

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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Public Sector/Government Plans

Has Connecticut Found A Solution To Underfunded Public Pensions?

Public pensions are underfunded.

Okay. I know, I know. We've all seen this headline before. Ad nauseum. To add to that, nothing seems to improve. Another year goes by and state employee pensions are still underfunded. The numbers don't lie: at the close of 2016, the cumulative pension funding deficit stood at \$1.4 trillion—the 15th annual increase in pension debt since 2000. It's not like the states aren't trying to make up the shortfalls. In fact, contributions to pensions from state taxpayers doubled since 2000. Apparently, to no avail. It's like listening to an endless repeating loop of hold music. Your ears stop listening after a while.

The State of the State: Connecticut

Well, not everyone's ears. State policy makers living with the implications of these deficits (often not of their own making) are listening carefully to proposed solutions. One state that is paying particularly close attention is Connecticut.

Connecticut faces some considerable challenges. By the close of 2017, job growth recovered only 82.3% of the jobs lost in the Great Recession of 2008. Connecticut faces population outmigration, the loss of at least one major corporate employer (General Electric), and the near bankruptcy of Hartford, the state's capital. But the greatest long-term structural risk to the state's financial stability is the growing pension funding gap.

It was a key factor in the recent rating downgrades on the outstanding \$25.5 billion net general obligation and state-backed debt at the close of 2017 (itself up 26.4% from fiscal year 2012). Moody's dropped its Aa3 rating to A1, Standard & Poor's from AA to A+, and Fitch from AA- to A+.

Talk about kicking a guy when he's down.

But the dour pension numbers bear out why the rating action was inevitable. The state sponsors five pension plans: State Employees Retirement System (SERS), Teachers Retirement System (TRS), Judges' Family Support Retirement System (JFS), Probate

Judges Retirement System (JRS) and Municipal Employees' Retirement System (MERS). The three that are of most concern are SERS, TRS and JFS. The most recent numbers show why. At the close of fiscal year 2016, SERS had a \$22.9 billion funding gap, TRS \$14.2 billion and JRS \$0.24 billion. Correspondingly, funded ratios for SERS, TRS and JRS (fiscal year 2016) were 31.69%, 52.26% and 43.76%, respectively with a combined net pension liability of \$37.3 billion. While the state is meeting its obligated payments to the plans, it is not making any additional payments towards reducing that liability.

A History

The problems started from the get-go. TRS offered benefits to members as far back as 1917; SERS began prior to 1939. At that time, benefits were paid from the annual budget. No money was saved to pay for future retiree benefits. These legacy costs just ran up unabated for decades until true actuarially-based prefunding began, first for SERS (1972) and later for TRS (1980). By then, it was too little too late to true-up those years where there were no contributions.

Literally compounding the problem, the real rate of return on investments in the pensions underperformed the assumed rate of return over that time. The combination of unfunded legacy costs and underperforming investments saddled both systems with the massive unfunded liabilities current policy makers are now struggling to resolve.

But wait, there's more. The state's Other Post-Employment Benefits Plan (OPEB) is also underfunded. Predominantly covering pensioners' health care costs in the Teachers Plan and the State Employee Plan, its liability totals \$20.7 billion.

That puts the combined pension, OPEB and debt service payments at nearly 30% of state revenues, among the highest fixed cost ratio in the nation. Totaling up all three, the long-term liability per capita is close to \$21,500 for every man, woman, and child in the Nutmeg State.

The Standard Solutions

Connecticut is exploring a number of approaches that other state and municipal pension funds with underfunding issues have used, such as increasing employee contributions, changing the formula for cost-of-living adjustments, adopting a cap on pensionable compensation for new hires, and offering new hires a defined contribution plan, cash balance plan or a "DB-DC" hybrid plan. Some have been implemented.

A Fresh Approach

As pension solutions go, those are all pretty standard stuff. But the other approach Connecticut is considering is truly fresh. The state's inventory of real assets on its books, such as office buildings, parking lots, raw land or highway right-of-ways, identifies nearly 7,000 properties. An initial estimate is that these assets could have an overall value in the billions. If the state were to include certain state enterprises, such as toll-roads, that number could reach even higher.

