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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 website at www.gabrielroeder.com.

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IRS Extends Normal Retirement Age Effective Date for Governmental Plans to 2013

On October 28, 2009, the U.S. Treasury and IRS issued Notice 2009-86, announcing their intent to extend the effective date of the final regulations related to normal retirement age (NRA) for governmental pension plans to plan years beginning on or after January 1, 2013. The notice clarifies that this extension will provide additional time for the IRS and Treasury to consider comments received with respect to the effect of the NRA regulations on governmental plans. Without this extension, the NRA regulations would have been effective for governmental plans in plan years beginning on or after January 1, 2011.

The IRS issued the final NRA regulations in 2007 to implement changes to the in-service distribution rules. The regulations require a pension plan's normal retirement age be an "age that is not earlier than the earliest age that is reasonably representative of the typical retirement age" for the industry covering the workforce. The regulations establish age 62 as the "safe harbor" normal retirement age for all plans. In addition, the regulations explain that the IRS will presume the following ages to be typical of the earliest normal retirement ages, depending on the facts and circumstances: (1) age 55 for non-public safety employees, and (2) age 50 for public safety employees. Accordingly, the IRS would not consider ages earlier than 50 for public safety employees and 55 for non-public safety employees to be reasonably representative. However, the IRS Commissioner has the authority to determine lower ages to be reasonably representative, based on the facts and circumstances.

It should be noted that the new regulations do not prevent a plan from providing unreduced benefits prior to normal retirement age or basing benefits on the completion of years of service. As stated in IRS Notice 2007-69, "an early retirement benefit, including an unreduced early retirement benefit, is permitted to be conditioned on completion of a stated number of years of service." However, the early retirement benefit may only begin to be paid after separation from service.

Notice 2009-86 is available at: www.irs.gov/pub/irs-drop/n-09-86.pdf

NASRA and NCTR Publish Public Fund Survey Findings for Fiscal Year 2008

In October 2009, the National Association of State Retirement Administrators (NASRA) and the National Council on Teacher Retirement (NCTR) released the *Public Fund Survey Summary of Findings for FY 2008*. The survey presents key data from 101 public retirement systems with 125 plans, covering 13.5 million active members, 6.7 million retirees and other annuitants, and holding \$2.6 trillion in assets. Overall, the systems surveyed represent approximately 85% of state and local defined benefit plan membership and assets as of fiscal year (FY) 2008.

The *Summary of Findings* presents information regarding plan funding, membership, benefits, contribution rates, cash flows, and actuarial assumptions. Key findings include:

- The median annual investment return was -4.7% in FY 08, down from 17.6% in FY 07. Median returns were negative in FY 01 and FY 02, but from FY 04 to FY 07 produced strong, double digit returns – which illustrates the significant investment volatility over the past 10 years. When comparing investment returns for periods ending June 30, 2008 (-4.7%) and December 31, 2008 (-25.0%), the significant contrast results from the sharp market decline in the second half of 2008.
- The average actuarial funded ratio for the surveyed plans was 85.3% in FY 08, down slightly from 86.7% in FY 07. In FY 2008, 62% of the plans had funded ratios above 80%, including most of the larger plans. The decline in funded levels was largely due to declining investment returns. However, because state and local governments typically smooth investment gains and losses into the actuarial value of assets over time (typically 5 years and sometimes longer) the impact of investment losses on a plan's funded ratio is reflected gradually. Projections indicate that funding levels will likely trend lower over the next three to five years due to the sharp decline in asset values.
- The median actuarial assumption for investment return was 8.0% in both FY 07 and FY 08. The median assumption for the real rate of return was 4.5% in both FY 07 and FY 08.
- Since FY 01, the number of annuitants has increased by a cumulative 30%. The ratio of active members to annuitants fell from 2.05 in FY 07 to 2.02 in FY 08.

The survey data are available on-line for each individual system and plan, including: plan membership, actuarial assumptions and methods, plan assets and liabilities, contribution rates, and system asset allocations, among other information. Selected data can also be viewed via comparative tables that allow sorting on selected items and provide graphs of selected data (e.g., inflation and investment return assumptions).

The survey is accessible at: <http://www.publicfundsurvey.org>. Registration is required to access the data; however, after registration, the data are available at no charge.

Kaiser Family Foundation Updates Comparison of House and Senate Health Care Reform Bills

On November 23, 2009, the Kaiser Family Foundation updated its side-by-side comparison of the major Congressional health care reform proposals, including:

- The Affordable Health Care for America Act (H.R. 3962), as passed by the U.S. House on November 7, 2009) and,
- The Patient Protection and Affordable Care Act (H.R. 3590), as introduced in the U.S. Senate on November 18, 2009.

