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ENROLLED ACTUARIES REPORT

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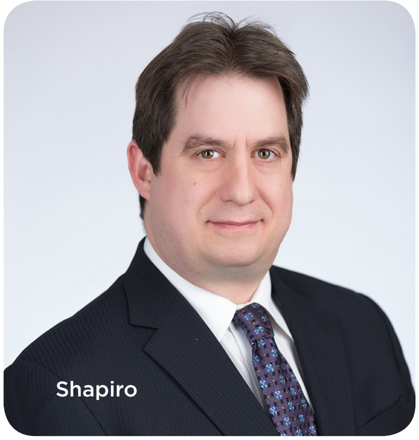
Multiemployer Pension Plans Draw Concern Over Long-Term Health

THE PENSION WORLD has been dominated since the end of 2014 by the passage of the Multiemployer Pension Reform Act of 2014 (MPRA). *Enrolled Actuaries Report* spoke with Josh Shapiro, the new vice chairperson of the Academy's Pension Practice Council (PPC), about how the MPRA may shape the future for pension actuaries.

Some multiemployer pension plans are facing serious financial distress, and under MPRA they now have expanded ability to reduce benefits, even to retirees, in order to remain solvent, Shapiro said in an interview this month. Plans are able to exercise this authority only when they conclude that doing so will preserve long-term benefits above what participants would receive if the plan exhausts its assets.

"Two plans have submitted applications to reduce benefits," Shapiro said, and "there are roughly 100 to 150 plans out there that are going to have to reduce benefits one way or another. While the vast majority of multiemployer plans are financially sound and the benefits in those plans are not in jeopardy, the plans that are in serious trouble still represent in excess of 1 million participants."


Shapiro

The Central States Pension Fund—a large plan that covers over 400,000 current and future retired workers, including many in the trucking industry—was the first plan to apply for such a reduction in benefits last year, and the IRS and Treasury Department have until May to decide on the request. A second plan in the construction industry recently submitted an application to reduce benefits as well.

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Inside this issue

Annual Meeting Breakout Sessions Tackle Pension Issues

THREE PENSION PRACTICE SESSIONS at the Academy's Annual Meeting and Public Policy Forum in November looked at various challenges in multiemployer plans and lifetime income.

One looked at critical issues in multiemployer pensions in the context of passage of the Multiemployer Pension Reform Act of 2014 (MPRA), which was passed at the end of that year in a lame-duck congressional session, and how the Pension Benefit Guaranty Corp. (PBGC) and Treasury Department have approached the new policy prescriptions, and what new reforms Congress may be considering.

"I think there was widespread recognition on [Capitol] Hill that there was there was a serious problem in the multiemployer system," said Michael Kreps, a principal with Groom Law Group who was

ANNUAL MEETING, PAGE 6 >

Register Now for 2016 Enrolled Actuaries Meeting

The Academy and the Conference of Consulting Actuaries will serve as joint hosts for the 41st annual **Enrolled Actuaries Meeting**, April 10-13, at the Marriott Wardman Park Hotel in Washington, D.C. The meeting will offer a variety of panels and workshops, covering a wide range of topics and issues relevant to EAs and other pension professionals. Meeting registration includes an exhibit of products and services geared to EAs. The exhibit hall opens on Sunday, April 10. **Register today**.

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Federal Officials Discuss Sustainability of Medicare, Social Security Programs

Dodaro

GENE DODARO, comptroller general of the United States and head of the Government Accountability Office (GAO), spoke at the Academy's Annual Meeting and Public Policy Forum on the sustainability of critical government programs including Medicare and Social Security. He painted a grim picture of the future if no action is taken to shore up these systems, noting, "The federal systems are on a long-term unsustainable financial path."

Debt-to-GDP, a key metric of a country's financial health, sits at 74 percent, he noted, well above the 38 percent 30-year historical average. And with the surge of seniors entering the Social Security and Medicare rolls, that figure is poised to climb above 100 percent in the coming decade—an unsustainable level not seen since World War II.

Dodaro briefly outlined two ongoing shifts that threaten long-term financial sustainability: the aging of our population, and increasing longevity. Taken in tandem, these two drivers are changing the landscape for important financial security systems like Social Security and Medicare. Other federal systems including the Pension Benefit Guaranty Corp. (PBGC) and the National Flood Insurance Program also face serious funding shortfalls.

An engaging speaker on sobering topics, Dodaro discussed the possible effects of failures in long-term financial security programs, including a lower standard of living for those Americans near the bottom of the economic ladder, and "intergenerational warfare" over looming Social Security benefit reductions. We face "strains on the social fabric" down the line if we don't act soon to address these issues, Dodaro said.