A question arose: In lieu of cash, can the state donate any of these real assets as an in-kind contribution to its pension funds?

At first blush, the potential positive outcomes seem to make this very compelling. Obviously some of these assets don't qualify—the state isn't transferring any of its public parks any time soon! However, many of those assets that might qualify have been on the state's balance sheet for years. Correspondingly, book values are far below current market values. Transferring those assets from the state's balance sheet to the pension funds investment portfolio recategorizes their value from book to current market. That's an immediate mutual gain to the pensions and the state: the pensions get a boost in asset values and the state gets a lower pension liability with no cash outlay.

Theory to Reality

Transferring billions in state assets isn't something one does in haste. It is a complex venture with a host of political, financial and operational considerations. To analyze all aspects of the policy and make recommendations as to how to proceed, the Connecticut General Assembly created the Connecticut Pension Sustainability Commission.

The Chair of the 13-member Committee is State Representative Jonathan Steinberg (D-Westport, 136th District-CT). He is clear-eyed and unflinching about the serious problem the state faces with the growing pension underfunding. As a four-term legislator, he is keenly aware that reducing the liability is a top priority if the state is to extricate itself from its persistent budget problems. The pension underfunding burdens the state with underlying, long-term structural financial issues that need to be addressed in a systemic way. He is direct: short-term fixes or deferrals don't provide true solutions—and that includes further spending cuts and tax increases.

With options limited, the asset contribution proposal has his full attention. Acknowledging there are a myriad of factors that have to be balanced, Representative

Steinberg put three at the top of the list: identify the highest opportunity assets, determine the value of those assets, and establish what organizational structure might be best for the pensions to hold those assets.

Identifying Assets

To appropriately identify the highest opportunity assets, the optimal framework focuses on assets that maximize value for the pension as well as lower costs for the state. Key targets are property or land that is currently underutilized but, if transitioned to its highest and best use, could increase in value considerably.

Equally interesting are state enterprises. Often affiliated with infrastructure projects, such as toll roads or parking garages, these offer generally stable, long-term cash flows and potential asset appreciation consistent with the long-term liabilities of the pensions. This has considerable precedent. In Europe, it is common for public pensions to own interests in as well as fund improvements or expansions to state infrastructure enterprises.

Valuation

This is not the first time public assets have needed objective valuations for transfer or sale; there are numerous experts, best practices, market standard methodologies, and metrics to guide in that process. Wisely recognizing that valuation is critical to accurate accounting as well as maintaining the legislature's role in due diligence and oversight for the public, the Chair is holding hearings and inviting experts to offer their views. Michael Bennon of the Global Project Center at Stanford University is one such expert, with successful experience internationally in public asset valuation and transfer. Models exist based on completed transactions that maximized values for all stakeholders. Even so, it's always challenging, he noted in his testimony to the Committee. "There will always be 'ex-post' reports," says Bennon, which only "adds to the difficulty of valuing these assets." Apparently, even in pension asset valuations, there are armchair quarter backs.

Organizational Structure

Since the pensions can't hold physical assets directly, determining the pensions' ownership in any separate entity holding transferred assets has to be vetted. One structure being actively considered is putting assets in a separate trust. The trust would be a private entity, hiring private managers to run the business or develop the property. While Representative Steinberg noted that a trust structure where there would be shared risk was appealing, "the criteria we might use to determine what to donate to an

independent trust is still very much open for conversation.”

A High Impact Ancillary Benefit

Given the pressures on the state budget and the pensions, nearly everyone is focused on the immediate impact the transfer would have there. Overlooked is the enormous economic stimulus this transfer policy could have around the state.

Conversion to highest and best use of property or raw land opens up opportunity for renovation, refurbishment, retrofitting, and expanded development. For example, an office building can be repurposed to address needs in high impact sectors such as affordable housing, business incubators, senior care, or satellite medical centers. Clean energy and LEED certification are a component of retrofits, which could include matching Federal or foundation grant dollars for solar panels and microgrids. Not only does this create construction jobs immediately, but also permanent jobs working in the completed repurposed buildings.

