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.

Inside This Issue

Public Sector/Government Plans

Private Sector

Public Sector/Government Plans

Social Security Combined Trust Fund Reserves Depletion Year Remains 2034 Says Board of Trustees

The Social Security Board of Trustees today released its annual report on the long-term financial status of the Social Security Trust Funds. The combined asset reserves of the Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds are projected to become depleted in 2034, the same as projected last year, with 79 percent of benefits payable at that time.

The OASI Trust Fund is projected to become depleted in late 2034, as compared to last year's estimate of early 2035, with 77 percent of benefits payable at that time. The DI Trust Fund will become depleted in 2032, extended from last year's estimate of 2028, with 96 percent of benefits still payable.

In the 2018 Annual Report to Congress, the Trustees announced:

- The asset reserves of the combined OASDI Trust Funds increased by $44 billion in 2017 to a total of $2.89 trillion.

- The total annual cost of the program is projected to exceed total annual income in 2018 for the first time since 1982, and remain higher throughout the 75-year projection period. As a result, asset reserves are expected to decline during 2018. Social Security's cost has exceeded its non-interest income since 2010.

- The year when the combined trust fund reserves are projected to become depleted, if Congress does not act before then, is 2034 – the same as projected last year. At that time, there will be sufficient income coming in to pay 79 percent of scheduled benefits.

"The Trustees' projected depletion date of the combined Social Security Trust Funds has not changed, and slightly more than three-fourths of benefits would still be payable after depletion," said Nancy A. Berryhill, Acting Commissioner of Social Security. "But the fact remains that Congress can keep Social Security strong by taking action to ensure the future of the program."

Other highlights of the Trustees Report include:

- Total income, including interest, to the combined OASDI Trust Funds amounted to $997 billion in 2017. ($874 billion from net payroll tax contributions, $38 billion from taxation of benefits, and $85 billion in interest)

- Total expenditures from the combined OASDI Trust Funds amounted to more than $952 billion in 2017.

- Social Security paid benefits of more than $941 billion in calendar year 2017. There were about 62 million beneficiaries at the end of the calendar year.

- The projected actuarial deficit over the 75-year long-range period is 2.84 percent of taxable payroll – slightly larger than the 2.83 percent projected in last year's report.

- During 2017, an estimated 174 million people had earnings covered by Social Security and paid payroll taxes.

- The cost of $6.5 billion to administer the Social Security program in 2017 was a very low 0.7 percent of total expenditures.

- The combined Trust Fund asset reserves earned interest at an effective annual rate of 3.0 percent in 2017.

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

Moody's downgrades New Mexico on 'large pension liabilities'

Moody's Investors Service announced on Monday it downgraded the state of New Mexico's general obligation bonds to Aa2 from Aa1 and revised its outlook to stable from negative.

The credit rating agency attributed its downgrade of approximately $260 million in outstanding general obligation bonds to the "state's extremely large pension liabilities," including its direct obligation to the $15.4 billion New Mexico Public Employees Retirement Association, Santa Fe. According to PERA's most recent actuarial valuation report, as of June

30, 2017, the actuarial value of assets was $15.124 billion, while the actuarial accrued liability was $20.195 billion, for a funding ratio of 74.9%.

The agency also cited the state's "indirect obligation to the Educational Employees' Retirement System" in the downgrade. The $12.8 billion Santa Fe-based New Mexico Educational Retirement Board's most recent actuarial valuation reported its actuarial value of assets at $12.5 billion and actual accrued liability of $19.9 billion, for a funding ratio of 62.8% as of June 30, 2017.

Moody's said the Aa2 rating "also incorporates a number of strengths, including the state's history of taking timely action to maintain budgetary balance, the rapid restoration of general fund reserves, which had been depleted as a result of declining oil- and gas-related revenue, and the expectation that the state will maintain adequate reserves in the future."

