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The following news summaries were developed by Gabriel, Roeder, Smith & Company to inform clients and other benefit professionals of news in the benefits industry. Our thanks to Mary Ann Vitale for her diligent work on this issue. To receive this publication electronically, send an email to web.admin@gabrielroeder.com with "SUBSCRIBE NEWS SCAN" in the subject line. To stop receiving this publication electronically, send "UNSUBSCRIBE NEWS SCAN" in the same manner. Copies of this and other benefit-related publications are available on the GRS web site at www.gabrielroeder.com.

Note: The authors of these summaries are not attorneys and the statements made are not legal advice or opinion. Qualified legal advice should be obtained before acting with regard to related laws and regulations.

IRS Allows Additional Withholding for Pensions

In March 2009, the IRS issued Publication 15-T, providing new tax withholding tables in order to implement the Making Work Pay tax credit enacted in the American Recovery and Reinvestment Act of 2009. The publication specifically indicated that the new withholding tables applied to tax withholding for pension benefits, even though the Making Work Pay tax credit did not apply to pensions. As a result, the new withholding tables created the potential for taxes withheld on pension payments to be less than the full amount required over the tax year. Consequently, pensioners could pay unexpectedly higher taxes at the end of the year.

On May 14, 2009, the IRS issued Notice 1036-P, allowing pension plans the choice of continuing to use the new withholding tables or adopting procedures to increase taxes withheld on pension payments. Notice 1036-P also provides the tax tables to use for the additional withholding. According to attorneys Mary Beth Braitman and Terry Mumford at Ice Miller, in making this decision each plan will want to consider a number of factors, including: the efforts already undertaken with respect to the new tables, necessary educational efforts, retiree responses, and the costs of adopting the new procedures.

Notice 1036-P is available at: <http://www.irs.gov/pub/irs-pdf/n1036p.pdf>

GASB Seeks Comments on Possible Changes in Pension Accounting and Reporting Standards

On March 31, 2009, the Governmental Accounting Standards Board (GASB) issued its Invitation to Comment (ITC) on possible changes in state and local governmental accounting and reporting standards for pensions and other postemployment benefits (OPEBs). The ITC is intended to encourage comments from stakeholders during an early stage in the GASB's review of current standards under Statements No. 25 and No. 27.

The review will address key issues raised during the GASB's research into the applicability and effectiveness of the current standards. Ultimately, the GASB will consider whether modifications are required to better meet financial reporting objectives. Essentially, the GASB has requested comments regarding the following questions:

- Should accounting and reporting standards for state and local governments focus on the process through which the employer finances the benefits, or the process through which the employer incurs an obligation to provide benefits, or both?
- How should the pension expense and pension liability be measured for governmental employers participating in defined benefit plans?
- What actuarial cost method should be used to determine the employer's "unfunded accrued benefit obligation?" What discount rate? (The GASB uses the term "unfunded accrued benefit obligation" to describe the employer's obligation for benefits attributable to past periods of service, but does not intend it to imply a specific funding methodology.)
- Should the GASB allow a range of actuarial cost methods to be used for determining the unfunded accrued benefit obligation? Should the unfunded obligation be immediately recognized or should it be amortized over future periods? Should investment gains and losses be smoothed into the value of plan assets?
- Are cost-sharing multiple-employer pension plans sufficiently different from single-employer and agent multiple-employer plans to warrant a different accounting treatment for participating employers?
- What should a defined benefit pension plan report as the plan's pension liability? Should a statement of changes in the unfunded accrued benefit obligation be added to the plan's basic financial statements?

The GASB is seeking comments by July 31, 2009, and will hold a public hearing during the Board's regular meeting on August 26, 2009. The ITC is accessible at:

http://www.gasb.org/exp/itc_pension_accounting_and_financial_reporting.pdf

The GASB also provides a plain-language summary of the ITC at:

http://www.gasb.org/plain-language_documents/pensionaccountingandfinancialreporting_plain-language.pdf

U.S. Senate Introduces Bill to Reemploy Federal Retirees Without Penalty

On March 18, 2009, Senator Susan Collins introduced the Part-Time Reemployment of Annuitants Act of 2009 (S. 629) to allow federal agencies to reemploy retired employees on a limited basis, without reducing their retirement annuities. The rehired employees would be allowed to receive both salary and annuity payments, but would not receive any retirement benefits based on their additional service. The proposed legislation would limit reemployment to a maximum of 520 hours or 65 days in the first six months after retirement, 1,040 hours or 130 days in any 12-month period, and a total of 3,120 hours or 390 days for each employee. Currently, federal employees who return to work on a part-time basis must take a pay reduction to offset their federal retirement annuity.

The proposed legislation is intended to facilitate the part-time reemployment of retirees in federal agencies. This is in response to the potential loss of about 1.8 million federal, postal, and judicial employees who will become eligible for retirement in the next 10 years.

The bill is available at:

http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:s629is.txt.pdf

Wilshire Reports on State Retirement Systems' Funding Levels and Asset Allocations

On March 3, 2009, Wilshire Consulting released the results of its *2009 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation*. The study is based on reported data from 125 state retirement systems covering police, firefighters, teachers, and general state employees. Of the systems, 59 reported data as of 2008, 58 reported data as of 2007, and 8 reported data as of 2006. Extrapolating from trends, Wilshire

estimated that, for the 125 state pension plans studied, the average funding ratio (using the market value of plan assets) was 84% in 2008, down from 96% in 2007.

