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ENROLLED ACTUARIES REPORT

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On a Path to a Secure Retirement— How Hard Could It Be?

By Ted Goldman

Senior Pension Fellow, American Academy of Actuaries

WE ALL WANT to do it. But why is it so darn difficult?

Of course, I'm talking about experiencing and saving for a secure retirement. Who doesn't envision a day when you have complete freedom as to how to spend your day? A time when you can enjoy family, pursue hobbies, travel, or whatever your interests may be. But then there are the details of saving enough to enjoy retirement. As Enrolled Actuaries, we are all familiar with how to calculate the present value of a stream of lifetime payments and determine how much savings we'll need to make it through retirement. In fact, just this week I created a spreadsheet for myself that captures my expected income and savings, and compares it with my projected expenses during retirement, and ran the table out to age 90.

It dawned on me, however, that a big contributor to my retirement security was not my incredible planning skills or my amazing investment decisions (I only wish). A significant component of my nest egg is from two defined benefit plans. I was fortunate enough to have two very long employment experiences with employers that offered traditional defined benefit plans. Add Social Security to the mix, and it gets even better. But what about individuals who are not fortunate enough to have employer-provided

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PPC Releases Issue Brief on Challenges Facing PBGC Multiemployer Program

THE PENSION PRACTICE Council (PPC) released an issue brief that examines the Pension Benefit Guaranty Corp.'s (PBGC) multiemployer pension program, which could exhaust its assets in less than 10 years and be forced to cut benefits to retirees receiving PBGC support unless changes are made. The Academy also issued a news release on the issue brief.

The issue brief, *Honoring the PBGC Guarantee for Multiemployer Plans Requires Difficult Choices*, notes that:

- The PBGC program that guarantees minimum benefits to multiemployer pension plan participants is projected to exhaust its assets within about eight years;
- If the PBGC multiemployer program exhausts its assets, beneficiaries and retirees receiving PBGC support could see their guaranteed benefits reduced by about 85 percent;
- The multiemployer program's financial stresses stem from inadequate premium levels, maturing pension plans, industry transformations, and the 2008 recession;
- Based on the PBGC's 2016 report on the aftermath of the Multiemployer Pension Reform Act of 2014, premiums would need to increase

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Living a Healthy Retirement—It's a Jungle Out There

By Ted Goldman
Senior Pension Fellow, American Academy of Actuaries

ONE OF THE UNEXPECTED perks of the senior pension fellow role at the Academy is attending International Actuarial Association (IAA) meetings. These meetings occur twice a year and are typically held in very interesting locales.

This past month the IAA met in Cape Town, South Africa. It would have been a lost opportunity had I not added some time to experience a safari near Kruger National Park, so thanks to some excellent planning and hospitality by fellow actuaries attending the IAA meeting, my wife and I were able to enjoy a unique and exhilarating experience. Seeing the magnificent animals "up close and personal" in their natural habitat, the most impressive takeaway for me was the beauty of how nature works. Every plant and animal is uniquely equipped to survive, resulting in an incredible ecosystem.

As humans, we stand at the top of the animal kingdom, but when it comes to figuring out how to make our savings last during an unknown retirement period, many of us fall well short of our goal. In other words, it's a jungle out there when it comes to surviving and thriving in our retirement years.

Wealth accumulation is an important part of the equation, but today I'd like to introduce an idea to help individuals establish an effective drawdown strategy during retirement. A bill was introduced in Congress late last month (H.R. 6396; the Retirement Security for American Workers Act) that would allow multiple employer plans to be available to a wider array of employers. Currently, there must be a common link between employers in order to establish a multiple employer retirement plan. In this bill, that common link requirement would be loosened, opening the door for more multiple employer plan options. This is commonly referred to as "open" multiemployer plans, or open MEPs. I'd like to add one more twist to the open MEP idea.

> *Expanding the multiple employer plan reach could lead to new solutions for retirees.*

What if we created an open retiree MEP? This would be a single plan with multiple participating employers. However, the differing feature is that *only retired participants would participate in these plans.* So for example, an employee would remain in his or her company-sponsored 401(k) plan, but upon retirement the assets would default to this new plan/organization. Assets would be automatically transferred, though the retiree could choose to opt out and move assets to a personal IRA. The open retiree MEP sponsor would play a facilitator role.