Responding to a question from an attendee, Dodaro explained how the GAO maintains its independence while investigating thorny matters of financial security. He spoke about the transparent nature of the work his team does, which "keeps [the GAO] in the middle," outside of partisan divides. In laying out the rigorous quality control system for his office's research, Dodaro discussed the core values that drive the GAO's work: accountability, integrity, and reliability.

BERNER DISCUSSES STABILITY OF FINANCIAL SYSTEM

Also at the annual meeting, Richard Berner, director of the Treasury Department's Office of Financial Research (OFR), spoke on risk outlook, financial security, and financial stability in the context of insurance and pensions.

The smooth functioning of both of those systems is critical to the economy and to the stability of the financial system, he said, and because OFR's mission is to promote financial stability, "We need to better understand how insurance and pension activities are evolving," including where risks may be and how best to manage them.

Berner—who was confirmed as the OFR's first director three years ago when he began a six-year term—outlined the agency's mission and discussed its risk outlook, stress-testing, and risk management, and how the office evaluates tools for assessing the resilience of the system.

"Financial stability occurs when a financial system can provide its basic functions even under stress," he said. "We want to ensure that when shocks do hit, the financial system continues to provide its basic functions to facilitate economic activity."

"What I call 'guard rails'—or incentives that affect behavior—are needed to increase the cost of, and thereby constrain, the risk-taking that can create financial vulnerabilities," he said.

He said that if the Legal Entity Identifier (LEI) system—which has become fully operational in just a few years—had been in place in 2008, industry regulators and policymakers would have been better able to trace the connections of Lehman Brothers and others across the financial system. Because of this, he said he has called for mandating LEI's use for regulatory reporting.

Updated Social Security and IRS Amounts for 2016

These four tables list updated figures for IRS pension limits, Social Security amounts, covered compensation, and PBGC premiums for 2016.

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

Covered Compensation, 2016

2016 WAGE BASE $118,500

(Advance calculation—pending IRS release of amounts)

YEAR OF BIRTH	AGE IN 2016	SSRA	YEAR OF SSRA	COVERED COMPENSATION ROUNDED TO $1*	$12	$600**	$3,000
1949	67	66	2015	72,643	72,636	72,600	72,000
1950	66	66	2016	75,180	75,180	75,000	75,000
1951	65	66	2017	77,640	77,640	77,400	78,000
1952	64	66	2018	80,006	80,004	79,800	81,000
1953	63	66	2019	82,311	82,308	82,200	81,000
1954	62	66	2020	84,566	84,564	84,600	84,000
1955	61	67	2022	88,886	88,884	88,800	90,000
1956	60	67	2023	90,986	90,984	91,200	90,000
1957	59	67	2024	93,000	93,000	93,000	93,000
1958	58	67	2025	94,920	94,920	94,800	96,000
1959	57	67	2026	96,780	96,780	96,600	96,000
1960	56	67	2027	98,580	98,580	98,400	99,000
1961	55	67	2028	100,320	100,320	100,200	99,000
1962	54	67	2029	101,974	101,964	102,000	102,000
1963	53	67	2030	103,611	103,608	103,800	105,000
1964	52	67	2031	105,206	105,204	105,000	105,000
1965	51	67	2032	106,723	106,716	106,800	108,000
1966	50	67	2033	108,154	108,144	108,000	108,000
1967	49	67	2034	109,466	109,464	109,200	108,000
1968	48	67	2035	110,674	110,664	110,400	111,000
1969	47	67	2036	111,763	111,756	111,600	111,000
1970	46	67	2037	112,723	112,716	112,800	114,000
1971	45	67	2038	113,623	113,616	113,400	114,000
1972	44	67	2039	114,497	114,492	114,600	114,000
1973	43	67	2040	115,311	115,308	115,200	114,000
1974	42	67	2041	116,006	116,004	115,800	117,000
1975	41	67	2042	116,606	116,604	116,400	117,000
1976	40	67	2043	117,077	117,072	117,000	117,000
1977	39	67	2044	117,411	117,408	117,600	117,000
1978	38	67	2045	117,746	117,744	117,600	117,000
1979	37	67	2046	118,080	118,080	118,200	118,500
1980	36	67	2047	118,320	118,320	118,200	118,500
1981	35	67	2048	118,457	118,452	118,500	118,500
1982	34	67	2049	118,500	118,500	118,500	118,500
1983	33	67	2050	118,500	118,500	118,500	118,500
1984	32	67	2051	118,500	118,500	118,500	118,500

Advance calculation by Buck Consultants November 2015.
* 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	2016	2015
Single-Employer Plans:		
Flat-rate premium (per participant)	$64	$57
Variable-rate premium	$30 per $1,000 of unfunded vested benefits Maximum of $500 per participant	$24 per $1,000 of unfunded vested benefits Maximum of $418 per participant
Multiemployer Plans:		
Flat-rate premium (per participant)	$27	$26

Social Security—2016 Factors

The Social Security Administration announced updated factors for 2016.