A National Following

Other states and cities facing pension shortfalls are quickly picking up on the implications of this. Calls have come in from numerous state officials making inquiries about the process Connecticut is considering. Since every state and city has some assets on the balance sheet that are either underutilized, can be combined, or simply cost more to own than an alternative, having a mechanism to transfer those to the pension is potentially truly a win-win.

Time Line

While the committee’s report is due January 1, 2019, it might take as long as two years to put everything in place before the state can even begin to create a schedule of asset transfers and start to execute on the plan. For those impatient for a solution, that may sound like a long time given liabilities are accruing at millions of dollars a day. But considering it took nearly 100 years to get to where things are now, two more years isn’t unreasonable considering the solution could have a dramatic corrective impact.

What legislators and public administrators understand is that, with skeptical capital markets and an equally skeptical public, a careful, prudent approach rebuilds confidence and demonstrates that policymakers are serious in their intent to fix the problem.

Moreover, because this is as much a political process as a financial one, there will always be disagreements as to whether the actions are sufficient or right. However, tangible

actions towards a solution—albeit initially modest—is a far better alternative than stagnation. It is a sign that the state of Connecticut is transitioning towards stabilization.

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NASRA ISSUE BRIEF: EMPLOYEE CONTRIBUTIONS TO PUBLIC PENSION PLANS

Unlike in the private sector, nearly all employees of state and local government are required to share in the cost of their retirement benefit. Employee contributions typically are set as a percentage of salary by statute or by the retirement board.

Although investment earnings and employer contributions account for a larger portion of total public pension fund revenues, by providing a consistent and predictable stream of revenue to public pension funds, contributions from employees fill a vital role in financing pension benefits. Reforms made in the wake of the 2008-09 market decline included higher employee contribution rates in many states.

This issue brief examines employee contribution plan designs, policies and recent trends. For the vast majority of employees of state and local government, both participation in a public pension plan and contributing toward the cost of the pension are mandatory terms of employment. Requiring employees to contribute distributes some of the risk of the plan between employers and employees. The primary types of risk in a pension plan pertain to investment, longevity, and inflation. Employees who are required to contribute toward the cost of their pension assume a portion of one or more of these risks, depending on the design of the plan.

The prevailing model for employees to contribute to their pension plan is for state and local governments to collect contributions as a deduction from employee pay. This amount usually is established as a percentage of an employee's salary and is collected each pay period. As shown in Appendix A, employee contribution rates to pension benefits typically are between four and eight percent of pay, and are outside these levels for some plans. In some cases, required employee contributions are subject to change depending on the condition of the plan, the fund's investment performance, or other factors. In some plans, the employee contribution is actually paid by the employer in lieu of a negotiated salary increase or other fiscal offset. Some 25 to 30 percent of employees of state and local government do not participate in Social Security. In most cases, the pension benefit—and required contribution—for those outside of Social Security is greater both than the typical benefit and the required contribution for those who do participate in Social Security. An appendix identifies whether or not most plan

members participate in Social Security.

Trends in Employee Contributions

Many states in recent years made changes requiring employees to contribute more toward their retirement benefits: since 2009, more than 35 states increased required employee contribution rates. As a result of these changes, the median contribution rate paid by employees has increased. Figures show that the median contribution rate has risen, to 6.0 percent of pay, for employees who also participate in Social Security, and has remained steady at 8.0 percent for those who do not participate in Social Security.

New Contributions

Contribution requirements for certain employee groups in some states, such as Missouri and Florida, which previously did not require some employees to make pension contributions, were established in recent years for newly hired employees, existing workers, or both. Employees hired in Utah since July 1, 2011 must contribute toward the cost of their plan if that cost exceeds 10 percent of pay (12 percent for public safety workers). Because the cost of the plan remains below those thresholds, the Utah Retirement System remains non-contributory for most plan participants.

