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The *Enrolled Actuaries Report* is a quarterly publication of the American Academy of Actuaries.
www.actuary.org

ENROLLED ACTUARIES REPORT

VOL.38 NO.4 WINTER 2014

# PBGC Year in Review


THE PENSION BENEFIT GUARANTY CORPORATION (PBGC) reported a $62 billion gap between its assets and its liabilities in its **2014 annual report**. This shortfall means that at some point, it could fail to pay some of the benefits it has guaranteed. The deficit of the PBGC's multiemployer plan program alone rose to an all-time high of $42.4 billion this year—more than five times its previous record high.

The financial condition of the PBGC's single-employer program actually improved for 2014, with a deficit of about $19.3 billion, compared to 2013's $27.4 billion figure.

## MULTIEMPLOYER PROGRAM

The multiemployer plan deficit at $42.4 billion—up from $8.26 billion in the PBGC's 2013 annual report—creates a substantial risk that, without changes, the program will become insolvent. The report notes that the surge in the deficit is "primarily due to losses from financial assistance stemming from the addition of two large new probables with a net claim of $26,335 million and 14 additional new probables with a net claim of $8,987 million. Other factors included a charge of $60 million in actuarial adjustments, a charge of $47 million due to expected interest on accrued liabilities, administrative expenses of $18 million, offset by $122 million in net premium income, $75 million in investment gains, and a credit of $12 million due to an increase of interest factors."

Unlike troubled single-employer plans, for which the PBGC becomes

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## Inside this issue



# Congress Makes a Major Change in Multiemployer Plan Reform

INCLUDED IN THE OMNIBUS SPENDING BILL that Congress passed to fund the federal government for the year 2015 was long-awaited multiemployer pension reform that allows distressed plans that are projected to become insolvent in the next 15 or 20 years to cut the benefits they pay to both current and future retirees in order to forestall insolvency.

The legislation prohibits monthly benefits from being reduced below 110 percent of the benefit guaranteed by the Pension Benefit Guaranty Corporation, and prohibits benefit cuts for the disabled and those over 80 years old.

The implications of many of the changes are not yet clear, and it may take years for federal agencies to promulgate the regulations that will govern how all of the changes are carried out. Academy work groups are already hard at work analyzing the effects of this reform and will issue detailed analyses of the changes over the coming year.

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ENROLLED ACTUARIES REPORT

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# Academy Testifies Before Congress on Social Security

AS CONGRESS RACED TO COMPLETE A BUDGET and negotiate last-minute deals on terrorism risk insurance, multiemployer pension plan reform, and other issues before adjourning for the year, the Academy testified before the Senate Finance Committee on whether the Social Security program is working for women.

Academy member Janet Barr was one of four experts called to testify on how the social insurance program's rules are gender-neutral, but its impacts are not.

Testifying alongside Barr were Dr. Catherine J. Dodd, Ph.D., RN, of the National Committee to Preserve Social Security and Medicare, Dr. Sita Nataraj Slavov, Ph.D., of George Mason University, and Barbara Perrin, a Social Security beneficiary from Eugene, Ore.

Barr, former chairperson of the Academy's Social Security Committee, was invited to submit written testimony and appear before the committee.

Her testimony showed that Americans' Social Security benefits are based on average indexed earnings in their 35 highest-paid years regardless of gender. However, she noted, "some of Social Security's rules have a different impact on women because the average woman's work history is not the same as that of the average man."

Social Security benefits are affected, Barr said, by gender-specific factors such as women's greater likelihood than men to be out of the workforce or to have breaks in employment, and their lower average earnings. Other gender-specific factors include women's longer life spans, and the fact that women are more likely than men to be single, widowed, or divorced in retirement.

Barr urged lawmakers to consider legislative reform options in the context of the Social Security program's competing principles of social adequacy and individual equity. She asserted that, while "the current Social Security law is gender neutral … it contains spousal and subsidized benefit provisions that mitigate, but do not eliminate, the impact of gender-related factors that produce lower benefits for women."

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the trustee at plan termination, the PBGC steps in at the time of plan insolvency for multiemployer plans. Insolvency generally occurs after all contributing employers have left the plan.

In FY 2014, the agency paid $97 million in financial assistance to 53 multiemployer plans covering 52,000 retirees.

## SINGLE-EMPLOYER PROGRAM

In contrast to the troubled multiemployer program, the PBGC's single-employer program's financial position improved by just over $8 billion in 2014. The report credits the improvement to "$6,439 million in investment income, $3,834 million in net premium income and other income, a credit of $940 million due to a reduction in interest factors (this represents a $1,007 million increase in credit from the prior fiscal year), a credit of $535 million from actuarial adjustments, and $115 million credit from completed and probable terminations."

