Conference of Consulting Actuaries

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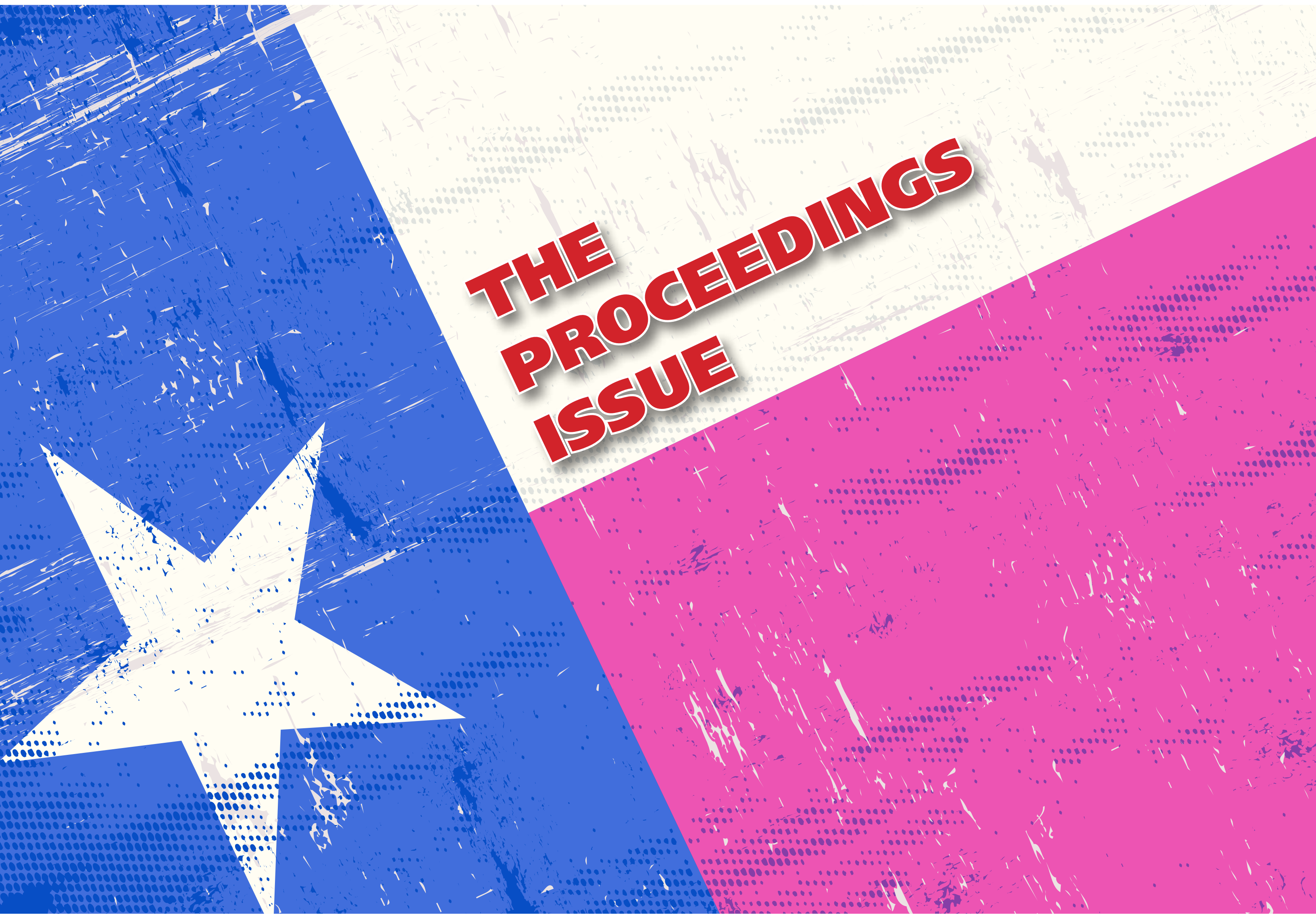
The Consulting Actuary



THE JOURNAL OF THE CONFERENCE OF CONSULTING ACTUARIES

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THE CONSULTING ACTUARY

Published by

The Conference of Consulting Actuaries
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Authors' names will be used unless otherwise requested. Correspondence may be submitted anonymously; however, it is helpful to include your name even if you indicate that you do not want it to be used. Please address correspondence to:

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CONFERENCE NEWS

2013 CCA Annual Meeting Recap

Over 550 actuaries and guests attended the 2013 CCA Annual Meeting from Sunday, October 20 to Wednesday, October 23, at the JW Marriott San Antonio Hill Country Resort and Spa in San Antonio, Texas.

Continuing education sessions covered timely and relevant topics to help keep consulting actuaries up-to-date and informed on issues impacting specific areas of interest to consulting actuaries.

There were several different dialogue sessions during which representatives from IRS, PBGC and GASB offered insights and perspective for participant questions.

Equally important, participants enjoyed the opportunity to network with colleagues, exchange ideas, and catch up with long-time friends.

The Annual Meeting of the Conference of Consulting Actuaries is the only meeting designed to address the day-to-day issues facing consulting actuaries. You will not want to miss the 2014 Annual Meeting. Be sure to mark your calendar now for October 19-22, 2014 at the Westin Mission Hills Resort and Spa –Rancho Mirage, California (near Palm Springs).

2013 CCA Annual Meeting Business Section

2013 Treasurer's Report

Ellen L. Kleinstuber delivered the Treasurer's report. Ms. Kleinstuber reported that The Conference of Consulting Actuaries remains in a strong financial position, and that the Conference's Board of Directors voted to approve a budget with no dues increase for 2014.

CCA Awards

Lifetime Achievement Award

(At Right) 2013 Lifetime Achievement Award Recipient William F. Bluhm pictured with 2013 CCA President Patricia A. Rotello.

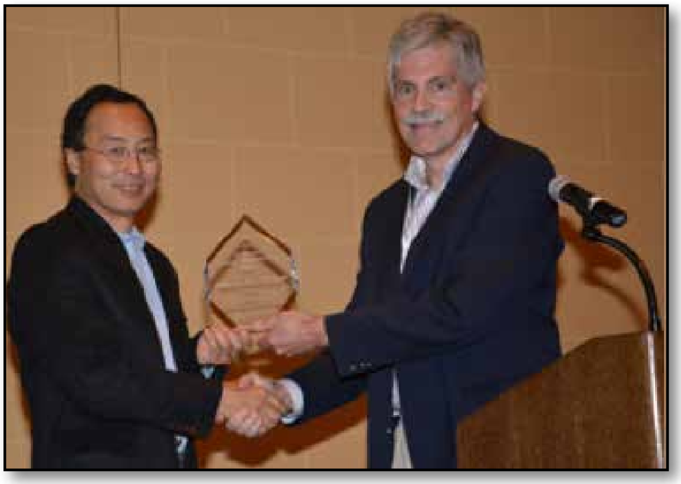
This is awarded to a volunteer for contributions made to the Conference of Consulting Actuaries, or the actuarial consulting profession in general, during his/her professional career. The award is announced at the Conference's Annual Meeting, where the recipient is given a plaque, a small gift, and waiver of registration fees for that meeting. Although nominations are accepted throughout the year, nominations made by June 1 of each year would be considered for presentation at the upcoming Annual Meeting. Follow this link for details about the Lifetime Achievement Award or to submit a nomination.

Most Valuable Volunteer Award

(At Right) 2013 Most Valuable Volunteer Award Recipient Jeff Furnish pictured with 2013 CCA President Patricia A. Rotello.

This is awarded to a volunteer for contributions made to the Conference of Consulting Actuaries, or the actuarial consulting profession in general, during the past 12 to 24 months. The award is announced at the Conference's Annual Meeting, where the recipient is given a plaque, a small gift, and waiver of registration fees for that meeting. Although nominations are accepted throughout the year, nominations made by June 1 of each year would be considered for presentation at the upcoming Annual Meeting. Follow this link for details about the Most Valuable Volunteer Award or to submit a nomination.

Wynn Kent Public Communications Award



(At Right) 2013 Wynn Kent Public Communications Award Recipient Dale H. Yamamoto pictured with Wynn Kent Public Communication Award Committee Representative Stuart H. Alden.

In 2005, a prize was established by family and members of the Conference Board in memory of Irwin I. "Wynn" Kent (Conference President 1989-1990) and his contributions to financial risk and the profession's work product. The Wynn Kent Public Communications Award is given to members of the actuarial profession who have contributed to the public awareness of the work of the actuarial profession and the value of actuarial science in meeting the financial security of society in the fields of life, health, casualty, pensions and other related areas. Any actuary is eligible for the Award.

The recipient of the Award can be recognized for a single event or for a lifetime of making the public aware of the profession. Follow this link to The Actuarial Foundation website for details about how to submit a nomination for this award.

Click here to contribute to the Wynn Kent Public Communications Award through The Actuarial Foundation (Select "other," and indicate "Kent Award" to designate your donation to support this Foundation initiative)

CCA Welcomes New Directors to the Board

CCA welcomes to the Board for three-year terms new members Donald J. Segal, Richard H. Bailey III, Scott A. Hittner, Judith A. Kermans, Edward M. Pudlowski, and returning Board member John H. Lowell.

Special thanks and appreciation go to retiring board members S. Aquil Ahmed, Adam J. Reese, Stephen T. McElhaney, and Bruce A. Richards for the time and commitment they dedicated to the Conference through their Board service.

Address by Patricia Rotello, CCA President 2012-2013

PRESIDENT PATRICIA ROTELLO: Good morning. I hope you have had a valuable learning and networking experience over the past two and a half days. We have one more interesting session ahead of us, which will wrap up this year's CCA annual meeting, but before we get there we have a few CCA business activities to complete.

In just a few minutes, I will end my year as CCA President. My year as President has been eye opening on many levels as I have learned a lot about the workings of the CCA and its staff, the interactions among the five U.S. organizations, and how the CCA and consulting actuaries in general fit into the landscape of the global actuarial profession.

The CCA staff, our Board and all of our volunteers work tirelessly to promote the mission of the Conference – Advancing the Practice, through Conferences, Communities and Advanced Learning. We understand that we exist to meet our members' needs and we spend most of the time during our Board meetings discussing how we are doing against that goal of serving members' needs.

This past year,

- we finalized and implemented the Joint Discipline Council with the other four U.S. organizations,
- we worked toward renewing our agreement with the Academy to continue the joint sponsorship of the EA meeting,
- we surveyed our membership to gather input for our strategic plan to enhance our value for our members, and
- we implemented new member communities and reinforced those already in existence.

All of this in addition to continuing to sponsor and run two successful continuing education and networking meetings a year, along with comprehensive audiocast and seminar programs. None of this would be possible without our dedicated and hard-working staff headed up by Rita DeGraaf. So to Rita, Keith, Matt, Marie, Jim and Darla, I say thank you for helping me through this year.

I also want to thank the Board – for their honesty, for their integrity and for truly acting at all times in the best interest of you, our members.

It really does take a village to effectively run an organization such as the CCA, because with just staff and Board alone, we could not be successful. So to those of you in the audience who were on the Annual Meeting Program Committee for this meeting or the EA meeting, to those of you who present at our meetings or audiocasts or seminars, and to those of you who volunteer in any other capacity, I also express my heartfelt gratitude.

This brings me to two very important pieces of information that were included in the packet for this meeting you received at the registration desk. The first is the green piece of paper entitled, "2014 CCA Annual Meeting Volunteer Form." This is the form you can use to volunteer to be on our annual meeting planning committee, or if you would like to suggest topics for consideration or volunteer to be a speaker. If you attended the Monday morning session, when we were doing announcements, you might have noticed that many names were repeated more than once.

We are always looking for new participants in our programs – whether to organize, moderate, present or record. This is not a club where we want the same people presenting every year. In fact, we actually prefer that individuals don't speak every year so that we can bring new ideas and perspectives to our members and other meeting attendees. One of the key components of learning is to understand different perspectives and opinions, and on this front I applaud our public plans committee members for bringing in speakers this morning who presented a view that is a counterbalance to some of their own views. I encourage each of you to think about how much time you might be willing and able to give to the Conference and return this green sheet.

The other important piece of paper in that packet is the yellow one. Shortly, Dale will communicate the results of the balloting for new Board members which we conducted on Monday morning. This was a new process for us this year, but it was a process we felt needed to be modified as an improvement in our overall governance. We will be looking to further enhance the Board nominee and election process to make it more transparent and inclusive to all of our members, and so I encourage you to read the yellow sheet which tells you how to put forth your name for consideration for the Board. There are some requirements to be considered for the Board – such as you need to be a Fellow in the Conference – and we look for individuals who are familiar with our organization and have already volunteered in another capacity. There is also a three-person maximum for any organization, so where you work can also influence the Nominating Committee's decision on whom to nominate.

We look to fill our Board with individuals representing different backgrounds – whether that is small firm or large, the practice area someone represents, consulting in the private versus public sector, even gender and age. It is important to us to make sure that we hear from the various types of constituents who make up our membership. Again, I encourage you to let us know if you would like to be considered for a future Board position.

Before I conclude, I want to share two thoughts with you.

The first is something I touched on last year – and that is the role of the actuary in the financial education of the general public as it relates to retirement planning or understanding healthcare reform. Last year, I spoke a bit about the role we can play in education regarding retirement planning and the need for a sound retirement system in the United States. This year, I want to say a few words about using our knowledge and expertise to help the general public better understand the implications of healthcare reform. Several of us had a very interesting luncheon experience on Monday as the woman who had served us lunch came over to our table and asked us if we could help overturn Obamacare. She proceeded in about three minutes to tell us everything that was wrong with the new approach to healthcare – the cost of coverage, the woes of the government enrollment site and the tax penalty if you didn't enroll. I was very impressed with how much she knew about how the ACA would impact her. Dale joked that he was going to invite her to his session on what the public understands and is asking about healthcare reform. I commented that perhaps Ted Cruz really was speaking for his constituents.

This is a good example, however, of how the general public sees us as experts, and in my opinion, how we can and should be using our knowledge to educate the general public in those areas where we are the experts. There are many different ways in which we can touch the public as informed professionals – such as writing articles or white papers, or volunteering to address retiree or other groups in your community. We are certainly more knowledgeable than the typical American, and we should think about how we as individual representatives of our profession can help them.

In closing, I also wanted to address something that Jeff Furnish said Monday morning regarding the five U.S. organizations coming together. We work with the other four U.S. organizations to identify ways to collaborate and cooperate where possible. The CCA is a small fish in the pond compared to the SOA, Academy and CAS, and right now there are agendas within some of these other organizations that make collaboration, let alone consolidation, very difficult. You should know, however, that we approach these discussions and issues with the interests of our members in mind.

Thank you all for attending our meeting, and we hope to see many of you next year in Palm Springs.

Address by John Schubert, CCA President 2013-2014

PRESIDENT JOHN SCHUBERT: Thanks Pat. It has been a pleasure working with you this past year. The Conference, along with the Board of Directors, is very fortunate to have had the benefit of your leadership and dedication for not only the past year as president, but for all of your years of service. On behalf of the entire Conference membership, please accept this plaque as a symbol of our appreciation.

I am honored to serve as your president over the next year. I have been a member of the Conference for more than 25 years, and served on the Board for eight of those. I have enough perspective to know how fortunate I am to be in this position, and how lucky we all are to have the Conference and all of the continuing education opportunities it provides. This Annual Meeting has been fantastic! It takes a lot of talented and dedicated people to put on these meetings year after year, so to all of our volunteers led by Scott Hittner and Conference staff led by Rita DeGraaf, thank you for all your contributions which make the Conference such a tremendous organization. I would also like to thank Deloitte for all of the support provided to me over the years; I truly would not be here otherwise.

We just concluded our fall Board meeting on Sunday and one of the issues we continue to identify as critical to our future is volunteerism and getting our members more involved. Our continuing education offerings are only as good as the volunteer efforts behind them. I urge all of you who are thinking about getting involved to take a little risk and volunteer. Actuaries are good at identifying and measuring risk, but not so good at taking them, so I know it is not that easy, but you will be glad you did. I took that risk 20 years ago and Bill Bluhm, who we honored on Monday with our Lifetime Achievement Award, was very instrumental in getting me involved. So I would like to thank Bill again for his contributions to the Conference and the actuarial profession.

With our ongoing efforts to understand how the Conference can add value to our members and following up on our survey from a year ago, we are conducting some focus groups and meeting with some organizations, so thank you to those who have helped in those efforts.

Finally, as some of you know, there are ongoing threats to the actuarial profession which seek to limit or eliminate our ability to self-govern. Currently, all the U.S. actuarial organizations have a common discipline process, standards of practice, qualification standards and professionalism so we all need to work together to meet this challenge. We are so fortunate that years ago the ASB and the ABCD were established and we need to do what is necessary to ensure that we continue to have self-regulation. This includes attending meetings like this to keep our CPE current and continuing to report substandard actuarial work to the ABCD under Precept 13. I will conclude with that thought as we move into our final session on ethics.

Thank you again for your support and trust in allowing me to serve as your president and I hope to see you next year in California.

2013 CCA Meeting – Session Summaries

Would you like to be a Session Coordinator / Recorder at the next Annual Meeting?

Duties include writing a brief description of specific sessions, collecting continuing education forms, and other duties as requested by the moderator.

New actuaries are especially encouraged to consider serving in this capacity as it is an excellent way to network into other continuing education opportunities, gain exposure within the profession, and potentially participate in speaking opportunities.

Sign up now to volunteer for next year's Annual Meeting

A special thank you to our recorders who provided the following summaries:

Richard H. Bailey, III – Mercer

Robert T. Campbell – Towers Watson

Michael S. Clark – P-Solve Cassidy

Nick J. Collier – Milliman

David A. Coronel – Towers Watson

Kelly Cruise – Deloitte

Chad Greenwalt – Towers Watson

Jennifer Gunckle – Deloitte

Justin N. Hornburg – American Benefits Consulting

Michael T. Horton – Towers Watson

Helen Jung – Towers Watson

Veronique Marchand – Towers Watson

Felix Okwaning, Jr. – Prudential Retirement

Leslie M. Olds – Towers Watson

S. Kai Petersen – Buck Global Investment Advisors

Jeffrey A. Rees – Deloitte

Michael Ringuette – Towers Watson

Jill Rowland – Towers Watson

Beth Renee Sanders – Deloitte

Roshni Shah – Towers Watson

Elizabeth A. Shimshock – Towers Watson

Amelia L. Williams – Gabriel Roeder Smith

Session 3

LATE BREAKING DEVELOPMENTS

Speakers:

- Ellen L. Kleinstuber – The Savitz Organization
- Bruce Cadenhead – Mercer
- Eric A. Keener – Aon Hewitt
- Carolyn E. Zimmerman – Internal Revenue Service
- Session Coordinator/Recorder: Leslie M. Olds – Towers Watson

A panel of pension professionals discusses the latest developments affecting retirement plans on the legislative, regulatory and legal fronts.

Recent Guidance and Pending Guidance from the IRS

Following the U.S. v. Windsor Supreme Court decision (on the constitutionality of DOMA), the IRS issued Revenue Ruling 2013-17 which recognizes same-sex marriages for Federal purposes if the state of celebration recognizes the marriage. The Revenue Ruling permits filing amended personal income tax returns for open tax years.

The IRS issued updated mortality tables for the 2014 and 2015 plan years as part of Notice 2013-49 and based on existing regulations. Comments were requested by the IRS by October 8, 2013, on the existing regulations which must be updated every ten years and would have to be updated to change the mortality projection scale. Issues that practitioners were asked to comment on include whether separate tables are still required for small plans, whether generally-available software can handle more sophisticated approaches to mortality (such as fully generational and two-dimensional projection scales), and whether a separate mortality table is still warranted for participants disabled before 1995.

The IRS issued recent guidance under its Employee Plans Compliance Resolution System (EPCRS). Revenue Procedure 2013-12 retains most of the prior provisions and structure with changes to procedural requirements, including new Forms 8950 and 8951. It also includes some correction guidelines for §436 violations, including some self-corrections, and expands corrections available for §403(b) plan failures. With respect to §436 violations, the IRS tried to make a conservative correction for any fact pattern, but practitioners are encouraged to call the IRS with specific correction questions before filing a requested correction under EPCRS. For benefit overpayment rules, the IRS clarifies that plan sponsors must ask participants to return overpayments to make the plan whole. If a participant does not return an overpayment, then the employer must contribute amounts not recovered by the plan and notify the participant of the tax/rollover effect.

The IRS has recently updated its alert guidelines, including new guidelines for §436. The updated guidelines provide information about what the IRS is looking for upon exam or to issue favorable determination letters.