Wage Base The maximum amount of wages taxable in 2016 is $118,500 for Social Security OASDI purposes. All wages are subject to Medicare payroll tax.

COLA There is no cost-of-living increase for benefits payable in 2016.

Wage Index The Average Annual Wage figure of $46,481.52 will be used in computing benefits for workers who become eligible in 2016. This figure is based on data for the last complete year (2014) and is used to determine other wage-indexed numbers given in the table below.

FACTOR	2016	2015
Wage base:		
for Social Security	$ 118,500	$ 118,500
for Medicare	No limit	No limit
old-law wage base, for indexing PBGC maximum, etc.	$ 88,200	$ 88,200
Cost-of-living increase (applies to December benefits, payable in January)	0.0%	1.7%
Average annual wage (based on data two years earlier)	$ 46,481.52	$ 44,888.16
PIA formula, first bend point	$ 856	$ 826
PIA formula, second bend point	$ 5,157	$ 4,980
Maximum family benefit, first bend point	$ 1,093	$ 1,056
Maximum family benefit, second bend point	$ 1,578	$ 1,524
Maximum family benefit, third bend point	$ 2,058	$ 1,987
Retirement test exempt amount (annual)		
below SSNRA	$ 15,720	$ 15,720
year of SSNRA	$ 41,880	$ 41,880
Wages needed for one quarter of coverage	$ 1,260	$ 1,220
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 2016

Principal Limits

IRC	LIMIT	2016 ROUNDED	2015 ROUNDED	2016 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
415(b)(1)	Defined benefit plan limit	$ 210,000	$ 210,000	$ 214,480	$ 215,000	0.3%
415(c)(1)	Defined contribution plan limit	53,000	53,000	53,620	54,000	0.8%
401(a)(17)	Limit on includible compensation *	265,000	265,000	268,100	270,000	0.8%
402(g)(1)	Limit on 401(k)/403(b) elective deferrals	18,000	18,000	18,158	18,500	1.9%
414(q)	HCE definition	120,000	120,000	121,144	125,000	3.2%
414(v)(2)	401(k)/403(b)/457(b) catch-up deferral limit	6,000	6,000	6,053	6,500	7.4%

Other Limits

IRC	LIMIT	2016 ROUNDED	2015 ROUNDED	2016 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
457(b)	Limit on deferrals	$ 18,000	$ 18,000	$ 18,158	$ 18,500	1.9%
416(i)	Top-heavy key employee definition	170,000	170,000	174,265	175,000	0.5%
409(o)(1)(C)	ESOP payouts, five-year limit	1,070,000	1,070,000	1,072,400	1,075,000	0.3%
409(o)(1)(C)	ESOP payouts, additional one-year limit	210,000	210,000	214,480	215,000	0.3%
408(k)(2)(C)	SEP pay threshold	600	600	603	650	7.8%
401(a)(9)	QLAC (Qualified Longevity Annuity Contract)	125,000	125,000	127,363	135,000	6.0%
132(f)(2)(A)	Commuter/transit limit (monthly)	255	250	255	260	2.0%
132(f)(2)(B)	Parking limit (monthly)	255	250	255	260	2.0%

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

PPC Submits Comments to Treasury, IRS on QLACs

THE PENSION PRACTICE COUNCIL (PPC) submitted comments to the Treasury Department and the IRS on the final regulations concerning Qualified Longevity Annuity Contracts (QLACs) and their advantages.

QLACs can enhance the retirement security of many Americans by providing lifetime income that begins only after a certain age, which may be as late as age 85, thereby protecting individuals against outliving their retirement savings. In the letter, the PPC argues that more Americans could benefit from this type of longevity annuity, especially if the QLACs provide variable and indexed annuities.

The PPC concludes that the final regulations issued by Treasury and the IRS "provide a welcome addition to the options available to retirees for providing financial security throughout their retirement years. We appreciate that the regulation allows the Commissioner to issue additional guidance that would allow variable annuities to be considered QLACs" and urge that such guidance be issued as described in its letter.