The summaries describe key components of the legislative provisions to expand health coverage, control health care costs, and improve the health care delivery system. The summaries are updated periodically to reflect legislative changes and are available at: http://www.kff.org/healthreform/upload/housesenatebill_final.pdf

In order to provide additional information about health reform issues, the Foundation has also established a “Health Reform Gateway” on its website. The gateway provides up-to-date information on a wide range of health care reform topics, including:

- Side-by-Side Comparison of Major Health Care Reform Proposals;
- History of Health Reform Efforts;
- Explaining the Basics of Health Reform;
- Health Reform and the States;
- Health Reform Research and Analysis;
- Public Opinion Health Tracking Poll; and
- Congressional Testimony on Health Reform.

The Kaiser Health Reform Gateway is accessible at: <http://healthreform.kff.org>

Kaiser/HRET Survey Finds Health Coverage Remained Relatively Stable Despite the Recession

On September 15, 2009, the Kaiser Family Foundation and the Health Research & Educational Trust (HRET) published the results of their 2009 annual national survey on employer-sponsored health benefits offered by private and public employers. The survey included 2,054 randomly selected employers who employed three or more workers. Despite the economic recession, the survey found relatively few major changes in employer-sponsored health insurance. For example, 60% of employers offered health benefits in 2009 compared to 63% in 2008.

The survey also found that annual premiums for employer-sponsored health insurance averaged \$13,375 for family coverage and \$4,824 for single coverage in 2009 (up from \$12,680 and \$4,704 respectively in 2008). Consequently, average annual premiums for family coverage rose 5%, while premiums for single coverage did not significantly increase. However, over the last 10 years, average annual premiums for family coverage have increased 131% while workers’ wages have increased by 38% and inflation by 28%.

On average, covered workers contributed 27% of the total premiums for family coverage and 17% for single coverage in 2009. Worker contributions averaged \$3,515 for family coverage and \$779 for single coverage. Compared to 1999, average annual worker contributions for family coverage have increased by 128%. According to the survey, 15% of the surveyed employers increased worker contributions during the past year.

Although the survey showed relatively stable health benefits despite the severe economic recession, the report also suggests the reason for this is unclear. While stable benefits may indicate a strong employer commitment to maintain benefits, it may also reflect decisions that employers made about health benefits before the full implications of the worsening economy became evident. In conclusion, the report emphasizes the importance of monitoring employer-sponsored health care benefits in light of the ongoing economic problems.

The complete report is available at: <http://ehbs.kff.org/pdf/2009/7936.pdf>

ERISA Advisory Council Recommends Support of DB Pension Plans by Department of Labor

On November 4, 2009, the Advisory Council on Employee Welfare and Pension Benefit Plans (ERISA Advisory Council) recommended that the U.S. Department of Labor (DOL) provide support for defined benefit (DB) pension plans. The ERISA Advisory Council is responsible for advising the Secretary of Labor and submitting recommendations regarding the DOL Secretary’s functions under ERISA.

The council presented its recommendations to Phyllis C. Borzi, Assistant Secretary of Labor for the Employee Benefits Security Administration (EBSA) and urged the DOL to “champion” DB plans as an important means of providing retirement security. Specifically, the council recommended the DOL should:

- maintain and expand DB plans;
- revise federal regulations for DB plans that are found to be overly burdensome; and
- direct the Pension Benefit Guaranty Corporation to develop initiatives to encourage the continuation and expansion of DB plans.

The councils’ recommendations are part of its ongoing efforts to evaluate the adequacy and structure of U.S. retirement plans. Toward this end, the council’s website provides summaries of its findings on three issues: (1) Promoting Retirement Literacy and Security by Streamlining Disclosures to Participants and Beneficiaries, (2) Stable Value Funds and Retirement Security in the Current Economic Conditions, and (3) Approaches for Retirement Security in the United States. The council’s final recommendations and detailed supporting reports are expected to be available on the EBSA’s website after January 2010.

Further information on the ERISA Advisory Council is available at:
http://www.dol.gov/ebsa/aboutebsa/erisa_advisory_council.html

CRS Reports on Employment and Retirement Trends for Older Workers

On September 16, 2009, the Congressional Research Service (CRS) released its report, *Older Workers: Employment and Retirement Trends*. In the report, Patrick Purcell, CRS Income Security Specialist, examines phased retirement policies and U.S. Census Bureau data on trends in employment and retirement among older workers. As shown in the table below, the report finds that while the number of people between ages 25 and 54 will grow by 11.4 million between 2010 and 2030 (a 9% increase), the number age 65 and older will grow by 31.9 million (a 79% increase). Consequently, as the “baby boom” generation retires, fewer younger workers will take their place, leading to a substantial shift in the labor force.

U.S. Population Age 25 and Older, 2010 and 2030 (numbers in millions)				
Age Group	2010	2030	Increase (number)	Increase (percent)
25-54	127.8	139.2	11.4	9%
55-64	36.3	40.3	4.0	11%
65 and up	40.2	72.1	31.9	79%
Total	204.3	251.6	47.3	23%

The report also suggests that as more workers reach retirement age, an increasing number of U.S. employers may consider implementing phased retirement programs. Under current federal laws, employers could offer several approaches to phased retirement including: job sharing, reducing work schedules, and rehiring retired workers on a temporary or part-time basis. Under the Pension Protection Act of 2006 (PPA), pension plans are allowed to pay retirement benefits to workers who have not yet separated from employment, provided the payments do not begin before the earlier of age 62 or the plan’s normal retirement age, typically age 65.