Core capabilities would include:

- **Drawdown strategy services**—The plan sponsor would work with retirees to determine an optimal drawdown strategy. There could be a default or active-choice menu of options. It could offer an array of lifetime annuities, longevity annuities, and personalized account withdrawal strategies.
- **Investment strategies and funds**—The open retiree MEP would play a "manager of managers" role and be prohibited from offering its own investment products. It would offer a stable of managers, monitor performance, and negotiate fees on behalf of the participant.
- **Annuity purchase services**—There could be a lineup of vetted annuity providers, with a clear outline of fees, features, and risks. The open retiree MEP sponsor would provide support to plan participants.

An open retiree MEP creates a win-win-win-win situation.

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PBGC's Reeder Addresses Pension Plans' Solvency

AT THE ACADEMY'S Annual Meeting and Public Policy Forum in Washington in November, Pension Benefit Guaranty Corp. (PBGC) Director Tom Reeder clearly identified the financial picture for single-employer and multiemployer defined benefit (DB) pension plans, and expressed great appreciation for the Academy's new issue brief on the difficult choices ahead for multiemployer plans (see story, p. 1). His plenary address taped by C-SPAN and posted on its website.

While the majority of Americans are not and have not been covered by a DB plan, on the other side of the coin there are about 10 million employees who are actively accruing benefits under such plans, Reeder said.

Those employers "often looked to defined benefit plans as a positive way to attract and retain a quality workforce," he said. "We can't turn our backs on those employers and those employees who have accrued those benefits. I think the DB plan is the best way to accrue lifetime income that you can't outspend and you can't outlive." PBGC's projection report to Congress on single-employer and multiemployer plans showed that single plans—which cover about 30 million people—are likely to improve in the next 10 years, even though they are currently running a $25 billion deficit.

The multiemployer plan system covers about 10 million but has a deficit more than double that of the single-employer and "is more likely than not to be insolvent within 10 years," he said. But "in Washington, 10 years is a geologic era," given political term lengths, Reeder said.

One of the reasons for the deficit is that "premiums have been so low for so long," he said. And even the passage of the Multiemployer Pension Reform Act of 2014, which many thought would take care of the problem, only added about two years of solvency to the multiemployer program, he said.

PBGC Director Tom Reeder delivers his plenary address

Annual Meeting Pension Sessions

SEVERAL PENSION SESSIONS at the Academy' Annual Meeting and Public Policy Forum looked at various aspects of pensions, and were well attended by Enrolled Actuaries. The Academy believes in good faith that attendees could earn up to 5.4 continuing professional education (CPE) core ethics credits under the Joint Board for the Enrollment of Actuaries (JBEA) rules.

Retirement Goes Goldilocks: The DB'ing of DC Plans and the DC'ing of DB Plans

Experts discussed the challenges facing retirement plans, especially issues surrounding defined benefit (DB) pension plans. In redesigning or reregulating pensions, strong leadership is a must as well as honest discussions about underlying DB problems and the ability and willingness to fund them, said W. Paul McCrossan, an actuary and former member of Canada's Parliament. In Canada, a key strategy in revamping pension plans was not to "kick the can down the road" by transferring costs to future generations of beneficiaries or taxpayers, he said.

Risk management is very important, and one method of redesigning a retirement plan is to split off base benefits from ancillary ones such as inflation adjustments or other supplements, said Conrad Ferguson, a partner at Morneau Shepell. Benefits could be matched to open group funding ratios on a yearly basis, and benefits could be increased or contributions lowered in years when the ratio is above 105 percent, he said. In years below 100 percent, past ancillary rates could be decreased, contributions increased, or other steps could be taken depending on severity, Ferguson said.

Defined contribution (DC) plans are nearing 50 percent of global pension assets, although programs differ by country, said Stacy Schaus, executive vice president and defined contribution

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Updated Social Security and IRS Amounts for 2017

These four tables list updated figures for IRS pension limits, Social Security amounts, covered compensation, and PBGC premiums for 2017.

