PENSION ACCOUNTING RESEARCH SERIES

ASC 715 Discount Rate Selection: January Addendum

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2018: An Update for Disclosures for 2017

In December 2017, SEI released research on assumptions for ASC 715 (pension accounting) valuation that was based on information available through the end of November 2017. 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 2017 should decrease relative to the rates in the 2016 disclosures. This result assumed that there would be no change in the market index levels during the month of December 2017.

Now that 2017 has closed and indices can be updated through December, there are additional changes in long bond yields from December 31, 2016 to December 31, 2017. The updated Figure 1.1 of our research report (below) shows those changes.

FIGURE 1.1 (UPDATED) CHANGE IN YIELDS, YEAR-END 2016 TO YEAR-END 2017

BOND INDEX	12/2016 YIELD	12/2017 YIELD	CHANGE (BPS)
Barclays AA Long Credit	4.04	3.60	-44
Merrill Lynch AA 15+ Corporate	4.13	3.63	-50
Citigroup Pension Liability Index	4.14	3.60	-54
SEI Pension Liability Index*	3.96	3.48	-48

*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 2017 research paper (although not demonstrated in Figure 1.1 above), yields are higher at durations up to 5 years and lower thereafter. Based on this analysis, plans with a December 31st measurement date should expect decreases in their effective PBO discount rate, generally by about 45 bps.

This is a material reduction from the November 30th environment, in the range of 15 bps for the 1 month period. Plan sponsors will generally experience a loss from this change on the liability side for December, 2017. For the full year, plans will typically see a liability loss. The asset side of the plan will generally provide a gain which will mitigate the liability increases, but the size of the asset gain (or loss) will be dependent on the particular allocation for each plan.

NOTE: The effect of the rate changes on the Net Periodic Pension Cost is not considered in this addendum, but was reviewed in the full paper, which can be accessed here.

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.