Variable Contributions

Some states, such as Arizona, Iowa, Kansas, Nevada, and Pennsylvania maintain an employee contribution rate that varies depending on the pension plan's actuarial condition. Because of the effect investment returns have on a pension plan's actuarial condition, the cost of a pension plan generally will rise following periods of sub-par investment returns and fall when investment returns exceed expectations. Changes approved in recent years in Arizona and California require some workers to pay at least one-half of the normal cost of the benefit, which can result in a variable contribution rate. Similarly, recent reforms in Michigan require newly hired school teachers to pay one-half of the full cost of the plan. And, as described previously, the Utah plan affecting new hires since July 2011 could become variable, depending on the plan's actuarial experience.

Increased Contributions for Current Plan Participants

Most employee contribution rate increases approved in recent years affected all workers-current and future. In some states, such as Virginia and Wisconsin, new and existing employees are now required to pay the contributions that previously were made

by employers in lieu of a salary increase.

Hybrid Plans

A growing number of public employees now participate in hybrid retirement plans, which combine elements of defined benefit and defined contribution plans, and that transfer some risk from the employer to the employee. In one type of hybrid plan, known as a combination defined benefit-defined contribution plan, employees in most cases are responsible for contributing all or most of the cost of the defined contribution portion of the plan. Contribution requirements to the DB component of combination plans vary: some are funded solely by employer contributions, while others require contributions from both employees and employers. In most of these cases, employees are also required to contribute toward the cost of the defined contribution portion of their hybrid plan benefit.^{iv}

Collective Bargaining

Employee contributions in some cases are set by collective bargaining, and can be changed when labor agreements are negotiated. For example, required employee contribution rates for employee groups in California and Connecticut increased in recent years as a result of labor agreements in those states.

Legal Landscape

The legality of increasing contributions for current plan participants varies. Some states prohibit an increase in contributions for existing plan participants. For example, a 2012 ruling in Arizona found that legislative efforts to increase contributions for existing workers violated a state constitutional protection against impairment of benefits. In other states, however, such as in Minnesota and Mississippi, higher employee contributions either did not produce a legal challenge, or withstood legal challenges (such as in New Hampshire and New Mexico).

Conclusion

Employee contributions are a key component of public pension funding policies. The vast majority of employees of state and local government are required to contribute to the cost of their pension benefit, and this number has grown in recent years as most states that previously administered non-contributory plans now require worker contributions. Many employees also are being required to contribute more toward the cost of their retirement benefit. In some cases, this requirement applies to both current and new

workers; in other cases, only to new hires. A growing number of states are exposing employee contributions to risk – either by tying the rate directly to the plan’s investment return, or by requiring hybrid or 401k-type plans as a larger component of the employee’s retirement benefit. Nasra.org, October 2018.

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PENNSYLVANIA COMMISSION REPORT FINDS STATE PENSION PLANS FAILED TO REPORT BILLIONS IN FEES

At an informal hearing held to examine how to improve Pennsylvania's two statewide pension systems, University of Oxford professor Ludovic Phalippou said the plans have spent more than \$12 billion on private equity fees over the course of their existences, much of which he said has gone unreported. The Public Pension Management and Asset Investment Review Commission held the informal hearing to examine the need for improvements in transparency around investment expenses and returns of the \$54.8 billion Pennsylvania Public School Employees' Retirement System and the \$29.8 billion Pennsylvania State Employees' Retirement System, both in Harrisburg. Mr. Phalippou, who conducted an internal analysis of the fees and performance of the private equity funds held by the two plans, added that the two state plans have reported \$2.2 billion in fees over the past 10 years, but estimates that \$6 billion was spent with \$3.8 billion in what he described as "unreported fees." Mr. Phalippou was hired by the state treasurer's office to conduct the analysis.

In response to Mr. Phalippou's testimony, PennSERS spokeswoman Pamela Hile said in an email that the pension system publishes "all manager investment fees and expenses by manager" each year, "including fees that are netted from distributions rather than billed directly." And although PennSERS does not track and report carried interest, Ms. Hile noted that the board passed a motion earlier this year "directing staff to request that the general partners/investment managers of private equity funds and real estate funds adopt and complete the Institutional Limited Partners Association fee disclosure template." Meanwhile, PennPSERS spokeswoman Evelyn Williams said the unreported fees the professor was referring to was carried interest, which "is not something that has been typically tracked/reported by public pension funds across the country," and added that "there is no industry consensus on reporting carried interest as a 'fee.'" That said, Ms. Williams noted that PennPSERS has "begun to compile carried interest data and the first report will be available after our October board meeting." Beyond that, PennPSERS "reports fees in our budget every year," said Ms. Williams. "You can find them on our website."