Tables compiled by Andrew Eisner of Buck Consultants at Xerox Knowledge Research Center

Covered Compensation, 2017

2017 WAGE BASE $127,200

(Advance calculation—pending IRS release of amounts)

YEAR OF BIRTH	AGE IN 2017	SSRA	YEAR OF SSRA	COVERED COMPENSATION ROUNDED TO $1*	$12	$600**	$3,000
1950	67	66	2016	75,180	75,180	75,000	75,000
1951	66	66	2017	77,889	77,880	78,000	78,000
1952	65	66	2018	80,503	80,496	80,400	81,000
1953	64	66	2019	83,057	83,052	82,800	84,000
1954	63	66	2020	85,560	85,560	85,800	87,000
1955	62	67	2022	90,377	90,372	90,600	90,000
1956	61	67	2023	92,726	92,724	93,000	93,000
1957	60	67	2024	94,989	94,980	94,800	96,000
1958	59	67	2025	97,157	97,152	97,200	96,000
1959	58	67	2026	99,266	99,264	99,000	99,000
1960	57	67	2027	101,314	101,304	101,400	102,000
1961	56	67	2028	103,303	103,296	103,200	102,000
1962	55	67	2029	105,206	105,204	105,000	105,000
1963	54	67	2030	107,091	107,088	106,800	108,000
1964	53	67	2031	108,934	108,924	109,200	108,000
1965	52	67	2032	110,700	110,700	111,000	111,000
1966	51	67	2033	112,380	112,380	112,200	111,000
1967	50	67	2034	113,940	113,940	114,000	114,000
1968	49	67	2035	115,397	115,392	115,200	114,000
1969	48	67	2036	116,734	116,724	117,000	117,000
1970	47	67	2037	117,943	117,936	118,200	117,000
1971	46	67	2038	119,091	119,088	118,800	120,000
1972	45	67	2039	120,214	120,204	120,000	120,000
1973	44	67	2040	121,277	121,272	121,200	120,000
1974	43	67	2041	122,220	122,220	122,400	123,000
1975	42	67	2042	123,069	123,060	123,000	123,000
1976	41	67	2043	123,789	123,780	123,600	123,000
1977	40	67	2044	124,371	124,368	124,200	123,000
1978	39	67	2045	124,954	124,944	124,800	126,000
1979	38	67	2046	125,537	125,532	125,400	126,000
1980	37	67	2047	126,026	126,024	126,000	126,000
1981	36	67	2048	126,411	126,408	126,600	126,000
1982	35	67	2049	126,703	126,696	126,600	127,200
1983	34	67	2050	126,951	126,948	127,200	127,200
1984	33	67	2051	127,200	127,200	127,200	127,200
1985	32	67	2052	127,200	127,200	127,200	127,200

Advance calculation by Buck Consultants at Xerox, December 2016.
* Represents exact average of wage bases, as permitted by law and regulations.
** After 1993, IRS does not authorize the use of covered compensation tables rounded to $600 multiples under 401(l). Thus, integrated plans using this table are not safe-harbor plans.

PBGC Premiums

PBGC Premiums	2017	2016
Single-Employer Plans:		
Flat-rate premium (per participant)	$69	$64
Variable-rate premium	$34 per $1,000 of unfunded vested benefits	$30 per $1,000 of unfunded vested benefits
	Maximum of $517 per participant	Maximum of $500 per participant
Multiemployer Plans:		
Flat-rate premium (per participant)	$28	$27

Social Security—2017 Factors

The Social Security Administration announced updated factors for 2017.

Wage Base The maximum amount of wages taxable in 2017 is $127,200 for Social Security OASDI purposes. All wages are subject to Medicare payroll tax.

COLA The cost-of-living increase in benefits is 0.3%, first applicable to December 2016 benefits, payable in January 2017.

Wage Index The Average Annual Wage figure of $48,098.63 will be used in computing benefits for workers who become eligible in 2017. This figure is based on data for the last complete year (2015) and is used to determine other wage-indexed numbers given in the table below.

FACTOR		2017	2016
Wage base:			
	for Social Security	$ 127,200	$ 118,500
	for Medicare	No limit	No limit
	old-law wage base, for indexing PBGC maximum, etc.	$ 94,500	$ 88,200
Cost-of-living increase (applies to December benefits, payable in January)		0.3%	0.0%
Average annual wage (based on data two years earlier)		$ 48,098.63	$ 46,481.52
PIA formula, first bend point		$ 885	$ 856
PIA formula, second bend point		$ 5,336	$ 5,157
Maximum family benefit, first bend point		$ 1,131	$ 1,093
Maximum family benefit, second bend point		$ 1,633	$ 1,578
Maximum family benefit, third bend point		$ 2,130	$ 2,058
Retirement test exempt amount (annual)			
	below SSNRA	$ 16,920	$ 15,720
	year of SSNRA	$ 44,880	$ 41,880
Wages needed for one quarter of coverage		$ 1,300	$ 1,260
FICA (employee) tax rate:			
	Social Security (OASDI)	6.20%	6.20%
	Medicare (HI)*	1.45%	1.45%
	Total	7.65%	7.65%

* The Medicare hospital insurance tax is two-tiered for employees—1.45% applies to wages up to and including $200,000 for single taxpayers/$250,000 for married taxpayers filing jointly, and 2.35% applies to wages above those amounts.

