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Defined Benefit Plans: Going, Going, Gone?

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Presented at the session on "Pension Reform: Why It is Happening and What It Means for Boomers," 30th Annual Research Conference, APPAM, November 6, 2008

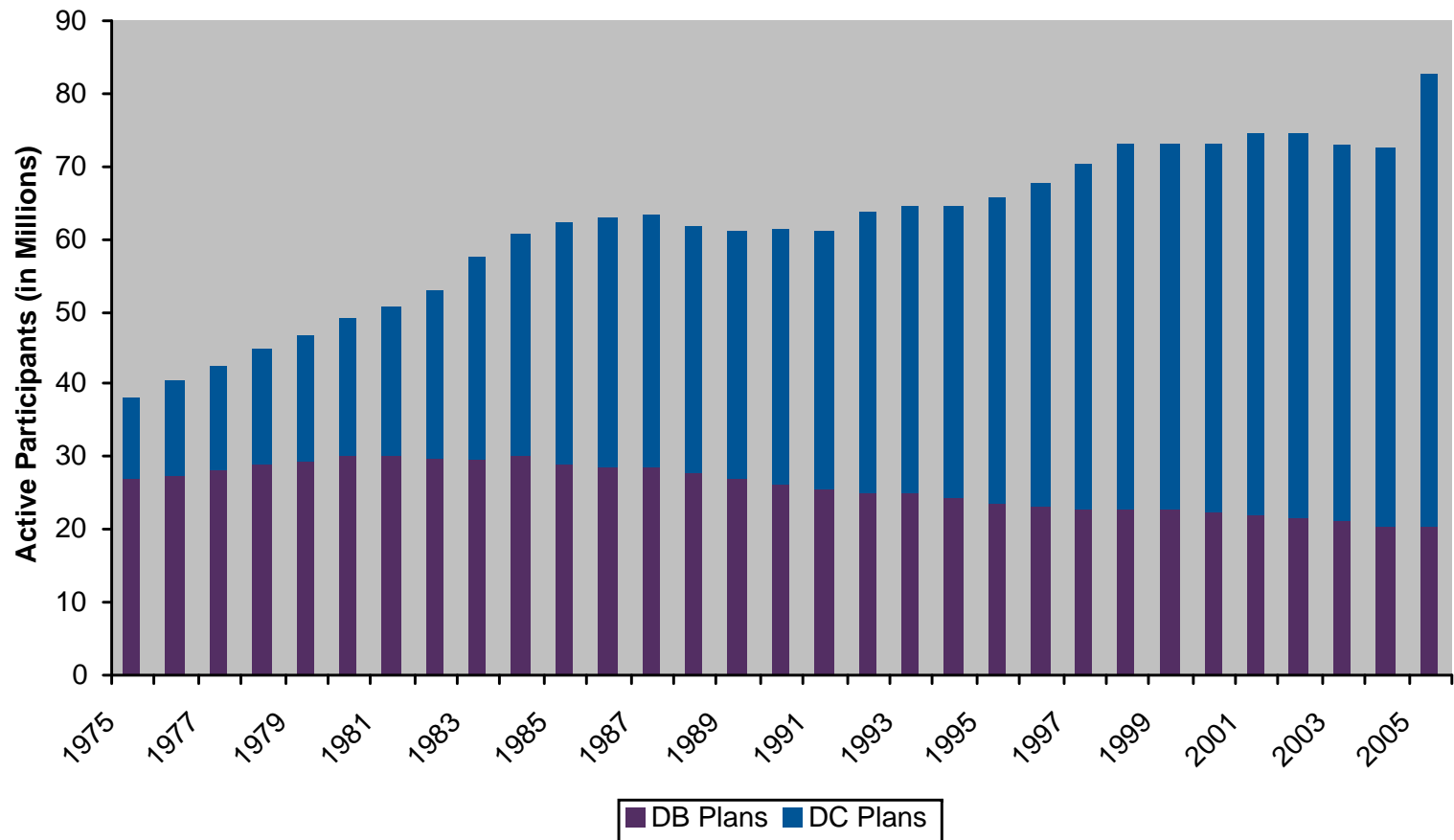


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Number of Active Participants in DB and DC Plans, 1975-2005



Source: IFS tabulations of Form 5500 Filings, U.S. Department of Labor.

