

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

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## Fed Raises Interest Rates – Effect on Year-End Discount Rates for Pension and OPEB Plans

Yesterday, the Federal Open Market Committee, a panel of Federal Reserve officials responsible for determining monetary policy, increased the target range for the federal funds rate from 0.00%-0.25% to 0.25%-0.50%. While the extent to which this will impact the corporate bond market is uncertain, especially with respect to longer-term yields, we want to alert you that year-end discount rates used in financial reporting for pension and other post-employment benefit plans could move from what we've seen of late.

### Effect on Year-End Discount Rates

If discount rates rise as a result of the Fed's action, plan liabilities disclosed in financial statements will be reduced. The impact of changing discount rates on a plan's annual expense will depend on facts and circumstances specific to that plan. Rate changes will have little short-term impact on pension funding requirements due to smoothing and corridors applied to the rates.

This morning, Buck published the Buck Yield Curves as of December 15, 2015. Based on the cash flows from ten model plans, single equivalent discount rates are down approximately 2 basis points from those determined using the November 30 Buck Standard Curve. For the same model plans, the Buck Above Median Curve produces discount rates at December 15 that are about 5 basis points lower than at November 30. Benefit plans with materially longer or shorter benefit payment durations may see slightly different impacts. It is also important to keep in mind that the December 15 measurement was made **prior to** the Fed's action. Buck is scheduled to produce another interim Buck Yield Curve as of December 21. We expect a clearer picture of the impact of the Fed's move to emerge when that curve (expected to be published December 23) is made available.

### In Closing

We'll be watching how the bond markets react and will update you with any significant developments. In the meantime, if you have any questions or want to discuss these issues further, please contact your Buck consultant.

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