IRS Qualified Plan Limits for 2017

Principal Limits

IRC	LIMIT	2017 ROUNDED	2016 ROUNDED	2017 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
415(b)(1)	Defined benefit plan limit	$ 215,000	$ 210,000	$ 216,880	$ 220,000	1.5%
415(c)(1)	Defined contribution plan limit	54,000	53,000	54,220	55,000	1.5%
401(a)(17)	Limit on includible compensation*	270,000	265,000	271,100	275,000	1.5%
402(g)(1)	Limit on 401(k)/403(b) elective deferrals	18,000	18,000	18,360	18,500	0.8%
414(q)	HCE definition	120,000	120,000	122,504	125,000	2.1%
414(v)(2)	401(k)/403(b)/457(b) catch-up deferral limit	6,000	6,000	6,120	6,500	6.3%

Other Limits

IRC	LIMIT	2017 ROUNDED	2016 ROUNDED	2017 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
457(b)	Limit on deferrals	$ 18,000	$ 18,000	$ 18,360	$ 18,500	0.8%
416(i)	Top-heavy key employee definition	175,000	170,000	176,215	180,000	2.2%
409(o)(1)(C)	ESOP payouts, five-year limit	1,080,000	1,070,000	1,084,400	1,085,000	0.1%
409(o)(1)(C)	ESOP payouts, additional one-year limit	215,000	210,000	216,880	220,000	1.5%
408(k)(2)(C)	SEP pay threshold	600	600	610	650	6.6%
401(a)(9)	QLAC (Qualified Longevity Annuity Contract)	125,000	125,000	128,788	135,000	4.9%
132(f)(2)(A)	Commuter/transit limit (monthly)	255	255	257	260	1.2%
132(f)(2)(B)	Parking limit (monthly)	255	255	257	260	1.2%

* Governmental plans have special rules for eligible participants as defined in OBRA '93.

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practice leader at Pimco. Plan sponsors also are showing increased interest in retaining retired participants' assets, and retiree assets are growing quickly in target-date strategies, according to a Pimco survey of retirement plan consultants. In-plan insurance options are seeing a lack of active promotion compared to other offerings, Schaus said.

Eric Keener, chairperson of the Academy's PPC Forward Thinking Task Force, moderated the panel.

Fixing the Retirement Stool: Reinforce or Reinvent?

Each of the three legs of the retirement stool—Social Security, employer-based retirement plans, and personal savings—is facing challenges that could threaten retirement security for millions of Americans, according a panel discussion on retirement security.

Social Security is the strongest of the three legs but faces asset depletion in 2034, after which it could only pay promised benefits of 79 percent, said panelist Steve Goss, chief actuary at the Social Security Administration. The main culprits are increasing longevity and lower birth rates. The solutions include lowering the program's costs—raising the retirement age, or lowering the cost-of-living adjustments or benefits for higher earners—increasing revenues from higher payroll or other taxes, or some combination of the two. Goss said that Congress must and will act to make changes as it has done in the past to modify Social Security.

A big hurdle to retirement plans is that many employees still don't have access to them, especially part-time workers, said John Scott, director of retirement savings at the Pew Charitable Trusts. A second issue is affordability, although participation rates generally increase for plans where employers make contributions, he said.

Megan Gerry, vice president of compensation and benefits at Smithfield Foods, said the company offers its employees a 401(k) plan and some salaried workers a pension as well as part of its compensation package. The average 401(k) participant pretax deferral rate at Smithfield is 4.8 percent and average balance is slightly less than $20,000, she said.

Ted Goldman, Academy senior pension fellow, moderated the session.

Goldman, Goss, and Gerry at the "Fixing the Retirement Stool" pension breakout session

What's Next for Multiemployer Pension Plans?


