Customized Discount Rate:

Determination of Financial Statement Liability for Benefit Plans

Employers reporting financial obligations related to their Pension and/or Post-retirement Health Care Plans often rely on matching future cash flows from the plan to the Citigroup Pension Liability Index (CPLI). The discount rate can be based on published yield curves for high quality corporate bonds. The CPLI is a spot-rate curve developed from a portfolio of high quality non-callable bonds. There is a better way.

Matching benefit plan cash flows to actual bonds available in the market to theoretically settle the obligation is far more accurate. This BPAS customized approach offers a discount rate that is 50 to 100 basis points better. Do we have your attention?

The BPAS Actuarial & Pension Services Method

At BPAS, our actuaries and advisors have been helping clients with employee benefit consulting solutions for nearly four decades. Rather than using a curve developed using a bond portfolio, our customized discount rate method **selects individual bonds to match to the expected cash flow.** This method provides a more accurate depiction of the true cost to the Pension/Post-retirement Health Care Plan to settle the obligations. Theoretically, the employer could go into the marketplace and purchase specific bonds used in the analysis to settle plan obligations.

The BPAS Custom Discount Rate is typically 50 to 100 basis points better than under the CPLI. That means employers are able to offset much of the decreased interest rate environment. A100 basis-point drop in discount rates will likely increase pension and post-retirement health care plan obligations by 10 to 15%. This increase will translate into higher annual pension/post-retirement health care expense on the Profit and Loss statement and cause employers to violate their debt covenants or restrict their ability to borrow money. **Being able to support a higher discount rate will significantly improve the employer's balance sheet obligations.** (Note that the impact on the following year's expense will depend on additional plan specific factors.) Just look at these Case Studies to see how.

Case Study:
Regional Bank With Cash Balance Pension Plan (Not Frozen)

Comparison of Results under ASC 715 on December 31, 2015		
	CPLI Method	**BPAS Method**
Discount Rate	4.10%	5.17%
Projected Benefit Obligation	$9,704,000	$8,367,000
Savings with BPAS Method		**$1,337,000 or 14%**

Case Study:
Life Insurance Company With Frozen Traditional Plan

Comparison of Results under ASC 715 on December 31, 2015		
	CPLI Method	**BPAS Method**
Discount Rate	4.06%	5.03%
Projected Benefit Obligation	$115,866,000	$102,631,000
Savings with BPAS Method		**$13,235,000 or 11%**

Ready to See Results? Let's Talk.

P 866-401-5272 | 315-703-8968 W sdam@bpas.com
W bpas.com

Solving Tomorrow's Benefit Challenges Today

BPAS