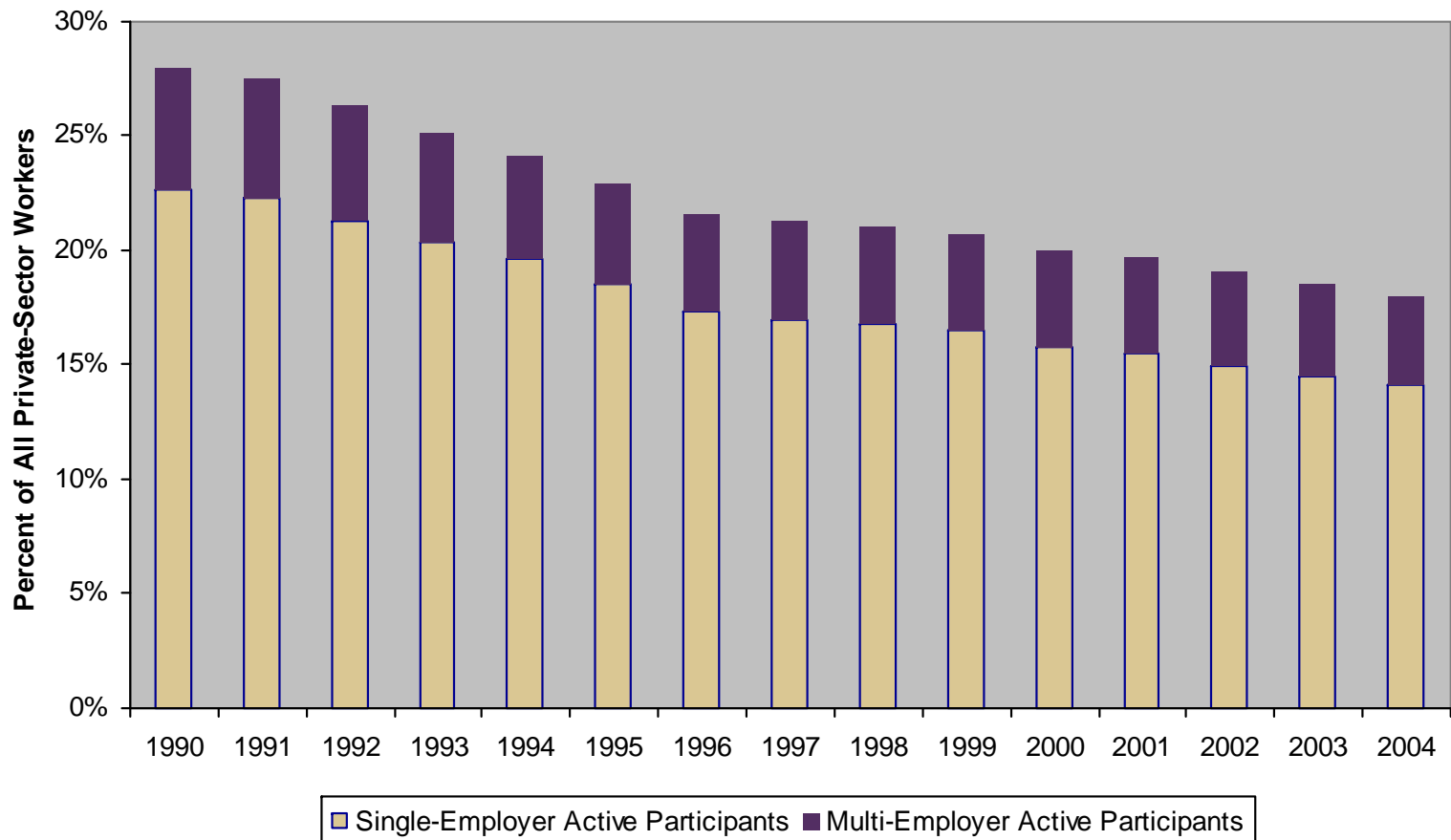


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Defined-Benefit Plans in the Private-Sector Workforce



Source: IFS tabulations of 2006 Pension Insurance Data Book, U.S. Pension Benefit Guaranty Corporation.