ISTOCK / HOBBIT

While many agree that something must be done to protect benefits for the 10 million participants covered under multiemployer pension plans, experts are still divided on how to do so. The regulatory regimes created by the departments of Treasury and Labor and the Pension Benefit Guaranty Corp. under the Multiemployer Pension Reform Act of 2014 (MPRA) won't solve the long-term problems of distressed multiemployer plans, said Sandy Rich, executive director at New York City Board of Education Retirement System. Like bankruptcy proceedings, market-clearing mechanisms are needed to fix plans that are unsustainable rather than the current practice of delays in making tough decisions, he said.

Karen Friedman, executive vice president and policy director at the Pension Rights Center, agreed that MPRA isn't the solution. But all parties could come together and share in the responsibilities to resolve unstainable multiemployer plans, she said. A "grand bargain" was reached in Detroit during its bankruptcy that involved compromises by stakeholders and outside infusions of money to shore up the city's pension plans.

Congress has a window to enact new legislation on multiemployer plans next year, said Kendra Kosko Isaacson, senior pensions counsel for the Democrats at the Senate Committee on Health, Education, Labor & Pensions. Committee Ranking Member Sen. Patty Murray supports a comprehensive plan as opposed to a composite one, such as the one being considered in the House, Kosko Isaacson said.

Other possibilities include small pension insurance payments made by beneficiaries or changing pension plan priorities in bankruptcy proceedings, said Alex Pollock, distinguished senior fellow at the R Street Institute.

Josh Shapiro, vice chairperson of the Academy's Multiemployer Plans Subcommittee, moderated the session.

lifetime income benefits? As we've moved from a defined benefit (DB) to a defined contribution (DC) plan world, the degree of difficulty to plan and save for retirement has increased. As actuaries who know pension plans inside and out, we are in a great position to help address this issue.

Richard Thaler, a noted behavioral scientist, said, "For many people, being asked to solve their own retirement savings problems is like being asked to build their own car." Imagine if you walked out of your house one morning and all of the parts of your car were strewn across your front yard. If you are like me, you would panic—and then call a mechanic, and a taxi, in that order.

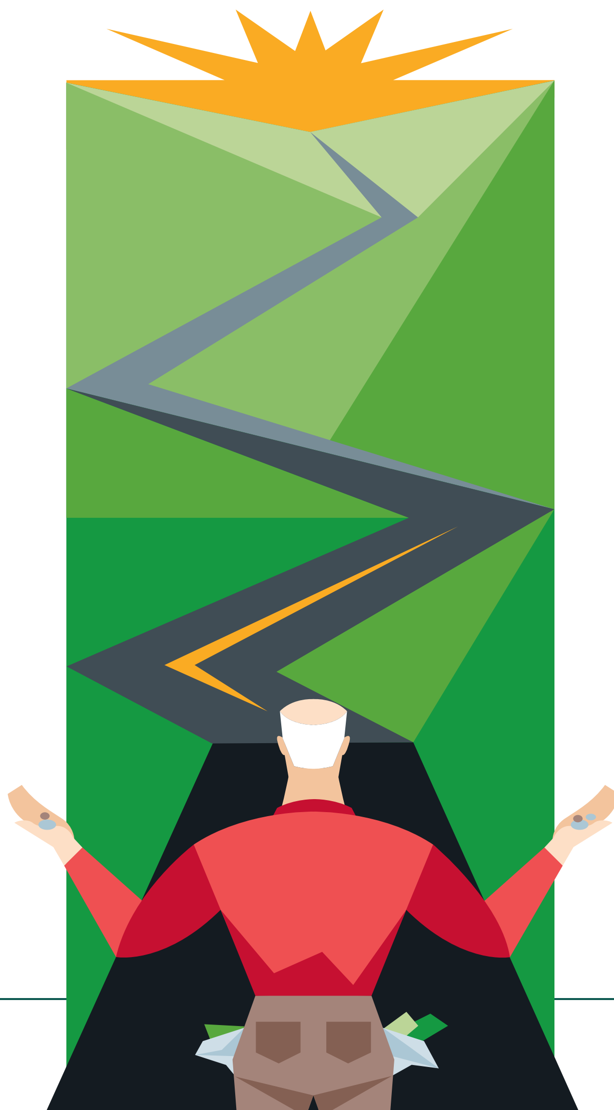
As we've moved from a DB to a DC plan world, the degree of difficulty to plan and save for retirement has increased. As actuaries who know pension plans inside and out, we are in a great position to help address this issue.