For the 59 systems reporting 2008 data, the market value of pension assets declined 7.6% from \$869 billion in 2007 to \$804 billion in 2008. Over the same period, pension liabilities grew 5.9% from \$983 billion to \$1,041 billion. The asset value decline combined with the growth in liabilities increased the aggregate funding shortfall from -\$114 billion in 2007 to -\$237 billion in 2008. For these plans, the aggregate funding ratio (using the market value of assets) was 77% in 2008, down from 88% in 2007.

On average, state pension portfolios allocated 68% to equities (including real estate and private equity) and 32% to fixed-income securities in 2008. Given this asset mix, Wilshire estimated a median long-term annual return of 7.5%, which is 0.5% below the median actuarial interest rate assumption of 8.0%. Wilshire's long-term expected return for both domestic and foreign equity investments is 8.5%.

The report is accessible at:

http://www.wilshire.com/BusinessUnits/Consulting/Investment/2009_State_Retirement_Funding_Report.pdf

EBRI Finds Workers' Retirement Confidence Dropped to Record Low Due to Economic Downturn

On April 14, 2009, the Employee Benefit Research Institute (EBRI) released its issue brief titled: *The 2009 Retirement Confidence Survey: Economy Drives Confidence to Record Lows; Many Looking to Work Longer*. The survey found that the confidence of American workers' in affording a comfortable retirement dropped 50% over the past two years, mainly due to concerns about economic uncertainty, inflation, and cost of living. The percent of active workers who were very confident about having enough money for a comfortable retirement dropped sharply from 27% in 2007 and 18% in 2008 to 13% in 2009, the lowest rate in the survey's 19-year history. In addition, the percent of retirees who were very confident about having a financially secure retirement dropped from 41% in 2007 and 29% in 2008 to 20% in 2009.

The survey also found that workers expect to work longer before they retire. Of the respondents, 28% have changed the age at which they expect to retire. Of these, almost 90% have postponed retirement in order to increase their financial security. Moreover, 72% of workers are planning to work for pay during retirement in order to supplement their retirement income, up from 66% in 2007. By comparison, only 34% of the respondent retirees reported actually working for pay during their retirement.

Among workers who have lost confidence in a comfortable retirement, the survey found:

- 81% have reduced their expenses;
- 43% have changed their investment practices;
- 38% are working more hours or have a second job;
- 25% are saving more money; and
- 25% are seeking professional investment advice.

Notably, 75% of all workers (and/or their spouses) have saved money for retirement over the past year, one of the highest levels ever measured by the survey. However, only 44% have attempted to calculate needed retirement savings. An equal proportion only guess at how much savings they will need for a comfortable retirement.

The Retirement Confidence Survey is available at: http://www.ebri.org/pdf/briefspdf/EBRI_IB_4-2009_RCS1.pdf

NAGDCA Finds Governmental Employees Contributing to DC Plans Despite Economic Decline

In March 2009, the National Association of Government Defined Contribution Administrators (NAGDCA) published its annual *Defined Contribution Plan Survey Report*. According to the survey results, state and local government employees continued to contribute to their defined contribution (DC) plans despite the economic downturn in the final four months of 2008. In addition, although over 80% of the responding plans offer hardship or unforeseen emergency withdrawals, less than 2% have granted such withdrawals in the past year.

The survey covered 107 governmental defined contribution plans which held \$80 billion in assets and covered 2 million active participants at the end of 2008. Of the 107 surveyed plans, 65% were 457(b) plans for state and local government employees, 19% were 401(a) defined contribution plans, 14% were 401(k) plans, and 3% were 403(b) plans. The majority (52%) of the plans were state-sponsored.

More than half of the plans had assets between \$101 million and \$999 million, and 16% had assets between \$1 billion and \$5 billion. Among the surveyed plans, the most common investment options included mutual funds (offered by 84% of the plans), target date funds (67% of the plans), and institutional funds (51% of the plans). Most plans (80%) did not have an automatic enrollment feature, and almost all (90%) did not allow Roth contributions.

The survey results are available at:

http://www.nagdca.org/documents/2009_NATIONAL_SUMMARY.pdf and
http://www.nagdca.org/documents/2009_DC_Survey_Results.pdf

Universal Private Retirement Initiative Launched to Supplement Social Security Benefits

On March 10, 2009, Retirement USA issued a working paper titled: *Principles for a New Retirement System*, discussing the problems with current private-sector pension and savings plans, and offering a proposed framework for fixing them. Retirement USA is a joint effort of the Pension Rights Center, Economic Policy Institute, National Committee to Preserve Social Security and Medicare, and Service Employees International Union (SEIU). Its goal is to create a universal, secure, and adequate private retirement system that would supplement Social Security.

The working paper finds that while the current private-sector system has provided adequate retirement benefits for many people, it has failed to provide adequate benefits for many others. Although the paper does not present a specific solution, it does suggest a group of principles to guide reform, including:

- All workers should be covered by the system;
- The system should provide a steady and adequate stream of income over participants' lifetimes;
- Responsibility for contributions should be shared among employers and employees;
- Federal subsidies should be provided for low-income workers;
- System assets should be pooled and professionally managed; and,
- Benefits should be paid out over participants' lifetimes.

The paper also provides specific examples of plans and proposals which incorporate the principles.

The working paper is available at:

<http://www.retirement-usa.org/wp-content/uploads/2009/03/working-paper-031209.pdf>