PENSION ACCOUNTING RESEARCH SERIES

ASC 715 Discount Rate Selection: January Addendum

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2017: An Update for Disclosures for 2016

In December 2016, SEI released research on assumptions for ASC 715 (pension accounting) valuation that was based on information available through the end of November 2016. Now that the year has closed, this paper provides a brief update on the research based on end-of-year indices.

The research results that were based on information through November indicated that disclosure discount rates for 2016 should decrease relative to the rates in the 2015 disclosures. This result assumed that there would be no change in the market index levels during the month of December 2016.

Now that 2016 has closed and indices can be updated through December, there are additional changes in long bond yields from December 31, 2015 to December 31, 2016. The updated Figure 1.1 of our research report (below) shows those changes.

FIGURE 1.1 (UPDATED) CHANGE IN YIELDS, YEAR-END 2015 TO YEAR-END 2016

BOND INDEX	12/2015 YIELD	12/2016 YIELD	CHANGE (BPS)
Barclays AA Long Credit	4.32	4.04	-28
Merrill Lynch AA 15+ Corporate	4.45	4.13	-32
Citigroup Pension Liability Index	4.34	4.14	-20
SEI Pension Liability Index*	4.11	3.96	-15

*The SEI Pension Liability Index is made of the SEI benefit payment stream, which is an equally weighted average of our clients' benefit payment streams, discounted by Citigroup Pension Discount Curve. The Citigroup Pension Discount Curve is a spot curve derived from investment grade bonds.

What does this mean?

Similar to our December 2016 research paper (although not demonstrated in Figure 1.1 above), yields are higher at durations up to 9 years and lower thereafter. Based on this analysis, plans with a December 31st measurement date should consider decreasing their discount rate, generally by less than 25 bps.[1]

Plan sponsors generally select discount rates using a method that matches plan cash flows to a yield curve, rather than using an index benchmark. This will result in different results by plan based on the expected projection of benefit payouts specific to that plan. For example, plans with large payouts expected before year 9 may see a somewhat smaller decrease, or even an increase, in the discount rate at December 31, 2016 and those with later payout structures will see larger decreases (although still likely well under 25 bps). Therefore, plans must consider any changes in their projected cash flows relative to the prior year and any changes in methodology for making this assumption selection.

Questions

If you are an SEI client and have any additional questions, please contact your SEI Client Portfolio Manager or Jon Waite at jbwaite@seic.com or (610) 676-3493. All other inquiries can be sent to seiresearch@seic.com.

[1]Methodology for determining rates used in Net Periodic Pension Cost is changing for many plan sponsors for 2016 (as addressed in the paper). The effect of such a change is not considered here. This research should be used for educational purposes only. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events, or a guarantee of future results. The information is not intended to provide actuarial or accounting advice. Please consult with your plan advisor for more information before making any investment decisions. Information provided by SEI Investments Management Corporation, a wholly owned subsidiary of SEI Investments Company.