Planning appropriately for retirement involves a number of skill sets that many people just don't come by naturally, or maybe they just don't have or want to make the time. (I could probably figure out how to put a car together, but the time, energy, and effort required would be overwhelming.)

A DC World

I've been developing an idea that I think has the potential to help people with the daunting task of planning for retirement. The approach acknowledges that we live in a defined contribution world. It recognizes that people are being asked to do something that on the surface seems easy, but is actually a struggle for nearly all of us (even us pension actuaries). The building blocks of the solution include Big Data, behavioral science, actuarial science, and technology.

There isn't room here to describe the full approach and its glorious details, but I will provide enough to hopefully provoke some thought and get you to start seeing the retirement picture through a different lens. The concept is simple—instead of displaying all of the parts of the car on your front lawn and wishing you luck, we start out with a functional car in your driveway. A car that reflects what we already know about your lifestyle, tastes, and needs.



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In other words, instead of saying "here's your 401(k) plan and options, and by the way, good luck," we put together a rational strategy for you, using what is readily available (Big Data).

We start you on a path to a secure retirement (behavioral science) and auto-enroll you at your own personal savings rate. We calculate the amount you need to save (actuarial science) based on your personal data, such as your age, pay, current retirement savings, company match, and projected Social Security. We also make some fundamental assumptions about when you will retire, how long the money should last in retirement, and a target retirement income level.

We then deploy an app to refresh the process periodically (technology) and automatically make adjustments throughout your working lifetime, assuring you are always on a path to a secure retirement. Of course, you can always opt out or put in your own, more specific, assumptions and goals. Retirement calculators are available and abundant today, but few people use them.

One of the beautiful characteristics of defined benefit plans is that the participant has to make literally only one decision (do you want a 100 percent or 50 percent joint and survivor benefit form of payment?) and he/she receives income for life. This new approach within a DC plan acts the same way.

There are many more details to share; there's even a drawdown component and other interesting applications that begin to address the larger picture of financial wellness. Keep your eyes open for more information in future issues of *Enrolled Actuaries Report*. If you would like to share any thoughts in the meantime, feel free to contact me at **goldman@actuary.org**.

Webinar Looks at Alternative Pension Costs

ABOUT 450 PEOPLE attended the Nov. 16 webinar "Alternative Pension Cost—An Update and Review of Implementation Issues," in which presenters recapped expense methodologies presented in the 2015 issue brief, *Alternatives for Pension Cost Recognition*, and reviewed additional content that will be summarized in two forthcoming pension issue briefs on the subject.

Kleinstuber

The webinar was moderated by Ellen Kleinstuber, chairperson of the Academy's Pension Committee. The presenters were Bruce Cadenhead, vice chairperson of the Pension Committee; Tim Geddes, vice chairperson of the Pension Practice Council; and Jerry Mingione, a member of the Pension Committee.

Following the 2015 issue brief, which explored basic issues and implications of various alternatives to the traditional or aggregated approach to pension cost recognition, a successor issue brief will discuss how alternative recognition methods might be applied to plans that historically set its discount rate using a bond model. "We're about to cross the finish line on that one, and it should be released in the very near future," Kleinstuber said.

Another forthcoming issue brief will look at other implementation issues that arise with respect to alternative granular methods; among the topics will be the rounding of discount rates, the use of a single rate across multiple plans, the valuation of interest-sensitive lump sums, and special considerations involved in rolling results forward. The Academy is working hard to publish that issue brief soon, Kleinstuber said, to provide guidance on these issues in anticipation of financial reporting from many plan sponsors.

In his presentation, Mingione said use of a single weighted-average rate is necessary only for disclosure purposes and not required for calculation of the pension benefit obligation (PBO) amount; applying multiple (per year) discount rates is also viewed as an acceptable technique for the development of the PBO.

"If we apply multiple-year spot rates instead of the aggregated rate, you could view that as a 'more precise' calculation, a characterization that's been broadly made in this dialogue and is now generally accepted," he said. He added that there are both positive and negative implications involved in making the change.