In a statement sent by Jan Goodwin, executive director, the Educational Retirement Board cited future steps it is taking to maintain retirement benefits and sustainability of the Educational Employees' Retirement System, which include developing a "framework to review benefits and will propose appropriate benefit levels and funding methods to improve sustainability;" a stakeholder group developing a proposal of plan design changes for board consideration; and the board submitting a legislative proposal for consideration to the 2019 legislative session.

Jodi Trujillo, New Mexico PERA spokeswoman, could not be immediately reached to provide comment.

Retired California employees must pay back pension overpayment, court rules

The California 4th District Appellate Court, Division One affirmed a trial court decision that two retired officers must pay the San Diego City Employees' Retirement System more than $30,000 combined, finding that the overpayments had been a mistake, albeit a costly one for the former officers.

"No constitutional provision is trumped when Government Claims Act immunity is applied to bar liability for monetary damages based on the SDCERS Board members' alleged breach of fiduciary duty," the May 23 ruling states.

Judge Joan Irion wrote the court order published on June 14, with Judge Cynthia Aaron and Judge Patricia D. Benke concurring.

Vincent Krolikowski and Connie Van Putten filed complaints against the San Diego City Employees' Retirement System alleging that SDCERS should not be able to recoup overpayments from them after a 2013 audit revealed that SDCERS had been overpaying the plaintiffs. The complaint listed claims of conversion, breach of fiduciary duty, writ of mandate and declaratory relief.

Van Putten and Krolikowski retired after serving more than 20 years each in the San Diego Police Department and used information from their consultations with the SDCERS regarding their pension amounts before deciding when to retire.

In 2013, the decision states SDCERS discovered that it had miscalculated both plaintiffs' pensions and that Krolikowski owed $18,739.88 and Van Putten owed $17,049.48. SDCERS told the plaintiffs they could either pay the entire amount or make payments with interest. Both plaintiffs lost their appeals with SDCERS's Board of Administration.

Krolikowski filed his complaint in 2015, alleging among the claims that SDCERS is subject to the three-year statute of limitations "and therefore may not collect any arrears overpayments from levy or attachment," and questioned whether "SDCERS is subject to California law exempting pensions…and therefore may not simply take money from Krolikowski's pension." Van Putten filed her complaint alleging the same claims later in 2015.

The trial court decided that SDCERS was not subject to "the statute of limitations for civil court actions in implementing its administrative recoupment process; and (2) SDCERS's act of seeking recoupment for the overpayments was not subject to the exemption against levy or attachment on a pension."

The order further stated that "the doctrine of equitable estoppel did not apply because Krolikowski and Van Putten did not establish that SDCERS was apprised of its mistake before 2013 and did not establish that they sustained an injury in reliance on SDCERS's conduct."

Irion affirmed the trial court ruling, agreeing that the board had immunity under Government Claims Act for the claims of conversion and fiduciary duty, and that the trial court had not erred in its ruling. Irion stated to clarify that the court agreed that "The doctrine of constitutional supremacy does not apply here because appellants have not identified any conflict between the constitutional provisions and the Government Claims Act immunity provisions", further stating that the plaintiffs had not provided any legal doctrine that would bar SDCERS from recouping the overpayments.

In a footnote, Irion noted that while the court found SDCERS had provided substantial evidence that it was not aware of its mistake until 2013, “we are nevertheless sympathetic to appellants' situation as they did not find out until many years after the fact that SDCERS made mistakes in calculating their pension benefits, by which time the overpayments and associated interest amounted to a substantial sum.”.

Judge strikes down Kentucky’s new pension reform as unconstitutional

A judge struck down Kentucky’s new pension law on Wednesday, arguing the General Assembly violated the state’s constitution when it was enacted.

Franklin Circuit Judge Phillip Shepherd declared in a 34-page ruling that legislators violated state law when voting on the measure, The Lexington Herald Leader reported.

Shepherd ruled that the General Assembly didn’t follow Kentucky law by giving the bill three readings on three separate days in each chamber.

He also found that since the bill deals with budgeting, it was two votes shy of the 51 votes required to pass within the 100-member House.

