

## FAS87 Discount Rate Selection Addendum

January Update to 2009 SEI Pension Series: Financial Accounting Standards No. 87

In December 2008, SEI released research on assumptions for FAS 87 valuation that was based on information available through the end of November 2008. Now that the year has closed, this paper provides a summary update on the research based on end-of-year indices.

The results of that research were an indication that based on information available through the end of November disclosure discount rates for 2008 should increase 50 to 100 bps relative to the rates in the 2007 disclosures. This result assumed that there would be no change in the market index levels during the month of December, 2008.

However, now that 2008 has closed and indices can be updated through December, there are additional changes in long bond yields from December 31, 2007 to December 31, 2008. Table 1-1 of our Research Report (below) shows those updated changes:

<b>Table 1-1 (Updated)</b>			
<b>CHANGE IN BOND YIELDS, YEAR-END 2007 TO YEAR-END 2008</b>			
<b>Bond Index</b>	<b>12/2007 Yield</b>	<b>12/2008 Yield</b>	<b>Change (bps)</b>
<b>Lehman Brothers AA Long Credit</b>	<b>5.99</b>	<b>5.35</b>	<b>(64)</b>
<b>Merrill Lynch AA 15+ Corporate</b>	<b>6.35</b>	<b>6.12</b>	<b>(23)</b>
<b>30-Year Bellwether Swap</b>	<b>5.02</b>	<b>2.77</b>	<b>(225)</b>
<b>Moody's Long-Term AA Corporate</b>	<b>5.80</b>	<b>5.54</b>	<b>(26)</b>
<b>Citigroup Pension Liability Index</b>	<b>6.48</b>	<b>5.87</b>	<b>(61)</b>

### What Does This Mean?

As investors looking for safer waters moved cash into Treasury securities in December, rates were driven down significantly resulting in negative year-to-year changes across the entire list of bond indices above. Based on this analysis, plans with a December 31<sup>st</sup> measurement date should consider lowering their discount rate by up to 75 bps.

Plan sponsors that select discount rates using a method that matches plan cash flows to a yield curve, rather than using an index benchmark, could see significantly different results (e.g., a range of decreases between 0 and 75 bps), but a lower rate than in 2007 can be expected in most cases unless payout projections are relatively front loaded. These 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 have any additional questions on these changes, please contact your SEI Service Representative or feel free to contact Jon Waite at [jbwaite@seic.com](mailto:jbwaite@seic.com) or (610) 676- 3493.

*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. ©2009 SEI .*