Cadenhead said there will be two types of approaches for deriving yield curves from bond model portfolios discussed in the next issue brief. "Once the issue brief is out, it may provide an opportunity to put some of these ideas more explicitly in front of the SEC [Securities and Exchange Commission] and perhaps get some reaction," he said.

Geddes noted that that while the emergence of the granular expense method was "one of the bigger changes that emerged in the accounting arena last year … the PBO measurement remains the most important thing in the SEC's view. That's considered the primary methodology from a measurement perspective."

Slides and audio are available free of charge to members on the Academy's webinar page.

Intersector Group Releases Notes from IRS, Treasury, PBGC Meetings

THE INTERSECTOR GROUP RELEASED the notes of its September meetings with the IRS and Treasury Department, and with the Pension Benefit Guaranty Corp.

The IRS/Treasury meeting covered guidance timing and priorities for 2017 mortality tables, which were posted in early September; other items that might be expected in the next six months; valuation of variable-annuity plans for funding; and suspensions under the Multiemployer Pension Reform Act of 2014 (MPRA).

The discussion topics for the PBGC meeting—which were submitted to the PBGC in advance—included proposed regulations on mergers and partitions, MPRA exclusion of certain contribution increases required by funding improvement and rehabilitation plans from withdrawal liability, MPRA partitions, an update on assumption review, 4010 filings, and viability of the PBGC multiemployer program.

In addition, PBGC representatives raised certain other issues:

- Regulation projects nearing completion include a final rule reducing late-premium penalties;
- PBGC is beefing up the 2017 premium instructions with new examples for mergers and spinoffs;
- PBGC representatives have noted an increase in employers contributing more than the minimum required amount for 2014 plan years and asked the Intersector Group what might be driving employers' funding decisions;
- PBGC is reviewing the risk transfer data reported in premium filings and expects to report on findings and share data in a few months; and
- Congress is considering legislation that would authorize a special type of hybrid design for multiemployer plans called a "composite plan."

Pension Committee Sends Comments to Senate on Multiple-Employer Plans

THE PENSION COMMITTEE SUBMITTED comments to Sen. Susan Collins, chairman of the U.S. Senate Special Committee on Aging, with suggestions on how to encourage open multiple employer plans.

The committee's letter noted it supports the Senate's efforts to streamline and simplify the adoption of qualified plans for small employers. As S. 266, the Retirement Security Act of 2015, only applies to small defined contribution plans, it encouraged Collins to consider two additional but related options for multiple employer plans (MEPs):

- ➜ A defined benefit MEP option; and
- ➜ An "Open Defined Contribution Retiree MEP" design (a defined contribution plan focused on the payout or decumulation phase).

As retirement plans evolve, employers are becoming increasingly unwilling to take all of the risks associated with providing lifetime income to current and former employees, the letter notes, and as a result, these risks are rapidly being shifted to individuals. Such shifts can happen through freezing or terminating existing defined benefit plans, providing lump-sum payments as an alternative to annuities, and placing a greater reliance on defined contribution plans.

Individual plan participants are largely unprepared to effectively manage risks associated with defined contribution plans. At the same time, today's fluid career paths make it less likely that an individual will derive most of his or her retirement income from a plan maintained by a single employer. Emerging design ideas focus on maintaining the pooling of retirement risk (such as living longer than expected) that is characteristic of defined benefit plans while shifting some or all of the investment risk to plan participants. Facilitating multiple employer arrangements of both the defined contribution and defined benefit variety will lead to approaches that can enhance retirement security, the letter states.

The Pension Committee offered to work with Congress to develop the framework to allow defined benefit MEPs to exist and flourish, with the following actions key to making such plans attractive:

- ➜ Eliminating the requirement for a common nexus between participating employers (similar to what has been proposed for state-run defined contribution MEPs);
- ➜ Modifying the funding rules to allocate to each employer only its reasonably determined share of plan costs, and to allow the plan to easily implement individual employer funding elections;
- ➜ Designing funding rules that allow for the effective sharing of risks between the plan and individual participants;
- ➜ Making each employer responsible only for its own discrimination issues; and
- ➜ Allowing plans sponsors to remove bad apples from a MEP, potentially by a distress termination of their share of the MEP, without affecting other employers. ▲

SHUTTERSTOCK / KIM SEIDL

Issue Brief Examines Implications of Pension Risk Transfers

THE PENSION COMMITTEE RELEASED an issue brief, ***Pension Risk Transfer***, which explores risk transfers by defined benefit pension plans from the perspectives of plan sponsors, beneficiaries, and policymakers.