Guidance is pending from the IRS in a number of areas. The IRS will be issuing supplemental guidance under PRA 2010 as a sequel to Notice 2011-3 to cover areas not fully addressed earlier, e.g., eligible charity plans, plans with deferred PPA effective dates, and lookback rules under §436. The IRS expects the rules to be flexible since a lot of time has passed since Notice 2011-3 was issued.

The IRS is in the process of finalizing proposed regulations under §430, including the mechanics of constructing minimum required contributions, quarterly contributions, and excise taxes. Regulations are also being finalized under §417(e)(3) to address the bifurcation rules for lump sums and other miscellaneous issues. The IRS' timeframe is unknown at this time for finalizing the hybrid plan and QLAC regulations.

Other projects the IRS is working on include a pre-approved cash balance plan program, proposed regulations under §404 and additional proposed regulations under §430 and §436 including WRERA rules, mergers and spinoffs, year-end valuations and miscellaneous updates. The IRS is also working on procedures that will permit automatic approval of certain funding method changes (a successor to Revenue Procedure 2000-40) and procedures for requesting approval of other method changes (a successor to Revenue Procedure 2000-41). The IRS is continuing to make updates to Schedule SB, and is currently reviewing updates to the 2014 form as there is a large lead time on making Schedule SB updates.

Joint Board Updates

The Joint Board for the Enrollment of Actuaries is updating its enrollment form for 2014 renewals and is hoping to have on-line renewals available. All credits for the 2014 re-enrollment cycle must be earned by December 31, 2013. The Joint Board's web site should be monitored for updates and communications. Applicants for initial enrollment are encouraged to review the regulations for enrollment requirements, address the regulations up-front in their applications, and describe their experience more robustly.

Proposed PBGC Premium Regulations

On July 23, 2013, the PBGC issued proposed regulations that would change the premium payment rules beginning in 2014. The proposed regulations would eliminate the separate filing for estimated flat-rate premiums and reduce the maximum penalty for self-correction of premium underpayments from 100% to 50% of the late payment. Earlier due dates would be implemented for plans with less than 100 participants in the prior year, and the PBGC's previous guidance on determining premiums under MAP-21 and the premium funding target for at-risk plans would be codified.

Proposed Cap on Retirement Plan Accumulations

The Obama administration's 2014 budget proposal would cap total tax-qualified retirement plan accumulations at $3.4 million, including defined benefit (DB) plans, defined contribution (DC) plans, and IRAs. The cap is determined as being actuarially equivalent to the purchase of a 100% joint and survivor annuity of $205,000 commencing at age 62. The cap would be re-determined annually at the end of the plan year to apply during the upcoming year. Plan sponsors, IRA trustees and custodians would be responsible for reporting account balances, contributions and accruals annually. Additional DB or DC contributions or accruals must cease once the cap is reached, though investment earnings could continue on the existing accounts. Contributions or accruals could resume if investment losses drop the total account accumulations below the cap or if the threshold is increased due to increases in the DB §415 limit. It was observed that this cap would be difficult if not impossible to monitor and administer.

Legislative Proposals

Senator Hatch (R-UT) and Representative Neal (D-MA) have introduced pension legislation in Congress which would affect DB and DC plans. Senator Hatch introduced The Secure Annuities for Employees (SAFE) Retirement Act of 2013 and Representative Neal introduced The Retirement Plan Simplification and Enhancement Act.

The SAFE Retirement Act for state and local government employees provides for the purchase of qualified individual deferred fixed income annuity contracts funded by sponsor contributions. The fully-insured benefits would be paid as monthly annuities, spread across multiple carriers and come with state guaranty protections. Under the SAFE Retirement Act, a plan is always 100% funded and it cannot accumulate any other assets. Other provisions include a retirement age of 57 for public safety employees and age 67 for all others. There would be a maximum non-elective contribution rate of 30% for public safety employees and 20% for all others, increasing by 5% at age 50 and limited by §401(a)(17).

The Hatch and Neal proposals include DB plan provisions such as nondiscrimination testing and minimum participation relief for closed and frozen plans, curtailment of the PBGC's §4062(e) cessation of operations enforcement authority and creation of a lost pension registry.

The Hatch and Neal proposals also include DC plan provisions such as the introduction of a new 401(k) safe harbor, higher Qualified Automatic Contribution Arrangement (QACA) defaults, fewer restrictions on 401(k) hardship withdrawals, more portability for lifetime-income products, life insurance rollovers, fiduciary relief for selecting an annuity provider and increased spousal protections in a divorce.

The Hatch and Neal proposals that affect both DB and DC plans include simplifying notice requirements, expanding use of e-delivery, extending adoption/amendment deadlines, simplifying delivery timing for SPDs and SMMs, repealing top heavy rules, expanding rollover rights for non-spouse beneficiaries, providing relief from required minimum distributions (RMDs), and expanding compliance correction tools.

Update on MAP-21 Interest Rates

Notice 2013-58 issued on September 11, 2013, provides MAP-21 corridor rates for 2014: 4.43%/5.62%/6.22%. The 2014 non-stabilized rates (for calendar year plans with a four-month lookback) are also available: 1.37%/4.05%/5.06%. Qualified retirement plan limits have also been issued for 2014, and were delayed due to the government shutdown.

Nondiscrimination Testing Issues for Closed/Frozen Pension Plans

There has been some movement in Congress to provide nondiscrimination testing relief for closed and frozen pension plans. Plan sponsors that close or freeze their pension plans may encounter nondiscrimination testing issues in later years due to grandfathered groups becoming discriminatory or DB and DC plans no longer being able to satisfy cross-testing gateways. HR 4050 was introduced in 2012 to address these issues and was reintroduced in May 2013. The American Benefits Council (ABC) and a group of plan sponsors and practitioners have also engaged the IRS and Treasury on this issue, with the ABC issuing a letter to Treasury in April 2012. On June 20, 2013, 28 members of the House and Ways and Means Committee signed a letter to Treasury Secretary Lew asking that the issue be addressed quickly, and the IRS added the project to its Priority Guidance Plan in its update issued on August 9, 2013. Possible approaches include near-term guidance providing relief to plans that were closed or frozen in the past and no longer meet cross-testing gateways and longer-term regulatory guidance addressing future freezes, closures and other issues.

Proposed Modeling ASOP

The Actuarial Standards Board (ASB) has released an exposure draft of a new Actuarial Standard of Practice (ASOP) titled "Modeling." This ASOP is intended to address modeling more broadly across all areas of practice, versus ASOP 38 "Using Models Outside the Actuary's Area of Expertise" which is currently limited to the property and casualty practice but may be retitled as "Catastrophe Modeling (for All Practice Areas)" under the new exposure draft. The scope of the proposed "Modeling" ASOP is very broad. It generally describes what most would regard as common practice and provides significant latitude to use professional judgment to deviate from the standard, with no disclosure required if the deviation is immaterial. Full application of the ASOP would be expected if the intended user relies heavily on results and the model has a material financial effect. The actuary is required to make a reasonable attempt to understand models developed by others. The model should be selected and designed to meet the intended purpose, and model risk should be mitigated through validation, governance and controls. Communication and documentation requirements in this proposed ASOP are generally consistent with ASOP 41.

2013 Green Book

The 2013 Green Book was published in early June 2013 and consists of questions posed to Employee Benefits Security Administration (EBSA) staff.

Q&A 1 of the Green Book indicates that if a plan sponsor maintains an intranet website for only participants and beneficiaries of a DB plan, the plan sponsor does not need to expand access (including to Schedule SB) to employees who are not covered by the plan. However, it does not answer the question of whether an intranet site open to all employees can restrict Schedule SB access to only those employees who are covered by the plan.

Q&A 3 of the Green Book indicates when a plan retains an Enrolled Actuary (EA) for a plan year and then retains another EA within the same plan year, the termination of the first EA must be reported on the Schedule C for that plan year. Examples were provided to show that the guidance in Q&A 3 could potentially require multiple terminations to be reported for the same plan year.

FASB Project on Pension and OPEB Accounting

On April 24, 2013 the FASB and FASB Staff began a series of education sessions to consider whether to readdress pension and OPEB accounting under U.S. GAAP. There is some concern that a lack of comparability may result from some companies moving to mark-to-market accounting while others use the corridor approach. The FASB was expected to make a formal agenda decision in October 2013, but as of this writing, no decision has yet been made.

DOMA and Related IRS Guidance

In U.S. v. Windsor, the Supreme Court ruled Section 3 of DOMA unconstitutional. Under federal law, marriage recognition is now granted to same-sex couples, but marital status is still a state law determination. Same-sex marriage is now required to be recognized by retirement plans for QJSA, QPSA and spousal consent rules. The IRS issued Revenue Ruling 2013-37 on August 30, 2013, providing that: for federal tax purposes, "husband" and "wife" can be used interchangeably without gender connotation; marital status is based on the jurisdiction in which it is entered into ("place of celebration" rule); effective September 16, 2013, all qualified retirement plans must recognize same sex spouses; and income tax and FICA/Medicare tax refunds may be requested on amounts charged for domestic partner benefits for those now considered married (open tax years only). Many areas of plan provisions and administration are affected, including QJSA, QPSA, spousal consent rules, eligible rollover distributions, hardship distributions, minimum required distributions, QDROs, loans and §415(b) limits. Unanswered questions remain for qualified retirement plans, e.g., will prior beneficiary designations be deemed invalid? What happens to benefits currently in pay status? Other agency guidance under DOMA varies, e.g., the DOL and the SSA base marital status on the state of residence – not the state where the individuals were married. Implications for qualified retirement plans that coordinate with Social Security benefits are that a participant's same-sex marriage may be recognized by the plan but he or she would not be married for Social Security benefit purposes.

Plan Year Changes

Some DB plan sponsors have considered changing the plan year to delay the impact of PBGC premium increases and changes in the MAP-21 interest rate corridor. Such changes in the plan year are not eligible for automatic approval. Plan sponsors can file for approval for a change in plan year. However, the IRS reviewer would be looking for a long-term business reason for changing the plan year, i.e., reducing PBGC premiums and minimum required contributions would not be a sufficient business reason. While a ruling would be based on facts and circumstances, the IRS is generally looking for a business reason for the change rather than a targeted purpose. Plan sponsors seeking such a change should consider other costs associated with a change in plan year, e.g., changes in systems and data collection procedures, changes in coordination with trustee, EA, auditors, and risks of missing off-cycle deadlines.

Section 415 Issues

Plan administrators should be aware that the high-three earnings §415 limit may apply to participants receiving actuarially increased benefits regardless of their pay level. Unlike the dollar limit, the high-three earnings limit is not adjusted for delayed retirement. When an increased benefit reaches the pay limit, it must either be suspended or commence to avoid an impermissible forfeiture (though suspension is not an option for participants over 70 ½). Some factors to watch out for which indicate this could apply include: the plan doesn't suspend benefits, long-service participants work beyond normal retirement, and the actuarial equivalence basis reflects a high interest rate or older mortality basis (or both).

Prohibited Transaction Exemption (PTE) for In-Kind Contributions

The DOL published a proposed prohibited transaction exemption (PTE) granting AT&T relief for a contribution of $9.1 billion of preferred LLC equity interest in its wireless subsidiary to its pension plan. AT&T had worked with the DOL over a period of time on this issue. The PTE was significant due to its size, the lack of financial hardship by the sponsor, the preferred LLC interest is not marketable, and it is redeemable for AT&T common stock (or cash). Although the AT&T situation was unusual, it represents a growing trend among employers to make in-kind contributions to pension plans.

SEC Executive Pay Ratio Disclosures

The SEC voted September 18, 2013, to release a proposed rule which requires disclosure of median annual total compensation of all employees and the ratio to the annual total compensation of the CEO. The covered employee group includes all employees of the company and its subsidiaries (U.S. and foreign) on the last day of the fiscal year. There is limited flexibility provided for determination of annual total compensation and median amount.

Session 4

DEALING WITH UNDERFUNDED PLANS: PBGC ISSUES

Speakers:

- David Scharf – Buck Consultants
- Harold Ashner – Keightley and Ashner LLP
- Laura Rosenberg – Fiduciary Counselors, Inc.
- Session Coordinator/Recorder: Elizabeth Shimshock – Towers Watson

The following topics were offered to the audience for questions and discussions:

- PBGC Reporting – Traps for the Unwary
- Negotiating "Early Warning Program" Cases
- Dealing with PBGC Downsizing Liability
- PBGC Missed Contribution Liens – Staying Alive
- Distress and Involuntary Terminations
- Bankruptcy Claims and Disputes
- Private Equity Funds – "Trade or Business" Issues
- Researching PBGC Issues

Distress Terminations

The first question asked by the audience was, "can there be a Distress Termination in the absence of bankruptcy?" The response was "yes" based on Distress Test #3 but it was clarified that it is not a speedy process, taking 12 to 18 months. The PBGC will request a lot of information for questions to be answered, such as "Why hasn't the organization filed for bankruptcy?" and "How will other creditors be impacted?" The organization and financial advisor will need to put together a package to address these questions, and to address why the organization continues to operate without the pension plan but will not be able to operate if the pension plan is retained.

The question was also raised as to what happens in the case of the Distress Termination if a CBA exists. It depends on whether the CBA prohibits termination of the plan. A motion could be filed, but the plan operates as an ongoing plan until the termination is approved. The PBGC can terminate a plan with a CBA involuntarily. It could be that the termination is changed from a distress termination to an involuntary termination.

Early Warning Programs

PBGC looks at the long-run loss to determine whether they could recover more today versus what they may be able to recover later taking into account likelihood of termination and recovery down the road. PBGC can invoke involuntary termination to limit their losses.

With respect to transactions, the PBGC's focus is whether the transaction will increase the risk to the PBGC or the pension plans. The PBGC will look at the credit quality and changes in capital structure resulting from the transaction. Basically, the PBGC is looking to get a seat at the bargaining table.

A question was asked as to whether reportable events prompt the PBGC to take look closer look? A reportable event for the breakup of a controlled group may cause the PBGC to step into action. However, they also gather information from newspapers and SEC filings as well. The report event filing for a change in the controlled group is due when there is a legally binding condition. If there is a reportable event for one plan in the controlled group, are other plans within the controlled group also under scrutiny? The answer is typically yes.

PBGC Form 10 filing for participant reduction is reviewed very closely by the PBGC. An organization may want to consider approaching the PBGC before the reportable event occurs, as it is very time consuming for the PBGC to pull together the administrative record; the sooner they find out the better.

Lump Sums to Retirees

When asked about PBGC's view on the payment of lump sums to retirees, the group was directed to a recent response to a blue book question. Basically, the PBGC views this as a broader pension policy issue, and is concerned about the retirement security of retirees who are used to receiving a monthly check and now have a single payment to manage.

4062(e)

Better planning up front in conjunction with a transaction could help reduce the 4062(e) liability. Some things to consider are:

- Accelerating contributions to the plan that are otherwise planned to be paid to increase the asset value before the transaction closes.
- Consider creating PFB to help offset future contributions while meeting certain funding thresholds.
- Consider splitting a plan into one active and one inactive plan. This would need to be done plenty of time prior to a transaction as the PBGC will look to see when the split occurred to determine if there was an attempt to avoid or evade the 4062(e) liability.

PBGC tends not to compromise on the amount of 4062(e). Suggestion was made that an organization should wait and let the PBGC request the pertinent information.

Pension De-risking

Regarding the PBGC's view of the de-risking actions that organizations are taking when it will result in reduced premium revenue, thoughts are that the plan sponsor has the right to de-risk and PBGC does not need to be informed.

Minimum Funding Requirements

Contributions do not need to be made in cash but can be made on other forms such as real estate.

Missed Contributions

A lien arises when total of missed contributions (with interest) exceeds $1M. The lien is on all controlled group assets. An organization should consider approaching PBGC to negotiate forbearance or subordination agreement. Notification to the PBGC must be received by the PBGC within 10 days.

Missed PBGC Reporting

What happens if a PBGC reportable event is missed? File ASAP and attach a memo as to why the reporting is late. Describe the circumstances that the caused the filing to be late, and the steps that are being put into place to avoid this in the future. This approach could avoid penalties – or at least, perhaps, reduce them.

Session 7
"PAY OR PLAY" AND PRIVATE EXCHANGES

Speakers:

- Ted Nelson – Hilton Worldwide
- Alan Silver – TowersWatson
- Session Coordinator/Recorder: Justin Hornburg – American Benefits Consulting

Many employers are or have been grappling with the "pay or play" (pay penalties or provide health care coverage) decision forced upon them by the Affordable Care Act. In addition, employers are considering the use of private exchanges, whereby employees can purchase health care coverage subsidized with employer dollars. Our panel featured an employer speaker (Mr. Nelson) and a consultant (Mr. Silver), who discussed their experiences with "pay or play" and private exchanges and how the two concepts relate to each other.

Ted Nelson

Mr. Nelson is Vice President of Benefits – The Americas for Hilton Worldwide. Hilton Worldwide is global in scope and has ten distinct brands, including Hilton, Waldorf Astoria and Conrad. There are 62,000 Team Members.

Most large employers are already "playing" by providing employees with health care coverage, so how does the ACA really affect them? The main issue is around staying ahead or even up-to-date when so much is unknown: regulations not issued, changing regulations, changing effective dates, etc.

Impact of the ACA timeline:

- 2010: reforming insurance practices (some call them "abuses"), such as removing lifetime benefit maximums
- 2011: Summary of Benefits and W-2 reporting of the cost of health care coverage
- 2013: Women's preventive health, increased Medicare tax
- 2014: Pre-existing condition exclusions prohibited, reinsurance fees take effect, exchanges

With the advent of exchanges in 2014 and changes to insurance practices, should employers continue to "play" or just "pay" by letting employees get individual coverage (potentially with a federal subsidy) on the public exchanges?

For Hilton Worldwide, benefits are an important investment and HR strategy. There is a positive correlation on surveys between "this is a great place to work" and answering positively about benefits. Also, properties (hotels) with higher medical plan enrollment rates correlate with higher hotel overall service scores. But, does it make financial sense to continue to provide health care coverage?

Aspects of 4980H(a) penalty for employers:

- Large employers (50+ FTEs) that do not offer coverage
- Annual tax is $2,000 x (total number of full-time employees less 30 FTEs [if not offering coverage at all])
  * If one employee gets a federal subsidy on an exchange
  * Base is ALL FTEs, not just those getting a subsidy
- NOT tax-deductible as a business expense

When considering the cost dynamics, including the current cost of health care and the cost of the tax penalty – AND assuming employers would make employees financially "whole" by increasing compensation (with a tax gross-up) by the value of employer contribution to health care – it will likely cost MORE to "pay" than to "play." Of course, an employer may choose to view the ACA exchanges as an opportunity to reduce outlay, in which case "paying" may cost less than "playing". An employer has to do the math and consider all the ramifications of its decision.

There are some additional important considerations for employers that continue to "play", because if an employer runs afoul of certain ACA rules, it could end up "paying" AND "playing." These considerations include:

- Definition of full-time vs. part-time
- Meet minimum essential coverage rules
- Union trust plan rules re: hours
- Contractors
- Limits on employee contributions as percentage of pay

Alan Silver

Mr. Silver is a Senior Consulting Actuary in Exchange Solutions at TowersWatson. Like other firms, TowersWatson is developing a private exchange model.

Exchanges (or "Marketplaces") – both public and private – are part of the landscape that employers are facing around health care coverage. Exchanges can be used along a spectrum of employee sub-groups, ranging from Medicare-eligible retirees with a private exchange, all the way to all employees to public exchanges (and paying penalties).

Possible uses of exchanges:

- Private exchanges
  * Medicare-eligible retirees
  * Pre-65 retirees
  * Actives
- Public exchanges
  * Low wage/subsidy-eligible
  * Part-timers
  * Early retirees
  * COBRA continuees

Employers can use their own funds via private exchanges. A recent IRS ruling confirms that stand alone HRAs violate annual or lifetime maximum restrictions. Individuals cannot use an employer-provided HRA to reimburse premiums and receive federal subsidies at the same time. Pre-65 retiree strategies need to balance the need for retirees to obtain an employer subsidy with the efficiency of federal subsidies. Finally, active exchanges are focused on group products with flex-like delivery of employer subsidies (not an HRA delivery approach).

When contemplating using a private exchange for actives, there are a few considerations vis-à-vis how exchanges compare to a traditional defined benefit approach. With a private exchange, the employer may have less control over plan design as the exchange provider will have a menu of choices. The exchange provider may also control the vendors (health plans) that are available. Certain exchanges may have insured products, which would be a fundamental change for large employers. Finally, employers may lose some control over employee communications, which would be controlled by the exchange operator.

Here some questions an employer may wish to ask when evaluating exchange products:

- Who owns the exchange?
- What financial arrangements are available? Self-insured? Insured?
- What carriers (plans) participate?
- What value-added services are embedded?
- What consumer engagement tools and communication support are included?
- What would be the roles of the employer vs. the exchange?

