EAR

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The Seven Principles of Pension Funding

THE ACADEMY'S PENSION COMMITTEE is planning to discuss a forthcoming paper, *Seven Principles of Pension Funding*, at a session at April's Enrolled Actuaries Meeting in Washington, D.C. *EAR* interviewed Pension Committee Chairperson Ellen Kleinstuber on the background of the paper and some of its key elements.

What prompted this new paper on the Pension Protection Act of 2006 (PPA) and what are the goals of publishing it now for pension actuaries?

This paper has been in the works for a long time. The original idea developed after a series of legislative changes were made to the PPA in 2009–2012 to provide relief to plan sponsors from the combined effects of the 2008 market crash and the persistence of low interest rates. A paper written by the Pension Practice Council while the PPA was being formulated outlined seven fundamental principles to guide the creation of a new funding regime for single-employer plans, and the Pension Committee wondered how well the PPA legislation, with its subsequent modifications and associated regulatory guidance, would stand up against those original guiding principles.

How well has the PPA held up since its inception, and how has it made a positive difference in pension plans? Conversely, what are or have been its shortfalls?

Defined benefit plans of all varieties have faced some significant funding challenges since 2008 when the PPA took effect for most single-employer

Kleinstuber

plans. The measure became law at a somewhat unprecedented time, and as a result Congress continued to pass a series of legislative relief packages—just like it did prior to the PPA—to

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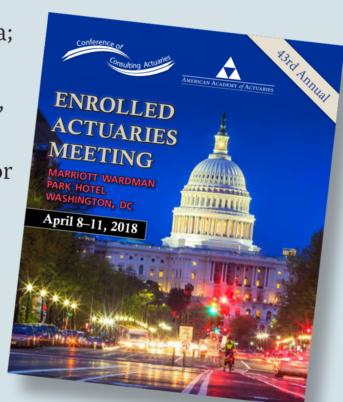
EA Meeting Set for April 8–11 in Washington

THE **ENROLLED ACTUARIES MEETING** will be held April 8–11 in Washington, D.C. Sponsored jointly by the Academy and the Conference of Consulting Actuaries, the 43rd annual EA Meeting will offer panels, workshops, and speakers covering a variety of topics and issues relevant to enrolled actuaries and other pension professionals.

Academy President Steve Alpert will kick off the event with an opening address on Monday, April 9, highlighting Academy work on retirement income options within defined benefit plans; the Multiemployer Plans Committee's outreach on multiemployer plan issues; the Academy's Lifetime Income Initiative; the retirement readiness report produced jointly last year with the Institute and Faculty of Actuaries (U.K.) and the Actuaries Institute of Australia; and assessments of different retirement plans, systems, and proposals using the Retirement for the AGES framework.



Sessions involving Academy groups and volunteers will include:

- **Talking Risk (Session No. 001),** the opening general session, will feature former Actuarial Standards Board (ASB) Vice Chairperson Frank Todisco and Sherry Chan, chief actuary with the New York City Office of the Actuary

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provide plan sponsors with a longer transition period to the new rules.

One of the PPA's primary goals was to reduce moral hazard associated with plan sponsorship by minimizing the ability of poorly funded plans to increase benefits or pay accelerated benefits until such time as funding improves. This was done through the Code Section 436, funding-based benefit restrictions. The use of bond-based interest rates to value accrued benefit liabilities and a target of funding to 100 percent of those accrued benefit liabilities over a seven-year period have also helped to improve funding levels. The law has provided for a fairly good regulatory framework to facilitate in this regard. However, while the basic funding formula and benefit restriction rules are pretty straightforward, the regulatory rules for implementing them are incredibly complex and place a significant burden on plan administrators in complying with them. The lack of simplicity is perhaps the PPA's biggest shortcoming.

The Academy's original seven principles paper came out in 2005. Since that time—and since the PPA was adopted—there have been some dramatic changes in the economy, including the Great Recession and a long recovery period with a low-interest-rate environment. How would this affect the seven principles?

One of the first things the Pension Committee did as it started this project was to reconsider the original seven principles and decide if they are still the right principles to guide pension funding for single-employer plans. The committee concluded that they were, although we did make some minor adjustments to how we expressed a couple of them. These seven principles acknowledge a fundamental tension between improving benefit security for plan participants through increased solvency and providing plan sponsors with sufficient lead time to respond to the effect of significant market movements and right the ship after they have happened. Finding the right balance between these two principles can be challenging, and overall the PPA has provided an admirable framework for accomplishing this. There is still room for improvement, particularly in balancing the avoidance of moral hazard with simplicity.

