
Pension Protection Act of 2006: DB Killer or Just Misunderstood?

Four Years Later

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Focus of this Presentation

- PPA 2006
- Funding pattern of last four years – A Tale of Two Plans
- ...and going forward
- Tools available for monitoring

PPA Terminology

- Pension Protection Act of 2006 (PPA)
- Worker, Retiree, and Employer Recovery Act of 2008 (WRERA)
- Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act (PRA 2010)
- Carryover (COB) and Prefunding (PFB) Balances
- Minimum Required Contribution (MRC)

Pension Protection Act of 2006 – Introduction

- Beginning with 2008 for most plan sponsors
- Interest rates varying by year
- Mortality improvements each year

PPA changes to minimum funding rules

- Yield curve/modified yield curve for determining plan liabilities
- A single funding method for all plans
- Prescribed mortality assumption
- Limited asset smoothing
- Modified use of credit balances
- Seven-year amortization of unfunded liabilities

PPA 2006- What I Concluded Two Years In (May, 2009)

- The Perfect Storm was over
- The legality has been clarified for hybrid plans
- Volatility can be managed
- The funding rules are not that bad

2008 results looked good for 1/1 plans

...

Then came the stock market crash

In 2009

- 2008 stock market collapse
- Some relief with *WRETA*

What We are Seeing Now

- Continuing volatility in stock market
- Low interest rates
- Some more funding relief
- Decreasing funded percentages
- Still outstanding guidance
- More paperwork

2011 Funding

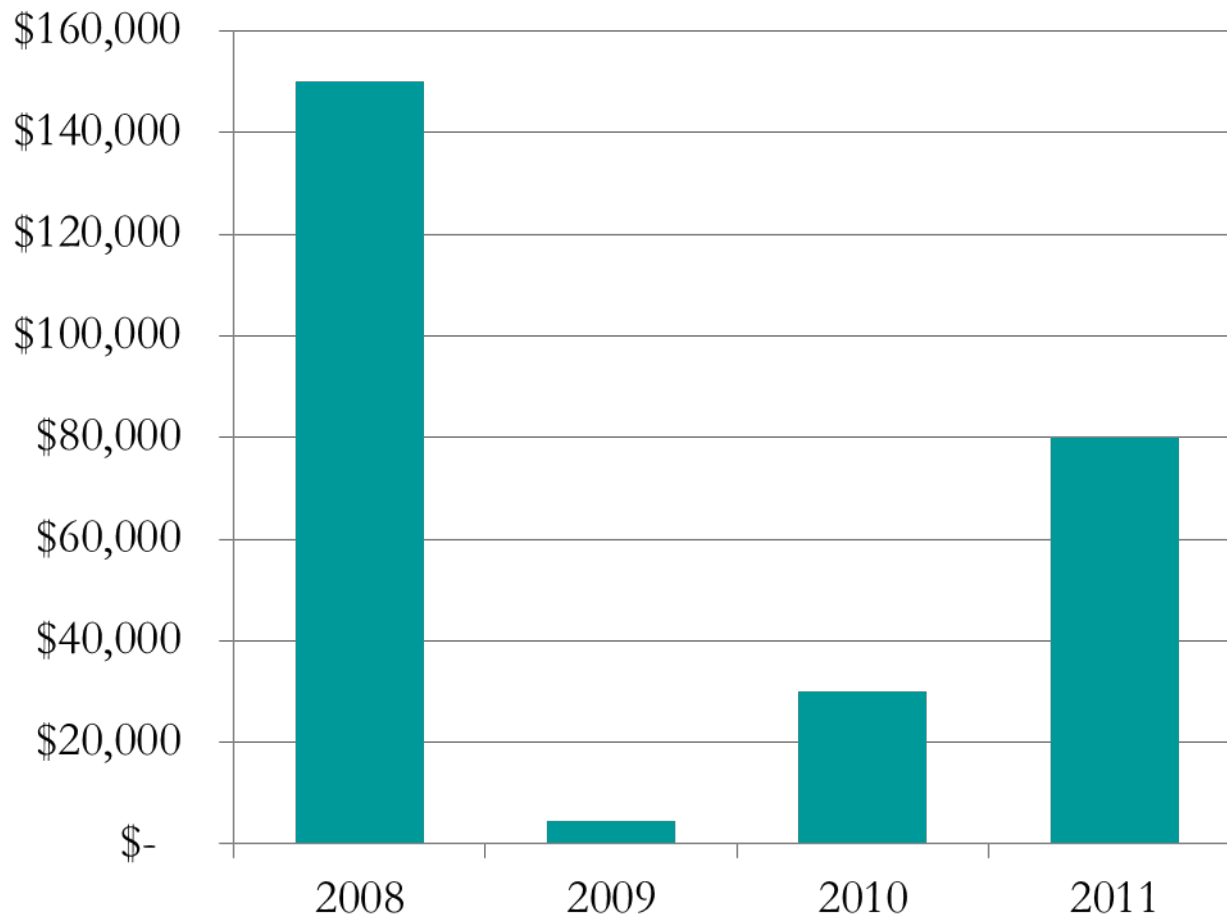
- Full Transition of shortfall recognition
- Last possible year of WREERA funding relief
- Settled into funding rules and asset smoothing methods
- Liabilities rising as interest rates decline