Session 9
PENSION OBLIGATION BONDS: DO YOU FEEL LUCKY?

Speakers:

- Lance J. Weiss – Gabriel Roeder Smith & Company
- Jean-Pierre Aubry – Boston College
- Rade Kljajic – Citigroup Global Markets Inc.
- Session Coordinator/Recorder: Amelia L. Williams – Gabriel Roeder Smith & Company

Introduction

This session focuses on Pension Obligation Bonds as a funding source for public pension plans from three perspectives – the risks associated with POBs, the opportunities related to POBs and numerical illustrations for funding pension plans with or without POBs.

Background

Two financial crises within a decade have resulted in a significant drop in the funded status of pension plans, from a peak average funded ratio of 103% to the current average funded ratio of 73%, and a significant increase in the Annual Required Contribution to fund the pension benefits. Despite the fact that the Annual Required Contribution has more than doubled in a ten year period, pension costs as a percentage of total state and local budgets have only increased slightly, from 3.2% to 4.6%, and have remained at a relatively low percentage (below 5%) of total budgets. In response to budget pressures, many plan sponsors have enacted pension reforms that are expected to eventually reduce pension costs below pre-crises levels (assuming no significant future crises). However, the impact of the reforms will be gradual in many cases and will take 30 or more years to fully recognize the impact. Although pension plans are on a path of improving funded statuses and alleviating the pressures on pension costs, POBs are being discussed as an additional tool for improvement, with mixed feelings.

Of the largest 50 municipalities, 30 have unfunded pension liabilities that exceed annual revenues.

Illinois, California, Massachusetts, and New Mexico have a heavy debt burden.

Illinois and Chicago face significant financial challenges from the debt associated with Go Bonds, POBs, unfunded liabilities of the pension plans, and liabilities from OPEB (Other Post Employment Benefits).

Unfunded pension liabilities are being more heavily scrutinized due to changes in financial reporting standards for governments (new Governmental Accounting Standards 67 and 68) and adjusted measurements by rating agencies such as Moody's for evaluating overall obligations. POB issuances in the absence of other funding actions or reforms are generally viewed as negative.

The first POB was issued in 1985, with issuances picking up in the mid-1990s. The largest issuers of POBs are states and cities, with certain states (California and Illinois) comprising a majority of the POB issuances. Most of the POB issuances to date have not been in reaction to the 2008 financial crisis, and were issued prior to 2009. Although POB proceeds do not make up a significant portion of total plan assets in total, POB proceeds do make up between 10-20% of pension assets in certain states (Illinois, Oregon, Connecticut, and New Jersey).

Risks of POBs

Fiscal Risk – By issuing a POB, plan sponsors trade "soft" debt from the pension plan, where there may be more flexibility in the funding schedule, for "hard" debt, in which there is a fixed repayment schedule.

Political Risk – By issuing a POB, the plan may become overfunded (depending on the level of the POB), which may create pressure for benefit improvements. However, the debt still exists outside of the pension plan in the form of debt service payments.

Financial Risk – By issuing a POB, the plan sponsor expects that the returns earned on the POB proceeds will exceed the costs associated with the debt service and interest costs on the POB. If the investment returns over the duration of the POB debt fall short of these costs, the POB issuance may end up costing and not saving money.

Timing Risk – If the proceeds from a POB (which is typically a large sum of money) are invested at a single point in time immediately preceding a market downturn, the plan sponsor may lose a portion of the expected investment return on the POB proceeds, and have to contribute more than expected to the pension fund, in addition to making the debt service payments. Poor market timing could result in borrowing costs that are higher than investment returns on bond proceeds.

Transaction risks – Issuing POBs could reduce a government's bond capacity for other projects depending on the source of the bond repayment. Rating agencies may not view the POB transaction favorably.

When issuing a POB, it is important to consider whether pension reform is comprehensive and POBs play a part in the overall solution; what entity is the legal authority for issuing a POB and whether the security is robust; and whether the issuer/plan sponsor has thoroughly evaluated the POB risks and provided proper disclosure?

Opportunities and Evaluating Success of POBs

Some opportunities related to POBs are attractive taxable municipal interest rates, an expanded investor base and unique investment opportunities.

In order to evaluate the success of a POB, a plan sponsor needs to take a long term view over the full duration of the POB debt repayment. There can be considerable volatility during that period, and a plan sponsor needs to recognize and be able to bear the risks associated with POBs. Liquidity and cash flow issues have been the main drivers behind the decisions to issue POBs.

The measure of success of issuing a POB is whether the overall cost of funding the pension plan is lower for the plan sponsor, as compared to a POB not having been issued. Overall costs can be reduced if the investment returns earned on the bond proceeds exceed the interest rate paid on the bonds over the life of the debt.

Illinois and Connecticut both issued POBs with favorable spreads between their investment return assumptions used in their pension plans and the bond interest rates. However, Connecticut issued the bonds in 2008 right before the financial crisis and did not have favorable timing. Despite unfavorable timing, Connecticut has projected an 88% probability that the investment return on the POB proceeds will exceed the borrowing costs.

Based on hypothetical stochastic projections comparing plan sponsor pension costs with and without a POB, and a spread of 2% between the plan's investment return assumption and bond interest rate, there was about an 80% probability that issuing a POB would produce a savings in plan sponsor contributions over the life of the bond issue.

Takeaways from one of the speakers:

1. The government faces daunting challenges – the actuarial accrued liability is real and the unfunded liabilities are growing.
2. The definition of pension obligations will be tested in the courts and will go up to the federal courts.
3. POBs are one tool in the toolbox and comprehensive reform is needed.
4. Actuaries need to be leaders in helping develop tactics to deal with the challenges.
5. The world is changing and robust disclosures and certifications are required from all parties in the pension plan arena.

Audience questions and comments:

- Based on a poll of the audience, a few people think that POBs are "stupid" and no one should do them.
- Consider volatility of the employer contribution rate after POBs and ways to manage volatility.

Session 10
PENSION DEVELOPMENTS IN CHINA AND INDIA

Speakers:
- Mitsuyasu Nishiwaki – Towers Watson
- Warren Zhao – Deloitte Consulting LLP
- Vaibhavi Patel – Aon Hewitt
- Session Coordinator/Recorder: Véronique Marchand – Towers Watson

Companies are expanding in India and China; this is a reality that can't be ignored. The two countries are expected to be among the top 3 global economic giants by 2050. Although similar in terms of population size, they differ in so many ways. It is interesting to look at some of the two countries' dynamics side by side, but also to compare them to the U.S. Interesting facts introduced by the coordinator and also discussed by the speakers are:

- The population of both India and China is about 4 times larger than the U.S.
- India's population growth is higher than the U.S., China is lagging behind mainly due to the one child policy.
- India's life expectancy is the lowest at 65, compared to 75 in China and 79 in the U.S.
- Retirement age in India is 60 (with life expectancy at 65); in China it is 60 and 50 or 55 for men and women respectively, and in the U.S, it is 65.
- In the U.S., 14% of the population is 65 years old or older, compared to 8.4% in China and 5% in India.

The specifics about China and India make the social, mandatory and supplemental pension and benefits environment challenging. The speakers, Vaibhavi Patel (India) and Warren Zhao (China), provided an overview of the pension and benefits landscape along with current challenges and considered solutions.

Pension Developments in India

The speaker provided an overview of the mandatory retirement system in India which includes a Provident Fund and gratuity benefits. Benefits under the Provident Fund are of Defined Contribution (DC) nature but also include a Defined Benefit (DB) component and risk benefits. The gratuity benefits provide a lump sum upon termination.

Poor pay replacement ratios (30-50% of cost to company, excluding occupational retirement arrangements) on retirement, changing cultural and demographic structures and lack of retirement planning awareness are stressing the importance of supplemental retirement programs in India. The speaker introduced the two other supplemental arrangement types, i.e., Superannuation Schemes and National Pension Scheme (NPS).

Superannuation Schemes currently count 20% or less of employers. These plans were originally set as DB to retain talent and rewards long service. Now almost all DB programs got converted to DC and most new programs are DC. Employers typically contribute 10-15% of salary with capping of annual contribution at INR 100k. They are set up as irrevocable trust (most of them very lucrative) with income tax approval. Trust funds are invested either through life insurance companies or independently by trustees. There is currently no national regulator.

The NPS, a DC scheme based on flexible asset allocation and a transparent structured governance framework, was extended to all citizens in May 2009 and to Corporations in December 2011 (before only to government employees). The Pension Fund Regulatory and Development Authority (PFRDA) is the current governing body. The governance structure in place is very important to citizens and aims to increase participation. Individuals in India are known to have no faith in government structure and banks, one of the reasons for currently low retirement savings. NPS can run parallel to Superannuation, Gratuity, Provident Fund, Voluntary Provident Fund, and any other pension schemes offered to the employees of organized entities. The speakers also discussed the governance structure including the key players (subscribers, Point of Presence, National Securities Depository Ltd., Annuity Service Providers, Fund Managers, Custodian, Trustee Bank, NPS Trust and PFRDA), role and responsibilities, and interfacing.

NPS is a step towards migration of DB plans to DC plans, and aims to increase retirement savings. The sustenance of it was well researched and is supported.

As of June 2013, 780 companies (with 166,000 individuals) were registered under the NPS – Corporate Sector covering a range of industries. There are currently approximately 40-50 companies enrolling in NPS – Corporate Scheme a month, at a low subscriber base to overcome the lack of understanding of pay replacement ratios. Will the low cost be sustained in the long run? Other challenges include retirement planning education and communication, employer support and encouragement, benefits adequacy, and investment returns against Superannuation Schemes. Notwithstanding the many challenges, the NPS provides a long list of advantages from both employees' and employers' perspectives, which makes it an interesting candidate. Some examples are portability, ease of understanding, low fees, fraud protection, etc.

Pension Developments in China

The speaker introduced the subject with an overview of China's important differences (against other markets) and characteristics as they relate to pensions. Local regulations, one child policy, RND currency depreciation/appreciation (inside/outside China), mistrust in government, retention issues, corruptions, etc. were all discussed with some of their resulting consequences on the pension environment. The speaker talked about the dominant role the government is playing, along with the low presence of DB plans and the enterprise annuity opportunities – all this while sharing his own experience of working in China. This was then followed by an overview of the latest developments in social insurance schemes and some specifics around occupational pension plans. The session material also provides information on the challenges brought by IAS 19R, but this was not discussed during the session.

The speaker described the current landscape as it relates to pensions and benefits. He mentioned the challenged and more relaxed one-child policy, the fast aging society and rising labor cost, and the high savings rate (the Chinese like to save; they do not trust the government).

Private DB plans are rare in China but they do exist. Interestingly, when such plans are present, the DB benefit promises are provided via oral commitment rather than written in a formal plan document (to avoid binding). Other interesting topics discussed are the "early retiree/internal retirees" symptom and the lack of data quality and reporting control.

The current China Social Insurance System includes four sections to cover different employee categories and locations areas (private/public, urban/rural). The social insurance for private employees was described in greater detail including sample employee and employer contribution rates (high) for each benefit categories included (pension, medical unemployment, injury and disability, and maternity, and housing funds) in Beijing and Shanghai. Among other latest developments in social insurance schemes, the status of foreign employees was discussed and questioned.

Finally, the status of occupational pension plans was touched on. There are some DB arrangements, but only for some state-owned enterprises and multinationals. Most large and medium size enterprises have set up enterprise annuity schemes, which are DC arrangements (similar to Roth 401(k) in the U.S.).

In summary, the respective characteristics of both countries make the pension environment complex and full of challenges which the two countries are trying to address. Particularly, the lack of trust in the banking, insurance and government systems faced by both countries at different level suggests the need for a transparent and strong governance framework in order to achieve retirement savings objectives.

Session 11

DC DESIGN

Speakers:

- Paul W. Nawrot – Fidelity Investments
- Kenneth Y. Chang – Fidelity Investments
- Marina L. Edwards – Towers Watson
- Erin A. Kartheiser – Winston & Strawn LLP
- Session Coordinator/Recorder: Robert T. Campbell – Towers Watson

As DC plans become the center pillar of retirement plan design, the panelists explore a variety of plan designs and their associated challenges. While cost management has been the primary driver of the migration from DB to DC plans, employers are now beginning to focus on the retirement readiness of their workforce. Various means of employer support for retirement readiness are explored, including the use of safe harbor plan designs, automatic enrollment and other design features.

DB to DC Plan Transitions

Three means of transitioning from DB to DC plans are discussed: immediate termination, soft freeze and hard freeze. Descriptions of each approach, suitable strategies and the inherent challenges of each are considered.

1. Immediate termination involves the complete liquidation of the DB plan and the implementation of a new DC plan. A termination involves the freeze of benefit accruals in the DB plan and the distribution of all plan assets to satisfy the benefit obligations. Termination of a DB plan requires that plan assets are sufficient to purchase annuities or pay lump sum distributions in satisfaction of all benefits due under the plan. Because most DB plans do not have enough assets to accomplish this, employers often opt for one of the two freeze alternatives as a first step in the DB to DC transition process.
2. A soft freeze means the DB plan has been closed to new entrants while participants in the plan prior to the soft freeze date continue to accrue benefits under the plan. [Note: some practitioners refer to this as a "closed" plan.] Generally the employer would provide the new employees with an enhanced DC plan. This approach is less impactful on the workforce, but the employer continues to maintain the plan for an indefinite period of time in the future.
3. A hard freeze means the DB plan has been closed to new entrants and benefit accruals stop for all participants. Generally, the employer would provide an enhanced DC plan to all participants following the hard freeze. As with the soft freeze (or closed) alternative, the employer continues to maintain the plan for some period of time.

Following any of the transition approaches noted above, employers must manage the impact of the change on overall plan costs, benefit levels for those nearing retirement, retirement readiness and compliance issues. Various tactics employers have utilized to address these are discussed.

There is some indication that proposed legislation may be forthcoming that would require DC plan participants to take at least a portion of their account balance in the form of an annuity. The annuity amount would be based on the participant's life expectancy and would recalibrate annually during the payout years. Currently, an annuity option is offered by some DC plans, but it has not proven to be a popular option among retirees, whether in-plan or out-of-plan.

Safe Harbor Designs

There are essentially four alternative types of DC safe harbor designs: two traditional safe harbors and two PPA safe harbors. The key structural difference between traditional and PPA safe harbors is that the PPA safe harbors require automatic enrollment (at 3% of pay) and automatic increases in the participants' deferral percentages.

The original attractiveness of the DC safe harbors to employers was grounded in the fact that they are exempt from ADP/ACP testing. The panelists are observing today that most employers who have adopted a safe harbor design have been motivated to do so more by a concern for retirement income adequacy than the testing exemption. The opt-out rate for employees who are automatically enrolled in a DC plan is around 10%, regardless of the initial deferral percentage.

There are some often-overlooked aspects of safe harbor plans noted by the panelists. Any employee after-tax contributions made under the plan must still be tested for nondiscrimination. Contribution limits and participation requirements must still be met with a safe harbor plan. A safe harbor plan is also still subject to the same withdrawal restrictions and the match may not be increased or decreased during the year.

The panelists from Fidelity note that of their 40,000 DC plans, around 20-30% use a safe harbor design, with a higher percentage for smaller employers. Larger employers are more likely to use automatic enrollment alone (non-safe harbor) to increase participation in their DC plans.

Service/Points Based Plans

Service and points based DC plans provide greater contributions as a percent of pay for those participants who are older or have more service. They tend to provide benefit accruals in a way similar to the way DB benefits accrue during one's career. Service and points based DC plans are effective in providing additional DC benefits to older participants who may otherwise be disadvantaged by a freeze in the employer's DB plan. Participants in this type of plan receive a contribution regardless of their ability to save.

Some of the challenges inherent to service and points based DC plans include the need for more communications due to the complexity of the design. Nondiscrimination testing is more rigorous and most plans will not be able to demonstrate compliance without going through a more complex testing process.

Conclusion

The panelists note that most DC plan participants are not saving as much as they need to provide adequate retirement income. Depending on income level and investment performance, employees should be saving 12-15% of pay which, when combined with employer contributions, would be 15-20% of pay per year.

Session 18

DB PLANS IN LATIN AMERICA

Speakers:

- Wilfredo J. Gaitan – Aon Hewitt
- José Luis Salas Lizaur – Consultores Asociados de Mexico, S.A.
- Eduardo M. Jauregui – Aon Hewitt
- Session Coordinator/Recorder: Kelly Cruise – Deloitte

Our largest neighbors to the South, Brazil and Mexico, have managed to maintain a thriving funded pension industry. Speakers in this session provide an overview of each country's pension system; discuss the fundamental factors driving the growth; outline the role of the actuary, the supervisory systems, and the requirements for tax-advantaged pension programs.

Mexico background

The vast majority of Mexicans are unlikely to have sufficient retirement savings. With only 19 million of Mexico's 52 million person labor force considered to be part of the 'formal' economy and covered under a public pension plan (either Social Security or a public employer plan), the remaining 33 million workers are considered part of the 'informal' economy and are not covered under a public plan.

Additionally, Social Security reforms in 1997 have resulted in inadequate benefit levels for many of those covered by the public benefits. Prior to the reforms, the system was an unfunded defined benefit program with a decent level of coverage (replacement ratios between 100% and 60% depending on the individual's income level). Following the reforms, the benefits are provided through a defined contribution funded system with replacement ratios between 100% and 20% depending on the individual's income level.

The speaker's experience indicates that there is insufficient awareness in the population of how much lower their social security pension benefit levels are under new social security law. Combine this with recent survey results showing that only 34% of the economically active population has a saving habit, and you can see how this results in a high level of dependence on the state to take care of financial risks of individuals in retirement.

While the current average age of the Mexican population is 29.6 years, the population is aging rapidly with an average annual growth rate in the population over age 65 of 3.15%, meaning that this dependence is likely to get worse over the years.

Mexico statutory benefits and private pension plans

Severance payments and seniority premiums are required under the Mexican Federal Labor Law. Severance payments are payable in the event of an unjustified dismissal (including dismissal for old age) and requires a payment equal to 3 months of final integrated pay plus 20 days of final pay per year of service. Payment of this benefit on termination is widespread even for many preretirement terminations. Seniority premiums are calculated as 12 days of final basic salary (limited to 2 x minimum wage) per year of service.

The cost of termination indemnities must be recognized on an ongoing-concern basis under Mexican accounting standards – meaning that every company technically has a defined benefit plan, and most companies carry the accumulated liability in their balance sheets. For pension actuaries in Mexico, this constitutes a large portion of the available work.

While many Mexican employers prefer to conserve cash-flow and do not pre-fund their statutory severance liability, unfunded costs cannot be deducted for corporate income tax purposes, and some employers choose to pre-fund the statutory severance through a qualified pension plan. Qualified pension plan legislation provides for significant tax advantages to the plan sponsor and the plan members.

As of May 2012, the CONSAR (National Commission for Retirement Savings Systems) had registered 2,002 private pension plans covering 1.35 million of Mexico's 52 million labor force. The vast majority of these plans have been set up to deliver the statutory severance benefits. The majority of the plans are defined benefit (58%). A growing portion are hybrid plans (33% in 2012, up from 18% in 2006). The remaining 9% of registered plans were defined contribution. Traditionally, we have seen DB or hybrid plan design format due to relationship with mandatory severance. Most new plans have a hybrid plan design with a DC look but with a minimum defined benefit guarantee equivalent to the legal severance.

New plans are continuing to be set up as employees are increasingly beginning to appreciate them and expect leading employers to provide them. Of the private plans, 62% have been set up in within the last 10 years, and currently about 70% of multinationals have formal plans.

The increased demand from pension funds for investments is resulting in new life in the Mexican stock market, encouraging some companies to go public. The total amount of pension funds managed is 416.5 MXN Billion (USD 32.3 Billion) and is invested as 46% in Federal government bonds, 31% in equity, and 22% in debt, with the remaining 1% in foreign investments, real estate and derivatives.

Proposed changes to Mexican tax law

Under the proposed changes which are a key item on the President's agenda, company contributions to pension funds would no longer be immediately deductible and deductions would only be obtained when benefits are actually paid. Deductions for aggregate fringe benefit costs would be limited to 10% of the employee salary, subject to a maximum of 2 times the annual minimum wage (a total of USD 3,664 p.a.). The current total pension benefit payment exclusion from taxation (15 times the minimum wage) would be curtailed. Under the proposed changes, tax treatment for individual retirement account withdrawals and tax treatment on return on pension funds are unclear.

Mexico conclusions

While the prevalence of private pensions is increasing, they need to continue to grow in order to play a key role in delivering pension income to future retirees. However, passage of the proposed Income Tax Law may discourage the creation of additional plans.