The commission was established in 2017 to review the investment management practices of PennSERS and PennPSERS. Its goals are to recommend improvements to the two plans' stress testing and fee reporting transparency; analyze the plans' assets, investment strategies, investment performance, fees, costs and procedures against established benchmarks; and develop a plan to identify \$1.5 billion in cost savings over 30 years for each of the two systems. In August, PennPSERS passed a resolution to reduce fees by \$2.5 billion over the next 30 years. This was the second hearing the commission held. The first was held in July, and the next is scheduled for Oct. 25. The commission plans to complete its review, report its findings and make its recommendations to Gov. Tom Wolf and the state's General Assembly sometime in November, but does not yet have a presentation date, said Heidi Havens, spokeswoman for state Treasurer Joe Torsella, who heads the commission. James Comtois, Pensions & Investments, September 24, 2018.

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Top Third of Public Pension Plans Have 90 Percent Funded Ratio While Bottom Third at 55 Percent

A new analysis of the 2017 funded ratios of public pension plans finds the average funded status remained steady under the traditional Government Accounting Standard Board (GASB) guidelines - at 72 percent, which is largely unchanged from the past several years. However, separating the public pension plans into three groups by their 2017 funded status makes clear that underlying trends are not uniform.

The research finds that:

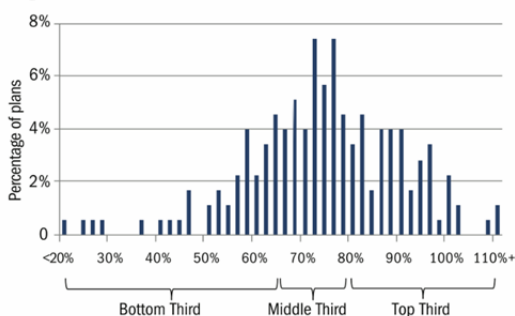
- The top third of plans now have an average funded ratio of 90 percent and should remain on track with continued maintenance.
- The average funded ratio for the middle third of plans has remained relatively steady at about 70 percent since the financial crisis. These plans can improve by adopting more stringent funding methods.
- The average funded ratio for the bottom third of plans is currently 55 percent and has continued to decline in the wake of the 2008-9 financial crisis. These plans likely will require intervention beyond the traditional reforms to change the trajectory of their funded status.

These findings are contained in a new brief from the Center for State and Local Government

Excellence (SLGE) and the Boston College Center for Retirement Research (CRR), *Stability in Overall Pension Plan Funding Masks A Growing Divide*.

"Public pensions plans often are 'clumped together' when the funding status is described in policy discussions and covered by the news media," says Joshua M. Franzel, PhD, president and chief executive officer of SLGE.

Figure 3. Distribution of 2017 Funded Status



"Generalizations often are made about all public plans as if they were monolithic, but they are not. The data indicate that state and local plans are not in the same fiscal position, do not face the same challenges, and do not have the same funding histories," Franzel explained.

Looking forward to 2018, the research indicates that the funded levels for plans likely will increase from 2017 levels due to the relatively strong market performance from July 2017 to June 2018. However, the possibility of a market downturn threatens and, if it occurs, could set back plan funding.

This research was conducted by CRR researchers Jean-Pierre Aubry, associate director of state and local research, Caroline V. Crawford, assistant director of state and local research and Kevin Wandrei, research associate.

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U.S. equities, alts power strongest returns for plans

Only seven plans posted double-digit returns in the most recent year, following a year where every plan tracked by P&I but one exceeded 10%.

Still, none of the plans in the most recent period experienced negative annual returns. The \$778 million Austin (Texas) Police Retirement System had one of the lower returns at 7.3% for the year ended June 30, trailing its 9.6% benchmark return.

