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Retirement and Pensions Update

IRS Announces Cost of Living Adjustment for 2013 Tax Year

On October 18th, the IRS announced cost-of-living adjustments affecting dollar limits on tax-deferred contributions to pension and retirement plan contributions for the 2013 tax year. The adjustments show a 1.7 percent increase in the consumer price index which translates to increases in most limits on contributions and benefits. The increases for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan include: the elective deferral is increased from $17,000 to $17,500; the catch-up contribution limit for employees aged 50 and over remains unchanged at $5,500; the limit on annual contributions to an Individual Retirement Arrangement (IRA) rises to $5,500, up from $5,000 in prior years; and the deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between $59,000 and $69,000, up from $58,000 and $68,000 in 2012.

Congressional Republicans Press Agencies for Report on Multiemployer Plans

On October 19th, the Chairmen of the House Education and Workforce Committee and House Ways and Means Committee—joined by the Ranking Members of the Senate Health, Education, Labor and Pensions Committee and Senate Finance Committee—sent a letter to the DOL, PBGC, and Treasury requesting the agencies submit two reports to Congress on multiemployer plans. The lawmakers—Representatives John Kline (R-MN) and Dave Camp (R-MI) and Senators Mike Enzi (R-WI) and Orrin Hatch (R-UT)—said: "The Pension Protection Act of 2006 (PPA) made significant changes to the multiemployer pension plan system, and [they] remain concerned about the challenges facing these plans. Timely receipt of pertinent reports from the Secretaries of Labor and Treasury and Director of the Pension Benefit Guaranty Corporation (PBGC) is critical as Congress investigates the state of the multiemployer pension plan system and evaluates the consequences of PPA provisions."

Pew Study Finds Retirement Concerns Drives Federal Programs

A study conducted by the Pew Research Center found that rising anxiety about retirement savings is driving the Federal government's efforts to create lifetime income options and initiatives. Speaking at the 2012 Annual Conference of the American Council of Life Insurers where the study was released, George Bostick, benefits tax counsel for the Treasury, said they "have worried and continued to worry about what happens when one leg of the three-legged stool we all sort of grew up with starts to get shorter and shorter and shorter." The Pew study indicates the percentage of Americans worried about retirement savings has increased since 2009, led by in home value, wages, and median wealth.

Borzi Outlines 2013 Agenda Including Revamped Fiduciary Rule, Lifetime Income Options

On October 23rd, Phyllis Borzi, Assistant Secretary of Labor for EBSA, outlined the 2013 agenda, saying the re-proposal of its fiduciary rule is almost ready for OMB review and industry can expect DOL to issue the rule in early in 2013. Borzi said DOL has been working to distinguish investment advice from investment education and to clarify that "investment advice does not encompass advice about [annuity] distribution issues." Borzi also said that DOL will be issuing a proposed rule on lifetime income options soon. The rule will request comment from industry on how to approach providing a lifetime income option. Finally, Borzi said DOL will also look into expanding the fiduciary safe harbor for those fiduciaries selecting annuity options for their plans.

DOL Seeks to Extend Benefit Funding Notice Information Request

On October 18th, EBSA announced they are seeking an extension of an information collection request for annual funding notices for defined benefits. Under ERISA defined benefit plans are required to provide an annual funding notice to the PBGC, each plan participant, and the beneficiary.

IRS Makes Safe Harbor 401(k) Plans a 2013 Priority

According to IRS officials, the IRS is making investigating safe harbor 401(k) plans that receive no employer contributions a high priority in 2013. For plans to qualify as a safe harbor plan, employers that sponsor them must make standard matching or nonelective contributions. The IRS has found that about 43 percent of 401(k) plans are safe harbor 401(k)s but some of these plans are not making the required contributions. The IRS will likely look to internal controls to detect and correct these errors.

ASPPA Launching "Save My 401k" Campaign

On October 28th, the American Society of Pension Professionals and Actuaries (ASPPA) announced a "Save My 401k" campaign to begin after the presidential election. The campaign seeks to preserve tax code provisions that help incent retirement savings. In announcing the effort, Brian Graff, Executive Director and CEO of ASPPA, said so long as Congress treats deferred taxes on retirement savings as tax deductions, tax reform could be a serious threat the private retirement. The same day, ASPPA also announced that Barry Levy will be president for the 2012-2013 term.

Independent Fiduciary Should Be Used in 'De-Risking'

On October 23rd, at the District of Colombia Taxation Section Program, attorney Kevin Noble said employers undertaking 'de-risking' transactions should follow DOL Interpretive Bulletin 95-1 and have an independent fiduciary select a group annuity provider. The fiduciary can represent the interests of the plan and participants while the employer can focus on getting the lowest price possible. Interpretive Bulletin 95-1 lays out factors that fiduciaries must weigh to obtain the "safest annuity available."

More Companies Offering Lump-Sum Retirement Payouts

On October 20th, Reuters reported that a growing trend in corporate America is to offer "voluntary buyouts" of lump-sum payments to retirees. These payments may amount to millions of dollars upfront but curb the risk of future obligations to the company. In a survey released by Aon Hewitt about 35 percent of 500 large companies are expected to offer such lump-sum payments in order to transfer the risk of their balance sheets. Generally, when offered the lump-sum option a large majority of employees will take the payout. Related to these developments, On October 18th, the Pension Rights Center said it plans to ask Congress to place a moratorium on employers offering to payout pension benefits of current and former employees and retirees.

NASRA: Troubled Pension Systems Are the Exception, Not the Rule

According to Keith Brainard, Director of Research at the National Association of State Retirement Administrators, most state and local government pension systems are not in crisis as many are led to believe. More than 3,400 systems are in place throughout the U.S., with 15 million public employees, 8 million retired public employees, and their families taking part. New Jersey and Illinois are often cited as the most unstable systems and exemplars of a standard pension system; however, there are many more states that are stable. Forty-five states have made pension system changes since 2009, including, reducing future cost of living adjustments (COLAs) for existing retired employees and increasing the amount employees are expected to pay. The California Public Employees' Retirement System (CalPERS) recently found that, at the local level, most of the bankruptcy problems stem from the economy and policy, not pensions.

PBGC Hires Payment and Quality Directors

The PBGC recently appointed two new directors: Philip R. Langham will serve as the Director of the Benefits and Payments Department and Diane Braunstein will serve as the Director of the Quality Management Department, a new department intended to review best practices. The appointments come in response to recent concerns around PBGC undervaluing pension plans which emerged in an inspector general report finding United Airlines' terminated pension plans were undervalued by roughly $58 million. At the press conference announcing the new PBGC appointments, Director Joshua Gotbaum also answered questions about lump-sum payouts before benefit eligibility, saying people should take these lump-sum payouts when offered. The PBGC encourages the development of voluntary private pension plans, including lump-sum payouts; however, employees need to carefully consider the implications of accepting this type of plan.

Milliman Releases 2012 Pension Funding Study

An October 15th report conducted by Milliman has found that the funding ration of the 100 largest pension plans is 67.8 percent. By analyzing the current market value of assets, Milliman found that public pension plans have aggregate assets of $2.513 trillion and accrued liabilities of $3.706 trillion—yielding an aggregate underfunding of $1.193 trillion.

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