There are no changes in the statutory severance being contemplated at this time, so actuaries will continue to be needed (at least) for accounting of the legal severance benefits.

Brazil background

"Brazil is the country of the future… and will always be?"

Brazil, often touted as the country of the future, has significant hurdles to jump to get there. Education levels of the population are low, with an average length of time spent in school of 6.5 years – leaving multinational companies hard pressed to find skilled local labor. In addition gender inequality, corruption, and security remain top concerns.

Looking to retirement, it is evident that the need for supplemental retirement income is also a concern as new generations cannot rely on the unsustainably rich social security benefits of previous generations. Supplemental retirement plans will continue to grow and trends indicate much of the growth will be in defined contribution through open entities and multi-sponsored funds. It is expected that these plans will increasingly cover risk benefits such as death and disability.

Brazil retirement plan market practice

Sixty-three percent (63%) of companies in Brazil currently provide a retirement plan for their employees. Of the companies that provide a pension, roughly half are provided directly by the employer set up as an individual fund or a multi-sponsored fund ("Closed" plans), and the rest are provided through an insurance company ("Open" plans).

Governing supervisory authorities

Brazil has a well regulated market for both closed and open entities, and there are three bodies that oversee retirement plans in Brazil. Previc regulates the Closed plans, SUSEP regulates the Open plans offered by insurance companies, and the IBA (Institute of Brazilian Actuaries) is the official actuarial organization of Brazil and provides certifications that actuaries need to sign official documents.

Closed plans

Closed plans extend benefits to all employees of an entity and are roughly 37% DC, 31% DB, and 32% hybrid. There are generally no new DB plans being set up, so this proportion should decrease over time. Closed plans hold USD 295 billion (15% of GDP) in assets under management.

Open plans

Open plans are defined contribution in nature and are operated by insurance companies or an open supplementary pension entity on a for-profit basis. Contrasting with Closed plans, these plans can be used to provide benefits to a select group of employees or to an individual only if desired. Closed plans hold USD 120 billion (6% of GDP) in assets under management and are growing faster than Closed plans.

Tax implications

Tax deductions are typically allowed on employee contributions up to 12% of annual remuneration and on employer contributions up to 20% of payroll. There has been no taxation on capital gains on investments since 2005.

Session 20

HOW MUCH IS ENOUGH? RETIREMENT INCOME SECURITY

Speakers:

- Robert J. Reiskytl – Aon Hewitt
- Philip M. Parker – Buck Consultants
- Grace Katherine Lattyak – Aon Hewitt
- Session Coordinator/Recorder: Jeffrey A. Rees – Deloitte Consulting LLP

Our session opens with a full house consisting of an aged demographic. Robert Reiskytl moderates the session.

Grace Lattyak discusses Aon Hewitt's research and modeling into retirement adequacy. The marketplace has a myriad of numbers and measures that at times conflict with each other unless one understands the underlying assumptions. The model focuses on the gap at age 65 when taking into consideration typical savings (based on available individual data), Social Security and expected long-term costs. The goal of the model is to create a talking point that people can compare to their own situations and alter as their circumstances vary from the assumptions.

While Grace focuses on the savings shortfall, Philip Parker presents on individual perceptions, how the government may be changing its view of the plans, some current and potential solutions in the future.

The broad individual perception is that people do not think they will have enough money to retire when they would desire. When one looks at the numbers, it is clear that the perceived shortfall to retirement is understated as compared to the actual shortfall. Furthermore, the conflicting information among advisors and professionals leaves them unsure of the level of savings they should be targeting for retirement.

Interestingly enough, the current thinking among lawmakers is focused more on tightening down the deductions for the high end savers rather than focusing on helping the lower end savers. Given the current government fiscal situation and that retirement plans are the 3rd largest tax deferral in the code, that should not come as a surprise. There are a number of considerations on adjusting the tax impact on retirement savings, ranging from squeezing down the current limits, to phasing out existing deferrals based on compensation.

Finally, Philip provides a look at possible solutions. Automatic enrollment is popular and one idea is to expand it such that it automatically sets the savings level to "get you there." Another is to change the match design. Instead of packing the entire employer match on the first dollars in, spread it out so that the employee is saving more to get the full match. Leakage (loans) is an area of high concern that enhanced communication might help address. Better tools and methods to both measure retirement adequacy and communicate it are key solutions. As the population continues to age, longevity solutions such as deferred annuities need to come into play more. Finally, better regulations around phased retirement are critical.

In summary, the session highlights the key challenges, legislative realities and possible long term solutions for the retirement issues of today.

Session 21

HEALTHCARE REFORM FOR PENSION ACTUARIES

Speakers:

- Tamara R. Shelton – Towers Watson
- Sandra J. Loyal – Towers Watson
- Stephen R. Oates – Buck Consultants
- Courtney A. Dubbs-Stubblefield – Shell Oil Company
- Session Coordinator/Recorder: Roshni A. Shah – Towers Watson

Following enactment of the Patient Protection and Affordable Care Act (PPACA) in 2010, pension actuaries and their clients have to address new issues regarding retiree medical valuations and retiree medical strategy. The session considers how actuaries can prepare their clients to deal with the impact of healthcare reform on their retiree medical plans.

Background

Several of Healthcare Reform's features have led plan sponsors to consider alternative benefit delivery structures or to discontinue plan sponsorship. The advent of state-based Health Insurance Exchanges (Marketplace) with the associated premium tax credits (PTCs) is expected to create a competitive individual insurance market for pre-Medicare retirees. Among other features, the 40% excise tax on high value plans will be a compelling reason for employers to cease plan sponsorship. The change in tax treatment of the Medicare Part D Retiree Drug Subsidy (RDS) and the filling-in of the "Donut Hole" starting in 2013 is prompting employers to consider alternatives to the RDS program.

Actuarial Valuation Considerations

The Transitional Reinsurance Program (TRP) fees for non-Medicare insures was introduced to fund temporary reinsurance to stabilize premiums for coverage in the reformed individual health insurance market. The fee is payable by employers and insurers for three years at a rate of $63 per covered life in 2014 (scheduled to decline in 2015 and 2016), and represents a material additional expense for retiree medical plan sponsors.

RDS loses its tax-favored status in 2013, although tax accounting for the deferred tax asset was already reflected by plans in 2010.

Effective 2018, a 40% excise tax will be imposed on the value of health benefits exceeding a threshold of $10,200 for individual coverage and $27,500 for family coverage, indexed for inflation. The thresholds increase for high-risk professions and for older populations (i.e., retirees). The excise tax would increase the liability and expense for high-value plans. Although, pending further regulatory guidance, blending Medicare experience with pre-Medicare experience would help to avoid or delay the tax.

Certain retiree medical plan valuation assumptions may need to be modified in light of Healthcare Reform. Availability of health insurance in the Marketplace and PTCs may trigger early retirement and drive down participation rates for emerging retirees. New taxes on pharmaceutical and medical device manufacturers may increase the trend if the fees are expected to be passed on to healthcare consumers.

Pre-Medicare Retirees and Healthcare Reform

Beginning 2014, the Marketplace will offer alternative, affordable healthcare choices for pre-Medicare retirees. For retirees who drop employer coverage and enroll in the Marketplace, PTCs will be available if household income is between 133% and 400% of the Federal Poverty Limit (FPL), and increased benefit value in the form of out-of-pocket costs will be available if household income is less than 250% of FPL. This is slightly different for active employees – eligibility for employer coverage that is affordable and of minimum value disqualifies the employee for PTCs.

The PTC would replace at least some of the employer subsidy in a retiree medical plan, with the level of PTC increasing with decreasing household income. The level of PTC for retiree & spouse coverage is even greater than for retiree only coverage.

Retiree medical plan sponsors are therefore faced with several strategic considerations:

- As long as the early retiree is not enrolled in the employer plan, he/she will be eligible for PTCs, subject to household income. Employers with capped plans may certainly want to encourage retirees to explore options in the Marketplace for more affordable coverage as costs to the retiree increase in the employer-sponsored plan.
- Availability of options will pose communication challenges for plan sponsors, and financial planning challenges for early retirees. Employers may want to consider adding an opt-in/opt-out feature to facilitate retirees to make a choice when limited initial information is available on the Marketplace.
- Marketplace disparity across states poses a unique challenge for employers with retirees spread across many states. Additionally, narrower networks are expected in Marketplace plans.
- Employers can provide early retirees with a Health Reimbursement Account (HRA) to pay for their Marketplace Plan premium. It should be noted, though, that a retiree HRA is considered Minimum Essential Coverage (MEC), and disqualifies the retiree from the PTC.
- Private exchange solutions are yet another option available to employers.

Medicare Retirees and Healthcare Reform

Alternatives available to Medicare-eligible retirees include different levels of employer subsidization (ranging from uncapped subsidy to access-only) and employer sponsorship (ranging from traditional plans to an account based approach).

Various features of Healthcare Reform have led employers to consider whether to continue plan sponsorship or convert to programs in which retirees can secure coverage in individual insurance plans.

RDS payments lose their tax-favored status beginning in 2013, which effectively reduces RDS value by around one-third for tax-paying entities.

The value of Medicare Part D plans are approaching typical employer plans due to Medicare Part D enhancements brought about by Healthcare Reform. These enhancements include:

- $250 rebate for individuals reaching the donut hole in 2010
- 50% discount on brand-name prescription drugs in the donut hole beginning in 2011, funded by pharmaceuticals
- Phased increases in Federal coinsurance on generic and brand-name prescription drugs, reaching 75% in 2020

These enhancements, together with the loss of the tax advantage, remove the last major barrier to a fully-effective individual health insurance market for Medicare-eligible retirees.

Employers who wish to maintain plan sponsorship may find the Part D Employer Group Waiver Plan (EGWP) option appealing as a way to obtain the enhanced value of Medicare Part D. An EGWP allows the employer to obtain an increasing amount of the Federal subsidy for Part D plans as the donut hole gets filled in.

Some employers had used Medicare Advantage for medical with group RDS to deliver benefits at lower cost. This may become less attractive post Healthcare Reform due to funding cuts leading to premium increases, benefit cuts and market withdrawals starting in 2011.

Different approaches may be appropriate for different cohorts of the company's retiree population.

The 2013 Towers Watson/National Business Group on Health Employer Survey on the Value of Purchasing Healthcare shows that for 2014 and later, 36% of employers are considering access to Medicare plans for retirees through a Medicare coordinator, while 34% are considering converting the subsidy they currently provide to HRAs.

HRAs are a tax-efficient way to provide the subsidy for employers who terminate group plan sponsorship and direct retirees to individual plans. Appropriate HRA levels need to be determined. For plans with a fixed dollar company subsidy (cap), the financially neutral HRA level likely does not equal the current cap: first, a cost neutral HRA amount would equal the cap net of RDS, and then, a further adjustment for participation would be required since many retirees who did not elect a capped plan will elect an HRA.

Transition to the individual Medicare market will provide more choice to retirees, allowing them to elect plans that may meet their needs better than group plans and at lower cost. Employers benefit from reducing, or even eliminating, trend from their actuarial valuations, thereby reducing their retiree medical plan liabilities. Medicare coordinator models also simplify administration of benefits.

Case Study – Shell Oil

Shell's retiree medical plan pathway was outlined to show how Shell has maintained plan sponsorship to align with total reward strategy while achieving savings. The retiree medical plan forms an important part of their employee value proposition and is a differentiator when it comes to competing for talent. The case study also showed that changes should be made after consideration of long-term costs and impact on retirement steerage.

Session 24

TO B.E. OR NOT TO B.E.: APPLYING BEHAVIORAL ECONOMICS

Speakers:

- Phil Merdinger – Mercer
- David Cheatham, Compensation Director – The Coca Cola Company
- Ruth A. Hunt, National Communication Strategy Thought Leader – Buck Consultants
- Session Coordinator/Recorder: Robert T. Campbell – Towers Watson

Behavioral economics provides a reasonable way of explaining how employees make decisions from among benefit offerings and why they respond the way they do to compensation messaging. Employers are becoming increasingly aware of the role behavioral economics plays as they seek to effectively manage their benefit plans and maintain an engaged and productive workforce. The panelists explore some of the recent research on behavioral economics and practical applications of the science to workforce management.

Recent Research in Behavioral Economics

Behavioral economics asserts that the behavior of consumers, employees and other stakeholders in economic matters is not always rational but may be predictable. This concept of predictable irrationality contrasts with the presumption of classical economics that rational choices are made in the best interest of the individual. In reality, emotional factors lead people to make decisions that are not only sub-optimal, but often times harmful to themselves.

Behavioral economics research points to the fact that there is not a linear relationship between economic value and the decision making by a consumer or employee. People tend to lean toward being loss-averse. Classical economics would say that if we receive 10% more, we will value it at 10% more. Behavioral economics research has found that there is a diminishing perception of value as the reward increases, while reward losses are more keenly felt.

Implications for Reward Programs

In compensation and benefit plan management, this has implications in at least these areas:

- Target setting
- Reward differentiation
- Reward choice
- Change management

An important concept in behavioral economics is anchoring. Once an anchor point is established, value is perceived as either a loss or gain relative to the anchor. Examples include the incentive pay relative to target, pricing of a product relative to others in the same line, the propensity to sell a winning stock before selling a losing stock, putting in golf to avoid bogey rather than to make birdie, or a displaced worker looking for a job for over a year while not willing to take a 10% pay cut.

Target Setting

In designing reward programs, behavioral economics brings to light the importance of creating a favorable anchor. Set anchors so that loss aversion drives adherence, and that the actual rewards are viewed as gains rather than losses. The communication of salary midpoints and incentive targets are examples.

Reward Differentiation

The key concept with reward differentiation is that there is a diminishing sensitivity when rewards exceed expectations, while rewards that are below expectations can have a greater negative impact. This negative impact is felt more acutely and takes longer to adapt to. A way to manage an incentive program with this in mind is to make sure that solid performers are paid at the anchor, and not below the anchor in an effort to provide more reward to higher-performing employees. The question is which is more likely to create greater total engagement – paying most employees at 100% of target or paying most below target to reward the higher performers even more? The research suggests that it is better to pay most employees at the anchor point.

Reward Choice

When employees are given choices to make within the context of their benefit plans, there is a paradox of choice that occurs. Regret avoidance is a key factor that drives behavior. Some choice is viewed positively, but too much choice can be a negative. Even choices that are rarely selected can influence decisions (an example would be a boost in sales of a restaurant entrée when a more expensive option is introduced).

It is helpful to leverage choice architecture to better organize the context for decisions. Employees can get paralyzed with too many choices, as they become increasingly afraid of making the wrong decision. Offering three benefit plan options may likely get the middle plan chosen most often.

Employers can consider "light paternalism" with structured incentives and defaults that help drive informed self-interest. The default 401(k) option is most likely to be chosen, which helps explain why the opt-out rate for auto enrollment is low. Employers can also exploit self-harmful biases and nudge optimal behaviors. Nudges cannot appear manipulative and must retain freedom of choice.

Change Management

The key with change management is how to address entitlement mentality. An important concept is the endowment effect – once we own something we value it more than previously. Giving it up or trading it then is perceived as a greater loss than the actual economic value. Further, if we play a role in creating something, like a new benefit plan, we value it to a greater degree.

The implication is that generally participants place a greater value on the current program than the actual economic value. There is a status quo bias that must be overcome with any plan change. If participants are given the ability to help create the new program, they will value it more. This is true for any sense of ownership that participants are able to feel in a new program–whether they helped create it, had meaningful input or were at least brought into the loop early. The status quo bias is often difficult to overcome and stands as a significant barrier to change. The use of committees, focus groups or other opportunities for input can help employees feel more engaged and more likely to accept change, even if they don't like it.

The power of social bias cannot be overlooked in change management. The influence of peers and the broader community can have a positive impact. This can be accomplished through sharing personal testimonials and success stories and social networking from grassroots groups.

Conclusion

Behavioral economics helps explain a lot of irrational human behavior and action (or inaction) in the face of education and compelling logic. Employers can use the science to better understand and plan for how their employees will respond to reward decisions, plan changes and plan choices. There are creative approaches available to secure attention and motivate the right kinds of behaviors. This is generally a complex challenge requiring holistic approaches. What works for one culture and organization may not work well for others.

Session 25

"DOES THIS NPL MAKE ME LOOK BROKE?" – IMPACT OF THE NEW GASB STANDARDS ON PROVIDERS AND USERS OF PENSION FINANCIAL REPORTING

Speakers:

- David Driscoll, Buck Consultants
- Marcia Van Wagner – U.S. Public Finance
- Nancy Bennett – Arizona Retirement System
- James Reardon – State of Vermont
- Session Coordinator/Recorder: S. Kai Petersen–Buck Consultants

Background

The accounting standards applicable to public-sector retirement systems are changing:

- GASB 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, takes effect for fiscal years beginning after June 15, 2013.
- GASB 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, takes effect for fiscal years beginning after June 15, 2014.
- Early application is encouraged.
- There are a number of significant changes from the prior standards:
- Replacement of Net Pension Obligation (NPO) with Net Pension Liability (NPL) as employer's balance-sheet liability. The former was effectively the accumulated shortfall of cash contributions relative to the Annual Required Contribution (ARC). The latter is equal to the Entry Age Normal Actuarial Accrued Liability less the Market Value of Assets.
- Replacement of Annual Required Contribution with a specific expense calculation unrelated to the cash contribution. The new calculation is more akin to the expense calculation under ASC 715.
- Discount rate is based on the expected return on plan assets unless plan is projected to be inadequately funded to cover benefit payments in which case a "crossover" calculation is required that blends the expected return on assets with the yield on a 20-year, tax exempt general obligation bond. Extensive substantiating information in the notes is required.
- The testing includes contributions to finance benefits for current plan members only–future members are excluded. A closed group analysis is used if the funding policy is normal cost plus amortization of the unfunded. Open group analysis may be needed when other funding policies are used (e.g. percentage of payroll). If contributions are not based on statute, contract, or formal written policy, five year historical practice is the default basis for projection contributions but may be modified based on the consideration of subsequent events.
- Reporting requirements expand significantly for cost-sharing employers.

Rating Agency Perspective – Moody's

The impact of the revised GASB standard is of keen interest to the rating agencies, as pensions are an increasing source of credit pressures for public entities. According to Moody's, public sector liabilities are rising (on reported actuarial basis they were $800B in 2011–more than doubling since 2005) while revenues have been stalling. An increasing pension liability relative to revenue is a negative credit factor. However, it is only one factor in the establishment of a government credit rating and may carry a weight in the neighborhood of 10% in the rating of a state or local government. At this time, most governments are able to manage their pension obligations but, if pension pressures continue to rise, more rating actions are possible.

The rating process is one of 1) information gathering, 2) credit analysis, 3) rating committee review (majority votes deciding), 4) credit rating dissemination, and 5) rating monitoring. Decisions are made without regard to the potential financial, economic, or political effects that may ensue.

In performing its analysis of pension obligations in the credit analysis of a governmental entity, Moody's makes four principal adjustments to facilitate comparability across pension plans:

- Allocate liabilities of cost-sharing plans to participating government employers based on their proportionate shares of total plan contributions.
- Discount accrued actuarial liabilities (AAL) using a high-grade (Aa quality) corporate bond index rate as of the date of valuation. This is consistent with the concept that a pension liability is balance sheet debt. The approach is similar to the private sector FASB approach, which facilitates some degree of comparison between public- and private-sector unfunded pension debt.
- Use fair or market value of assets (MVA) instead of smoothed asset value (AVA). (Moody's will use AVA for local governments until MVA is disclosed.)
- Calculate a standardized annual amortization metric related to the adjusted net pension liability on a 20-year level dollar basis.

While there are "headline" situations that receive media attention, as well as other situations where the financial health of a particular public-sector entity is called into question, net pension liability to revenue ratios and contribution efforts vary widely, so each situation needs to be considered on its own merits. The range of net pension liability to revenues ranged from 6.8% to 241% in fiscal 2011 based on Moody's measurements. Ten states and 30 of the 50 largest cities had ratios over 100%. There are also a number of governmental pension systems to which contributions have been less than the ARC.

Scrutiny will continue with 29 local governments on review for rating downgrade. The new GASB standard will be a source of new and more comparable data across governmental pensions.

Preparing for the New Standard

Preparing for the new accounting standard raises a number of issues and considerations:

- Preparing to collect new information for financial statement purpose requires coordinating service providers to determine new information needed and timing requirements.
- The timing of actual measurements needs to be determined. Both standards have lookback periods prior to the fiscal year end within which to measure the plan liability. GASB 68 has a look-back period for the measurement of the NPL. Decisions must be made with respect to any required roll forward procedures that will reflect changes in the discount rate, cash flow adjustments, and any legislative or other similar changes. For GASB 68, there is also an issue with respect to deferred outflows and contributions between the NPL measurement date and the end of the fiscal year.
- Testing procedures and timelines need to be established for determining the liability discount rate.
- While GASB 67 takes effect for fiscal years beginning after June 15, 2013, GASB 68 is not effective until fiscal years beginning after June 15, 2014, so GASB 27 remains in effect for one year longer than GASB 25.
- How shall costs be allocated among the employers participating in a cost-sharing plan under GASB 68?
- Who will provide the financial reporting information to the employers? What is the required timing?
- Will the plan be subject to audit by the auditors of the employers? The AICPA guidance calls for a schedule of employer allocations and pension amounts.