Although some critics have questioned the reality of the PBGC's single-employer program deficit, the Academy's Pension Committee, in a 2013 issue brief, concluded that the PBGC's methods and assumptions produce a reasonable representation of the single-employer program's current obligations and deficit. But the committee recognized that immediate premium increases for plan sponsors are unnecessary and potentially counterproductive, and encouraged policymakers to explore new sources of income to address the deficit, an issue investigated by the Pension Practice Council in a 2012 issue brief.

In FY 2014, the PBGC assumed responsibility for about 53,000 people in 97 trusteed single-employer plans.

# Updated Social Security and IRS Amounts for 2014

These four tables list updated figures for IRS pension limits, Social Security amounts, covered compensation, and PBGC premiums for 2015.

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

## Covered Compensation, 2015

2014 WAGE BASE $118,500

(Advance calculation—pending IRS release of amounts)

| YEAR OF BIRTH | AGE IN 2015 | SSRA | YEAR OF SSRA | COVERED COMPENSATION ROUNDED TO | | | |
|---|---|---|---|---|---|---|---|
| | | | | $1* | $12 | $600** | $3,000 |
| 1948 | 67 | 66 | 2014 | 69,997 | 69,996 | 70,200 | 69,000 |
| 1949 | 66 | 66 | 2015 | 72,643 | 72,636 | 72,600 | 72,000 |
| 1950 | 65 | 66 | 2016 | 75,180 | 75,180 | 75,000 | 75,000 |
| 1951 | 64 | 66 | 2017 | 77,640 | 77,640 | 77,400 | 78,000 |
| 1952 | 63 | 66 | 2018 | 80,006 | 80,004 | 79,800 | 81,000 |
| 1953 | 62 | 66 | 2019 | 82,311 | 82,308 | 82,200 | 81,000 |
| 1954 | 61 | 66 | 2020 | 84,566 | 84,564 | 84,600 | 84,000 |
| 1955 | 60 | 67 | 2022 | 88,886 | 88,884 | 88,800 | 90,000 |
| 1956 | 59 | 67 | 2023 | 90,986 | 90,984 | 91,200 | 90,000 |
| 1957 | 58 | 67 | 2024 | 93,000 | 93,000 | 93,000 | 93,000 |
| 1958 | 57 | 67 | 2025 | 94,920 | 94,920 | 94,800 | 96,000 |
| 1959 | 56 | 67 | 2026 | 96,780 | 96,780 | 96,600 | 96,000 |
| 1960 | 55 | 67 | 2027 | 98,580 | 98,580 | 98,400 | 99,000 |
| 1961 | 54 | 67 | 2028 | 100,320 | 100,320 | 100,200 | 99,000 |
| 1962 | 53 | 67 | 2029 | 101,974 | 101,964 | 102,000 | 102,000 |
| 1963 | 52 | 67 | 2030 | 103,611 | 103,608 | 103,800 | 105,000 |
| 1964 | 51 | 67 | 2031 | 105,206 | 105,204 | 105,000 | 105,000 |
| 1965 | 50 | 67 | 2032 | 106,723 | 106,716 | 106,800 | 108,000 |
| 1966 | 49 | 67 | 2033 | 108,154 | 108,144 | 108,000 | 108,000 |
| 1967 | 48 | 67 | 2034 | 109,466 | 109,464 | 109,200 | 108,000 |
| 1968 | 47 | 67 | 2035 | 110,674 | 110,664 | 110,400 | 111,000 |
| 1969 | 46 | 67 | 2036 | 111,763 | 111,756 | 111,600 | 111,000 |
| 1970 | 45 | 67 | 2037 | 112,723 | 112,716 | 112,800 | 114,000 |
| 1971 | 44 | 67 | 2038 | 113,623 | 113,616 | 113,400 | 114,000 |
| 1972 | 43 | 67 | 2039 | 114,497 | 114,492 | 114,600 | 114,000 |
| 1973 | 42 | 67 | 2040 | 115,311 | 115,308 | 115,200 | 114,000 |
| 1974 | 41 | 67 | 2041 | 116,006 | 116,004 | 115,800 | 117,000 |
| 1975 | 40 | 67 | 2042 | 116,606 | 116,604 | 116,400 | 117,000 |
| 1976 | 39 | 67 | 2043 | 117,077 | 117,072 | 117,000 | 117,000 |
| 1977 | 38 | 67 | 2044 | 117,411 | 117,408 | 117,600 | 117,000 |
| 1978 | 37 | 67 | 2045 | 117,746 | 117,744 | 117,600 | 117,000 |
| 1979 | 36 | 67 | 2046 | 118,080 | 118,080 | 118,200 | 118,500 |
| 1980 | 35 | 67 | 2047 | 118,320 | 118,320 | 118,200 | 118,500 |
| 1981 | 34 | 67 | 2048 | 118,457 | 118,452 | 118,500 | 118,500 |
| 1982 | 33 | 67 | 2049 | 118,500 | 118,500 | 118,500 | 118,500 |
| 1983 | 32 | 67 | 2050 | 118,500 | 118,500 | 118,500 | 118,500 |

Advance calculation by Buck Consultants, LLC October 2014.