Looking ahead, what's needed next with respect to funding of single-employer plans—how could or should the PPA be strengthened and/or changed?

In making its evaluation, the Pension Committee came up with numerous ideas for how the PPA might be improved. The paper presents a few of these the committee believes could do the most to improve plan solvency, make contributions more predictable for plan sponsors, and reduce the regulatory burden on plan administrators without increasing the potential for moral hazard.

What types of discussion do you expect to have about the new paper at the EA Meeting in April?

We'll go through each of the principles and share the Pension Committee's take on the successes and shortcomings of the PPA in that respect before we open it up to the audience for discussion. I'm looking forward to hearing what others think the PPA has done to improve funding for single-employer plans, whether they agree with the Pension Committee's ideas to improve on existing PPA rules and regulations, and what other ideas they have for making the PPA more effective.

Pension Practice Council Holds Meetings in Washington

PENSION PRACTICE COUNCIL (PPC) members and Academy staff held several meetings in Washington in February, covering a range of topics including multiemployer plans and other pension issues.

Multiemployer Plans Committee Meets With IRS/Treasury, PBGC

Multiemployer Plans Committee members met with officials from the IRS, Department of the Treasury, and the Pension Benefit Guaranty Corporation (PBGC) on Feb. 23 to discuss the status of Multiemployer Pension Reform Act applications and other issues related to multiemployer pension plans. Discussions included the PBGC's use of approximations and short cuts in modeling the projections, programming difficulties encountered, facilitated mergers and the status of proposed regulations, the approval process for two-pool alternative withdrawal liability methods, the solvency standard, and partition issues and determining impairment.

Separately, Multiemployer Plans Committee volunteers met March 26 with members of the PBGC and the U.S. Chamber of Commerce to discuss challenges the PBGC is facing on multiemployer plan issues.

Capitol Hill Visit on Multiemployer Plans

PPC members visited Capitol Hill on Feb. 22 to meet with the Senate Finance Committee on the new special congressional committee formed to look at multiemployer pension issues. The bipartisan Joint Select Committee on Solvency of Multiemployer Pension Plans is made up of 16 members appointed by House and Senate leaders—eight senators and eight House members, equally divided between Republicans and Democrats. The committee has instructions to draft a bill to address the pension crisis by the final week of November. The Academy has reached out to all of the new committee members, to offer assistance.

If at least 10 members agree on a compromise, any solution the joint committee produces will be guaranteed an expedited vote on Senate floor with no amendments. The committee is to hold at least five public meetings, including the option of a field hearing outside of Washington, D.C., for the committee to hear directly from retirees, workers, and businesses affected by the pension crisis.

Social Security Issues

Academy Pension Vice President Josh Shapiro and Academy staff met Feb. 14 with the Senate Health, Education, Labor and Pensions (HELP) Committee staff to provide input on a still-informal proposal that would offer parental leave benefits in exchange for a reduction in future Social Security benefits.

While no bill has been introduced on the issue, Academy representatives indicated that if a bill is drafted and receives serious consideration, the Academy's Social Security Committee may develop a formal issue brief on the subject. Senate staff indicated they appreciated the discussion and the unbiased point of view presented by the Academy.

Retirement Readiness Report

Senior Pension Fellow Ted Goldman and Assistant Director for Research (Public Policy) Steven Jackson presented Feb. 21 to the Savings and Retirement Foundation, on the Academy's October 2017 report on retirement readiness comparing retirement systems of the United States, the United Kingdom, and Australia.

Multiemployer Plans Committee members at the PBGC on Feb. 23

Updated Social Security and IRS Amounts for 2018

These four tables list updated figures for IRS pension limits, Social Security amounts, covered compensation, and PBGC premiums for 2018.

Tables compiled by Andrew Eisner of Conduent Human Resource Services' Knowledge Research Center.

