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EBP COMMENTATOR

THE NEWSLETTER OF THE BDO EMPLOYEE BENEFIT PLAN AUDIT PRACTICE

SPECIAL DEFINED BENEFIT PLAN EDITION

THE HIGHER COSTS OF LIVING LONGER: NEW MORTALITY TABLES ISSUED

The Society of Actuaries (SOA) has issued two final reports that update mortality assumptions utilized by private defined benefit (DB) retirement plans in the United States (U.S.). The RP-2014 Mortality Tables Report (RP-2014) replaces the RP-2000 Mortality Tables Report (RP-2000) and reflects the SOA's determination that there have been significant increases in U.S. life expectancy. The SOA's companion Mortality Improvement Scale MP-2014 Report (MP-2014) adds a second, complex variable to the RP-2014 tables for "future mortality improvements." The extended lifespans of plan participants will impact the actuarial valuations that determine plan sponsors' pension obligations.

The new tables are available for immediate consideration and use in measuring private pension plan obligations as well for private employer postretirement medical plans. While public and multiemployer pension plans are not required to adopt these tables, plan management may review the new information for possible consideration in their plan assumptions.

Internal Revenue Service (IRS) Notice 2013-49 (http://www.irs.gov/pub/irs-irbs/irb13-32.pdf) provides for continued use of mortality tables based on the RP-2000 tables (adjusted for mortality improvement) for 2014 and 2015 for DB pension plans funding. Under the Pension Protection Act (PPA), the IRS has the authority to prescribe mortality rates for funding purposes. Plan sponsors should be aware that regulatory guidance will be forthcoming but is expected at the earliest in 2016. The IRS requested comments (which were due by early October 2014) regarding whether the newer available tables should be considered in development of updated IRS tables.

When considering adoption of the new tables, plan sponsors will want to evaluate the mortality rate assumptions to determine whether they reflect the most accurate estimate of plan obligations. Use of the RP-2014 tables with MP-2014 improvement scale is generally expected to significantly impact affected plans in a variety of ways, including some or all of the following:

- **Increased plan obligation** – due to the longevity improvements reflected in the new tables, plans will experience an immediate increase in liability to reflect additional benefits to be paid. The increase in obligation is dependent upon several factors, including plan demographics, current mortality assumptions used and type of benefits provided by the plan.
- **Lengthened time horizon** – simply put, the new tables reflect extended life expectancies which, in turn, increase the amount of time that a plan will pay out benefits. This may be a key factor for a sponsor who anticipates winding down the plan in the future.
- **Higher plan sponsor contribution requirements** – as a result of benefits being paid out over a longer period, sponsors should expect that future sponsor contributions will be higher than under current assumptions. For plans with a funding shortfall, the increase in the shortfall due to the change in the mortality assumption may be amortized over seven years in accordance with the PPA.

▶ Read more

BDO EBP PRACTICE

BDO is nationally recognized in the field of employee benefit plan consulting and auditing. We audit over 1,400 plans nationwide, ranging from 100 participants to close to 300,000 participants. Our engagements are staffed with accountants experienced with all types of audits including defined contribution (401(k), profit sharing, ESOP and 403(b) plans), defined benefit (pension, cash balance) and health and welfare plans.

In addition, BDO has a National Employee Benefit Plan Audit Group that meets regularly to develop training and guidance and discuss updates in the industry and auditing practices. Our professionals are regular presenters at local, state and national seminars. BDO's professionals continue to be extensively involved with the American Institute of Certified Public Accountants (AICPA) National Conferences on Employee Benefit Plans. Many of our professionals serve in leadership roles in the accounting profession as senior advisors and are active members of several governing boards and CPA societies. For example, our professionals currently serve on various AICPA committees, such as the AICPA's Joint 403(b) Plan Audit Task Force (we are proud to have representation at the chair level for this committee) and the AICPA Technical Standards Subcommittee of the Professional Ethics Executive Committee. BDO's EBP professionals have also previously served on the AICPA Employee Benefit Plan Audit Quality Center Executive Committee (immediate past chair) and the Employee Benefit Plan Expert Panel.