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Other plans could follow the same path as Central States and apply for benefit reductions under MPRA rules, or they could wait until they exhaust their assets and then seek funds from the Pension Benefits Guaranty Corp. (PBGC), a quasi-government agency, Shapiro said.

Pension funds have not yet explored all the possibilities afforded by the MPRA, including a "partition" feature; Shapiro believes many plans will attempt that method in the future. Another option is a "facilitated merger," in which a troubled plan could merge with a healthy plan and the PBGC could use some of its assets to support that transaction.

Last year, the PPC and Multiemployer Plans Subcommittee sent comments to the IRS in both April and August about suspension of benefits under MPRA, and a separate letter to the PBGC on partitions and facilitated mergers.

The most troubled plans are heading into the red because of three key factors: a lower number of current workers supporting a system that includes a growing number of retirees; many plans lost as much as 30 percent of their assets in the 2008 market downturn that preceded the so-called great recession; and many plans have had fewer unionized employees over the past several decades—including the trucking industry, which was deregulated in the 1980s.

"Plans that are healthy may have had one or two of those [factors] ... but most of the plans that are in danger of failing have all three," Shapiro said. "If you had all three of those conditions, in many cases you're not going to make it without help."

The quasi-federal PBGC—funded by plans' premiums—has separate insurance programs for single and multiemployer plans, and insolvent multiemployer plans are projected to drain PBGC's multiemployer assets in about 10 years, Shapiro said.

"After that point, PBGC will not have any multiemployer money left and, barring an act of Congress, people who were depending upon that coverage will get nothing, or almost nothing," he said.

"Some people speculate that if that day of reckoning ever arrives Congress will bite the bullet and write a check—but nobody knows that for certain," he said. "They would actually have to pass a bill, [and] it seems pretty clear they wouldn't do it until the day of reckoning; they wouldn't do it now.

'PBGC in the near term will support insolvent plans, but that won't last forever and the money is going to run out.'

— Shapiro

"PBGC in the near term will support insolvent plans, but that won't last forever and the money is going to run out," he added.

Comparing the PBGC shortfall to the more highly publicized Social Security trust funds' long-term projections, Shapiro said that program's projected revenue stream versus its projected assets is short by about 25 percent. In absence of any changes in benefits or taxes, that would mean Social Security would be able to pay about 75 percent of the benefits that are due long term.

The PBGC, on the other hand, would only be able to pay about 5 percent of the benefits it will owe to participants in insolvent multiemployer plans. "It's trivial," Shapiro said. "They're way, way short of what they need for multiemployer plans at the moment."

The PPC sent a letter almost two years ago to congressional leaders urging them to act on the problem, and Shapiro acknowledged that "it's hard for Congress to act, because inevitably, no matter what happens, some participants are going to lose benefits one way or another, at least in part."

But "it's a very simple problem, in some ways," he added. "Either you find money, or you pay less in benefits."

Mark Iwry (left), of the Treasury Department, makes a point during the Lifetime Income Challenge pension session.

formerly a Senate staff member who worked on pension issues.

The affected plans are from industries that are largely not being funded, which include trucking and the printing industries.

Two key federal lawmakers drove passage of the MPRA—Democrat George Miller of California, who retired in 2015 after its passage, and Republican John Kline of Minnesota, who is retiring after the current session of Congress ends this month. Panelists noted they had little backlash to fear because they would be stepping down.

While the PBGC has about $100 billion in assets, the panelists generally agreed it would be much better for Congress to address potential long-term shortfalls in multiemployer pension plans now, rather than later, with long-term deficits projected to kick in after 2025.

Another pension panel looked at lifetime income challenges, where panelists noted that employer-sponsored defined benefit (DB) plans can provide individuals with a source for lifetime income but have created challenges for the employers who sponsor them and, as a result, many employers have shifted to defined contribution plans.

Panelists discussed various ways in which people, and employers, could delay some portions of their pension benefits, or Social Security, to help ensure lifetime income. Manning said following the session that options need to be made simple so people who may not have financial literacy can understand them.

The cost of not retiring on time can be expensive for employers, said Kevin Hanney, director of pension investments at United Technologies Corp. Judy Mares, deputy assistant secretary of the Employee Benefits Security Administration noted that DB plans are no longer default retirement plans, and that it is essential to create retirement income from retirement savings.

Treasury Department official Mark Iwry said the department is "eager to see the market pick up on" Qualified Longevity Annuity Contracts (QLACs).The PPC recently commended the department for publishing final regulations that it said would enhance the retirement security of many Americans.