Pattie Featherston, executive director of the Austin police fund, attributed the plan's performance to several investments within its large allocation to alternative assets that underperformed. The pension fund's asset allocation as of June 30 included 8.8% real estate and 2.8% timber.

The pension fund "has taken a number of steps to redesign the ... investment portfolio over the past five years in response to returns that were below expectations," Ms. Featherston said in an email.

This includes increasing its exposure to liquid markets, lowering fees by investing in more U.S. equity index funds, removing timber from its portfolio, repositioning its private equity portfolio and redesigning its allocation to real estate.

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Private Sector

SSA Announces 2.8 Percent Benefit Increase for 2019

The U.S. Social Security Administration (SSA) announced that monthly Social Security and Supplemental Security Income (SSI) benefits for more than 67 million Americans will increase 2.8 percent in 2019, and the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to \$132,900.

The 2.8 percent cost-of-living adjustment (COLA) will begin with benefits payable to more than 62 million Social Security beneficiaries in January 2019. Increased payments to more than 8 million SSI beneficiaries will begin on December 31, 2018.

This year, for the first time, most people who receive Social Security payments will be able to view their COLA notice online through their my Social Security account.

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'Red Zone' Multiemployer Pension Plans May Never Recover

The subset of "red zone" multiemployer pension plans that are in critical and declining (C&D) status projected to be insolvent within the next 20 years may never recover without Congressional help, Segal Consulting maintains. Participants in these plans are at risk of reduced benefits, including current retirees.

There has been a double-digit decrease in the average market value funded percentage of plans in C&D status since 2010, compared to a double-digit increase for non-C&D plans.

Characteristics of C&D plans include a high retiree and inactive-to-active ratio and a high "burn rate," i.e. the rate of asset decline, without regard to investment income.

Over the last 10 years, most red zone plans have taken corrective actions. They have increased their average contribution rate by more than 50% and have reduced adjustable benefits for more than 80% of participants. Some red zone plans are now in the yellow or green zone. By comparison, C&D plans are not recovering.

Segal Consulting notes that the Congressional Joint Select Committee for the Solvency of Multiemployer Pension Plans is currently weighing options for strengthening these plans.

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A Sears bankruptcy could cause one of the biggest pension defaults ever, but the government would protect 90,000 retirees

If Sears, once the nation's largest retailer, declares bankruptcy, it could cause one of the biggest pension defaults in U.S. history, but the government would step in to keep checks coming to more than 90,000 retirees.

The company's long-term pension obligations, which have been underfunded by more than \$1 billion for years, would be covered by the federal Pension Benefit Guarantee Corp., which has footed the bill for nearly 5,000 failed employer pension plans since its founding in 1974.

"PBGC is monitoring developments at Sears and will continue to protect its two pension plans, which cover over 90,000 people," the agency said in a statement Thursday. "PBGC's guarantee is critical to the retirement security of workers and retirees in pension plans."

A spokesman for Sears Holdings Corp. did not respond Thursday to a request for comment.

The struggling Hoffman Estates-based retailer is facing a \$134 million debt repayment Monday, which reportedly could lead Sears to seek bankruptcy protection in the next few days. Under a Chapter 7 liquidation, the company's pension obligations would shift to the government, while under a Chapter 11 reorganization, Sears could maintain one or both of its pension plans.

Drew Dawson, a law professor at the University of Miami, called the potential Sears pension default "pretty staggering" in its scope, based on historic comparisons.

"The human impact of this is really big on the individual retirees," Dawson said. "But this would be a big impact on the PBGC itself, financially."

In a blog post last month, CEO Edward Lampert wrote that Sears has contributed more than \$4.5 billion to its pension plans since 2005, an obligation that "significantly impacted" the company, which hasn't turned an annual profit since 2010.

"Had the company been able to employ those billions of dollars in its operations, we would have been in a better position to compete with other large retail companies, many of which don't have large pension plans," Lampert wrote.

Sears entered into a five-year pension protection plan with the Pension Benefit Guarantee Corp. in 2016, agreeing to set aside certain assets for pension funding. In November, Sears amended the agreement to sell up to 138 properties to finance a \$407 million contribution to its pension plans.