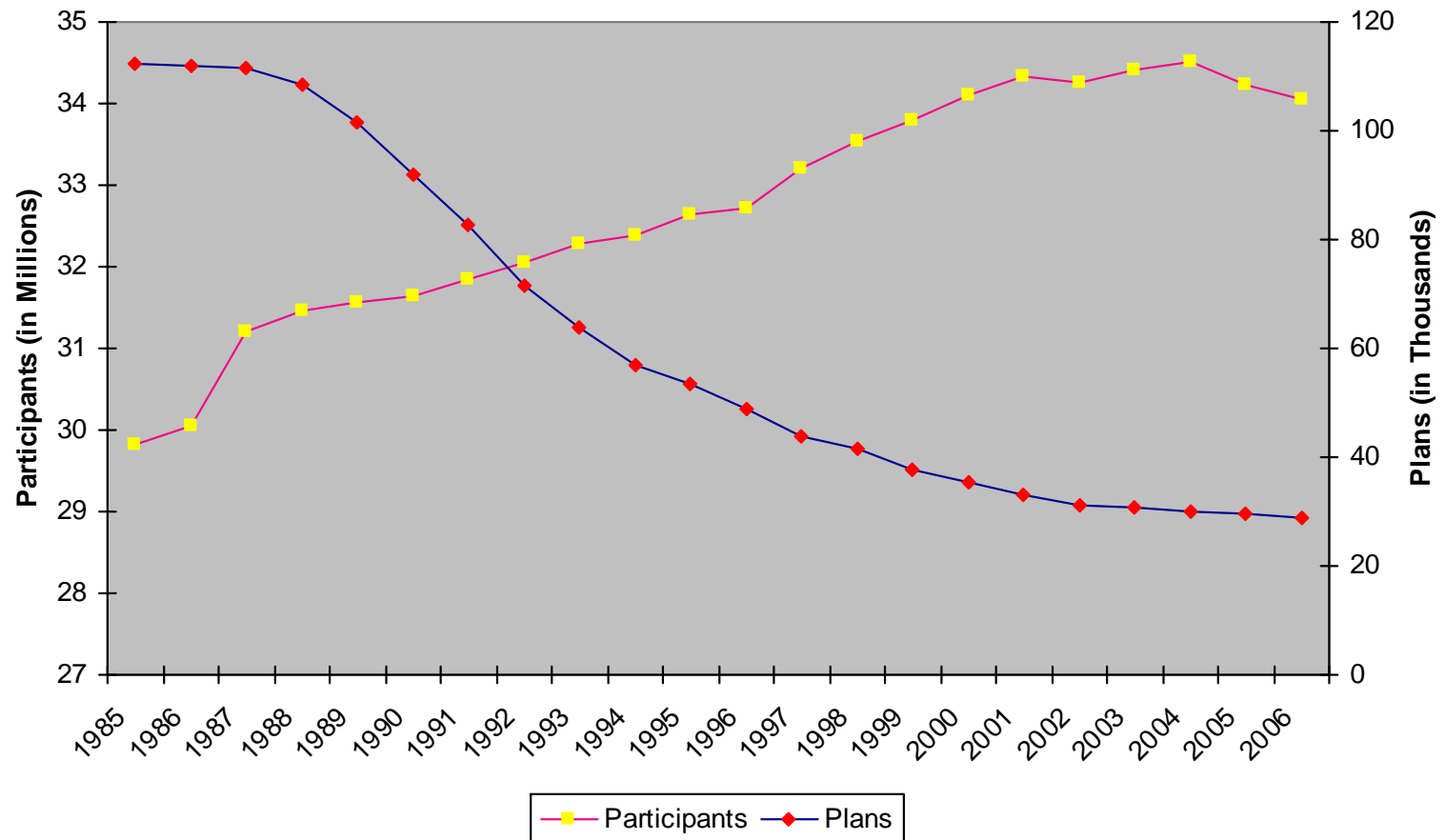


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PBGC-Insured Single-Employer Plans and Participants, 1985-2006