The AICPA is undertaking an ongoing effort to keep track of issues, educate, raise awareness and discuss implications of various actions taken in the course of the transition and ongoing application of the new standards.

In the course of transitioning to the new standard, there are a number of misconceptions that will need clarification.

Misconception	Reality
GASB is requiring increased funding	NO mandated change in the plan's current Funding Policy, methods or assumptions, but perhaps a need to state a Funding Policy to the extent the policy is linked to GASB 25/27 or a need to revise based on crossover testing.
GASB will create new pension obligations	Financial statement recognition and disclosures don't create pension obligations; instead, they simply make existing obligations more transparent. (Source: GASB)
Government pensions now required to use lower discount rates	Per GASB: "The selection of an appropriate interest rate for discounting projected future benefit payments to their present value is based on what resources are projected to be used to make those payments: (1) assets of the plan that have been invested using an investment strategy to achieve the assumed long-term expected rate of return and their earnings; or (2) the general resources of the government employer."
Discount rate is based on funding ratio (low ratio = lower discount rate)	The discount rate is not based on the plan's funded status, but the projected benefits, current benefits, and projected benefits for current members, including future contributions. Per GASB: "If a government reaches a crossover point—when projected benefit payments for current employees and inactive employees exceed projected plan net position related to those employees—then benefit payments projected to be made from that point forward will be discounted using a high-quality municipal bond interest rate . . . However, it is true—all other factors being equal— that the less well-funded a pension plan is, the more likely it will reach a crossover point and therefore have to discount some projected benefit payments using the municipal bond index rate."

Conclusion

In summary, GASB 67/68 are making significant changes to public sector accounting, requiring consideration of many issues and transition planning on the part of plans and employers. The goal of the standard is to increase comparability and transparency sought by rating agencies and other interested parties.

Some of the key impacts of the new standard will be:

- Increased transparency and greater consistency.

- A reduced focus on whether or not the required contributions are being made, and an increased focus on the size and growth of the NPL, the more standardized measure of unfunded liability.
- More volatility in year-over-year NPL and funded ratio movement due to the required market value measurement of the plan assets.
- Increased communication to interested parties to explain the change in the reported liability, particularly in the first year when it can rise dramatically due to the new measurement basis – e.g., a plan with a small NPO under the old standard as a result of consistently contributing at or near the ARC may now have a much larger liability measured on the basis of the unfunded liability.

Session 27
DE-RISKING THROUGH PLAN DESIGN AND TRANSACTIONS

Speakers:

- Donald Fuerst – American Academy of Actuaries
- John Beck – Fidelity Investments
- William Roberts – Towers Watson
- Sean Brennan – Mercer
- Session Coordinator/Recorder: Michael Ringuette – Towers Watson

Liability Reduction Strategies – John Beck

Generally speaking, there are two approaches to de-risking pension plans: (1) reduce the size of plan liabilities and assets, and (2) match assets to liabilities. Many businesses today are doing some of both, but, in general, it is expected there will be more focus on liability reduction in the near-term.

There are three approaches to managing pension liability risk:

1. Keep the liability – Sponsor accepts the risk/reward trade-off, retains various risks (investment, interest rate, compliance, etc.).
2. Pay lump sums – Allows the sponsor to settle at the "carrying cost." Generally speaking lump sums are paid on a voluntary basis. The sponsor loses the potential for long-term assets returns in excess of carrying cost.
3. Annuitize – Settle at carrying cost plus load for risk/profit. Eliminate administrative and compliance risks. The sponsor loses the potential for long-term asset returns in excess of carrying cost.

In order to execute on 2 or 3 above, the sponsor needs accurate data. Annuity purchase requires a greater data cleaning effort than lump sum payment. Data quality issues could lead to higher premium for annuity purchase.

Questions from the audience:

What are typical lump sum take-rates? Generally speaking, take-rates are 45%–65%. Take-rates are dependent on the ability to reach former employees and the level and intensity of the communication effort.

Do terminated vested participants understand what they are giving up by electing a lump sum? Some participants may not fully understand or appreciate the trade-off, similar to adding a lump sum option in a pension plan as part of the on-going plan design. Some sponsors are concerned about this, especially when the lump sums are large.

Cash balance plans present an additional de-risking challenge, given that the account balance is typically larger than the projected benefit obligation (particularly for younger participants).

Some sponsors are raising their involuntary cash-out limit in their plans from $1,000 to $5,000 in order to remove the liability for relatively small benefits.

Specific liability management alternatives were discussed in detail.

Terminated vested lump sum window:

- Typically election windows are 30 – 60 days long. Longer windows don't necessarily increase take-rates.
- For lump sums paid, liabilities are settled at carrying cost and the sponsor saves the cost of PBGC premiums and administrative expenses.
- This could impact cash contribution requirements, depending on the funded status of the plan.

Spin-off a de-minimis portion of the liability for active participants and terminate:

- This is typically done when the plan is frozen.
- Spin-off and terminate the spun-off plan to allow for involuntary cash-out or annuity purchase.
- Employees can elect a lump sum and roll the amount over into their 401(k) or an IRA.
- This is complicated and may invite PBGC scrutiny.

Spin-off retiree liability and terminate:

- Private letter rulings (PLRs) recently released related to sponsors who have taken this approach. PLRs are only intended to address the specific sponsor situation. Other plan sponsors need to use caution and consult legal counsel before relying on them.

- This may be done in concert with a window allowing retirees to elect a lump sum. In this case, lower benefit amounts generally see higher take-rates and vice-versa.
- It is typically easier and most cost-efficient to annuitize retires than it is to annuitize terminated vested.
- IRS and PBGC are closely monitoring activity.

Question – Is it necessary to spin-off the retiree group? Absent relying on the guidance in the recent PLR, an "event" is typically required in order to settle. The spin-off and termination create the "event."

Retiree annuity purchase with lump sum window:

- May need to request a PLR, which can be time consuming
- Question – If a lump sum window is offered prior to annuity purchase, does that impact annuity pricing? Yes, as there may be anti-selection (e.g. unhealthy retirees more likely to elect lump sums). Insurance companies have limited data on this. For larger transactions, there will likely be negotiation between insurer and sponsor over the pricing.

Retiree annuity purchase with no lump sum window:

- Annuities can be purchased for all retirees at once, or for subsets of retirees in multiple transactions over time.
- There is volatility associated with the fact that the transaction will be based on an interest rate set on one specific date.

Plan termination:

- More common lately with smaller plans and "orphan" plans.

Question – How do clients react to consulting costs and their impact on the ROI of the various strategies? They need to include consulting and implementation costs in their assessment of the feasibility of any given strategy.

Plan Design – Bill Roberts

A variable annuity plan provides a pension benefit whose value changes over time with the value of assets in the plan. Benefits are typically career average benefits or "dollars x service" benefits. Benefits accumulate in "units", where the unit value is updated periodically (e.g., once a year) based on the value of plan assets.

There has historically been some confusion as to how ERISA accommodates this type of plan design, but recent hybrid plan regulations do address variable annuity plans.

A central component of the design is the "assumed interest rate" (AIR). Unit value fluctuates based on actual investment returns as compared to the AIR. For example, if the AIR was 5% and actual investment returns was 10%, the change in the unit value would be calculated as 1.10 divided by1.05, which equals1.0476 (i.e. unit value would increase by 4.76%).

Question – How does this design meet ERISA rules regarding definitely determinable benefits? There is a revenue ruling that says that this design complies.

IRS rules state that the AIR needs to be "reasonable," but little guidance as to what that means. Recent hybrid plan regulations suggest that AIRs that are at least 5% are acceptable. Can AIRs be changed in the future? Yes. Most sponsors preserve old AIR in accrued benefits as of the date of change.

Given the AIR, accrual rates by age are determined from the AIR and mortality. Investment return and interest rate changes will not affect contribution levels.

Question – How do PPA segment rates impact this? When the Expected ROR equals the yield curve, the FTL equals the assets. Not all actuaries take this approach.

Section 417e doesn't fully contemplate this type of design, and so you have to carefully consider how to interpret and apply 417e to this design.

If you were to compare the variable annuity design to a hypothetical cash balance design where the interest credit rate equals investment returns, you would find that the two plans could have the same present value of accrued benefits while employees are actively working. If the employee in the cash balance plan elects an annuity at retirement, the investment risk at retirement shifts back to the plan sponsor, whereas under the variable annuity plan the employee retains the investment risk after retirement.

Liability-Hedging Strategies – Sean Brennan

The presentation focuses on hedging strategies associated with various liability risk transfer approaches (e.g. lump sums, annuity purchase, buy-in, etc.).

For a liability transfer, there are two time periods to consider:

- Period 1 – the time between now and the date that the actual interest rate associated with the liability transfer strategy is known. During this period, long bonds are typically the best hedge.
- Period 2 – the time between the date the interest rate is known and the actual transfer occurs. During this period, cash is often the best hedge as changes in market rates do not impact the lump sum amount at all.

Once the transfer takes place, sponsors need to revisit the asset allocation for any remaining portion of the plan. The liability characteristics of the residual plan may be different than the original plan, and changes in asset allocation may be necessary to achieve desired risk management goals.

For an annuity purchase, payment of premiums to an insurer can often include in-kind asset transfers (typical for transactions of $250 million or higher – may occur for smaller transactions). This can result in savings to the plan sponsor as they will avoid certain trading costs. However, the types of assets an insurance company is interested in may differ from the types held by most pension plans. For example:

- Insurance companies generally do not want public equity.
- Commercial mortgages are generally more preferable than other mortgages.
- Insurance companies like some private equity, but not a lot.

De-risking for a plan termination requires significant planning. Once the decision to terminate occurs, a typical allocation will result in most or all of the assets being invested in long duration bonds. However, it may be appropriate to keep some small portion of the assets invested in equities.

Question – In the current interest rate environment, are sponsors considering shorter vs. long duration bonds? Some are currently reducing their hedge (i.e., going shorter) in anticipation of rising rates at some future date. Others are leaving their retaining allocation to long duration bonds.

Session 28

LIVING WITH MAP-21

Speakers:

- John Dowell – Nyhart
- Michael Holderman – Towers Watson
- Carol Zimmerman – Internal Revenue Service
- Session Coordinator/Recorder: Jenny Gunckle – Deloitte Consulting LLP

We've lived with MAP-21 for over a year. What experiences have evolved in funding, benefit restrictions and administration?

Background and General Information

The Moving Ahead for Progress in the 21st Century Act ("MAP-21") contained two significant pension law changes: (1) The stabilization of discount rates used in calculating the Minimum Required Contribution/AFTAP and (2) Scheduled increases to PBGC premiums.

(1) Stabilization of Discount Rates

The MAP-21 corridor is based on a range (phased in through 2016) of the 25-year average of the §430 segment rates (i.e., "the 24-month average segment rates") for the period ending on September 30 preceding the first day of the plan year. The 24-month average segment rates are based on the average single rates (taking into account the applicable portion of the yield curve) over the previous 24 months. Because of this, it would make sense for the MAP-21 corridors to be released annually sometime in September.

The MAP-21 corridor does not apply in many circumstances. For example, it is not reflected in deduction limit calculations, various annual funding notice tables, PBGC premium calculations, 417(e) lump sum calculations, 420 transfers to retiree welfare plans, plan termination calculations, and for certain accounting measures (to name a few).

Additionally, it is important to note that the corridor is applied, individually, to each of the three segment rates. Therefore, it could be possible for one segment rate to be impacted by the corridor while another is not affected.

Depending on the pattern of interest rate changes over the next few years, in theory, we could enter a period where the MAP-21 corridor would have a negative impact on the segment rates. A member of the audience noted, if that were to happen, in theory, plan sponsors could elect to value the liabilities using the Full Yield Curve.

Treasury regulations initially still call for lump sums to be valued in the same manner as annuity payments for statutory funding. An example was discussed illustrating how this will (at least in the early years) cause lump sum payments to generate funding target losses.

(2) Scheduled Increases to PBGC Premiums

MAP-21 imposed scheduled increases to both the per-participant fixed PBGC premium rate (increases to $42 in 2013 and $49 in 2014) as well as the variable premium rate (increases to 1.3% of unfunded vested benefits in 2014 and 1.8% in 2015). All are also indexed to national average wages.

Other Issues

There have been questions as to whether the Funding Target should be used in "High-25" calculations given current regulations still refer to Current Liability. Gray Book responses address this question (2008-30, 2013-8 and 2005-30) by stating it would be reasonable to interpret the regulations in a number of ways (either to continue using Current Liability or to use either MAP-21 or non-MAP-21 funding target measures). However, the methods used must be reasonable and consistent and sponsors need to keep in mind that the timing of any changes cannot operate to significantly discriminate in favor of HCEs (highly compensated employees).

There have also been questions in regards to which year's MAP-21 rates would apply for year-end valuations given current regulations do not provide formal guidance. The methodology outlined in Notice 2008-21 and the preamble to October 2009 regulations is "safest" to use, suggesting the application of the 2013 MAP-21 rates/corridor for 2014. Because this would force plans to effectively operate with a one year delay in MAP-21 rates/corridors, some have argued to re-run year-end valuations with the following year's MAP-21 rates for the following year's AFTAP. This would align the AFTAP used for benefit restrictions with the MAP-21 rates applicable to that plan year, but this method is riskier given there is no support in the guidance available.

There has been some discussion of changing the plan year to delay the impact of increases in PBGC premiums and changes in the MAP-21 corridor. It was noted that plan year changes are not eligible for automatic IRS approval and the IRS reviewer would be looking for long term business reasons for changing the plan year.

Projections

It was illustrated with a projection tool that contribution "savings" due to increased MAP-21 rates in the near term are likely only a temporary deferral of the cost. For this reason, it may make sense for some sponsors to decide on a more smoothed pattern of contributions by paying above the MAP-21 minimum required now in order to avoid larger contributions later. Additionally, it was noted that this would help lower the costs related to annual PBGC premiums.

Session 29

ASSUMPTION STUDIES

Speakers:

- Paul Sepe – Towers Watson
- Brian Hurleigh – Buck Consultants
- Gordon Young – Towers Watson
- David Kausch – Gabriel Roeder Smith & Company
- Session Coordinator/Recorder: David Kausch – Gabriel Roeder Smith & Company

Background

This session aims to help the consulting actuary determine the necessity of an assumption study, how often an assumption study should be performed, the assumptions which should be studied, considerations to be made and how to communicate the study. In addition, the session addresses some ideas in convincing a client to pay for a study.

Summary

Mr. Sepe led off the discussion with the business case for a client to purchase a study. Such reasons include generally accepted guidance that a review of major assumptions be performed every three to five years to help alleviate auditor scrutiny of assumptions and adhere to actuarial standards of practice. Mr. Sepe explained that valuation output can help build the business case such as observing large gains or losses each year or a data reconciliation showing deviations in expected versus actual decrements.

In the first case study, a large retailer was realizing actual retirements much lower than expected. The client agreed to perform a study and a much different retirement pattern emerged leading to more expected retirements at older ages and a corresponding lower obligation.

The next part of the session centers around what a reasonable assumption is, and when an assumption should be studied. Mr. Young explained that ASOP 27 and 35 generally describe the professional responsibilities and that whenever an actuary certifies actuarial results, the actuary is also certifying to the reasonability of the assumptions. In addition to the actuary's own responsibilities, many others rely on the actuary's judgments. This includes the CFO of the client, the auditor who has a professional responsibility to review the assumptions and investors concerned about potential "hidden costs". Mr. Young also took the group through a materiality discussion where the group generally felt that a 2% to 5% threshold would be appropriate to determine whether an assumption change was needed (some attendees felt 1% or lower could be a significant enough difference).

The second case study discussed a large utility that had demographic changes in the last 10 years (workforce getting older) and had gone through a communication campaign around their retiree benefits. The study resulted in changing the assumed retirement rates, form of distribution assumption (annuity vs lump sum) and medical participation assumption.

Mr. Hurleigh's section focuses on process considerations including data collection, interpretation of results and communication of results with the client. For data collection, it is important to review what valuation data you have, such as whether you identify why a person left the data in any given year (termination, lump sum payout, death, etc). It is also important to determine if you can identify participants who may have left the client due to a one-time event such as a divestiture or plant closure so that the experience study results appropriately reflect these extraordinary events. Discuss with the client whether the experience from the study period is indicative of future expectations such as whether a recent recession led the study period to have fewer or more terminations than would normally be expected.

Another important consideration of the study is what assumptions to analyze. Immaterial assumptions are likely not necessary to be studied as they have little effect on the valuation. Likewise, some assumptions, such as mortality, require a large population for credibility that may make effective review of that assumption difficult.

Mr. Hurleigh went on to discuss communication issues with an experience study. It is recommended that the actuary have an interim meeting or phone call with client before making final assumption recommendations to discuss the results of the study.

This meeting allows the client to reflect on the results and suggest reasons for possible deviations from the expected results. This, in turn, helps the actuary determine whether the experience seen during the study period can be relied upon to accurately predict the future. Finally, it is important to also think about the communication with the auditors. The communication with the auditors should include a statement of the agreed to assumptions and the reasons for any change.

Mr. Kausch led the final part of the session with a focus toward public pension plans. Mr. Kausch explained that one difference for public plans is that the assumptions are often set by a Board of Trustees. In such plans, the actuary usually recommends the assumptions using the appropriate ASOP but generally the Board is setting the assumption. It is important, though, for the actuary to not just accept the Board's assumption by stating in the report whether the assumption is prescribed or if the actuary disagrees with a particular assumption (silence is interpreted as agreement with reasonability of the assumption).

Public plans should have an assumption review every five years as recommended by the Government Finance Officers Association. Included in this review is the expected return on assets assumption (similar to discount rate in the private sector) used to set contributions. There have been, though, significant pressures from the financial community to change these assumptions to something more akin to the private sector as some investor services now estimate governmental plans' obligations based on a fixed income discount rate approach similar to private pension plans.

Session 34
CURRENT STATE OF UK AND DUTCH PENSIONS

Speakers:

- Doug Carey – Deloitte Consulting
- Mark Daniel – Towers Watson UK
- Hamadi Zaghdoudi – Towers Watson Netherlands
- Session Coordinator/Recorder: Helen Jung – Towers Watson

The UK Pension Landscape:

There are two pillars of pensions in the UK – the Basic State Pension (BSP) and the State Second Pension (S2P). It is a rather complex system, and in April 2013, the government confirmed that the implementation for the new single tier state pension is being brought forward by one year to April 2016. Under the changes, the new single tier pension will replace the current BSP and the S2P with a single payment set at £7,500 per annum. The new pension will apply only to those who reach the State Pension Age (SPA) after April 2016. Those who have already reached the SPA before this date will continue to receive benefits under the current rules.

The state pensions are designed to provide only a basic level of retirement income, about 29% salary replacement for an individual earning about £69,000. People need about 2/3 of replacement salary for retirement, so most employees need additional pension. Therefore, occupational pension plans are common.

With effect from October 2012, a new law was passed requiring employers to auto-enroll employees into a National Employees Savings Trust (NEST) or into an occupational or employer-sponsored personal pension plan that meets certain conditions including minimum contribution levels. Employees may opt out of the scheme if they wish. Since inception, the opt-out rate has only been about 9%.

These changes are positive and well-accepted by the public. However, with legislative changes, worsening market conditions, and longer life expectancies, employer costs are rising significantly. DB plans are dying out and not available to most newly hired employees. In the next 10 years, all DB plans will be closed to new entrants. DC plans will prevail, and many plans have matching employer contributions. There is a tax limit of £40,000 for employer and employee contributions.

Government is making changes to make people save more; however, they are also implementing lower tax limits. In November 2012, government introduced a new strategy document to reinvigorate objectives, as a result of scandals, bad press and trust issues. They are exploring if there is something in between DB and DC type benefits, where risk is shared between employees and employers. The government is expected to announce a policy in the next couple of months. They're calling it "Defined Ambition." They are looking at starting the redesign from DB starting point, but so far have found solutions to be too DB-oriented still.

Starting from the DC side, some interesting solutions such as Collective Defined Contribution schemes have surfaced. Collective (rather than individual) Defined Contribution schemes use corporate knowledge, corporate advisors, and better buying power to help individuals get a better deal. They are considering if there could be insurance products that would provide guaranteed returns, with out-performance shared between employer and employee. Risk sharing between employer and employee is not well accepted (the unknown makes it scary).