"Pension risk transfers can have significant implications for the financial security and responsibilities of different plan stakeholders," **said Ellen Kleinstuber**, the Pension Committee's chairperson.

"This new issue brief explores how pension risk transfers can affect different parties. Whether you're a plan participant, a plan sponsor, or a pension regulator or plan fiduciary, *Pension Risk Transfer* can help you take stock of how other key stakeholders view pension risk transfer and what a risk transfer transaction might mean for you," she said.

The issue brief examines risk transfer implications such as the possible merits and downsides of different options typically offered to plan participants; the potential risks, benefits, and other business considerations for sponsors, including the effects on plan participants and shareholders, and on sponsor costs and liabilities; and the responsibilities, including regulatory compliance concerns, of regulators and plan fiduciaries who serve or protect public or shareholder interests, respectively. ▲

Pension Committee Comments to ASB on Proposed Modeling ASOP

THE PENSION COMMITTEE submitted comments to the Actuarial Standards Board (ASB) on the third exposure draft of a proposed actuarial standard of practice (ASOP) on modeling. It answered several ASB questions on a modeling standard, offering some suggestions and recommendations for clarifications.

To a question about the scope of the proposed ASOP excluding "simple" models, which are defined in section 2.13, and whether the definition is sufficiently clear, the committee wrote it believes that having a definition of a simple model is appropriate and extremely important in limiting the proposed ASOP's applicability.

It offered specific comments on several sections of the proposal, while noting that the example of a "corporate financial planning model" typically being covered by the proposed ASOP is not clear. The committee offered a variety of suggested clarifications for the ASB to consider.

Comments on Assessment and Disclosure ASOP

The Pension Committee, the Multiemployer Plans Subcommittee, and the Public Plans Subcommittee submitted comments to the ASB regarding the second exposure draft of the proposed ASOP, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions.*

The comments address ASB questions about risks, assessments, and state that ASOP No. 41, *Actuarial Communications*, should be amended to incorporate these definitions and related disclosure provisions from ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*. "In the meantime," it states, "we recommend incorporating the clarification from ASOP No. 4 into the proposed ASOP, including the appropriate definitions as required."

< JUNGLE, CONTINUED FROM **PAGE 2**

- Win No. 1: **Employers** are relieved of ongoing responsibilities for retirees and offer them valuable high quality and affordable retirement services that are not currently available to most individuals.
- Win No. 2: **Retirees** have access to a full-service retirement adviser that has the retiree's best interest in mind and is completely unbiased and without conflict. This doesn't exist today, except for those at the top end of the wealth scale.
- Win No. 3: **Financial providers,** by marketing directly to the open retiree MEP providers, can potentially realize a lower cost of sales.
- Win No. 4: **The open retiree MEP sponsors**, due to the open concept, can grow scale and offer services at reasonable fees (from both participants and providers) and run a profitable business.

If this concept takes root, imagine the additional possibilities—the open retiree MEP services could expand to include advice/support for Social Security, health care (Medicare/Medicaid/retiree supplemental policies), and ultimately other retiree needs such as travel, fraud protection, and hospice. The possibilities are endless. With our fast-aging Baby Boomer population of 10,000 new retirees every day, we need to support change. Open retiree MEPs may be in the right place at the right time.

Note: The Academy's Pension Committee sent a comment letter in September to Susan Collins, chairman of the U.S. Senate Special Committee on Aging, which mentions the open retiree MEP concept (see story, p.9).

PPC Vice President Represents Academy at GAO Hearing

Pension Practice Council Vice President Bill Hallmark represented the Academy at a daylong expert panel in November that was convened by the Government Accountability Office (GAO) on the state of retirement in America. The purpose of the panel discussion was to help inform a GAO report likely to be issued in the first half of next year.

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to about six times current levels to cover expected financial assistance payments through 2035, with even larger increases necessary to ensure long-term sustainability; and

- There are no easy solutions, but doing nothing means that ultimately the PBGC guarantee will not be honored.

"None of the options are ideal, and they require difficult sacrifices, possibly from parties who had no role in the creation of the problem," the issue brief stated. "But it is clear that if nothing is done, the guarantees promised to the participants in multiemployer plans will not be fully honored."