Tale of Two Plans – Small Employer

- Prior to PPA
 - Contributions in \$100,000 range
 - Credit balance
- 2008 - \$150,000, 6.25%, 92% funded
- 2009 Froze plan at end of 2008 plan year
 - \$4,500, 6.73%, 97% funded
- 2010 \$30,000, 6.5%, 89% funded (funding relief \$20,000)
- 2011 \$80,000, 5.7%, 80% funded (funding relief \$20,000)

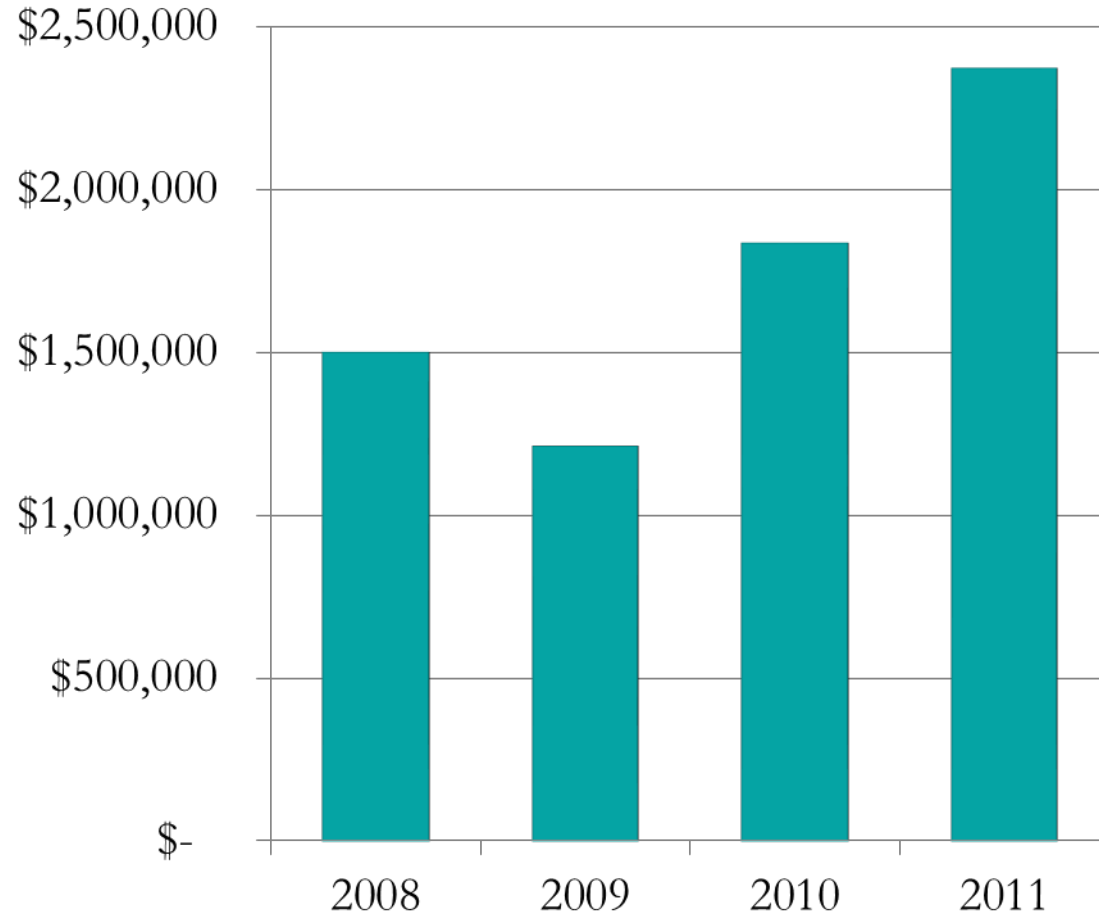
Small Plan

Minimum Required Contribution



Large Plan