Covered Compensation, 2018

2018 WAGE BASE $128,400

YEAR OF BIRTH	AGE IN 2018	SSRA	YEAR OF SSRA	COVERED COMPENSATION ROUNDED TO $1*	$12	$600**	$3,000
1951	67	66	2017	77,889	77,880	78,000	78,000
1952	66	66	2018	80,537	80,532	80,400	81,000
1953	65	66	2019	83,126	83,124	83,400	84,000
1954	64	66	2020	85,663	85,656	85,800	87,000
1955	63	67	2022	90,549	90,540	90,600	90,000
1956	62	67	2023	92,931	92,928	93,000	93,000
1957	61	67	2024	95,229	95,220	95,400	96,000
1958	60	67	2025	97,431	97,428	97,200	96,000
1959	59	67	2026	99,574	99,564	99,600	99,000
1960	58	67	2027	101,657	101,652	101,400	102,000
1961	57	67	2028	103,680	103,680	103,800	105,000
1962	56	67	2029	105,617	105,612	105,600	105,000
1963	55	67	2030	107,537	107,532	107,400	108,000
1964	54	67	2031	109,414	109,404	109,200	108,000
1965	53	67	2032	111,214	111,204	111,000	111,000
1966	52	67	2033	112,929	112,920	112,800	114,000
1967	51	67	2034	114,523	114,516	114,600	114,000
1968	50	67	2035	116,014	116,004	115,800	117,000
1969	49	67	2036	117,386	117,384	117,600	117,000
1970	48	67	2037	118,629	118,620	118,800	120,000
1971	47	67	2038	119,811	119,808	120,000	120,000
1972	46	67	2039	120,969	120,960	121,200	120,000
1973	45	67	2040	122,066	122,064	121,800	123,000
1974	44	67	2041	123,043	123,036	123,000	123,000
1975	43	67	2042	123,926	123,924	124,200	123,000
1976	42	67	2043	124,680	124,680	124,800	126,000
1977	41	67	2044	125,297	125,292	125,400	126,000
1978	40	67	2045	125,914	125,904	126,000	126,000
1979	39	67	2046	126,531	126,528	126,600	126,000
1980	38	67	2047	127,054	127,044	127,200	126,000
1981	37	67	2048	127,474	127,464	127,200	128,400
1982	36	67	2049	127,800	127,800	127,800	128,400
1983	35	67	2050	128,083	128,076	127,800	128,400
1984	34	67	2051	128,366	128,364	128,400	128,400
1985	33	67	2052	128,400	128,400	128,400	128,400
1986	32	67	2053	128,400	128,400	128,400	128,400

* 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	2018	2017
Single-Employer Plans:		
Flat-rate premium (per participant)	$74	$69
Variable-rate premium	$38 per $1,000 of unfunded vested benefits	$34 per $1,000 of unfunded vested benefits
	Maximum of $523 per participant	Maximum of $517 per participant
Multiemployer Plans:		
Flat-rate premium (per participant)	$28	$28

Social Security—2018 Factors

The Social Security Administration announced updated factors for 2018.

Wage Base The maximum amount of wages taxable in 2018 is $128,400 for Social Security OASDI purposes. All wages are subject to Medicare payroll tax.

COLA The cost-of-living increase in benefits is 2.0%, first applicable to December 2017 benefits, payable in January 2018.

Wage Index The Average Annual Wage figure of $48,642.15 will be used in computing benefits for workers who become eligible in 2018. This figure is based on data for the last complete year (2016) and is used to determine other wage-indexed numbers given in the table below.

FACTOR	2018	2017
Wage base:		
for Social Security	$ 128,400	$ 127,200
for Medicare	No limit	No limit
old-law wage base, for indexing PBGC maximum, etc.	$ 95,400	$ 94,500
Cost-of-living increase (applies to December benefits, payable in January)	2.0%	0.3%
Average annual wage (based on data two years earlier)	$ 48,642.15	$ 48,098.63
PIA formula, first bend point	$ 895	$ 885
PIA formula, second bend point	$ 5,397	$ 5,336
Maximum family benefit, first bend point	$ 1,144	$ 1,131
Maximum family benefit, second bend point	$ 1,651	$ 1,633
Maximum family benefit, third bend point	$ 2,154	$ 2,130
Retirement test exempt amount (annual)		
below SSNRA	$ 17,040	$ 16,920
year of SSNRA	$ 45,360	$ 44,880
Wages needed for one quarter of coverage	$ 1,320	$ $1,300
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 2018

Principal Limits

IRC	LIMIT	2018 ROUNDED	2017 ROUNDED	2018 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
415(b)(1)	Defined benefit plan limit	$ 220,000	$ 215,000	$ 221,152	$ 225,000	1.8%
415(c)(1)	Defined contribution plan limit	55,000	54,000	55,288	56,000	1.3%
401(a)(17)	Limit on includible compensation*	275,000	270,000	276,440	280,000	1.3%
402(g)(1)	Limit on 401(k)/403(b) elective deferrals	18,500	18,000	18,722	19,000	1.5%
414(q)	HCE definition	120,000	120,000	124,912	125,000	0.1%
414(v)(2)	401(k)/403(b)/457(b) catch-up deferral limit	6,000	6,000	6,241	6,500	4.2%