Focus will definitely be coming from the DC starting point. Design of the DC plan will look to smarter ways for employees to save, e.g., a small percentage increase in contributions as salaries increase. Education and communications need to be reviewed, as it is still not getting to everyone. Some options being considered are different types of annuities at retirement, e.g., fixed term annuities for a portion of the money while leaving the rest to invest longer.

There is good work going on by the government and they are reaching out to get more ideas. As employer costs are not sustainable, many solutions being considered have a cost reduction to the employer.

The Netherlands Pension Landscape:

There are three pillars of pensions in the Netherlands (NL). The first pillar is a state pension with about €9,000 per annum for a fully accrued pension (50 years of living in NL). The second pillar is an employer-provided pension, and about 95% of all workers have this pension, even though it is not mandatory. The third pillar is the private pension, which is becoming less prevalent due to the fiscal requirements of the second pillar.

Note: Every Euro placed in a pension plan is tax-free (up to a limit), but employees pay taxes when withdrawing money from these pension plans.

The second pillar, employer-provided pension, is very large in the NL, predominantly due to presence of strong unions. Unions do not like DC plans, so most second pillar plans are DB type. Only about 10% of these plans are DC type. However, there is a rapid decline in the number of DB pension funds in place.

Before 2007, there weren't many laws regarding pensions, companies followed the "must be prudent" rule of thumb with regard to these plans. In 2007, a new solvency regime for pension schemes was introduced. Minimum funding levels were required, and for underfunded plans, recovery plans were required over 3 and 15 years depending on the underfunded status. The companies had to show the Dutch Central Bank that they were doing everything they could to fund the plans sufficiently. In 2008, most NL schemes were significantly underfunded due to the economic downturn. In 2010, the Central Bank told the government that companies would not make it if they were to continue to fund at the levels required, so the short term recovery plans were extended to 5 years. Companies were reducing pensions as a way of recovery, often through removing indexation on pensions for certain years. Government didn't like the fact that they were getting less taxes as benefits were decreased. Political groups started rising for the elderly. New legislation was being considered for the elderly.

Currently, many schemes are still underfunded. There are some changes anticipated:

- First Pillar – state pension – retirement age will be set at 67 by 2021.
- Second Pillar – employer-provided pension – retirement age will be set at 67 by 2014.

Both these ages are linked to life expectancy so if that increases, the retirement age will increase as well.

Maximum accrual rates are also expected to go down from 2.25% to 1.75%. Changes in governance structures are also expected, with a stronger focus on trustee expertise and professionals.

Proposed changes in Financial Assessment Framework as of 2015 included:

- Regulatory framework to become stricter for current contracts (nominal contracts);
- New contracts were proposed to also become possible ("real" contracts or "Defined Ambition") where entire benefit promise was to become conditional;
- Benefit indexation was to be automatic, with an adjustment mechanism for 3-10 year smoothing.

There were many criticisms to the real contract. So the Ministry of Social Affairs decided to withdraw the proposal, but also decided to propose a contract that has aspects of the nominal and real contracts. The new proposal entails:

- Nominal guarantees,
- More stable contribution levels,
- More complete contracts,
- Benefit adjustment mechanisms rather than recover plans.

Legislation is expected towards the end of 2013.

While DC plans are very few in number, the products available in the market have grown significantly, and costs have gone down. Collective DC has been a successful topic of discussion. Effectively, it would be a DB plan (for U.S. GAAP purposes) with DC elements in design. There would be a maximum premium and lump sum payments would not be allowed.

Session 35

HYBRID PLANS RULES AND MARKET RATE OF RETURN

Speakers:

- Paul W. Nawrot – Fidelity Investments
- Thomas J. Finnegan – The Savitz Organization
- Craig P. Rosenthal – Mercer
- Aaron Ken Korthas – Fidelity Investments
- Carolyn E. Zimmerman – Internal Revenue Service
- Session Coordinator/Recorder: Michael S. Clark – P-Solve Cassidy

This session focuses on the current state of hybrid plan rules, challenges with market rates of return and employee direction, with IRS commentary throughout.

Review of Hybrid Plan Rules

Conversion Rules

Any future cash balance plan conversions must provide an A + B benefit. When a conversion occurs is determined on a participant-by-participant basis, and it is possible to have different conversion dates for different employees. A conversion occurs when a participant's non-statutory hybrid plan accruals are reduced or eliminated and statutory hybrid plan accrual commence for all or a portion of the benefit. There are a couple of examples in the session materials that highlight the conversion rule mechanics.

Set and Forget Lump Sums

Set and forget conversions are available only for lump sums in limited circumstances (e.g. Safe Harbor interest crediting rate, opening balance calculated using 417(e) rates). The IRS has received feedback on these proposed rules.

Late Retirement

The preamble to the 2010 proposed regulations state that low interest crediting rates might mean that combined interest and pay credits may not be sufficient to provide required actuarial increases for late retirements. There are still questions as to what has to be provided in a cash balance plan to satisfy the requirement for actuarial increases and the IRS has not opined on a reasonable basis definition to date. One item that practitioners will want to cover with plan sponsors is the need to make sure that the basis for providing post-normal retirement benefits is clearly stated in the plan document.

Market Rate of Return Rules

This section of the session provides a review of the current proposed regulations dealing with market rates of return in statutory hybrid plans.

Statutory hybrid plans fail age discrimination rules if they offer an interest crediting rate in excess of a "market rate". Additionally, plans that have a variable market-based rate must also have a preservation of capital requirement that applies at the annuity starting date (which also means that negative returns are allowed during the accumulation period). Variable annuity plans are exempt from the preservation of capital rule.

Both the final and current proposed regulations for statutory hybrid plans contain specific lists of acceptable market-based rates that are deemed to not exceed a market rate of return. These lists pose problems for plans that were designed before these rules came into place and have interest crediting rates that are not on these lists, and are potentially higher than what would be deemed a market-rate of return. The problem lies in that there are currently no provisions that would provide 411(d)(6) anti-cutback relief for plans that switch to an interest crediting rate basis that meets the requirements of the final/proposed regulations.

Another point that has to be taken into consideration with designs based on a market rate of return is that the interest crediting rate cannot be based on the greater of multiple permitted rates. For example, a cash balance plan cannot specify that the interest crediting rate is the greater of the PPA Third Segment rate and the actual return on plan assets.

The current proposed regulations allow for a fixed interest crediting rate that does not exceed 5%. The proposed regulations also allow for an annual minimum rate of not more than 4% if the interest crediting rate basis is based on a Safe Harbor rate.

The IRS is hoping that any obvious above-market interest crediting rate definitions have already been amended down; but for others that may potentially change (or be required to change), they are hoping that sponsors remain with their current provisions until the final regulations are issued. The thought behind the IRS position is that the final regulations will include some sort of 411(d)(6) protection for sponsors where it is "deemed necessary" for the interest crediting rate to be lowered.

There are other compliance issues that need to be addressed when dealing with market-based designs. For testing under 411(b), 401(a)(4) and 410(b), cash balance plans must determine the annuity benefit payable at certain ages, which requires the projection of the account balance with an assumption as to the future interest crediting rate. The IRS interprets section 411(b)(5) to require all variables, including the interest crediting rate, to be held constant at their most recent value when projecting for accrual-rule testing. The IRS also takes the position that it would be inappropriate to define the accrued benefit one way for accrual-rule testing and then define a different accrued benefit for other purposes. Accordingly, the IRS requires this same approach (i.e., projecting the interest and other relevant factors at their most recent value) in a qualified plan's definition of accrued benefit as an annuity commencing at normal retirement age and in determining the normal and most valuable accrual rates for nondiscrimination testing under section 401(a)(4).

Challenges with Market Rates and Employee Direction

There are questions as to whether or not it is allowable to have participants choose their interest crediting rate basis. There are large plans that currently allow this employee direction even though there is no requirement for the employer to invest the plan assets based on the participant direction. The preamble to the current proposed regulations poses questions related to employee direction and lists issues raised by the IRS.

The session concludes with arguments in favor of employee-directed cash balance plans and arguments against this type of plan with IRS commentary on the various viewpoints.

The arguments in favor of employee-directed cash balance plans include items such as understandability, funding flexibility and stable funding costs, and investment risk sharing. These plans have already existed for years and have received determination letters. This type of design can be easily established as a new plan or a conversion of a traditional plan (can be difficult to convert an existing cash balance plan to one with employee direction).

The arguments against employee-directed cash balance plans include policy issues (differentiation from a defined contribution plan, potential for under/over funding, supplemental death and disability benefits), and technical issues (definitely determinable benefits, changes in the funds/options, asset/liability mismatch).

The IRS reaction to this type of plan is that there is no 411(d)(6) issue if the employee voluntarily changes their interest crediting rate basis to one that is lower than what it was before (it would be a problem if the sponsor was changing it). There is a question as to whether or not it's the rate that is being protected or the ability to change it for this type of plan. The IRS is looking for these plans to state the various funds/options in the plan document although they acknowledge that there is a potential 411(d)(6) issue if funds/options are removed from the lineup. The IRS also views the lineup of funds/options as integral in satisfying the definitely determinable requirements for pension plans.

Session 36
MERGERS, ACQUISITIONS, DIVESTITURES & DUE DILIGENCE

Speakers:

- Robert W. Bruechert – Towers Watson
- Michael Rosenbaum – Drinker Biddle & Reath LLP
- James McKay – Towers Watson
- Eric Warren Wheeler – PricewaterhouseCoopers LLP
- Session Coordinator/Recorder: Kelly Cruise – Deloitte

There are many retirement issues that surface in mergers and acquisitions. The panelists discuss the financial and compliance issues related to pension, defined contribution, retiree medical, severance, and change of control programs. The financial analysis addresses the balance sheet, income statement, cash flow and the impact financial considerations can have on the valuation of the deal as well as the integration budget.

Speakers start with a discussion of preparing a client for "what to expect" and then explain how to analyze these plans and issues in the due diligence phase, and finally, how to use the findings in the sale agreement and integration planning and costing.

Getting Started

Mr. Rosenbaum began by walking us through a transaction lifecycle from a client beginning strategizing about a potential target through to deal closing and provided some key questions to ask below that will get you started on any new transaction.

What is the Purpose of the Transaction?

Understanding the desired strategic outcomes of the transaction is an important first step in helping clients meet their objectives. These strategies, objectives and principles must drive the transaction process and should be revisited, evaluated, and reaffirmed (or revised if needed) throughout the process.

Typical strategies and objectives can include improvement of strategic position; improved access to capital markets; preservation of local independence, governance or management; protection of employees and work force in place; improving and expanding quality initiatives; commitment to IT; commitment to the mission (charity care or community benefit); or reducing costs through economies of scale and efficiencies.

What is the Transaction Structure?

In understanding the transaction structure, you can't just look at the title of the deal (asset purchase, share deal, merger, consolidation, joint venture, etc.). You will need to read and understand the deal documents and speak to the client to understand the full picture. In particular, it is very important to understand what specific components of the target are being taken.

Many factors drive the decision on transaction structure, including:

- debt structure and how best to handle liabilities,
- availability of financing,
- regulatory requirements,
- enforceability of post-closing covenants,
- assignment and assumption of contracts (including leases),
- joint ventures and assignment of interests,
- post-closing structural requirements of the acquiring party,
- financial reporting and tax issues and consequences,
- employee benefit plan considerations, and
- and requirements of antitrust regulators.

Who are the Stakeholders and What are their Objectives?

An understanding of who the stakeholders, regulators, and interested parties are is crucial as the transaction progresses. For example, groups that may be impacted or interested by the transaction such as shareholders, bondholders, the parent corporation, employees, the board, management, donors, the community, the media, and government organizations need to be considered. The different perspectives and objectives of the various stakeholders need to be understood.

HR Due Diligence

The most typical time for advisors to be engaged is during the due diligence phase when the acquirer is attempting to determine an offer price for the target business. Mr. Wheeler walked us through what clients are typically concerned with from an HR and benefits perspective during this phase. A broad range of HR, compensation, and employee benefits areas are usually covered, including:

- retirement plans,
- executive compensation and benefits,
- long-term incentive plans (e.g., equity plans),
- group insurance benefit plans (e.g., active medical, other welfare),
- broad based compensation, and
- carve-out/integration considerations, such as collective bargaining agreements, transitional services agreements, and other HR functions.

During the diligence process, we mainly focus on debt-like items – contingencies, quality of earnings adjustments, cash flows considerations – and any other key risks ("red flags") that should be considered.

HR M&A in a Global Environment

In our increasingly global economy, an awareness of HR issues in other countries is important for an M&A practitioner. Mr. McKay described the various types of defined benefit plans around the world from the usual pension and lump-sum plans to other plans such as post-retirement medical and long service awards. These plans can be found in many countries with varying levels of prevalence. As these plans can be complex and material, when considering a transaction in a country you are not familiar with, it is important to utilize local expertise.

In addition to Defined Benefit plans, we also need to consider items such as differences in local labor laws, common practice, and the potential for different corporate strategies and values in different locations.

Lessons learned

The panel provided an overview of lessons learned from their transaction experience:

- Transactions are team efforts and things go smoother if all advisors and client team members are able to work together seamlessly to serve the strategic objectives of the deal.
- The earlier advisors can get involved, the better. For example, involvement of the benefits team sufficiently early in the process can help prevent a situation where the acquirer inadvertently assumes sponsorship of plans when deal closes.
- It is important to understand what the materiality level is as clients don't care about the weeds and will focus on big financial impacts (DB, exec comp, etc.).
- Data rooms are never complete, plan to follow up for most things.
- Local country expertise is needed to understand common practice in each country
- In the heat of the deal, DON'T:
  * Forget to involve HR.
  * Forget to have a coordinated plan for post-transaction integration.
  * Forget to identify or develop the culture and values of the new entity and compare them to the cultures and values of the involved entities.
- As the deal progresses, a communication plan built on clear, honest, and frequent communication is important, especially for reaching frontline staff.
- Address HR integration before closing. Planning items such as continuing employment of the target workforce, severances, ownership of personnel files, Reduction in Force/Worker Adjustment and Retraining Notification Act (WARN Act) responsibility, and culture and employee experience changes will all need to be considered.

Session 37

PLAN ADMINISTRATION WITH AN AGING POPULATION

Speakers:

- Scott Japko – The Savitz Organization
- Ellen Kleinstuber – The Savitz Organization
- Fred Lindgren – Fidelity Investments
- Session Coordinator/Recorder: Jill Rowland – Towers Watson

This session addressed implications of workers delaying retirement past 65 and identifying potential issues that may occur.

Are Retirement Ages Really Increasing?

Research over the past two decades indicates that employees expect to work longer. However, the median reported retirement age has remained at 62 throughout this period. A sizable gap exists between expected future retirement ages and actual recent retirement ages. Nearly half of employees who retired in 2013 did so unexpectedly (i.e., due to health or economic issues).

There are a number of factors that could drive employees to delay retirement, including:

- Longer life expectancy
- Raising the Social Security Normal Retirement Age
- Shortfalls in retirement planning and the diminished role of DB plans
- Concerns over health care coverage

Plan Design Considerations for Later Retirement

When enacted, both the Social Security Normal Retirement Age (NRA) and the ERISA maximum NRA were set at 65. While the Social Security NRA has been adjusted beyond age 65 in recent years, the ERISA maximum NRA has not changed since inception. In March, 2013 the American Academy of Actuaries released an issue brief stating that raising the maximum NRA in defined benefit retirement plans to align more closely with Social Security's retirement ages could help workers by allowing them to increase their retirement savings and increase their financial security in retirement.

NRA in qualified plans is significant because it is the latest date which benefits must become 100% vested, it is the age at which benefits must become payable if the employee is not actively working for the employer, and it is the trigger age for suspension of benefit notices.

Additionally, phased retirement programs are being considered by many plan sponsors. Regulations issued in 2007 provide for in-service distributions beginning at age 62.

Plan Administration Issues for Later Retirement

From a compliance perspective, it is important that the plan document does not violate the Code or regulations. Plan administration, in turn, should comply with the plan document and the plan's administration rules and procedures. Controls should be in place to ensure that changes to the above are monitored. Should remediation be required, an approved manner such as the EPCRS program should be used.

Administration issues arising for late retirements are most common for actives working past NRA, terminated vested participants who show up after NRA, and deceased participants. In addition, Section 415 limits can be problematic.

Actives Working Past NRA

There are three options for determining benefits for actives retiring between 65 and 70½. Plan sponsors can send a suspension of benefits notice (SOBN) and provide accruals past age 65; they can send a SOBN and provide a one-time actuarial increase at commencement; or they may elect not to send a SOBN, but instead provide annual actuarial increases and accruals past age 65. Common problems include not sending a SOBN to some or all participants and not sending a SOBN but only providing a one-time actuarial increase at commencement. From a valuation perspective, plan sponsors should re-assess turnover and retirement assumptions and should reflect actuarial increases in liabilities.

For employees working after age 70½, plan sponsors can provide annual actuarial increases and future accruals or allow participants to commence while working and adjust the benefit each year for continued accruals. Often, there is not clarity in the plan document regarding the actuarial increase calculation methodology or sufficient language for calculating the required minimum distributions.

The plan document must describe the option being used and the basis for actuarial equivalence, and it must state that actuarial increases can be offset by future accruals for anyone working beyond age 65.

Terminated Vested Participants Who Commence After NRA

If terminated vested employees commence between 65 and 70½, there are generally three options for paying benefits. First, if the plan provides that commencement cannot be later than 65, benefits are processed retroactively to age 65 as a "correction" with the default form of payment. Second, participants may defer up to age 70½ with an actuarial increase if the plan allows. Third, the plan can allow choice of the current election with actuarial increase or retroactive election back to age 65, but all forms of payment are allowed. As is the case with active employees working beyond NRA, the plan document must describe the option being used and the basis for actuarial equivalence, and it must state that actuarial increases can be offset by future accruals.

Common issues include: allowing participants to elect retroactive payments without also offering an actuarial increase to commencement (i.e., violates RASD rules); participants receiving an actuarial increase when the plan doesn't provide for it; and plan documents not providing interest on the "corrective" retroactive payments.

Plans cannot permit deferral of commencement past age 70½ if a participant is not active. Common problems for these participants include: deciding whether or not to automatically commence someone at age 70½; calculating minimum required distributions for multiple years; and handling excise tax issues on missed payments.

Deceased Participants

If a missing participant over NRA is found to be deceased, the plan sponsor should search for a valid surviving spouse at the participant's date of death. The plan rules should be followed regarding the timing for commencement, form of payment and payment hierarchy. If the plan document is silent, annuity payments should be paid as of NRA in the plan's normal form marital status at NRA. Payments due before the participant's death are paid to the participant's estate. Post-death payments due are paid to the designated beneficiary, if applicable. If there is no designated beneficiary, the payments should go to the surviving spouse if they are still living. If the spouse was alive at the participant's death but is no longer alive, then payments would be made to the spouse's estate. Payments would be made to the participant's estate if any other non-spouse benefits are due.

Section 415 Limits

Participants deferring commencement past NRA have an increased risk of 415 limit restrictions. The Section 415 dollar limit is actuarially adjusted for commencement after age 65, but the 100% of compensation limit is not. Actuarially adjusted benefits can become significantly large which can affect terminated vested participants or active participants at any pay level (if they work long enough past NRA). Actuarially adjusted benefits should be monitored monthly to ensure benefits are not impacted by 415 limits.

Session 38
THE STREET VIEW – HEALTH CARE REFORM

Speakers:

- Dale Yamamoto – Red Quill Consulting
- Zach Harris – Benefitbay.com
- Geoff Kuhn–Aon Hewitt
- Session Coordinator/Recorder: Michael Horton – Towers Watson

Now that the Affordable Care Act ("ACA") is starting to be implemented, how does the public perceive the changes and how will the health care industry and the consulting industry react to the changes the law requires?

Public Perception

Public perception of ACA is confused. Polls (and a Jimmy Kimmel bit) have shown that ACA and Obamacare have different public perceptions despite being the same thing. When there is understanding, the public tends to be highly partisan and views educational efforts as highly partisan also. The public's most trusted resources regarding health care reform are 1) doctors and nurses, 2) federal agencies, 3) state agencies and 4) local pharmacists.

For the public,

- 1/3 report actively seeking out information.
- 1/10 report they have been contacted about the law from an outside agency (through a phone call, e-mail etc.).
- 40% are not sure if ACA is still a law.

The Kaiser Foundation has sponsored tracking polls that show the public reaction has not changed since 2010:

- 40-45% favor ACA,
- 40-45% view it as unfavorable, and
- 10-20% are ambivalent.