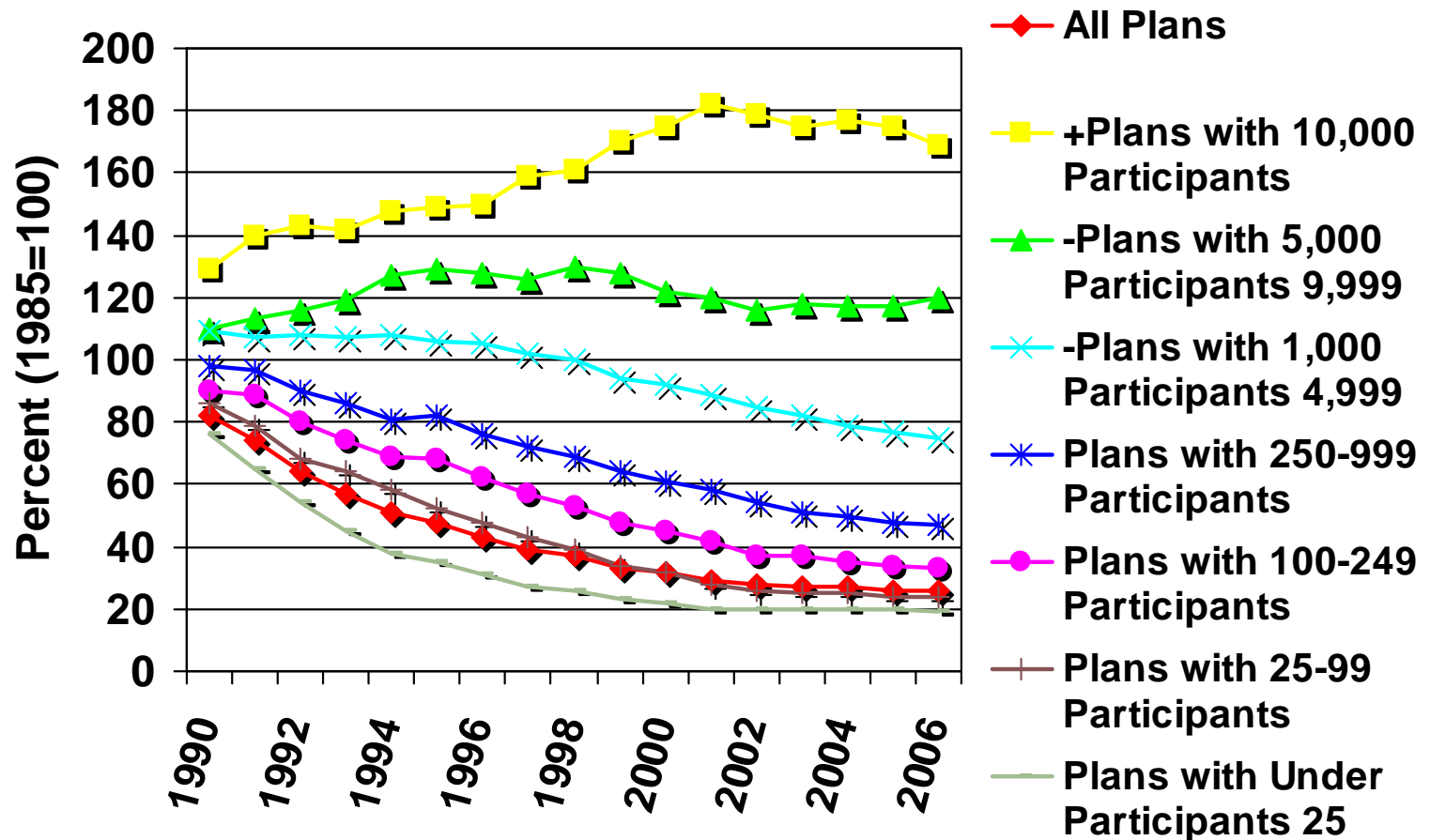


Source: IFS tabulations of 1996 and 2006 Pension Insurance Data Books, U.S. Pension Benefit Guaranty Corporation.



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Decline in Single-Employer Plans by Size, 1985-2002