Shepherd did not consider the legality of the provisions of the law itself, the newspaper reported.

The case is expected to be appealed to the Kentucky Supreme Court.

"Today's decision is a win for open, honest, government, ruling that the Kentucky General Assembly violated the Constitution when it turned an 11-page sewer bill into a 291-page pension bill," Attorney General Andy Beshear (D) said Wednesday.

Kentucky Gov. Matt Bevin (R) supported the measure and said in April that teachers owe lawmakers a "debt of gratitude."

"Anyone who will receive a retirement check in the years ahead owes a deep debt of gratitude to these 71 men & women who did the right thing," Bevin tweeted after the law passed.

The controversial bill launched statewide teacher protests in April.

It created 401(k)/pension hybrid, which would decrease the cost of living pay increases for state employees, including teachers.

It would have required teachers who were hired after Jan. 1, 2019, to work longer before being eligible for retirement.

It also would have stated state employees hired between 2003 and 2008 for pay 1 percent more for retirement health care, The Herald Leader reported.

Could an Early Retirement Help You Live Longer?

Research suggests the key to lengthening your lifespan might be an early departure from the workforce.

You should plan to retire sooner rather than later if you want to live longer. At least that's the conclusion of a 2017 study in the journal Health Economics, which has linked early retirement with longer lifespans. The study, which was conducted in the Netherlands, considered the mortality of civil servants who took advantage of a temporary government program that would let them retire as early as age 55.

However, the secret to maximizing your chances of living longer isn't so simple. "I think it's a little more complicated than just retiring early," says Ben Barzideh, wealth advisor with finance firm Piershale Financial Group in Crystal Lake, Illinois. The circumstances under which someone retires, their health and how they spend their time after leaving the workforce could all contribute to a person's longevity.

Read on to learn more about the recent findings, gather key takeaways from experts and decide for yourself if an early retirement fosters well-being and a longer life.

There's conflicting research on the connection between retirement and life expectancy. While some studies show workers planning an early retirement could increase their lifespan, other research suggests different findings.

The 2017 study from the Netherlands found that men who retired early were 2.6 percentage points less likely to pass away within the next five years. The sample of women included in the study was too small for the research to draw any conclusions on the effect of early retirement on female workers. An earlier paper – The Health Consequences of Retirement – published in 2014 by the University of Wisconsin System, found that retiring could provide people with more leisure time that could lead to the adoption of healthy habits such as increased exercise and reduced smoking. It relied on data provided by 6,276 individuals through the Health and Retirement Study, organized by the University of Michigan and the National Institute on Aging.

In addition to better habits, an early retirement may foster improved health by reducing stress. "If someone has been in a demanding profession, I can imagine [retirement] could come as a relief," says Jeffrey Arnett, senior research scholar in the department of psychology at Clark University in Worcester, Massachusetts.

However, other studies don't paint the same picture of early retirement. A 2016 study published in the Journal of Epidemiology and Community Health found healthy people who worked a year later lowered their chance of death by 11 percent. Like the University of Wisconsin study, this report used information from the Health and Retirement Study and focused on nearly 3,000 men between the ages of 50 and 62. And a 2016 paper published by the Journal of Health Economics estimated retirement increased a man's chances of becoming obese in the next two to four years by 12 percent.

The drawbacks of early retirement. Joe McLean, managing partner of financial advisory firm Intersect Capital LLC in San Ramon, California, knows firsthand that people can have vastly different experiences when retiring early.

McLean's mom retired at age 59 and now, at age 78, still enjoys a fulfilling and active retirement. However, McLean's dad also retired early but had a different experience. He left the workforce at 61 and passed away at age 66. While McLean's mom has been pursuing different interests in retirement, his dad didn't have the same drive. "He didn't really have a plan," he adds.

While it's hard to quantify how much personal attitudes toward retirement play into life expectancy, some researchers have been delving into the topic. Oliver Robinson, program leader and senior lecturer in the department of psychology at the University of Greenwich in London, led a study published in 2011 that explored how retirees viewed their change in work status. Those who saw retirement as a challenge or a liberation were more likely to feel positively about retirement than those who saw it as a loss or a restriction.