Other Limits

IRC	LIMIT	2018 ROUNDED	2017 ROUNDED	2018 UNROUNDED	NEXT INCREMENT	% INCREASE NEEDED
457(b)	Limit on deferrals	$ 18,500	$ 18,000	$ 18,722	$ 19,000	1.5%
416(i)	Top-heavy key employee definition	175,000	175,000	179,686	180,000	0.2%
409(o)(1)(C)	ESOP payouts, five-year limit	1,105,000	1,080,000	1,105,760	1,110,000	0.4%
409(o)(1)(C)	ESOP payouts, additional one-year limit	220,000	215,000	221,152	225,000	1.8%
408(k)(2)(C)	SEP pay threshold	600	600	622	650	4.6%
401(a)(9)	QLAC (Qualified Longevity Annuity Contract)	130,000	125,000	131,325	140,000	6.7%
132(f)(2)(A)	Commuter/transit limit (monthly)	260	255	263	265	0.8%
132(f)(2)(B)	Parking limit (monthly)	260	255	263	265	0.8%

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

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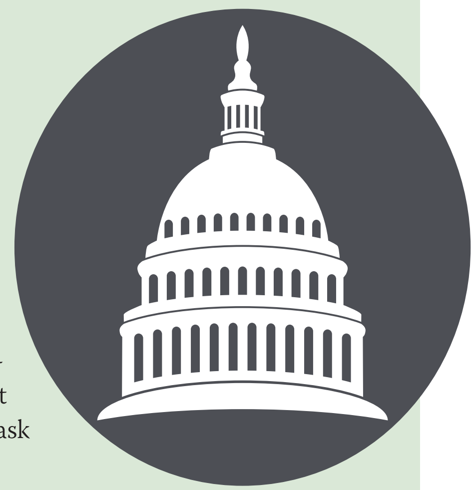
and a member of the Public Plans Committee.

- **Valuation of Lump Sums for Accounting (202)** will be presented by Academy Board member and Pension Committee Vice Chairperson Bruce Cadenhead, and Aaron Weindling, a member of the Pension Committee.
- **Seven Principles of Pension Funding (403)** will feature Pension Committee Chairperson Ellen Kleinstuber and Tim Geddes, a member of the Pension Practice Council and an Academy Board member (see story, p. 1).
- **Variable Annuity Plans—Funding Session Category: Accounting Issues (305)** will feature Cadenhead and Lloyd Katz.
- **More Than One Right Number—Explaining Multiple Liability Measures (704)** will feature Geddes; Bill Hallmark, a past Academy vice president, pension; and Timothy Richard Leier, a past Social Security Committee chairperson.
- **Expected Return Q&As for Pension Actuaries (804)** will feature presentations by Evan Inglis, a longtime Academy volunteer; and Elena Black, a Pension Committee member. The Expected Return issue brief, which will help pension actuaries understand the fundamentals behind the development of capital market assumptions and related models, will be posted in a Q&A format that will allow the Academy to add new questions as needed.
- **ASB Standards for Pension Actuaries (105)** will feature ASB Pension Committee Chairperson Christopher Noble and committee members Tammy Dixon and David Kausch.
- Academy Senior Pension Fellow Ted Goldman will present at **Making Retirement Assets Last a Lifetime—The Next Big Actuarial Challenge (605)**, and moderate the final general session, **Life (Expectancy) Isn't Always Fair (003)**.

The meeting also will include a general session on ethics featuring Margaret Berger, a vice chairperson of the Pension Practice Council. Stop by the Academy's booth in the exhibit hall for a chance to meet staff. The EA Meeting's full agenda is available online; register today.

Pension Practice Council Capitol Hill Briefing Set for April 13



THE LIFETIME INCOME RISK JOINT TASK FORCE will hold a briefing on Capitol Hill in Washington on Friday, April 13, from noon to 1 p.m. EDT. The briefing will spotlight lifetime income issues, unveil a quiz to help consumers better understand their lifetime income needs, and provide an update on education and public policy efforts to address these needs. It will also highlight the Academy's public interest position statement on lifetime income, which was released late last year. Presenting will be Tonya Manning and Noel Abkemeier, co-chairpersons of the task force. Academy Senior Pension Fellow Ted Goldman will moderate.

Public Employment Opportunity

THE PENSION BENEFIT GUARANTY CORPORATION (PBGC) has a public employment opportunity for director of its policy, research, and analysis department (PRAD). PBGC position information is available via USAJOBS by clicking here (current U.S. government employees), or here (non-governmental employees).

The Academy has long supported government employers who are seeking to hire qualified actuaries. See our Public Employment Opportunity Posting Policy for more information.

PBGC