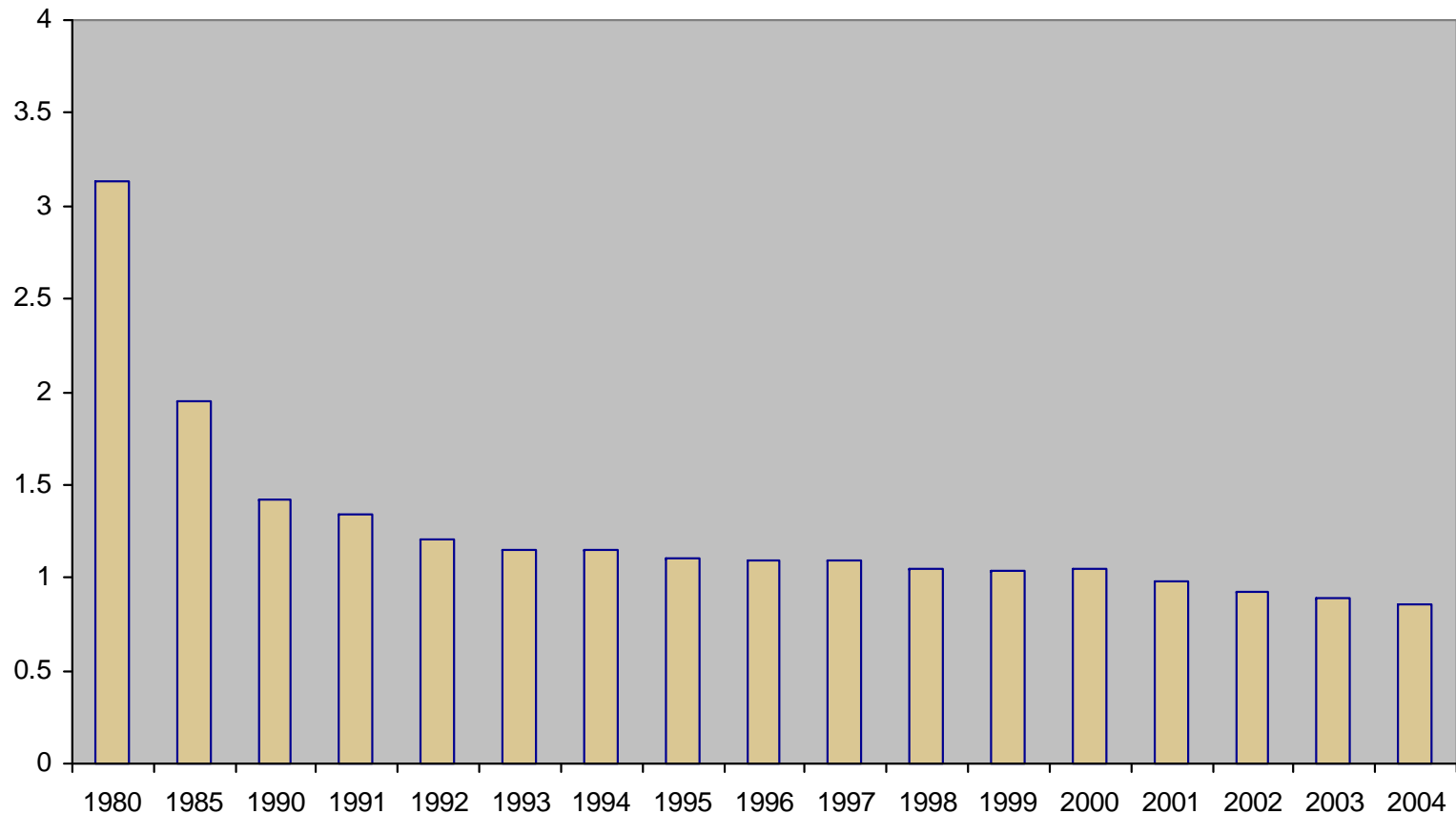


Source: IFS tabulations of 2006 Pension Insurance Data Book, U.S. Pension Benefit Guaranty Corporation.



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Ratio of Active to Non-Active Participants in Single-Employer Plans, 1980-2004



Source: IFS tabulations of 1996 and 2006 Pension Insurance Data Books, U.S. Pension Benefit Guaranty Corporation.



The Effect of Plan Freezes

- Since 2002, plan termination rates have gone down but plan freezes have gone up
 - 9.4% in 2003, 12.1% in 2004, 14.1% in 2005
- Most often found in smaller plans (less than 1,000 participants)
- Freezing is a good predictor of plan termination
 - In 2003-2005, 20% of frozen plans terminated v. only about 6% of non-frozen plans



Can the Defined Benefit Plan System Be Saved?

- Will PPA help?
- Many practitioners say no.
 - PPA intended to protect the PBGC, not to save plans
 - New funding rules increase cost volatility
 - New restrictions on benefits
 - Prescribed interest rates, mortality tables, rules for valuing assets
- Financial crisis will soon provide an answer.
 - Decline in value of plan assets
 - Increased contributions required
 - Can companies meet these additional obligations in a (possibly deep) recession?
 - If not, more plan terminations and freezes will follow