These polls indicate that Democrats favor ACA (60-75% favorable), Republicans oppose ACA (10-20% favorable) and Independents are in the middle (30-40% favorable). The same polls show that roughly 30% favor defunding ACA while roughly 60% oppose – these results have been consistent since 2010.

Health Care Industry Reaction

Since one-sixth of the U.S. economy is undergoing fundamental transformation of their business model, you might expect big changes. There are changes from an activity-based reimbursement to quality-based reimbursement. There is a big move to create larger healthcare networks through mergers and acquisitions, and also through the hiring of physicians. Not all hospital systems and not all insurers are committed to moving towards the Accountable Care Organization (ACO) business model, but the trend towards 1) quality-based reimbursement, 2) larger health systems with more employed physicians, and 3) combinations of insurance and healthcare organizations does not show any signs of changing.

Consulting Reaction

Private exchanges appear to be the wave of the future. Private exchanges offer large employers a chance to let their employees shop for the medical coverage that meet their needs, while they subsidize part of the coverage. Private exchanges can also be used by small employers to save money through automation. In both cases, private exchanges can help low-paid employees take advantage of the ACA subsidies – resulting in better coverage for the employees at a lower cost for the employer.

Conclusion

Whether it is ACA or Obamacare, or even if the laws change again, there are significant changes coming down the pike for the health care industry. Changes to the regulatory environment will have a significant impact on how we consume health care, provide health care and consult to health care organizations.

Session 42
BENEFIT IN EXOTIC LOCATIONS

Speakers:

- Douglas J. Carey – Deloitte Consulting LLP
- Rosa Chiappe – Independent Consultant
- Miguel Santos – Aon Hewitt
- James L. Jones – Deloitte Consulting LLP
- Session Coordinator/Recorder: Beth Renee Sanders – Deloitte Consulting LLP

Session 42 was an engaging discussion about the current retirement benefit systems in Eastern European countries, Southeast Asian countries, and Nigeria. While retirement needs in these countries vary greatly depending on the culture, demographics and financial health, they face many of the same challenges: lack of record keeping, corruption, low participation in a formal economy, and lack of financial education for the public.

Eastern European Pension Systems' Reforms

Reforms are needed in the retirement systems of Eastern Europe because of the aging population, increasing debt, and rising unemployment. Challenges include the lack of developed capital markets, lack of financial knowledge, low coverage because many are not in formal economy, lack of quality record keeping, and lack of the public's trust.

Reforms should start with the education of children and college students in financial matters. People will need to be incentivized to save for retirement, even when self-employed, and outside asset managers will need to be motivated to offer services here.

Benefits in Southeast Asia

The economies of Southeast Asia are expected to grow rapidly over the next several years. The resulting talent need will bring more focus to employee benefits.

We discussed the typical retirement benefits, costs, and associated tax implications in Thailand, Philippines, Malaysia, and Indonesia. State-provided benefits can come in the defined contribution, defined benefit, or severance plan form. Most private plans are a defined contribution design. Global companies should understand that the benefit structures in Southeast Asia are very different than in western cultures.

Pension Reforms in Nigeria

The pension scheme prior to 2004 had a $12 billion deficit. Poor supervision of the fund administrators, corruption, and poor record keeping led to many problems. The Pension Reform Act of 2004 changed the system to a defined contribution arrangement with contributions required by both employees and employers.

Successes of the Reform include higher level of participation, more regulation and accountability. Ongoing challenges include participation levels (many are not in the formal workforce), non-compliant employers, lack of diversity in the domestic investment market, and high inflation rates that lessen investment returns.

Session 43

ASOPS 4, 6, 27 (AND 35)

Speakers:

- Thomas A. Swain – BPS&M, LLC
- Paul Angelo – Segal Consulting
- John H. Moore – The Terry Group
- James F. Verlautz – Mercer
- Dale H. Yamamoto – Red Quill Consulting
- Session Coordinator/Recorder: Felix Okwaning, Jr. – Prudential Financial

Introduction

Several Actuarial Standards of Practice (ASOPs) have recently been revised or are currently under revision. ASOPs provide guidance to actuaries when performing or communicating actuarial services.

This session discusses ASOPs 4 and 6, which are currently under revision, and ASOP 27, which just came out of revision. It also touches on ASOP 35, which is anticipated to go into revision soon.

Summary of Session

This session starts off with a discussion on the history of the standards. ASOP 4 and ASOP 6 are both still under revision and a final version is expected to be released by the end of 2013. This session focuses on the second exposure draft for both ASOPs. These are the best indicators of what will be in effect shortly. ASOPs 4 and 6 deal with the measurement of pension and retiree group benefit obligations.

The revised standards make a conscious effort to improve consistency between ASOP 4 and ASOP 6 as well as with other ASOPs. This is part of a broader initiative to coordinate pension and OPEB standards.

There are several notable definitions highlighted in the revised ASOPs. "Market-Consistent Present Value" is a new term defined as the actuarial present value, consistent with the price at which benefits, expected to be paid in the future, would trade in an open market between knowledgeable traders. It is emphasized that this is not a market-traded liability, but intended to help facilitate a discussion around valuing liabilities and provide a more neutral terminology. The ASOPs make it clear that the existence of a deep and liquid market for pension and OPEB cash flows is not a prerequisite for the present value measurement. Particularly, it recognizes that there is a limited market for retiree group benefits.

Another notable definition distinguishes between a prescribed assumption or method set by another party and a prescribed assumption or method set by law. A specific assumption or method selected by another party, to the extent that the law or accounting standards gives this party the responsibility for selecting such an assumption or method, is a prescribed assumption or method set by another party. In contrast, a specific assumption that is mandated or selected from a specified range of assumptions or methods and deemed acceptable by applicable law is defined as a prescribed assumption or method set by law. For the purpose of setting or selecting an assumption, an assumption or method selected by a government entity for a plan such government entity directly or indirectly sponsors is deemed to be a prescribed assumption or method set by another party.

Actuarial communications should identify the party(ies) responsible for each assumption and method. Where the communication is silent about such responsibility, the actuary issuing the communication will be assumed to have taken responsibility for that assumption or method.

Other definitions highlighted are the purpose of a measurement, and the anticipated needs of intended users. Attention should also be given to potential unintended uses of an actuary's work product.

An actuary should consider embedded options in plan designs when assessing the value of benefits. In scenarios where plan provisions create obligations that are difficult to measure using deterministic procedures, the actuary should consider using alternative procedures, such as stochastic modeling.

The cost and contribution allocation procedure is also discussed. When performing professional services with respect to contributions for a plan, the actuary should select a contribution allocation procedure that, in the actuary's professional judgment, is consistent with the plan accumulating adequate assets to fund benefit payments when due. This presumes that all assumptions are realized. To the extent contributions are based on an allocation policy, the actuary should qualitatively assess the implications of that procedure or policy on the plans expected future contributions and funded status. Disclosure requirements describing the implications of contribution allocation procedures should be included in reports.

When using a contribution allocation procedure prescribed by law or selected by another party, the actuary, using their professional judgment, should determine if such a contribution allocation procedure is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due. The actuary should also evaluate whether the prescribed assumption or method significantly conflicts with what, in the actuary's professional judgment, would be reasonable for the purpose of the measurement. If the actuary is unable to evaluate a prescribed assumption or method set by another party, the actuary should disclose this in the actuarial communication to the intended users.

ASOP 6 emphasizes the requirement to use age-graded claims when valuing a retiree group health benefit program. These age-graded claims should be reflected in most situations when valuing fully-insured plans, community rated HMO or pooled government programs. Depending on the plan design, exceptions can be argued when valuing dental plans or individual Medicare Advantage plans.

The primary focus on pooled plans is the implicit subsidy provided to the retiree population by the active population for plans that cover actives and retirees with one rate. Actuaries need to understand the demographics of the whole pool to better evaluate the appropriateness of the rate being used to determining the retiree liability.

ASOP 27 standard has just been released, but is not effective until September 30, 2014. The revised version recognizes the validity of both the Financial Economics model and the Traditional model in developing assumptions. ASOP 27 is considered subsidiary to ASOPs 4 and 6.

Some significant changes include the elimination of "a reasonable range" in determining interest rates. The range, as defined in the prior version of the standard, was considered too wide and interpreted to mean all points within the range reflect a reasonable point estimate. The new version favors a simple reasonable rate. This rate has to be appropriate for the purpose of the measurement, has to reflect the actuary's professional judgment and has to take into account historical and current experience, as well as the actuary's estimate of future economic conditions. The rate should not a have any significant bias.

There is also the specific recognition that different actuaries could have different approaches to developing assumptions which can lead to different opinions on assumptions. An additional requisite in this version of the ASOP is the requirement for actuaries to give the rational for each assumption selected. The rationale does not need to be lengthy, but should focus on the actuary's thought process when developing the assumption. This rationale is not needed for prescribed assumptions.

Conclusion

Actuaries completing estimates or valuations should make sure that any proposed assumptions and method used in the development of these results are done in accordance with the appropriate Actuarial Standards of Practice.

Session 44

BIG MACHINES: CERTIFIED BACK-LOADERS

Speakers:

- David R. Godofsky – Alston & Bird, LLP
- Robert S. Byrne Jr. – Towers Watson
- Session Coordinator/Recorder: David A. Coronel – Towers Watson

The rules against back-loading benefit accruals have existed since ERISA was enacted, but compliance remains a challenge. An innocuous plan design, such as capping service in an integrated formula, can cause a violation and threaten a plan's tax-qualified status. Accruals of hybrid plan designs can be very tricky to define and test. The panelists presented accrual rule definitions and several examples demonstrating appropriate application.

Any one of three tests may be used to pass the back-loading rules under 411(b)(1). The tests include the following:

- 3% Method
- 133-1/3% Rule
- Fractional Rule

A definition of each rule was provided with several applications to highlight the key attributes of each rule. For example, the pension formula of 1% x Final Average Compensation (FAC) x Years of Service (YOS) fails because service is not limited to 33-1/3 years – a key feature of the 3% method. Using the formula above with FAC defined as a 15-year average fails the Fractional rule because the averaging period is greater than 10 years – a key feature of the Fractional rule. Several more examples were illustrated to educate the audience and provide insights on the key features of each of the three back-loading accrual tests.

A historical perspective was shared that the testing rules were intended to allow most of the plan designs in existence at the time of the law/regulations to pass. However, there were formulas that existed that did not pass (i.e., floor plans and certain social security offset plans). Note that Cash Balance plans did not exist at the time, which led to future design challenges to meet the back-loading rules. The panelists spent a significant amount of time discussing issues surrounding the evolution of testing around the newly created Cash Balance plan and confirmed the use of the 133-1/3% rule to be the appropriate test for passing.

With respect to plans with multiple formulas, the release of Revenue Ruling 2008-7 eliminated the need to perform separate tests. A plan with multiple formulas could now be tested as a single consolidated formula. Even though the relief was intended to be temporary, the panelists commented that the IRS treats this relief provision as still in effect.

The session concluded with information on litigation and the surprising comment that nearly all defined benefit plan class actions contain back-loading claims. Both panelists are experts in the field of back-loading rules and visually and audibly passionate about the topic.

The definitions provided during the session for each of the tests is captured below:

3% Method

411(b)(1)(A)–A defined benefit plan satisfies the requirements of this paragraph if the accrued benefit to which each participant is entitled upon his separation from the service is not less than:

1) 3 % of the normal retirement benefit to which he would be entitled if he commenced participation at the earliest possible entry age under the plan and served continuously until the earlier of age 65 or the normal retirement age specified under the plan, multiplied by
2) the number of years (not in excess of 33-1/3) of his participation in the plan.

In the case of a plan providing retirement benefits based on compensation during any period, the normal retirement benefit to which a participant would be entitled shall be determined as if he continued to earn annually the average rate of compensation which he earned during consecutive years of service, not in excess of 10, for which his compensation was the highest. For purposes of this subparagraph, social security benefits and all other relevant factors used to compute benefits shall be treated as remaining constant as of the current year for all years after such current year.

133-1/3% Rule

411(b)(1)(B)–A defined benefit plan satisfies the requirements of this paragraph for a particular plan year if under the plan the accrued benefit payable at the normal retirement age is equal to the normal retirement benefit and the annual rate at which any individual who is or could be a participant can accrue the retirement benefits payable at normal retirement age under the plan for any later plan year is not more than 133-1/3 percent of the annual rate at which he can accrue benefits for any plan year beginning on or after such particular plan year and before such later plan year. For purposes of this subparagraph:

1) any amendment to the plan which is in effect for the current year shall be treated as in effect for all other plan years;
2) any change in an accrual rate which does not apply to any individual who is or could be a participant in the current year shall be disregarded;
3) the fact that benefits under the plan may be payable to certain employees before normal retirement age shall be disregarded; and
4) Social Security benefits and all other relevant factors used to compute benefits shall be treated as remaining constant as of the current year for all years after the current year.

Fractional Rule

411(b)(1)(C)–A defined benefits plan satisfies the requirements of this paragraph if the accrued benefit to which any participant is entitled upon his separation from the service is not less than a fraction of the annual benefit commencing at normal retirement age to which he would be entitled under the plan as in effect on the date of his separation if he continued to earn annually until normal retirement age the same rate of compensation upon which his normal retirement benefit would be computed under the plan, determined as if he had attained normal retirement age on the date on which any such determination is made (but taking into account no more than the 10 years of service immediately preceding his separation from service). Such fraction shall be a fraction, not exceeding 1, the numerator of which is the total number of his years of participation in the plan (as of the date of his separation from the service) and the denominator of which is the total number of years he would have participated in the plan if he separated from the service at the normal retirement age. For purposes of this subparagraph, social security benefits and all other relevant factors used to compute benefits shall be treated as remaining constant as of the current year for all years after such current year.

Session 46
ASSUMPTIONS FOR AUDITORS

Speakers:

- Stephen N Eisenstein – The Newport Group
- Christine Randazzo – PricewaterhouseCoopers LLP
- Dennis M. Polisner – KPMG LLP
- Session Coordinator/Recorder: Felix Okwaning, Jr. – Prudential Financial

Introduction

There are several misconceptions about the role of an auditor or audit firm with regards to selecting assumptions and /or methods used to develop End of Year Pension and OPEB results disclosed on financial statements for financial reporting.

This session attempts to explain and define the roles and responsibilities of the consulting actuary, the auditor and the plan sponsor as the audit team works to give an opinion on the fairness of the results presented. This session also attempts to highlight the purpose of an audit, what is involved in an audit and some key assumptions auditors may review as they look to sign off on the reasonableness of the results presented.

Summary of Session

When an audit team reviews the assumptions and year end results completed by an actuary, they may request a discussion with the plan actuary around the assumptions and methods used to develop these results. The purpose is to evaluate and document the assumptions and methods used to develop the financial results, which helps them form an opinion on the fairness of the results presented.

When evaluating the actuary's work, an auditor uses the Statement of Audit Standards # 73 (SAS 73) as a guideline. This requires the audit team to evaluate the qualifications of the signing actuary(ies), form an opinion on the methods employed and to determine the reasonableness of the assumptions selected.

There are several opinions that can be issued by the auditor. The desired opinion is an unqualified opinion that results of the pension and OPEB plans reflected in the financial statement is presented fairly and accurately. A less desirable opinion will be a qualified opinion if there are material areas the audit team does not agree with or cannot come to a conclusion on, or an adverse opinion indicating that the financial results are not fairly presented. The audit teams' report is relied on by a variety of stake holders, so the auditor must issues his opinion with care and diligence.

There are several misconceptions about the role of the auditor. The auditor's role is not to select or approve any assumption used in determining results. Neither is it the auditor's responsibility to check the work of the actuary for accuracy. The role of the auditor is to review the information presented for fairness and issue an opinion. They consider themselves part of a team working together to issue a clean opinion.

Audit firm actuaries assist the auditors interpreting the actuarial results and reviewing the supporting assumptions, and they participate in discussions to help the auditor team form an opinion on the satisfaction of SAS 73.

Plan sponsors own the financial statements and have the ultimate responsibility in selecting all inputs used to develop results presented in these financial statements. The audit team expects consulting actuaries, who develop the results shown in the financial statements, to advise clients on the best estimates and the appropriateness of assumptions and methodologies used in developing these results. It is expected that the best estimates and any proposed assumptions and method will be developed in accordance with the appropriate Actuarial Standards of Practice. It is also expected that the consulting actuary will provide appropriate support for assumptions recommended, and will identify and disclose any concerns or disclaimers on methods and assumptions with which they disagree. These will ultimately help to expedite the evaluation of the fairness and reasonableness of the results presented by the audit team.

There was a brief discussion about consulting actuaries asking clients to run assumptions by their auditors for approval. Auditors are not there to approve assumptions, but to evaluate the reasonableness of the assumptions.

There was a question about the distinction between not approving assumptions and the determination of the reasonableness of an assumption. The response was that, "It is a fine line, but audit teams generally look at the supporting documentation used to determine the assumptions and if the support is reasonable, generally the assumption will also be reasonable."

Advance Planning

When possible, a discussion of assumptions, selection methodologies and any plan changes with the audit team should take place well in advance of the end-of-year plan audit. This will help avoid the last-minute rush as the auditors evaluate the reasonableness of the inputs, which could lead to changes to the results. Readily available documentation and actuarial support of all inputs used in developing assumptions should help reduce any last minute issues as well.

The consulting actuary should consider providing support on sources of gains/losses, development of amortization amounts and the impact of any re-measurements and special events during the fiscal year.

The concept of materiality of results was also discussed and led to several questions. Materiality in the financial statement is an audit consideration and based on specific risk assessment. Materiality can change from year to year based on factors such as total balance sheet liabilities, total annual expense and other benchmarks as well. Actuaries must not try to determine the materiality of an event. Each year the audit team may determine a threshold for materiality. This is normally done based on some measure within the financial statement. In order to avoid any sort of bias, the threshold is not shared with the client or the consulting actuary. The determination of what is material should be left to the audit team.

Conclusion

In conclusion, auditors are not there to criticize the work of an actuary or function in any type of management role by approving or disapproving assumptions and methods. They are there to evaluate the reasonableness of assumptions and determine the fairness of results presented. This is done in accordance with SAS 73. Opinions on reasonableness can be attained with the documentation and supporting material used to develop assumptions and methods rather than with the assumption itself.

Session 47

CARE AT THE WORKSITE – LATEST TRENDS IN ONSITE CLINICS

Speakers:

- Richard H. Bailey, III – Mercer
- Dr. Joseph J. Matula – Lockheed Martin Corporation
- Dr. Victor M. Brugh, II – Capital Medical Management LLC
- Session Coordinator/Recorder: Richard H. Bailey, III–Mercer

The session was moderated by Rich Bailey, FCA of Mercer, with featured speakers Dr. Victor Brugh and Dr. Joseph Matula. Both are physicians.

Both speakers have overseen successful onsite clinic development and transition from the original, occupational-based models to newer models covering various levels of personal health care. Dr. Brugh's experience comes from a 25-year history with the Federal Reserve Bank of Richmond, and Dr. Matula's from a nearly 20-year history with Lockheed Martin.

The speakers both confirmed that successful clinic development needs to be part of an overall health, wellness and productivity strategy. Both reported favorable claims trends (below market) and each can attribute some (but not all) of that success to the clinics themselves.

Dr. Brugh commented that the entire development of the strategy for the clinics was highly data driven. The strategy itself took 3-5 years to craft because it was derived from a long period of tracking health statuses, outcomes and time lost from work for their population. He re-emphasized that data was the key to the foundation of the strategy. Later in the discussion Dr. Matula echoed these sentiments.

Dr. Matula noted that "health is a human capital advantage against our competitors," which is a perspective that was supported by many of the actuaries in the audience. Dr. Matula described data analysis and strategy development to "go after" their goals but doing it under a "good enough" approach, indicating that he wanted enough data refinement to be actionable but not so much as to delay all decisions. Dr. Brugh agreed.

Dr. Matula covered a wide range of details related to the development, structure and, importantly, the measurement, of his 32 clinics around the country. He described the ongoing process of refining data and improving clinic performance.

Both speakers shared that senior executive buy-in was critical in their wellness strategy success. One additional difficulty for both was the secure nature of their facilities. Extending services to dependents has continued to be a challenge.

Session 50

WHAT CREATED AMERICA'S PUBLIC PENSION PROBLEMS? CAN ACTUARIES HELP LEAD THE WAY OUT?

Speakers:

- Daniel Richard Wade – Milliman Inc.
- Josh B. McGee – Laura and John Arnold Foundation
- Joe Nation – Stanford Institute for Economic Policy Research
- Session Coordinator/Recorder: Nick John Collier – Milliman Inc.

Summary

Public section pension and OPEB plans are becoming an increased portion of government budgets, resulting in increased scrutiny from a variety of sources. The panel discussed the implications of the ongoing scrutiny and the role of actuaries in helping various stakeholders meet the challenges in the years ahead by answering five key questions.