A related issue may be the circumstances under which someone retires. "It depends hugely on if it's your choice or not," Arnett says. Those forced into retirement because of a layoff may be less likely to embrace the possibilities of their new free time. Meanwhile, people who retire early because of poor health could die prematurely for reasons unrelated to their employment status.

Finding a purpose in retirement is paramount for health and happiness. Instead of worrying about the length of one's lifespan, McLean says people should focus on making sure their time is well-spent.

"I would begin to define new milestones for your life," McLean says. People often have goals throughout their life and then stop planning once they reach retirement, he adds. He further suggests people look internally to consider what they want out of their retirement years rather than what society says is the norm. "Don't use other people's retirements as the definition of what yours should be," he says.

Barzideh says those who are single or widowed may benefit from working to create new connections later in life. Without the camaraderie of the workplace or no spouse at home, loneliness can become an issue for early retirees. Feeling isolated can also bring health risks such as an increased chance of heart disease and stroke.

The bottom line: While some studies suggest leaving the workforce can have positive health benefits, before you submit your notice, make sure you plan for retirement early on and establish healthy habits to boost your standard of living, and potentially, live longer.

Private Sector

Corporate and public DB assets increase, while DC falls in first quarter

Corporate defined benefit plan assets rose by $9 billion in the quarter ended March 31, to $3.212 trillion, a 0.28% increase, according to the Federal Reserve's latest report.
Corporate defined contribution plans decreased by $40 billion in the first quarter, or 0.64%, to $6.249 trillion.

According to the Federal Reserve's Financial Accounts of the United States report — formerly known as the Flow of Funds Accounts — state and local government defined benefit plan assets added $58 billion in the quarter ended March 31 to $5.859 trillion, a 1% increase from the end of the previous quarter.

Meanwhile, state and local government defined contribution plan assets totaled $494 billion as of March 31, down 0.8% from Dec. 31.

State and local government DB plans' funded status — total defined benefit and other assets minus pension benefit claims — fell in the fourth quarter to $4.203 trillion, down from $4.282 trillion in the previous quarter.

Most Retirees Only Withdrawing Required Minimum Distribution

A mere 21% feel confident about drawing down their retirement plan assets, Ameriprise Financial found in a survey.

Sixty-eight percent of retirees are only taking the required minimum distributions (RMDs) from their retirement accounts, Ameriprise Financial found in a survey of more than 1,000 retirees with at least $100,000 in investable assets. Only 21% feel confident about taking money out of these accounts.

"After working, saving, investing and making sacrifices for decades to build a nest egg, transitioning to spending can be challenging," says Marcy Keckler, vice president of financial advice strategy at Ameriprise Financial. "Retirement requires individuals to think differently about money. Having a plan in place to manage their finances can help retirees feel confident about spending their assets and address the fears that may be holding them back."

The survey also found that the median savings these retirees have is $839,000. However, 25% said they were not sure if their retirement savings will last throughout their lifetime. The survey also found that 25% fell short of their retirement savings goal by $250,000 or more.

Fifty-nine percent believe that while managing investment risks and returns is complex, it is the first step they are taking to make their money last. Their second step is to turn to advisers. Reducing debt and doing research on investing tie as the third step they are taking.

Seventy-two percent say that pensions and 71% say Social Security are important to their retirement income. Seventy-six percent are receiving Social Security benefits, and of this group, 49% claimed the benefit between the ages of 62 and 64. Thirty-four percent of those who are not yet taking Social Security benefits do not know when they will start, while 20% of this group say they will start between the ages of 62 and 64, and 21% say age 70 or older.

Fifty-three percent say understanding the tax ramifications of drawdown strategies is complex, and 46% say establishing a retirement income plan is challenging.

"Retirees may miss out on the full and rich life they dreamed of by not spending the money they worked hard to accumulate," Keckler adds. "A financial adviser can help retirees develop a strategy to withdraw their assets effectively so they don't outlive their money."