Minimum Required Contribution



Tale of Two Plans – Large Plan

- Ongoing plan
- Prior to PPA was able to contribute more than minimum required and so had built up a large Carryover Balance
- Funding percentage declined from 92% to 72%
- Subject to benefit restrictions effective April 1, 2011

Looking ahead to 2012

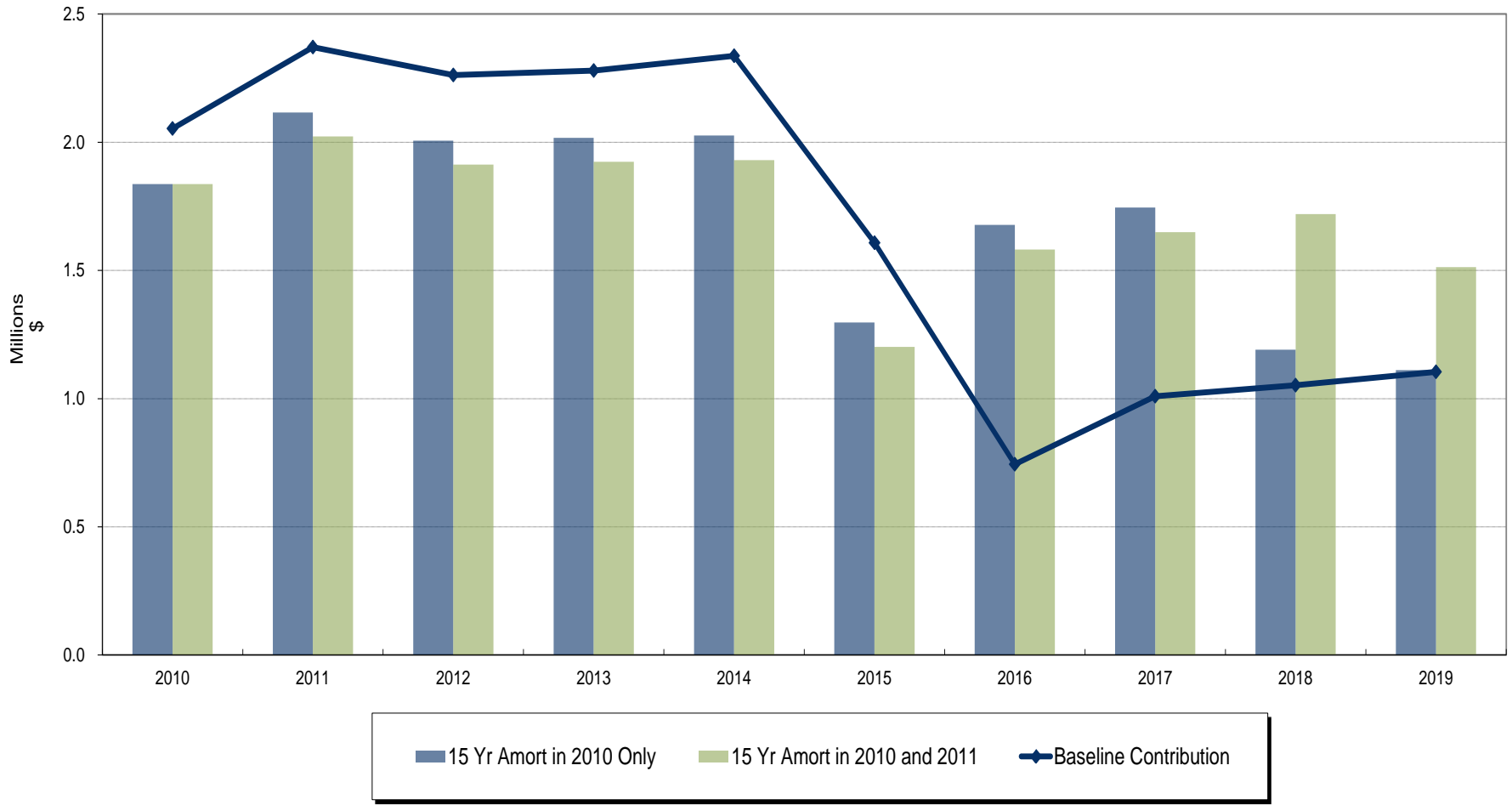
- Lower interest rates
- Continued Volatility of Contributions
- Higher Contributions

