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FAS87 Discount Rate Selection (January Addendum)

2010: An Update for Disclosures for 2009

In December 2009, SEI released research on assumptions for FAS 87 valuation that was based on information available through the end of November 2009. 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 2009 should decrease relative to the rates in the 2008 disclosures. This result assumed that there would be no change in the market index levels during the month of December, 2009.

However, now that 2009 has closed and indices can be updated through December, there are additional changes in long bond yields from December 31, 2008 to December 31, 2009. Table 1-1 of our Research Report (below) shows those updated changes:

Table 1-1 (Updated)
CHANGE IN BOND YIELDS, YEAR-END 2008 TO YEAR-END 2009

Bond Index	12/2008 Yield	12/2009 Yield	Change (bps)
Lehman Brothers AA Long Credit	5.35	5.81	46
Merrill Lynch AA 15+ Corporate	6.12	5.92	(20)
30-Year Bellwether Swap	2.77	4.53	176
Moody's Long-Term AA Corporate	5.54	5.49	(5)
Citigroup Pension Liability Index	5.87	5.96	9

What Does This Mean?

As shown in our December 2009 research paper (although not demonstrated in Table 1-1 above), yields are significantly lower at periods up to 25 years. Most plans will be weighted toward these lower yields for the rate they select. Only those plans with the longest durations will see an increase in discount rates at 12/31/2009 versus a year earlier. Based on this analysis, plans with a December 31st measurement date should consider lowering their discount rate, many by 25 to 75 bps.

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 significantly different results (e.g., a range of slight increases to decreases of up to 100 bps) by plan based on the expected projection of benefit payouts specific to that plan. 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 on these changes, please contact your SEI Service Representative or feel free to contact Jon Waite at jbwaite@seic.com or (610) 676-3493. All other inquiries can be sent to either Jon or seiresearch@seic.com.