Groom Urges IRS to Expand Determination Letter Program

The IRS determination letter program for individually designed retirement plans was revised, effective January 1, 2017, to dramatically limit when a plan could seek a determination on its tax-qualified status. Specifically, a plan may now seek a determination letter only for its initial qualification, for qualification on the plan's termination, and other circumstances identified in future guidance. To date, the Treasury and IRS have not identified any other circumstances which allow a plan to seek a new determination letter, although IRS said it would consider them each year.

In Notice 2018-24 (April 6, 2018), the Treasury Department and IRS requested comments on the potential expansion of the determination letter program for individually designed plans during 2019. As part of its commitment to annually review the scope of the program, IRS sought comments on the types of plans that should be allowed to request a determination letter as well as specific issues for those plans that would justify the need for review.

Groom recently took the IRS up on its invitation, submitting two letters recommending consideration of the following plans as applicants for updated determination letters:

- Plans with a cash balance or similar benefit formula whose last determination letter was before the effective date of the final IRS hybrid plan regulations.
- Plans that address income replacement and inflationary pressures through adoption of a variable annuity feature.
- Traditional pension plans that convert to a cash balance-type formula.
- Plans that undergo major changes that otherwise make certain compliance testing unnecessary – such as safe harbor 401(k) plans.
- Plan changes accompanying significant workforce adjustments, such as downsizings or corporate separations.
- Corrective plan amendments submitted as part of an EPCRS submission.
- Governmental plans where there has been a significant change in the governing state or local law.

In its June 7 report, the Advisory Committee on Tax-Exempt and Government Entities made nearly a dozen recommendations in this area, including several also identified in the Groom letter. Among other additions, the Advisory Committee recommended allowing submissions after a plan has gone a long time, such as 10 to 15 years, without any updated letter, as well as for multiemployer plans and "complicated" ESOPs.

Needless to say, we don't expect the IRS to adopt many of these recommendations all at once – or even over an extended period of time. IRS officials have repeatedly noted that its staff and budget resources are still severely limited. However, it is hoped that the IRS will respond as soon as it can to allow some filings for updated letters. In the meantime, employers that want or need ongoing assurance that their plans remain tax-qualified can participate in Groom's Document Compliance Service ("DCS") program under which the firm provides a legal opinion based on the particular plan documents reviewed.

Companies Race to Top Off Pension Plans to Capitalize on Tax Break

Employers have until mid-September to deduct retirement contributions before cut in corporate rate to 21% shrinks advantage

Companies with underfunded pensions have a rare opportunity to score a tax break in the coming months.

Pension contributions made through mid-September can be deducted from income on tax returns being filed for 2017—when the U.S. corporate tax rate was still 35%. That means a company that contributes $100 million to its pension plan now can save $35 million in taxes, while a company contributing the same amount after the deadline would save just $21 million, based on the new 21% corporate tax rate.

With the deadline less than three months away, corporations are preparing to top off their pension plans to take advantage of the beneficial tax treatment. This one-time incentive is helping corporations close a pension funding gap that topped $680 billion for S&P 1500 companies after the financial crisis, according to consulting firm Mercer.

"There will be a bit of a race to get in underneath the wire," said Michael Moran, pension strategist for Goldman Sachs Asset Management. "We're seeing a lot of contributions pulled forward."

Shipping company United Parcel Service Inc., construction equipment-maker Deere & Co. and defense company Lockheed Martin Corp. , among others, have made or announced contributions worth billions of dollars to their defined-benefit pension plans ahead of the cutoff date, citing the tax law among their reasons.

Boise Cascade Co. , a Boise, Idaho-based lumber and building materials company, said in earlier corporate filings it would contribute $2 million to its plans this year. The company is now considering contributing between $10 million and $20 million because of the tax benefit, said Wayne Rancourt, the company's finance chief.

"If we put in $10 million into the plan, we'd deduct $3.5 million we'd otherwise pay in cash taxes," said Mr. Rancourt. "We may as well do it before the cutoff."