However, the report warns that efforts to implement phased retirement may lead to unintended consequences, including:

- If a plan sponsor lowers the plan’s normal retirement age below age 62 to extend phased retirement to younger employees, employees would begin receiving full benefits at a younger age. Consequently, plan costs and contributions would likely increase.

- If employers are allowed to pay pension benefits to gainfully employed individuals, this could undermine support for the tax subsidies that are currently provided to promote retirement benefits. In addition, it might encourage employers to compensate current employees with pension income, since it would allow them to shift some of their operating costs to the pension fund.
- If the tax code were amended to permit in-service distributions to younger employees, it may cause unpredictable changes in labor force participation and hours worked since employee incentives to work or retire may be altered.

The report is available at: http://assets.opencrs.com/rpts/RL30629_20090916.pdf

Study Finds Nearly 70% of Low-Income Older Workers Seek Work Due to Insufficient Retirement Income

On September 22, 2009, Experience Works, a nonprofit employment and training advocacy organization for lower-income older workers, released its report *Overlooked and Underserved: The Crisis Facing America's Oldest Workers*. The study surveyed more than 2,000 low-income unemployed workers age 55 and older enrolled in the Senior Community Service Employment Program (SCSEP) funded by the U.S. Department of Labor. The study found that nearly 70% of those surveyed needed to work due to insufficient retirement income. Other reasons included: avoiding housing loss (46%), paying medical expenses (24%), obtaining health insurance (19%), and avoiding homelessness (11%).

In August 2009, there were almost 2 million unemployed workers age 55 and older, up 69% since August 2008. This is the highest unemployment rate for this age group since 1948 when the U.S. Bureau of Labor Statistics began tabulating data by age. The factors contributing to the situation include: the recession, increased job competition, and age-related employment barriers.

According to the report, many older Americans have been forced to change their plans for retirement. Of those surveyed, 45% had planned to be retired already and 38% had been retired but now need to return to work. Currently, 25% of those surveyed do not know when they will be able to retire and almost 10% plan to never retire. Of those respondents with a specific retirement time frame, the average targeted retirement age is 72.

The survey also sampled the views of 787 randomly selected SCSEP employers. According to employers, 98% strongly agree or somewhat agree on the importance of expanding programs to train, retrain or provide search skills for older workers. Furthermore, almost all the surveyed employers (95%) agree on the need to educate employers about the benefits of hiring and retraining older workers. Almost 90% of employers agree that employing older workers could help solve future workforce shortages due to retirements. Many employers also value older workers' experience, reliability, strong work ethic and increased productivity.

An executive summary of the survey report is available at:

http://www.experienceworks.org/site/DocServer/EW-ExecSummary_09_Final.pdf?docID=10381

Center for Retirement Research Releases Issue Brief on National Retirement Risk Index

In October 2009, the Center for Retirement Research (CRR) at Boston College published an issue brief titled "The National Retirement Risk Index: After the Crash." The National Retirement Risk Index (NRRI) measures the percent of U.S. households at risk of being unable to maintain their pre-retirement standard of living during retirement. The index compares projected household 'replacement rates' (i.e., retirement income as a percent of pre-retirement income), with the target rates needed to maintain their living standard. Households are considered to be 'at risk' if their projected replacement rates are below the target rates by more than 10%.

The NRRI was originally constructed using the Federal Reserve's 2004 *Survey of Consumer Finances* (SCF), which provides detailed information regarding U.S. households' assets, liabilities, and demographic

characteristics on a triennial basis. In 2004, the NRRI results indicated that 43% of households were considered to be at risk, even if they worked to age 65 and annuitized all of their financial assets, including receipt of reverse mortgages on their homes. Based on 2007 data, the NRRI showed little change in 'at risk' households, with a slight increase to 44%. However, based on data updated to 2009, the NRRI shows 51% of households are now at risk. This is due to the effect of sharply declining financial asset values, housing values and interest rates, combined with the continuing reduction in the Social Security replacement rate between 2007 and 2009.

Unfortunately, the future outlook is expected to worsen as a result of the changing retirement income landscape. Since the average retirement age is 63 and life expectancy continues to rise, the period over which retirement benefits must last is increasing. Simultaneously, the portion of total retirement income replaced by Social Security is falling as the Social Security Full Retirement Age moves from age 65 to 67. Additionally, the percent of U.S. workers covered by defined benefit pension plans has fallen sharply over the past two decades, while the percent covered only by defined contribution plans has increased sharply. The NRRI report concludes that ensuring retirement security for an aging population is one of our nation's most compelling challenges.

The issue brief is available at: http://crr.bc.edu/images/stories/Briefs/ib_9-22.pdf