Is There a Public Pension Crisis in the United States?

The gap between assets and accrued liabilities among U.S. public plans is between $1.2 and 3.0 trillion – depending on who you believe – with the primary difference being in the figures being the discount rate. Several cities have declared bankruptcy, citing the burden of pension contributions as a significant factor. Combined with chronic underfunding of some large public systems, this may lead one to conclude that a "crisis" exists among U.S. public plans. The consensus among both the panel and the audience was that at least to some extent this crisis exists among U.S. public plans; however, it is not universal as many systems are responsibly funding their plans and are well funded, at least by GASB standards.

What are the Primary Causes of the Current Levels of Pension Underfunding?

At the end of the last century, public retirement systems were generally well funded following the boom market of the 1980's and 1990's. This prompted many entities to grant benefit increases which ultimately left little or no buffer when the dot.com bust and Great Recession followed in the next decade. While the declining equities markets have been a major source of lower funding levels, the panelists emphasized that there are other structural causes. There was systemic underfunding in some retirement systems, either in the form of employers not paying the contribution recommended by the actuary or amortization methods not making progress toward paying down the UAAL (e.g., 30-year rolling amortization). In the view of the panelists, many systems take poorly understood risks with their investments and benefit plans.

The panel discussed how this could have been addressed in both the past and in the future. The most significant suggestion was better communication of downside risk, with the feeling that if the Boards understood the increased likelihood of the system becoming underfunded if benefits were increased, better decisions could have been made. Even in cases where the downside risk was clearly communicated by the actuary, it may not have been adequately presented to the decision makers. A corollary to this is that a higher level of expertise among Board members could have helped identify future risk.

Is the Current Pension Model Sustainable?

Public retirement systems and their sponsors have enacted numerous benefit reductions in response to rising pension costs. This has somewhat mitigated contribution rate increases to the detriment of the new employees with the lower benefits. Have these changes made the current pension model sustainable? The consensus among the panel is that changes are still needed, although there is not a clear-cut solution.

One panel member strongly advocated a simpler model. He identified the ultimate goal of a retirement system is to provide investment and longevity protection, but he did not feel that the current approaches of traditional DB or DC plans work. He specifically cited cash-balance plans with a simple interest credit as being a good alternative. By making the system simpler, this would enhance the decision-making of the retirement board, as they would better understand the costs associated with any changes. Both the current and upcoming GASB standards were cited as providing significant complexity without helping decision makers assess risk. The GASB standards and traditional actuarial approaches require the use of too many economic and demographic assumptions that do not assist in the core goals of retirement systems.

The panel members expressed concern over the movement toward riskier asset classes. One panel member cited the interplay between increased investment returns and the increased maturity of pension liabilities. Public pension liabilities have increased from 10% of GDP in the 1980's to 30% of the GDP, which makes it much harder for government entities to recover from large market downturns.

Are Actuaries Providing the Right Information to Stakeholders?

Although actuaries may communicate the risk of experience different from the assumptions, the focus remains on the expected outcome. Similarly, the funding of public retirement systems tends to result in a target that only has about a 50% chance of being met. The panel felt that a better approach would be to set a funding target with a probability of being achieved, such as 75%. This higher target level would be more consistent with the "rest of the world." For example, the target for the Dutch pension system is 130% funding at a conservative investment return assumption.

Audience members questioned this for two reasons: 1) if funding is set at a level higher than expected to be necessary, it will result in shifting a disproportionate amount of the costs to the current taxpayers; and 2) the panel was not allowing for the ability of retirement systems to adjust contributions if experience falls below expectations. The panel acknowledged the tradeoff inherent in setting a higher target level, but the panelists felt that the consequence of not meeting the target was much more significant than the potential concern of overcharging. One panel member reiterated his concern that the size of the liabilities relative to stagnant or declining employer payroll would bring into the question the ability of the employer to deal with negative future experience. Additionally, they felt that overfunding can be addressed with proper board governance.

Should Actuaries Be Advocates for Change? If so, How Should It Be Done?

The panel felt that actuaries should take an active role in addressing public plan funding. Specifically, it was suggested actuaries put a "box around" what is acceptable practice. One panel member's suggestions focused on the amortization method. He believes that current amortization methods tend to push as much debt as possible to the future. He feels an open amortization or anything with negative amortization should not be acceptable. The panel also stressed the importance of having legally enforceable contribution rates, so that employers are required to fund at the actuarially determined rate.

Session 51
U.S. PENSION INVESTMENTS IN NON-U.S. SECURITIES

Speakers:

- Douglas J. Carey – Deloitte Consulting LLP
- Gautam Dhingra – High Pointe Capital Management
- Stacy L. Apter – Coca-Cola Company
- Michael Wright – Buck Global Investment Advisors
- Session Coordinator/Recorder: Michael S. Clark – P-Solve Cassidy

This session explores the theory behind investing across the global marketplace and makes the case for U.S. pension plans to include non-U.S. securities as part of their asset allocation. This session includes the sponsor perspective from Coca-Cola, a large multinational company.

Investing Outside the U.S.

In a mean-variance investment framework, low correlations are what really drive the ability to minimize risk and maximize return. In U.S. securities over the last ten years, correlations have steadily increased. This increase in correlation has lowered the benefits from diversification to the point where it is not as easy to get low-risk, high-return portfolio construction anymore.

There are several potential benefits to adding non-U.S. investments to an asset allocation. First and foremost is the diversification benefit. This is especially true in emerging markets. Additionally, by adding non-U.S. investments, there is a bigger opportunity set and exposure to higher growth – especially with companies or countries on a steep growth curve. In some cases non-U.S. investments come from less efficient markets which presents an opportunity for active management.

However, there are additional risks in non-U.S. investments. These risks include an increase in volatility, currency risk (born by the plan sponsor in pension plans and by participants in defined contribution plans) and political and legal risks depending on the origin of the non-U.S. investment.

Over the last ten years the percentage of international equity as a percentage of total equity in U.S. plans has steadily increased from around 10% at the turn of the century to around 25% in 2010. What is notable, however, is that compared to the U.K., in the U.S. the percentage of non-U.S. equities as a percentage of total equities is only about half as much. It is noted that the U.K. has always had a greater global investment outlook compared to the U.S.

Legal Framework

From the legal and fiduciary perspectives, there are several items that have impacted the investment in non-U.S. funds. Some of the key influences include rules (i.e. ERISA, FASB, IASB), capital controls, investment vehicles and the Organisation for Economic Co-operation and Development (OECD) guidelines (environmental and social guidelines).

From a rules perspective, ERISA has no metrics or guidelines for measuring what constitutes prudent investing, especially with respect to non-U.S. investments. In fact, prudent standards have led to a similarity of investment structures, which is why non-U.S. allocations in U.S. plans are less than capital market theory or global asset capitalization would imply they should be. From an accounting perspective, including more non-U.S. investments increases the overall portfolio volatility which has also led to a smaller allocation of non-U.S. investments as well among corporate pension plans. It is interesting to note that in defined contribution plans, the more academic approach to standard portfolio theory has led to an increase in non-U.S. options for participants. Due to GASB standards that focus on long-term expected return, there tends to be much higher allocations to non-U.S. investments in public pension plans when compared to their counterparts in the corporate pension plan space.

Case Study: Coca-Cola Company

The session finishes off with a case study of the approach taken by Coca-Cola Company that includes a global viewpoint when it comes to retirement plan investment strategies. Coca-Cola views diversification as a good thing for its global pension plans. As a company, they view emerging markets as extremely important; investing in those markets makes sense for their organization. Since their pension plans are also a small part of the overall enterprise risk management framework of the company globally, the company is in a position to manage the volatility inherent in a portfolio strategy that has a high concentration in global investments.

Coca-Cola's governance structure has been evolving over the last several years. They have a new global governance committee that is tasked with providing a common view on how to take risk as a company. They still maintain committees on local levels in those countries that require it but they work under the direction of the global governance committee. The global committee focuses on opportunities for diversification that lowers risk without compromising the expected return of the overall portfolio. The committee takes a global view of their retirement plan investments primarily to capitalize on the diversification benefits of the global marketplace.

Due to the evolving global governance structure, the company's investment strategy with regards to their U.S. pension plans has dramatically changed in recent years. Their old strategy was heavy in U.S. equities and long-duration bonds. The new strategy calls for a small allocation to U.S. equities with a large allocation to global large-cap equities, hedge funds and other real estate or infrastructure investments. They still maintain some long-duration bonds in the mix primarily to manage the tail risk.

The global perspective that Coca-Cola takes with its pension plans also impacts how they manage their defined contribution plan globally. They now have more options within emerging market asset classes. They also have bundled choices for their participants through active/passive strategies and multiple manager strategies within a bundle.

CCA Welcomes New Members

The Conference congratulates and welcomes the following new members since our last issue.

Paul V. Adamczyk, FCA

Ainar D. Aijala Jr., FCA

Joel J. Albright, FCA

Georges Allam, ACA

Trudy J. Baker, ACA

John C. Benge, FCA

Elena V. Black, FCA

Martin B. Brandt, FCA

Janet E. Brazelton, FCA

Erika Creager, FCA

Troy Dempsey, FCA

Kevin Joseph Donovan, ACA

Donald Howard Dowdy III, FCA

Seamus A. Doyle, FCA

Paul Bruce Dunlap, FCA

Susan L. Feit, FCA

Kurt H. Fichthorn, FCA

Joe A. Friberg, FCA

Randy A. Gomez, FCA

Brent Lee Greenwood, FCA

Ellen S. Haber, ACA

Debra Joan Hansen, FCA

Yangyan Hu, FCA

Craig M. Huval, ACA

Troy Jaros, FCA

Todd David Kanaster, FCA

Michael E. Klein, FCA

Anthony Travis Kovac, ACA

Thomas Myles Lally, FCA

Julia Kraemer Lerche, FCA

Susan E. McDonald, FCA

Daniel Robert McMonagle, FCA

Thomas William McNab, ACA

Thomas M. Miano, FCA

Benjamin David Mobley, ACA

Peter J. Neuwirth, FCA

Judy C. Ocaya, FCA

Jeremy P. Olszewski, FCA

Jeffrey G. Passmore, FCA

Keith Passwater, FCA

S. Kai Petersen, FCA

Ana L. Pinto, ACA

David Andrew Pitts, FCA

Stanley K. Purcell, ACA

Donald J. Rueckert Jr., FCA

Roshni Ashwin Kumar Shah, FCA

Justin Andrew Skladanek, ACA

Brandon Robert Smith, ACA

Sarvesh Soi, FCA

Michael J. Strome, FCA

David N. Suchsland, FCA

Thomas P. Tierney, FCA

Patricia P. Watt, FCA

Katherine Renee Terpstra Wilson, FCA

Ted W. Windsor, FCA

Jay A. Yager, FCA

Melinda J Zatto, FCA

Carolyn E. Zimmerman, FCA

In Memory

We remember these members who have died recently:

William P. Burke, FCA

Manuel F. Castells

Curtis E. Huntington, FCA

Frank L. Katz

Edward J. Peters, FCA

CONTINUING EDUCATION

NEW! 2014 Health Reform Meeting

March 24-25, 2014
Marriott Wardman Park Hotel
Washington, DC

Save the date for the Inaugural Annual Health Reform Meeting. This meeting gives health actuaries and other healthcare professionals a chance to hear the latest developments on the Affordable Care Act and network with your peers on exactly what's happening on the home front of healthcare reform. The meeting features sessions on a variety of healthcare reform issues that provide relevant education for providers, carriers and employers. Expected sessions include:

- The 3Rs;
- Employer reactions to healthcare reform;
- Private exchanges;
- AV/MV calculators;
- New regulations coming down the pipe,
- Lessons learned on the state exchanges; and
- Healthcare cost trends from the perspective of the national health accounts and private health insurance.

This meeting is planned for March 24, 2014 from 1:00 PM – 6:00 PM with a networking reception in the evening and then concluding from 8:00 AM – 12:30 PM on March 25 in Washington, DC at the Marriott Wardman Park Hotel concurrent with the Enrolled Actuaries Meeting. Full schedule and information are available on the website at: http://www.ccactuaries.org.

CCA Audio/Webcasts

Keep up with the latest developments and earn your CE credits by participating in CCA's Audio/Webcasts. You may participate online or by phone. Registration is available by annual subscription - which includes any "pop-up" programs to address late-breaking issues – or à la carte. All sessions are presented from 12:30 PM – 1:45 PM ET. Upcoming programs include:

GASB 67/68 New Rules
April 9 - 12:30 – 1:45 PM ET

PBGC – Not (Just) Premiums
April 16 - 12:30 – 1:45 PM ET

Multiemployer Issues
May 7 - 12:30 – 1:45 PM ET

Actuarial Assumptions
May 21 - 12:30 – 1:45 PM ET

Communicating Technical Issues to Clients
June 11 - 12:30 – 1:45 PM ET

Financial Planning and Individual Taxation for Actuaries - Is There an Actuary in the House?
July 9 - 12:30 – 1:45 PM ET

Retirement Adequacy
September 10 - 12:30 – 1:45 PM ET

Healthcare Cost Trends
September 24 - 12:30 – 1:45 PM ET

Exchanges – Fact or Fiction?
November 12 - 12:30 – 1:45 PM ET

Professionalism: ASB Powerball - ASOPs 1, 4, 6, 27, 35 – Did You Hit the Jackpot?
December 3 - 12:30 – 1:45 PM ET

Capital Market Expectations
December 10 - 12:30 – 1:45 PM ET

Now you can take advantage of significant savings on CCA-hosted audio/webcasts, including all currently scheduled and late-breaking presentations. Register now and you can stay on top of the latest developments, the same way many of your peers do, with a subscription to CCA's audio/webcast series. As a CCA member (current dues must be paid before or at the same time as purchasing a subscription) your yearly subscription rate is only $500. All participating Conference members receive a continuing education certificate at no additional charge.

Subscribe for the Entire 2014 Series of CCA-Hosted Audio/Webcasts

Exclusive CCA Member Savings

As a member you save up to $100 on each CCA-hosted audio/webcast, or subscribe to the full year for 50% off our next lowest rate. Nonmembers should consider joining CCA for just $390 more to take advantage of these savings and benefit from all the other aspects of CCA membership.

2014 Subscription

The cost of any previously purchased session is not applicable toward the purchase of a 2014 subscription.

CCA Members: $500
CCA Member and U.S. Federal Government Employee: $250

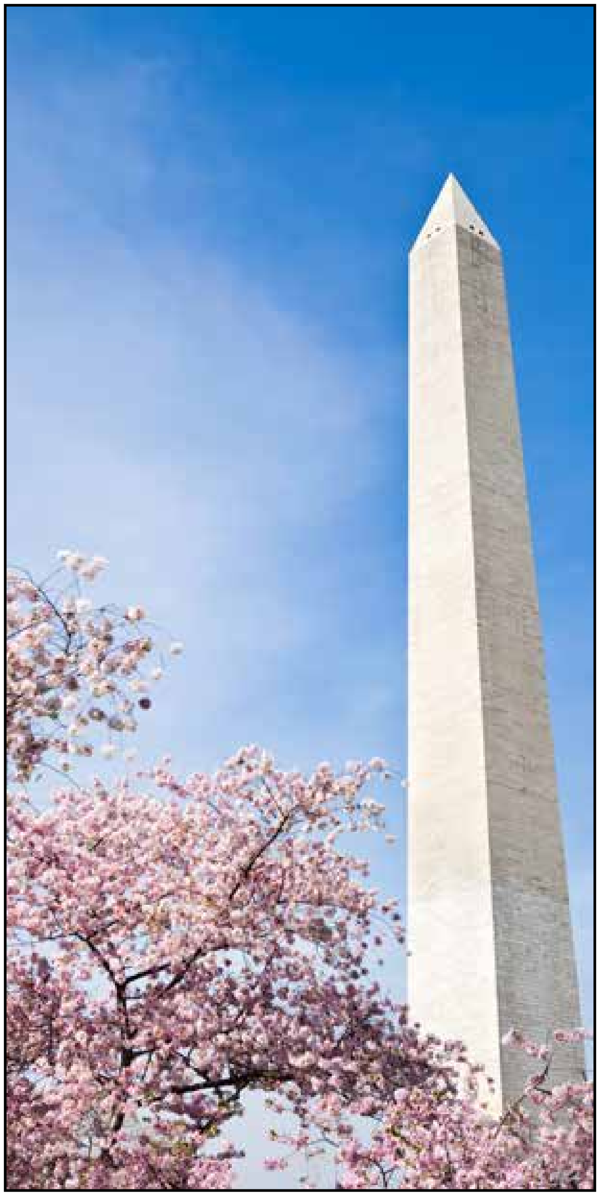
Single Session Rates

	Individuals	Groups
CCA Members	$150	$350
Nonmembers	$250	$700
CCA Member and U.S. Federal Government Employee	$75	$175
Nonmember and U.S. Federal Government Employee	$125	$350

Registrations received one week prior to the event are charged a $50 late fee. Fees listed are applicable for participants in the U.S. only. Participants outside the U.S. will incur additional phone line charges payable by the participant.

For more details visit the CCA website or review the document "Audio/Webcast Options and Fees for 2014".

Please note: No portion of these live audio/webcasts may be recorded by any third party. Registration for these events acknowledges that you are aware of and agree to uphold the "Code of Professional Conduct." Member rates are only applicable for those who have paid their 2014 membership dues. Cancellations received in writing more than one week prior to the seminar will be refunded the full fee minus a $50 processing fee; within one week, no refunds.



Register Now for the 2014 Enrolled Actuaries Meeting with Pre- and Post-Meeting Seminars

March 23–26, 2014

Marriott Wardman Park Hotel

Washington, DC

Click Here to Register Online

The American Academy of Actuaries and the Conference of Consulting Actuaries host the thirty-ninth annual Enrolled Actuaries Meeting, March 23 - 26, at the Marriott Wardman Park Hotel in Washington, DC. The program features sessions in several formats, covering a wide range of topics and issues relevant to Enrolled Actuaries and other pension professionals. The meeting also includes an exhibit of products and services geared to Enrolled Actuaries.

Access the EA meeting information at: http://www.ccactuaries.org/opportunities/ea2014/index.cfm

Additional seminars are scheduled before, during and following the EA meeting:

Sunday, March 23

Professional Standards/ Ethical Dilemmas Seminar

Monday - Tuesday, March 24 – 25

Health Reform Meeting

Wednesday - Thursday, March 26 – 27

Pension Symposium: Retirement Security in the U.S. – What's Working, What's not, and Where do we go From Here?

For more information on these seminars, please visit:
http://www.ccactuaries.org/opportunities/ea2014/index.cfm

OTHER PROFESSION-WIDE NEWS

Notes from Intersector Meetings with IRS/ Treasury and PBGC

The Intersector Group is composed of two delegates from each of the following actuarial organizations: American Academy of Actuaries, Society of Actuaries, Conference of Consulting Actuaries, and ASPPA College of Pension Actuaries. Twice a year the Intersector Group meets with representatives of the U.S. Department of Treasury (Treasury Department), the Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBBGC) to dialogue with them on regulatory and other issues affecting pension practice.

These meeting notes are not official statements of the Treasury Department, IRS or the PBGC and have not been reviewed by its representatives who attended the meetings. The notes merely reflect the Intersector Group's understanding of Treasury Department, IRS, and PBGC representatives' views expressed at the meeting, and are not to be construed in any way as establishing official positions of the Treasury Department, the IRS, the PBGC, or any other government agency. The notes cannot be relied upon by any person for any purpose. Moreover, the Treasury Department, IRS, and PBGC have not in any way approved these notes or reviewed them to determine whether the statements herein are accurate or complete.

- Notes from Intersector Meeting with IRS/Treasury (September 11, 2013)
- Notes from Intersector Meeting with PBGC (September 11, 2013)
- Notes from Intersector Meeting with IRS/Treasury (March 13, 2013)
- Notes from Intersector Meeting with PBGC (March 13, 2013)

JBEA Releases 2014 - 2017 Renewal Form

The renewal application for enrollment for the April 1, 2014 - March 31, 2017, period is now available. For timely renewal of your enrollment, you must have completed your continuing education requirements by December 31, 2013, and must submit your completed Form 5434A (Application for Renewal of Enrollment) and $250 renewal fee on or before Monday, March 3, 2014. (Because March 1 falls on a Saturday, the filing date was extended until March 3, 2014.)

Before completing and submitting Form 5434A, make sure you have reviewed the requirements for renewal set forth at section 901.11 of the Joint Board regulations. If you meet both of these deadlines, you may begin using the "14" prefix with your enrollment number beginning April 1, 2014, regardless of whether you have received an official renewal notice from the Joint Board.