* 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

| | 2015 | 2014 |
|---|---|---|
| Single-Employer Plans: | | |
| Flat-rate premium (per participant) | $57 | $49 |
| Variable-rate premium | $24 per $1,000 of unfunded vested benefits Maximum of $418 per participant | $14 per $1,000 of unfunded vested benefits Maximum of $412 per participant |
| Multiemployer Plans: | | |
| Flat-rate premium (per participant) | $13 | $12 |

# Social Security—2015 Factors

### The Social Security Administration announced updated factors for 2015.

**Wage Base** The maximum amount of wages taxable in 2015 is $118,500 for Social Security OASDI purposes. All wages are subject to Medicare payroll tax.

**COLA** The cost-of-living increase in benefits is 1.7% first applicable to December 2014 benefits, payable in January 2015.

**Wage Index** The Average Annual Wage figure of $44,888.16 will be used in computing benefits for workers who become eligible in 2015. This figure is based on data for the last complete year (2013) and is used to determine other wage-indexed numbers given in the table below.

| FACTOR | | 2015 | 2014 |
|---|---|---|---|
| Wage base: | | | |
| | for Social Security | $ 118,500 | $ 117,000 |
| | for Medicare | No limit | No limit |
| | old-law wage base, for indexing PBGC maximum, etc. | $ 88,200 | $ 87,000 |
| Cost-of-living increase (applies to December benefits, payable in January) | | 1.7% | 1.5% |
| Average annual wage (based on data two years earlier) | | $44,888.16 | $44,321.67 |
| PIA formula, first bend point | | $ 826 | $ 816 |
| PIA formula, second bend point | | $ 4,980 | $ 4,917 |
| Maximum family benefit, first bend point | | $ 1,056 | $ 1,042 |
| Maximum family benefit, second bend point | | $ 1,524 | $ 1,505 |
| Maximum family benefit, third bend point | | $ 1,987 | $ 1,962 |
| Retirement test exempt amount (annual) | | | |
| | below SSNRA | $ 15,720 | $ 15,480 |
| | year of SSNRA | $ 41,880 | $ 41,400 |
| Wages needed for one quarter of coverage | | $ 1,220 | $ 1,200 |
| 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 2014

### Principal Limits

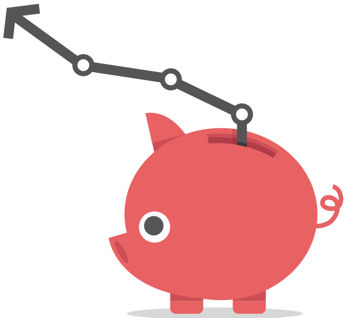
| IRC | LIMIT | 2015 ROUNDED | 2014 ROUNDED | 2015 UNROUNDED | NEXT INCREMENT | % INCREASE NEEDED |
|---|---|---|---|---|---|---|
| 415(b)(1) | Defined benefit plan limit | $210,000 | $210,000 | $214,256 | $215,000 | 0.4% |
| 415(c)(1) | Defined contribution plan limit | 53,000 | 52,000 | 53,564 | 54,000 | 0.9% |
| 401(a)(17) | Limit on includible compensation * | 265,000 | 260,000 | 267,820 | 270,000 | 0.9% |
| 402(g)(1) | Limit on 401(k)/403(b) elective deferrals | 18,000 | 17,500 | 18,138 | 18,500 | 2.1% |
| 414(q) | HCE definition | 120,000 | 115,000 | 121,016 | 125,000 | 3.3% |
| 414(v)(2) | 401(k)/403(b)/457(b) catch-up deferral limit | 6,000 | 5,500 | 6,046 | 6,500 | 7.6% |