A third pension panel looked at public plan funding and risk disclosures. The Academy supports meaningful disclosures for public pension plans, and this session looked at the appropriate disclosures related to the funding and risks of public pensions that will better inform decision-makers and allow stakeholders to better evaluate plans.

Public plan actuaries tend to focus on the needs of clients, who generally oversee plans, said Bill Hallmark, new vice president of the PPC. "The question is what information should be included in our reports, and how should it be presented so that stakeholders can have the information they need to assess the plan's funding policy and associated risks," he said.

New PPC Chairperson Bill Hallmark moderated the public plans session.

Doug Offerman of Fitch Ratings said that from his point of view, "Actuaries are still in the best position to help us understand pension risk," while Melissa Moye of the Office of State and Local Finance at the Department of Treasury said the disclosure of risks and potential outcomes is "absolutely critical to the long-term functioning of a funding system."

SAVE THE DATE

The Academy's 2016 Annual Meeting and Public Policy Forum will be held Nov. 3-4 in Washington, D.C.

Pension Committee Releases Variable Annuity Plans Practice Note Exposure Draft

THE PENSION COMMITTEE released the *Variable Annuity Plans* practice note exposure draft on measuring obligations of defined benefit pension plans that include variable annuity benefits.

The draft covers mathematical consequence, guidance from actuarial standards of practice (ASOPs), traditional liability measurement of pure variable benefits, potential liability measurement of pure variable benefits under regulatory requirements, financial accounting in the public and private sectors, single-employer private-sector funding, multiemployer private-sector funding, and lump-sum distributions.

Cash balance plans that credit market rates of return are closely related to variable annuity plans, but are not addressed in the practice note. Its intended users are the members of actuarial organizations governed by the ASOPs promulgated by the Actuarial Standards Board.

Pension Cost Webinar Looks at Cost Recognition

MORE THAN 500 ATTENDEES from almost 200 registered sites tuned in to the Academy's "Alternatives for Pension Cost Recognition" webinar in November, in which panelists discussed an area of emerging practice to inform actuaries and other interested parties about alternative expense methodologies. As a membership benefit, Academy members can access the webinar's slides and audio at no cost by logging in to the pension webinar page.

The webinar reviewed applications of yield curve rates in determining the elements of pension accounting cost, along with the theoretical rationales and implications of using them. It was based on the issue brief *Alternatives for Pension Cost Recognition—Issues and Implications*, released by the Pension Committee and Pension Accounting Committee in August.

Intersector Group Releases Notes From September Meeting With IRS, PBGC

THE INTERSECTOR GROUP released the notes of its September 2015 meeting with the Treasury Department and IRS, and with the Pension Benefit Guaranty Corp. (PBGC). The group meets with IRS/Treasury and the PBGC twice a year.

At the IRS/Treasury meeting, the discussions covered new final funding rules under Internal Revenue Code section 430—logistics of standing/formula elections to apply funding balances toward quarterly contribution requirements. Discussions centered on how the standing election described in Treasury regulations interacts with the replacement formula election. The group indicated that a plan sponsor may determine the minimum required contribution for the current plan year, and the amount of that minimum required contribution may subsequently change due to a change in actuarial assumptions, the correction of an error, or other factors.

The IRS/Treasury representatives noted that there is only one minimum required contribution for the plan year, and to the extent that other calculations are developed prior to the final minimum being determined, those calculations are only preliminary. The regulations do not anticipate that the minimum for the plan year will change once it has been determined and reflected in a replacement formula election.

Other items discussed included hybrid plan transition rules, mortality tables, changes in funding methods, risk transfers, changes in role of IRS actuaries, plan termination issues, and Multiemployer Pension Reform Act and amortization extensions.

The PBGC meeting covered final reportable events regulations, including the logistics of the 4 percent probability-of-default test. The PBGC representatives indicated that the 4 percent probability-of-default test in the final reportable events regulations was in response to comments received regarding the use of Commercial Credit Reporting Company (CCRC) scores in the proposed regulations.

The general reaction to the use of CCRC scores highlighted concerns that scores were available from only one CCRC, that they might not be accurate or easy to obtain, and that they might not be updated with sufficient frequency. The meeting also covered an update on PBGC's review of actuarial assumptions and potential timing of any changes, the timing of final regulations under ERISA section 4010, the difficulty of finding suitable annuity carriers when small- to mid-sized plans terminate, and issues related to the Multiemployer Pension Reform Act of 2014.