners more focused on retirement plans

Business owners polled in Nationwide's annual survey reveal a positive economic outlook and anticipated sales growth have them reconsidering their retirement benefits. In fact, 50 percent of business owners who offer a 401(k) plan intend to increase retirement plan contributions with 55 percent of them citing rising sales or revenue as the reason.

Meanwhile, 36 percent of business owners who currently don't offer a plan but intend to offer one in the near future say it's because they expect sales revenue to increase in the next 12 to 24 months and will start offering retirement benefits as a result. Additionally, nearly a third (30 percent) of business owners plan to introduce retirement benefits as a result of continued economic improvement. These findings stem from Nationwide's third annual survey of more than 1,000 business owners across the country with up to 299 employees.

"With tight labor markets as a result of the continued economic expansion, it's more important than ever for employers to offer benefits like retirement plans that can differentiate their business as a destination for top talent and a workplace where employees want to stay and grow," said John Carter, president of retirement plans at Nationwide.

Millennials More Likely to Act

When it comes to planning for the future, Millennials often get a reputation for not doing enough. But among business owners who currently offer retirement benefits, 85 percent of Millennials plan to increase contributions to their employees' 401(k) plans, compared to 31 percent of Boomers and 49 percent of Gen X business owners. Additionally, 70 percent of Millennials plan to make retirement benefits available for their employees in the future.

Millennial business owners are also more likely to feel they should provide retirement benefits, with 70 percent of them stating agreement versus 47 percent for all business owners.

"America's workers rely on employer-sponsored retirement plans as their primary way to save for retirement," Carter added. "Millennial business owners understand this and recognize the value and importance in offering retirement benefits to their employees. Plus, the changing health care marketplace has made it more important for employers to offer a more robust benefits package."

Need and Importance Noted

Business owners at every age noted the importance of offering a retirement plan and the urgency of doing so. Only 39 percent of business owners believe their employees are on track to retire, and

nearly three out of four (72 percent) business owners surveyed think the U.S. is facing a retirement readiness crisis. With more Americans preparing to leave the workforce as an increasing number of Baby Boomers reach retirement, more than half of business owners feel a retirement plan is an essential benefit.

The Affordable Care Act (ACA) is also driving greater interest in retirement plan benefits. Nationwide's survey of business owners found that 32 percent say they increased retirement plan contributions because they felt the retirement benefits they offered were even more important now for attracting and retaining talent.

"While it can feel overwhelming to revisit retirement plan benefits in the midst of the other challenges associated with running a business, advisors are a resource for business owners and can help them select or enhance retirement benefits, while streamlining the amount of time spent on selecting services and plan administration," Carter noted.

With more than $124 billion in assets, Nationwide is one of the country's largest providers of retirement plans, serving plans of all types and sizes. To learn more about retirement plans and the resources provided by Nationwide, visithttp://www.nationwide.comor contact your financial advisor.

Methodology

Nationwide commissioned a 20-minute, online survey among a sample of 1,069 U.S. small business owners. Small business owners are defined as having between 1-299 employees, 18 years or older and self-reported being a sole or partial owner of their business. The margin of error for this sample is +/-3% at the 95% confidence level. Conducted by Edelman Intelligence, a full-service consumer research firm, the survey was fielded between May 16-24, 2017. As a member of The Insights Association in good standing, Edelman Intelligence conducts all research in accordance with Marketing Research Standards and adheres to the Code of Standards and Ethics.

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Westinghouse tries to calm fears about its pension

Westinghouse Electric Co. sought to reassure employees that their pensions aren’t underwater after a report published Friday estimated the bankrupt Cranberry-based company’s plan is underfunded by $937 million. The assessment came from the Pension Benefit Guarantee Corp., a government agency that insures certain private employer pension plans and, in some instances, takes them over.

One such instance is when a company decides to terminate its plan in bankruptcy — something Westinghouse hasn't yet tried to do.

But the possibility is not remote: Westinghouse filed for bankruptcy reorganization in March and is currently being marketed for sale. While its five-year business plan includes paying its pension liabilities, there's no way to know yet how that plan would be received by a potential buyer.

In the meantime, Westinghouse has told its employees that their pension is funded at 80 percent and the company plans to reach out to its retirees in the near future.

There are 9,714 beneficiaries — both retired and still employed — of the Westinghouse pension plan, according to the U.S. Department of Labor, and another 457 split between boilermakers who work at or are retired from facilities in Newington, N.H., and Windsor, Conn.

Funding shortfall

The Pension Benefit Guarantee Corp. filed its claims as part of Westinghouse's bankruptcy case but said they would be relevant only in the event that Westinghouse tries to end the plan.

In the claims, the agency said it relied on annual actuarial valuations of the company's assets and liabilities, and on reports that Westinghouse has filed with the U.S. Department of Labor. Those reports show that Westinghouse's pension has been funded at levels between 80 percent and 108 percent over the past five years.

That's a measure of the market value of the fund's assets compared with how much the fund will need to pay out to all of its beneficiaries.

If the PBGC isn't on the brink of taking over a plan, it is unlikely to delve deeply into how a company is valuing the assets.

Where the agency will make adjustments is on the liabilities side. This is where the PBGC estimate has diverged dramatically from Westinghouse's.

The agency's goal is to estimate how much the plan would cost to administer if Westinghouse were to terminate or sell it to a private administrator.

In making those calculations, it is also likely to use current — that is, currently low — interest rates to calculate how much investments will appreciate in the coming years. Westinghouse — as it has been allowed to do by federal law since 2012 — uses a 25-year average of interest rates in making its projections.

The 25-year average rule was written into a federal highway funding law and, as explained in a document sent in April to Westinghouse pensioners, “This means that interest rates likely will be higher and plan liabilities lower.”

“As a result, your employer may contribute less money to the plan at a time when market interest rates are at or near historic lows.”

For 2016, Westinghouse told retirees that their pension plan was funded at a rate of 102 percent. But using a two-year interest rate average, that number dropped to 80 percent and translated to a shortfall of $226 million.

Claims abound

There are also funding shortfalls in two other pension funds for Westinghouse employees in the United Kingdom, where the company has a nuclear fuel factory and a subsidiary called GPS Energy Solutions.

The Combined Nuclear Pension Plan, a government entity that administers a pension plan for nuclear workers in the U.K., has filed a claim for $208 million.

Sarah Cassella, a spokeswoman for Westinghouse, noted that those subsidiaries are not involved in the company’s bankruptcy and therefore should not be impacted.

In addition, a number of former Westinghouse executives have filed claims since the company terminated its executive pension plan in the spring and some former executives have also sought to recover their deferred compensation.

Jeff Benjamin, who served as senior vice president of new power plants from 2013 until earlier this year, said in a filing that he’s owed $1.9 million.

Danny Roderick, Westinghouse’s former CEO, told the bankruptcy court he’s out $4.2 million in deferred income.

Mr. Roderick has also filed a claim that he is owed $24 million as per his employment agreement, which he attached to his claim with the vast majority of its 24 pages blacked out. The parts that weren’t redacted dealt with “termination without cause.” Mr. Roderick is still employed by Toshiba Corp., Westinghouse’s parent company.

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