### Other Limits

| IRC | LIMIT | 2015 ROUNDED | 2014 ROUNDED | 2015 UNROUNDED | NEXT INCREMENT | % INCREASE NEEDED |
|---|---|---|---|---|---|---|
| 457(b) | Limit on deferrals | $ 18,000 | $ 17,500 | $ 18,138 | $ 18,500 | 2.0% |
| 416(i) | Top-heavy key employee definition | 170,000 | 170,000 | 174,083 | 175,000 | 0.6% |
| 409(o)(1)(C) | ESOP payouts, five-year limit | 1,050,000 | 1,050,000 | 1,071,280 | 1,075,000 | 0.4% |
| 409(o)(1)(C) | ESOP payouts, additional one-year limit | 210,000 | 210,000 | 214,256 | 215,000 | 0.4% |
| 408(k)(2)(C) | SEP pay threshold | 600 | 550 | 603 | 650 | 7.8% |
| 401(a)(9) | QLAC (Qualified Longevity Annuity Contract) | 125,000 | 125,000 | 127,225 | 130,000 | 2.2% |
| 132(f)(2)(A) | Commuter/transit limit (monthly)** | 130 | 130 | 134 | 135 | 0.8% |
| 132(f)(2)(B) | Parking limit (monthly) | 250 | 250 | 254 | 255 | 0.4% |

* Governmental plans have special rules for eligible participants as defined in OBRA '93.
** Pending legislation would once again set this equal to the parking limit for 2014 and 2105.

# Academy Releases Retirement Plan Assessments



AT THE ACADEMY'S ANNUAL MEETING and Public Policy Forum in Washington last month, the Pension Practice Council's Forward Thinking Task Force unveiled a set of assessments of retirement income systems and public policy proposals. The graded assessments are the latest step in the Academy's ongoing ***Retirement for the AGES*** initiative.

*Retirement for the AGES* provides a framework by which the Academy is illustrating the strengths and shortcomings of retirement systems and proposals to reform them. It addresses the needs of retirement plan stakeholders in both the private and public sectors. The framework is based upon four key principles, with specific elements that can be graded or scored:

- Alignment—between stakeholders' roles and their competencies.
- Governance—that defines roles, reduces conflicts of interest, manages competing needs, and properly staffs boards.
- Efficiency—in maximizing returns and minimizing risks.
- Sustainability—of the system, achieved through appropriate cost allocation and protection from extraordinary market gyrations and inflation.

The principles were first revealed in a January **monograph**, and discussed in greater detail at an April Capitol Hill **forum**. Having established its framework, the group has now released assessments evaluating five proposals to reform the American retirement system.

They include:

- The **South Dakota Retirement System**, which earned a B+ grade in the task force's assessment;
- The **USA Retirement Funds** proposal, which earned an A- grade in the task force's assessment;
- The **New Brunswick Shared Risk Model**, which earned an A- grade in the task force's assessment;
- The **traditional defined benefit plan** under the current system, which earned a C+ grade in the task force's assessment; and,
- The **safe harbor defined contribution plan** under the current system, which earned a C grade in the task force's assessment.

In a panel discussion after releasing the assessments, task force chairperson Eric Keener explained, "We issued a letter grade for each of the proposals, and we do not have a numerical rubric for these scores, but we do use peer review to ensure that all of the systems we look at are being evaluated in a similar way."

The task force plans to evaluate further retirement reform proposals in 2015.

# Issue Brief: Social Security Trustees Report Shows Little Improvement

"CONGRESS SHOULD ACT soon to improve the long-term financial outlook of Social Security. Congress must act no later than mid-2016 to pay full scheduled disability benefits." That's the conclusion of a new Academy **issue brief** examining the 2014 Social Security Trustees Report.

The report notes that the date at which the combined Social Security trust funds will be depleted remains unchanged from the 2013 report. "Trust fund asset reserves are projected to deplete during 2033, and if changes are not implemented by that date, only about 75 percent of scheduled benefits would be payable thereafter."

The most immediate problem the program faces is its Disability Insurance (DI) trust fund. "The DI trust fund ratio is projected to drop quickly from 62 percent today to zero during 2016." The Old-Age and Survivors Insurance (OASI) trust fund does not face as severe a short-term discrepancy. "The OASI trust fund ratio is expected to drop from 373 percent to 232 percent" within 10 years.

The primary driver behind challenges to the program's solvency is a demographic trend toward an older population. This can be separated into "macro-aging," the shift in the average age of the population over time caused by a decrease in birth rates that began in the 1960s, and "micro-aging," the continuous, long-term increase in life expectancies that makes each individual likely to live longer in each succeeding generation. Micro-aging presents a particular challenge to Social Security, as beneficiaries are likely to be receiving benefits for ever-longer retirement periods.

A policy solution to the problem will need to address both trends.

In the short term, the brief says, "the imminent rapid decline of the Social Security disability trust fund in 2016 must promptly be addressed, and overall Social Security program solvency should be considered in terms of the stricter requirements of sustainable solvency."