Kellogg Co. is weighing an additional pension contribution of between $200 million and $300 million, and Northrop Grumman Corp. said it was making a $250 million contribution.

Kellogg spokeswoman Kris Charles said the tax law didn't prompt the decision to consider a pension contribution but that the law did "encourage us to accelerate any such decision" to get the 2017 deduction. Northrop Grumman declined to comment.

Federal law allows companies to deduct contributions to defined-benefit pension plans from taxable income, lowering their tax bills. Companies must also keep pension plans well-funded—meaning they hold enough assets to pay most, if not all, future benefits—with some flexibility around timing.

Companies in the Russell 3000 index with defined-benefit plans could make more than $90 billion in contributions this year, ahead of the mid-September cutoff, according to an estimate from Chris Senyek, an accounting and tax policy analyst with New York-based Wolfe Research. That is more than the $81 billion they contributed last year, itself a 30% jump from 2016.

Companies have long been allowed to make pension-plan contributions through mid-September and deduct them on the prior year's tax return, which is typically filed around the same time. The deadlines are more complex for companies with fiscal years that don't correspond to the calendar year. The difference this year is the tax rate cut.

The strategy works only for companies with underfunded defined-benefit plans, because companies generally aren't allowed to fund a pension and take deductions beyond what is necessary to pay future benefits. And it works only for companies that can access sufficient cash to contribute and have enough taxable income to make the deduction useful.

"This is a no-brainer to the extent that you have the liquidity to do it," said Jennifer Blouin, a professor at the University of Pennsylvania's Wharton School who studies the role of taxation in business decisions.

Because companies will have more clarity about their 2017 tax returns as the September deadline nears, they can tailor the pension contributions to offset as much of their income as possible.

Companies with defined-benefit plans in the S&P 500 carried obligations of $2.023 trillion as of June 12, but the value of the assets in the plans totaled only $1.811 trillion, leaving the plans 90% funded, according to consulting firm Aon PLC.

At their postcrisis nadir, the plans were less than 75% funded.

"A good portion" of the improvement in funded status has come from voluntary contributions over and above amounts companies were required to pay, said Beth Ashmore, a senior retirement consultant with Willis Towers Watson .

Donaldson Co. , a Bloomington, Minn.-based company that makes filtration systems, added $35 million to its pension this year, making it now fully funded, said Brad Pogalz, director of investor relations.