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- **Decreased funding status** – a plan's funding level will immediately reflect the impact of an increased plan obligation.
- **Increased Pension Benefit Guaranty Corporation (PBGC) variable rate premiums** – conceivably the trickle-down effect of the increased costs and lowered funding status would mean that plans with unfunded vested benefits would be subject to higher PBGC premiums costs, especially when PBGC variable premium rates are rapidly increasing.
- **Increased lump-sum plan payments** – due to the extended life spans, lump-sum payments will be more expensive. In recent years (due in part to the PPA legislation), lump sum payments have been increasingly used by plan sponsors who are looking to decrease the size of their DB plans and/or to take advantage of de-risking opportunities (such as, shifting future liabilities to third-party insurance companies). Plan sponsors may decide to accelerate use of lump-sum payouts to take advantage of the potential "savings" before the RP-2014 tables are implemented.

Generally, the increase in plan obligation is expected to be in the range of 3-10 percent, depending on plan demographics and other factors. For younger plans with fewer retirees, the expected increase is generally on the lower range. For older plans with more retirees (or with a workforce population comprised of more women – who are expected to live longer), the increase is expected to be on the higher end of the range. Plans with primarily white collar workforces may also experience a higher increase as the tables generally reflect a higher mortality rate for blue collar workers.

Use of the RP-2014 tables with MP-2014 improvement scale is generally expected to significantly impact affected plans in a variety of ways

These tables will be a key topic of discussion with plan sponsors and their actuaries, with both short-term and long-term implications expected. We encourage employers to evaluate their current plan funding, investment and risk transfer strategies and have early (and frequent) discussions with their actuaries. We also suggest keeping the sponsor/plan auditors involved in the dialogues as well due to the potential financial statement impacts to both the plan sponsor and the plan.

▶GOING UP: PBGC PREMIUMS RATE INCREASES

For the third year in row, the PBGC has announced higher flat-rate and variable rate premiums. These insurance premiums are set by law (generally indexed for inflation) and remitted from sponsors of insured pension plans covered under the Employee Retirement Income Security Act (ERISA) Section 4021.

Flat-rate premiums apply to all pension plans; variable rates are only applicable to single-employer pension plans. For calendar year-end plans, the premiums are due by October 15th.

- For plan years beginning in 2015, the flat-rate premium per participant is $57 for single-employer plans (up from $49 per participant) and $13 for multiemployer plans (2014 rate was $12 per participant).
- The variable rate premium is $24 per $1,000 of unfunded vested benefits (2014 rate was $14). The variable rate is capped at $418 multiplied by the number of participants (increased from $412).

For further information, see http://www.pbgc.gov/prac/prem/premium-rates.html?source=govdelivery&utm_medium=email&utm_source=govdelivery.

▶INTEREST RATES RESET FOR MINIMUM FUNDING CALCULATIONS

The Highway and Transportation Funding Act of 2014 (HATFA) was signed into law in August of this year. Although primarily a transportation funding bill, HAFTA also provides for extended DB plan funding requirement "smoothing" through resetting the segment interest rates used for calculating the minimum funding calculations back to the range initially set by the Moving Ahead For Progress In The 21st Century Bill (MAP-21) with a similar reduction of the minimum funding requirements and improved funding attainment percentages (see our original discussion of MAP-21 in our Fall 2012 edition). Reporting under Section 4010 of ERISA may be impacted in certain instances (including for certain sponsors who already filed for 2013 using the available MAP-21 rates, etc.).

The rates are effective for plan years beginning on or after January 1, 2013 (although plans may have elected to opt out for 2013 and continue to use the MAP-21 rates). If considering adoption of the rates for 2013 and/or 2014, plan sponsors may need to obtain revised actuarial valuations for those plan years. For further information, see http://www.gpo.gov/fdsys/pkg/BILLS-113hr5021enr/pdf/BILLS-113hr5021enr.pdf.