Alternatives in Funding

- Use of COB/PFB
- Use of Asset/Liability Matching
- Freeze Plan
- Terminate

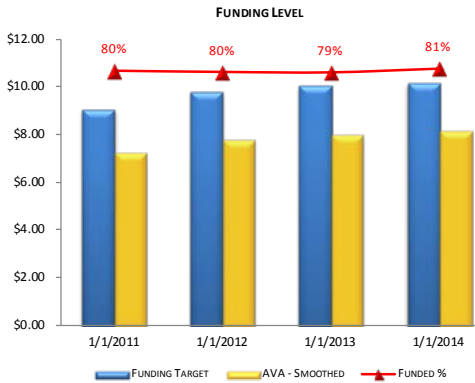
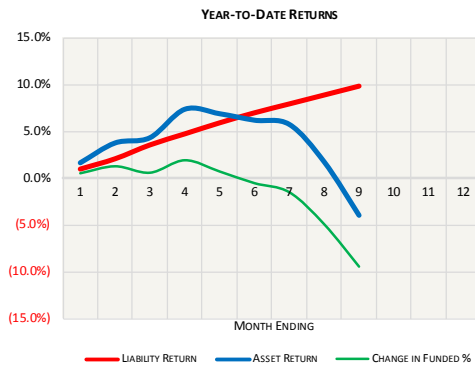
Tools Available....

Tools Available

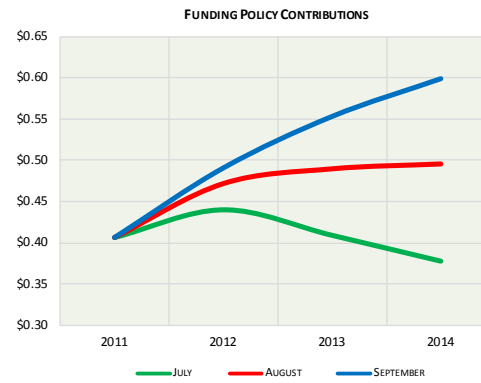
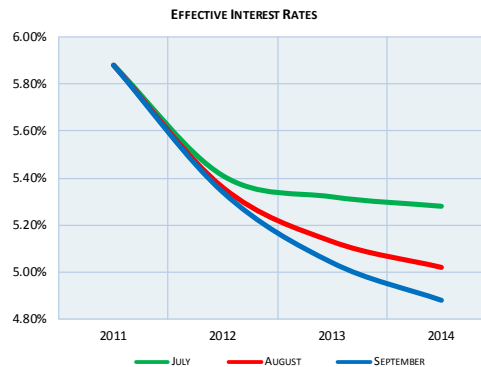


Pension Dashboard

Funding Projections



Performance Dashboard The ABC Retirement Plan through September 30, 2011



CURRENT VALUATION SUMMARY

Plan Year Beginning:	1/1/2011
Interest Rate Election:	Segment Rates
Look Back Period:	January
Asset Method:	AVA - Smoothed
Effective Interest Rate:	5.88%
Funded Level %:	80.00%
Funding Target Attainment %:	80.00%
Minimum Funding:	\$368,595
Maximum Funding:	\$6,396,650
Funding Policy:	\$406,353
Carryover Balance:	\$303
Prefunding Balance:	\$0

OPERATIONAL CONSTRAINTS OUTLOOK

	Projection Years			
	2011	2012	2013	2014
Funding Policy	●	●	●	●
PBGC - VRP Test	●	●	●	●
Quarterly Contributions	●	●	●	●
PBGC - 4010 Filing Test	●	●	●	●
At - Risk Status Test	●	●	●	●
Restrictions Exemp. Test	●	●	●	●
Lump Sums - Limited	●	●	●	●
Amendments - Limited	●	●	●	●
Freeze Accruals	●	●	●	●
Lump Sums - Prohibited	●	●	●	●