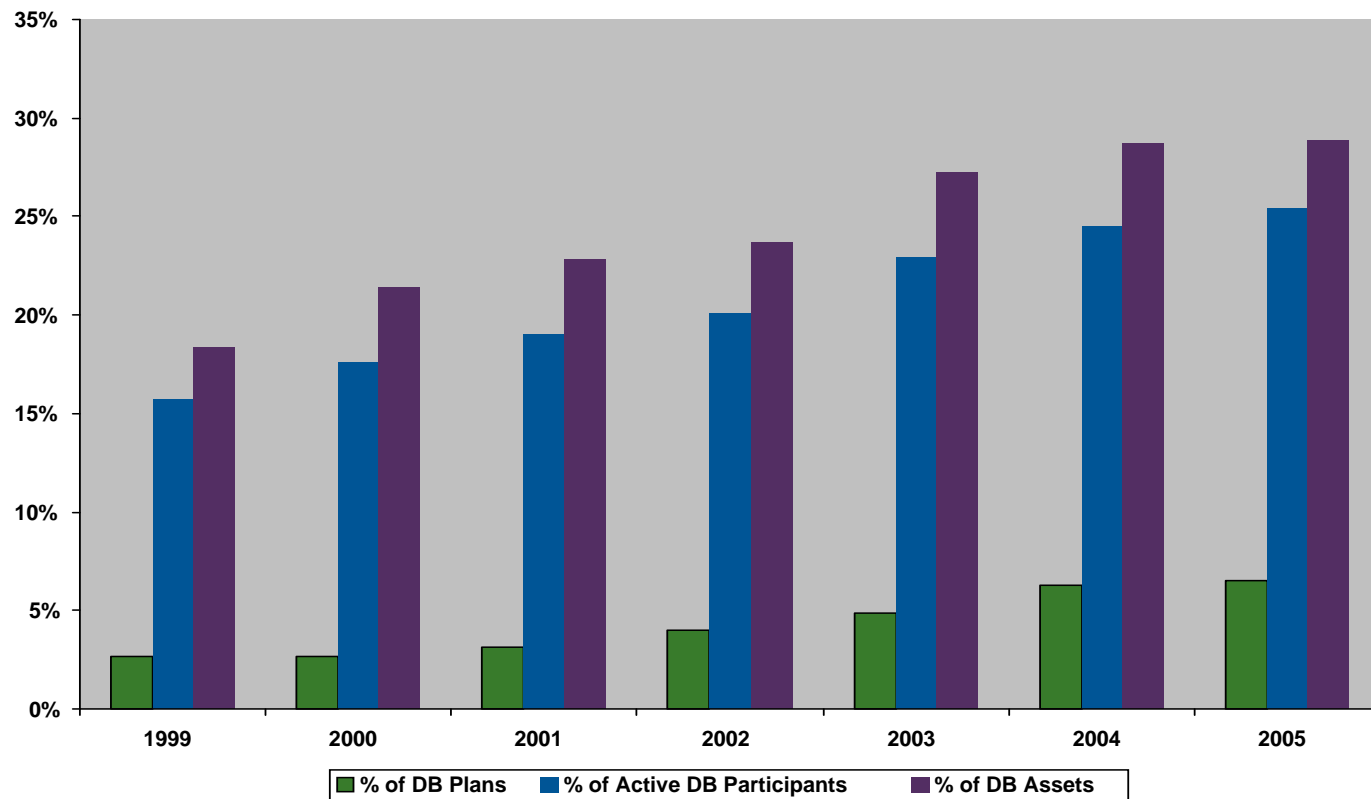
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What about Cash Balance Plans?

Cash balance plans are a small fraction of DBs (6.5% in 2005). Despite legal challenges, the number of plans increased from 1,320 to over 3,000 between 1999 and 2005.

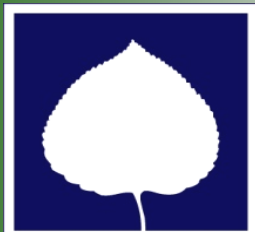


Source: IFS tabulations of Department of Labor Form 5500 Annual Bulletins, 1999-2005 (Table A-1).



What's More Important – the Ends or the Means?

- No foreseeable scenario for a defined benefit plan revival
 - Traditional plans don't seem to fit today's business model or workers
 - Cash balance plans are conversions, not new plans
- But the financial crisis has put the market risk in 401(k) plans under a spotlight
- The real issue: increasing retirement income security
 - It's not the form of the plan that is important
 - It's how to accumulate more assets for retirement that deliver secure income in retirement
 - A role for financial engineering and innovative product design?



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