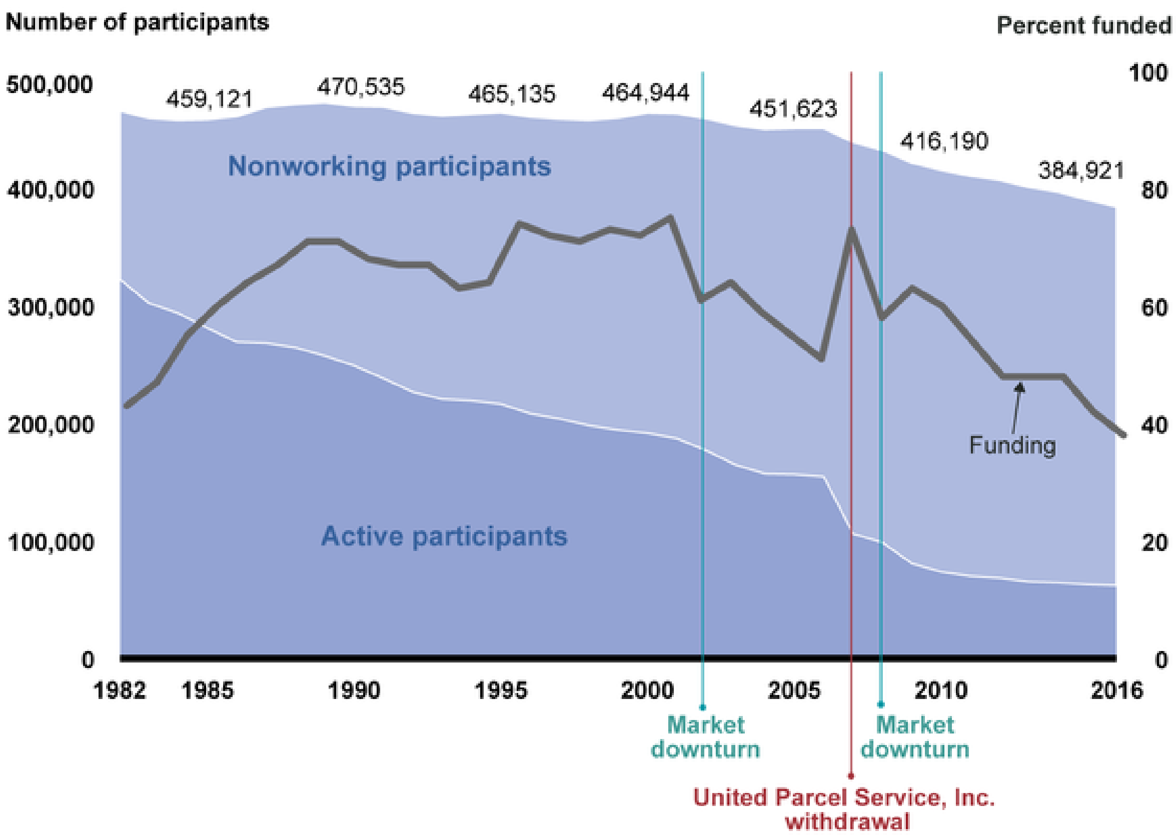
"Obviously," he said, "the tax reform changes the math."

Central States Pension Fund:

Investment Policy Decisions and Challenges Facing the Plan

What GAO Found

The Central States, Southeast and Southwest Areas Pension Fund (CSPF) was established in 1955 to provide pension benefits to trucking industry workers, and is one of the largest multiemployer plans. According to its regulatory filings, CSPF had less than half the estimated funds needed to cover plan liabilities in 1982 at the time it entered into a court-enforceable consent decree that provides for oversight of certain plan activities. Since then, CSPF has made some progress toward achieving its targeted level of funding; however, CSPF has never been more than 75 percent funded and its funding level has weakened since 2002, as shown in the figure below.



Source: GAO analysis of Central States, Southeast and Southwest Areas Pension Fund (CSPF) data. | GAO-18-106

Note: The most recent, publicly available data were from 2016. End-of-year participant data and beginning-of-year funding data are presented at the closest year end.

Stakeholders GAO interviewed identified numerous factors that contributed to CSPF's financial condition. For example, stakeholders stated that changes within the trucking industry as well as a decline in union membership contributed to CSPF's inability to maintain a healthy contribution base. CSPF's active participants made up about 69 percent of all participants in 1982, but accounted for only 16 percent in 2016. The most dramatic change in active participants occurred in 2007 when the United Parcel Service, Inc. (UPS) withdrew from the plan. At that time, UPS accounted for about 30 percent of the plan's active participants (i.e. workers). In addition, the market declines of 2001 to 2002 and 2008 had a significant negative impact on the plan's long-term investment performance. Stakeholders noted that while each individual factor contributed to CSPF's critical financial condition, the interrelated nature of the factors also had a cumulative effect on the plan's financial condition.

Both CSPF's investment policy and the process for setting and executing it have changed several times since the consent decree was established in 1982. The original consent decree gave an independent asset manager—called a named fiduciary—exclusive authority to set and change the plan's investment policies and manage plan assets, and prohibited CSPF trustees from managing assets or making investment decisions. Initially, the named fiduciaries sold the troubled real estate assets acquired during the pre-consent decree era. Subsequent changes include the following:

In 1993, the named fiduciaries started to increase investment in equities, and their policies continued to direct that asset allocations be weighted toward equities until early 2017.