● Not Affected
● Nearly Affected
● Affected

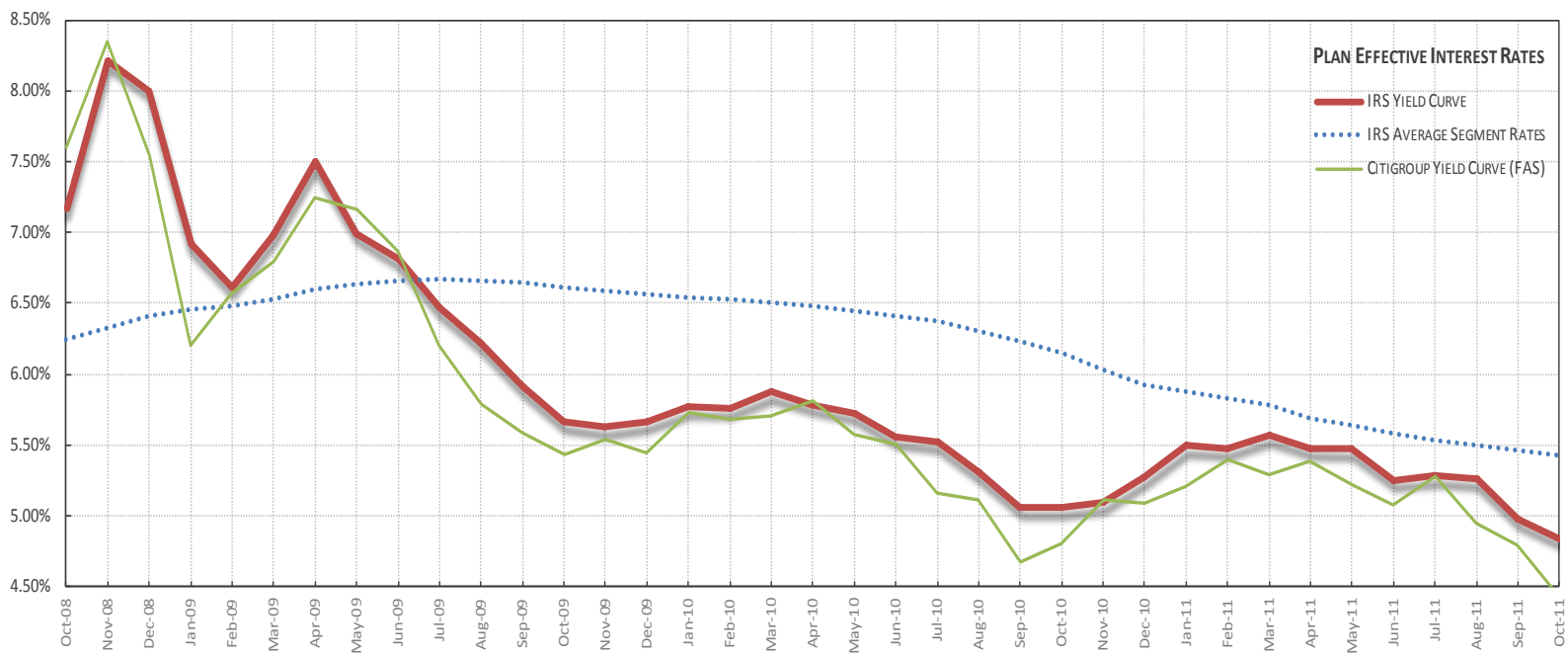
CAVEATS: These projections were prepared for the internal use of the Plan Sponsor. No portion of the projections may be disclosed to any other party without Milliman's prior written consent.

Pension Dashboard

Investment Management
Metrics

Performance Dashboard

The ABC Retirement Plan
through September 30, 2011



Summary

- While PPA “simplified” the rules, it added more volatility to contribution requirements
- Low interest rates have resulted in decreased funding percentages
- Contribution requirements will continue to increase until funding reaches 100%
- Tools available to help monitor the change in assets and liabilities based on changing interest rates

Questions?