Last year, the agency paid \$5.7 billion to nearly 840,000 retirees from 4,845 failed single-employer plans, according to its annual report. Taking over the Sears pension plans would be one of the largest defaults in its 44-year history.

Chicago-based United Airlines had the largest pension default when it terminated its four retirement plans while operating under bankruptcy protection in 2005. That shifted \$7.3 billion in claims for more than 122,000 participants over to the agency.

For Sears retirees, a pension default by the company is not a major issue, as long as the checks keep coming.

"Pensions are not our concern because pensions will be secured for our retirees," said Ron Olbrysh, 77, chairman of the Chicago-based National Association of Retired Sears Employees, which represents thousands of former employees across the country.

Olbrysh, the company's former assistant general counsel who retired in 1996, said the Sears pensioners were primarily hourly employees who would be fully covered under the set limits of the agency. He, along with many higher-income salaried employees, took a lump sum pension payment when they retired.

A bigger concern for many Sears retirees is the potential loss of a life insurance plan that the company has continued to fund but which the agency would not cover.

"The retirees can still maintain that insurance if they want to pay for it themselves, but the average age of most our retirees is about 80 and the cost of that would be just ridiculous," Olbrysh said

Olbrysh, who lives in suburban Lombard, started at Sears as a trademark attorney in 1972, and worked his way up the corporate ladder as the once powerful retailer began to lose its hold on consumers, failing to meet challenges from bricks-and-mortar competitors such as Walmart and, later, Amazon and other online giants.

He called its potential bankruptcy a shame, but perhaps a sign of the times.

In its heyday, Sears offered employees attractive benefits including a "phenomenal" profit-sharing plan, and of course, the pension plan, Olbrysh said.

"Sears was a good company for me," he said. "I was lucky I got out when I did."

(c)2018 the Chicago Tribune

Pension Benefit Guarantee Corporation (PBGC) Information

Flat-rate Premiums

The per-participant flat premium rate for plan years beginning in 2019 is \$80 for single-employer plans (up from a 2018 rate of \$74) and \$29 for multiemployer plans (up from a 2018 rate of \$28).

The increase in the single-employer rate was provided in The Bipartisan Budget Act of 2015. The increase in the multiemployer rate is due to indexing.

Variable-rate Premiums (single-employer plans only)

For plan years beginning in 2019, the variable-rate premium (VRP) for single-employer plans is \$43 per \$1,000 of unfunded vested benefits (UVBs), up from a 2018 rate of \$38. This \$5 increase consists of \$4 provided in The Bipartisan Budget Act of 2015 (BBA 2015) and \$1 resulting from indexing.

For 2019, the VRP is capped at \$541 times the number of participants (up from a 2018 cap of \$523). Plans sponsored by small employers (generally fewer than 25 employees) may be subject to a lower cap.

Multiemployer plans do not pay a VRP.

[PBGC Guarantee Limit for Single-Employer Plans Increases for 2019](#)

International Foundation Extra - Oct 23, 2018

PBGC announced the guarantee limits for single-employer plans that fail in 2019 will be 3.46% higher than the limits that applied for 2018.

@ PBGC

FASB Announces Changes to DB Plan Disclosure Requirements

Some disclosure requirements are removed from Subtopic 715-20, Compensation—Retirement Benefits—Defined Benefit Plans—General, and some requirements are added

The Financial Accounting Standards Board (FASB) is making changes to the disclosure requirements for defined benefit (DB) plans.

In Accounting Standards Update 2018-14, the FASB says the objective and primary focus of the changes are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements.

The following disclosure requirements are removed from Subtopic 715-20, Compensation—Retirement Benefits—Defined Benefit Plans—General:

- The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
- The amount and timing of plan assets expected to be returned to the employer.
- The disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law.
- Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
- For nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets.
- For public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits.

The following disclosure requirements are added to Subtopic 715-20:

- The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates.
- An explanation of the reasons for significant gains and losses related to changes in the

benefit obligation for the period.

The amendments in the update also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed:

- The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets
- The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.

The amendments in the update are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities. An entity should apply the amendments on a retrospective basis to all periods presented.

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