

The U.S. Private Pension System At A Crossroads

*Section on Employee Benefits
Annual Meeting
Association of American Law Schools
Washington, DC*

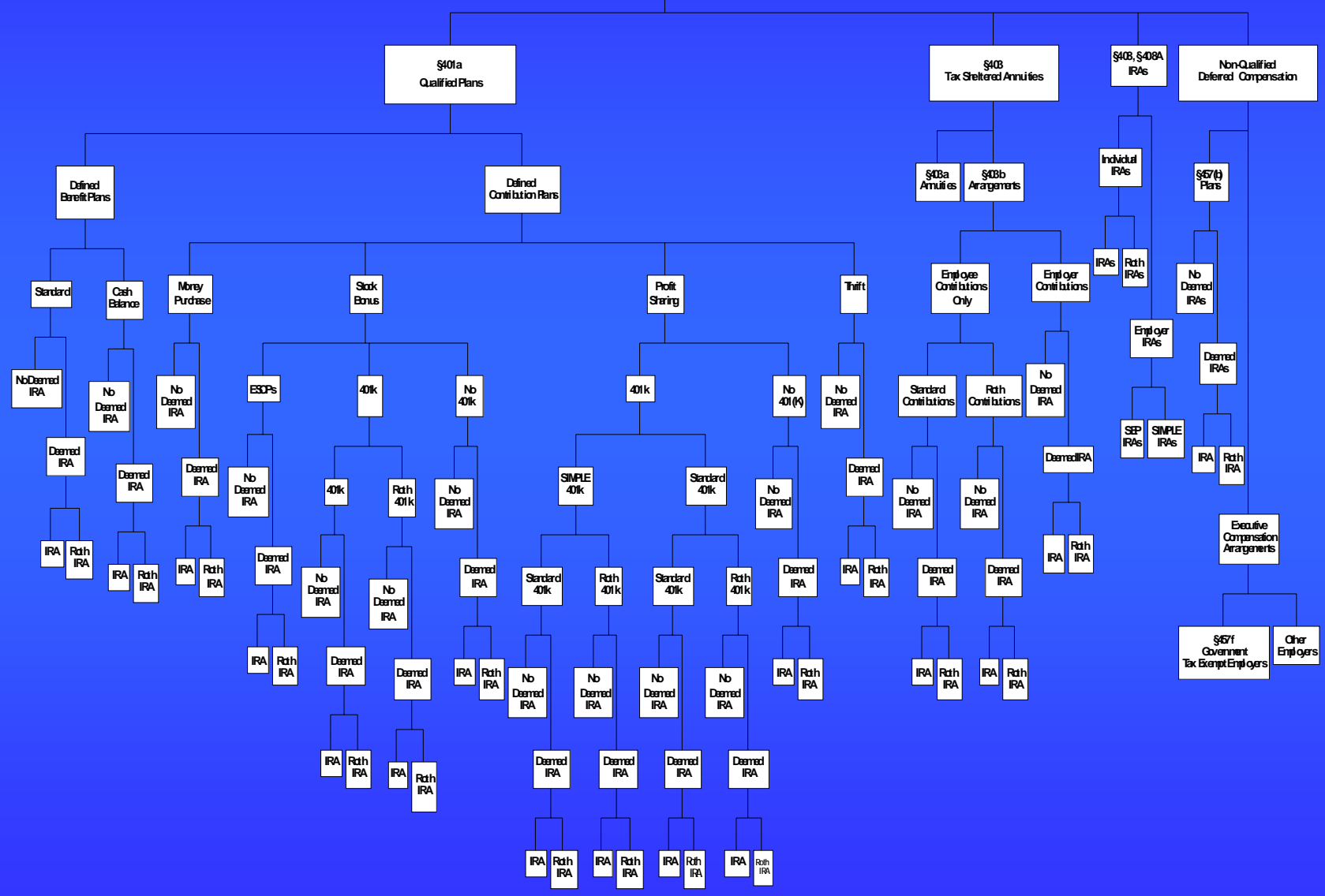
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The Private Pension System in 2006