Between 2003 and 2010, the court approved three plan decisions to move a total of 50 percent of CSPF's assets into passively-managed accounts (passive management typically seeks to match the performance of a specific market index and reduce investment fees).

An early-2017 investment policy change precipitated by CSPF's deteriorating financial condition will continue to move plan assets into fixed income investments ahead of projected insolvency, or the date when CSPF is expected to have insufficient assets to pay promised benefits when due. As a result, assets will be gradually transitioned from “return-seeking assets”—such as equities and emerging markets debt—to high-quality investment grade debt and U.S. Treasury securities with intermediate and short-term maturities. The plan is projected to become insolvent on January 1, 2025. CSPF officials and named fiduciary representatives said these changes are intended to reduce the plan's exposure to market risk and volatility, and provide participants greater certainty prior to projected insolvency.

GAO found that CSPF's investment returns and expenses were generally in line with similarly sized institutional investors and with demographically similar multiemployer pension plans. For example, GAO's analysis of returns using the peer group measure used by CSPF known as the Wilshire Associates' Trust Universe Comparison Service (TUCS), showed that CSPF's annual investment returns since 1995 were above the median about as many times as they were below. Similarly, comparing CSPF's returns to a peer group of similar multiemployer defined benefit plans using federally required annual reports found that CSPF's annual investment returns were in line with those of its peers. Specifically, CSPF's annual returns were above the median nine times and below it six times—and CSPF's overall (dollar-weighted) average annual return from 2000 through 2014 was close to that of the peer median average return of 4.8 percent.

In addition, GAO found that CSPF's investment fees and other administrative expenses have also been in line with other large multiemployer plans. For example:

CSPF's investment fees as a percentage of assets were about 9 percent lower than the median of large defined benefit multiemployer plans over the 2000 through 2014 period—though much of that difference is accounted for by a relative reduction in investment fees since 2007. CSPF's investment fees as a percentage of assets were, on average, about 34 basis points (or 0.34 percent).

CSPF's administrative expenses related to the day-to-day operations of the plan have also been in line with other large multiemployer plans. CSPF's administrative expenses per participant were below the median for large defined benefit multiemployer plans for 12 of the 15 years over the 2000 through 2014 period. As of 2014, CSPF's administrative expense was $98 per participant, which is about 16 percent less than the median for large defined benefit multiemployer plans.

Why GAO Did This Study

Multiemployer plans are collectively bargained pension agreements often between labor unions and two or more employers. CSPF is one of the nation's largest multiemployer defined benefit pension plans, covering about 385,000 participants. Since 1982, the plan has operated under a court-enforceable consent decree which, among other things, requires that the plan's assets be managed by independent parties. Within 7 years, CSPF estimates that the plan's financial condition will require severe benefit cuts. GAO was asked to review the events and factors that led to the plan's critical financial status and how its investment outcomes compare to similar plans.

GAO describes (1) what is known about the factors that contributed to CSPF's critical financial condition; (2) what has been CSPF's investment policy, and the process for setting and executing it, since the consent decree was established; and (3) how CSPF's investments have performed over time, particularly compared to similar pension plans.

GAO reviewed relevant federal laws and regulations; interviewed CSPF representatives, International Brotherhood of Teamsters officials and members, federal officials, and knowledgeable industry stakeholders; reviewed CSPF documentation including investment policy statements and board of trustee meeting minutes; and analyzed investment returns and fees from required, annual pension plan filings and from consultant benchmarking reports.

What GAO Recommends

GAO is not making recommendations in this report.

Brief History of the Consent Decree

In the 1970s, the U.S. Department of Labor (DOL), the Internal Revenue Service, and the U.S. Department of Justice investigated CSPF for alleged fiduciary breaches of requirements in the Employee Retirement Income Security Act of 1974 (ERISA). As a result of its investigation, DOL filed suit against former trustees of the plan, and, in September 1982, the parties entered into a court-enforceable consent decree. The consent decree provides measures to ensure that CSPF complies with the requirements of ERISA and allows for oversight of certain plan activities. The consent decree has been amended several times and currently remains in force.