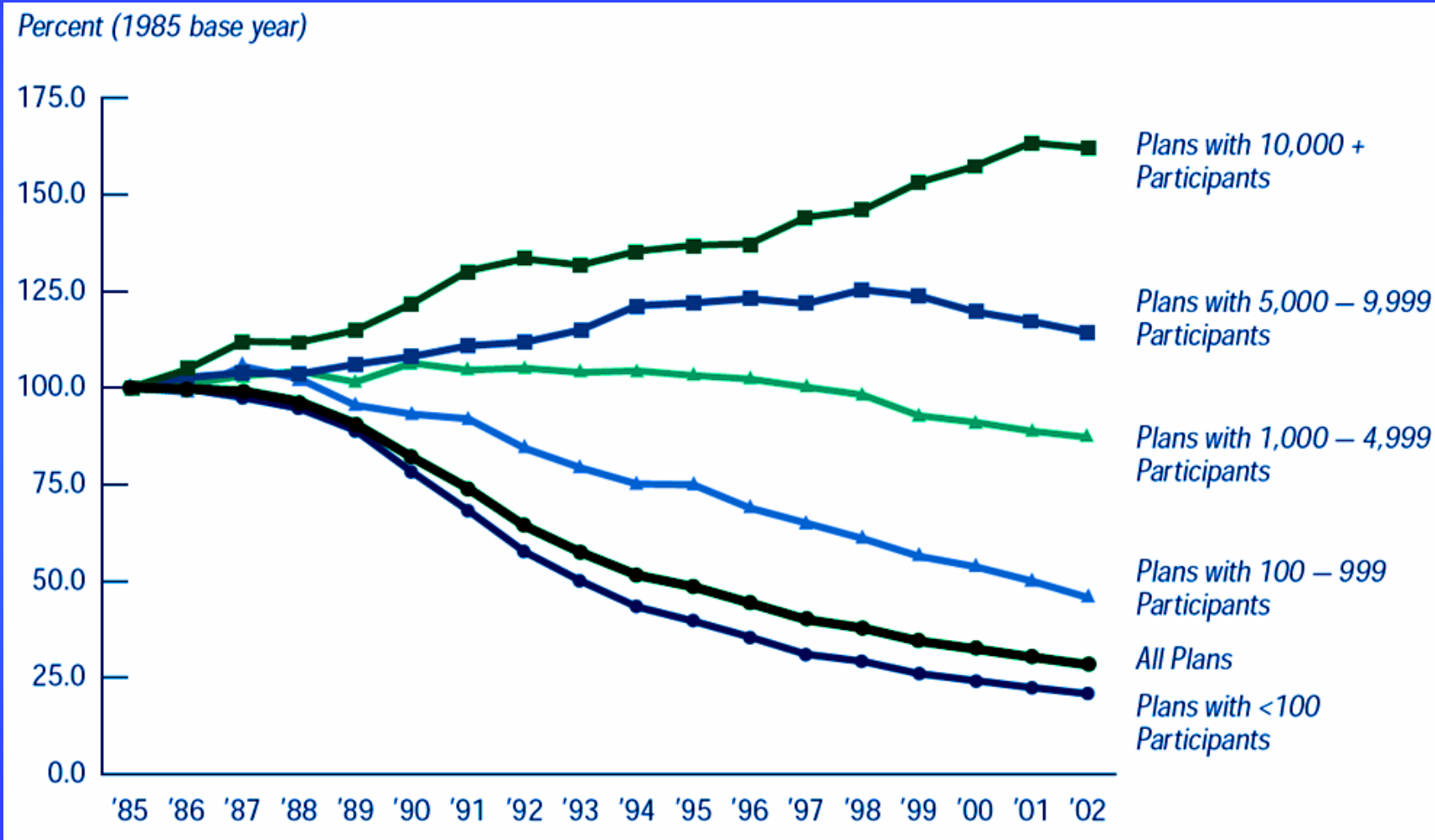
The Future of Defined Benefit Plans

- Reversible Decline

OR

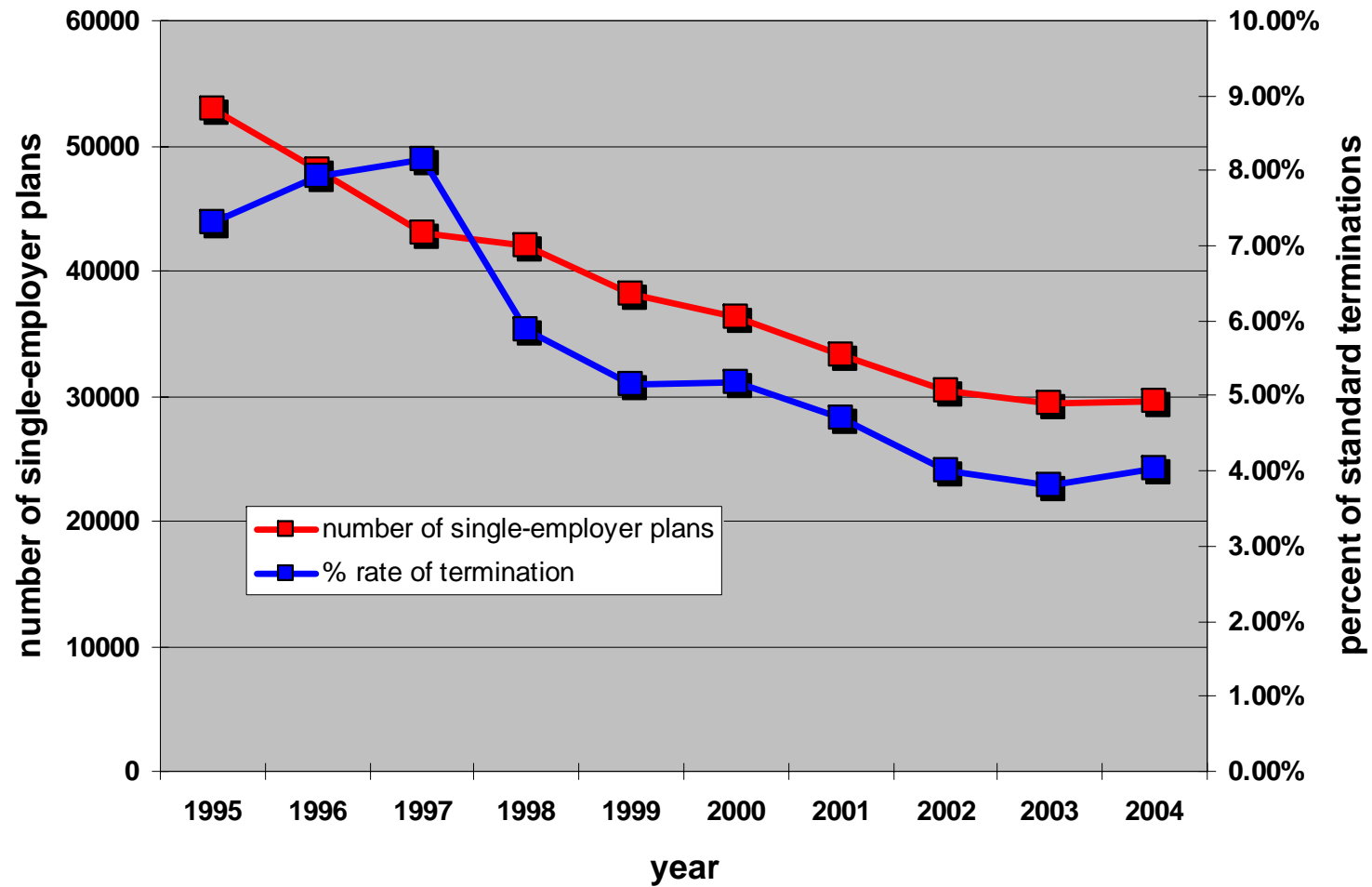
- Death Spiral?

Number of PBGC-Insured Plans, By Size, 1985-2002

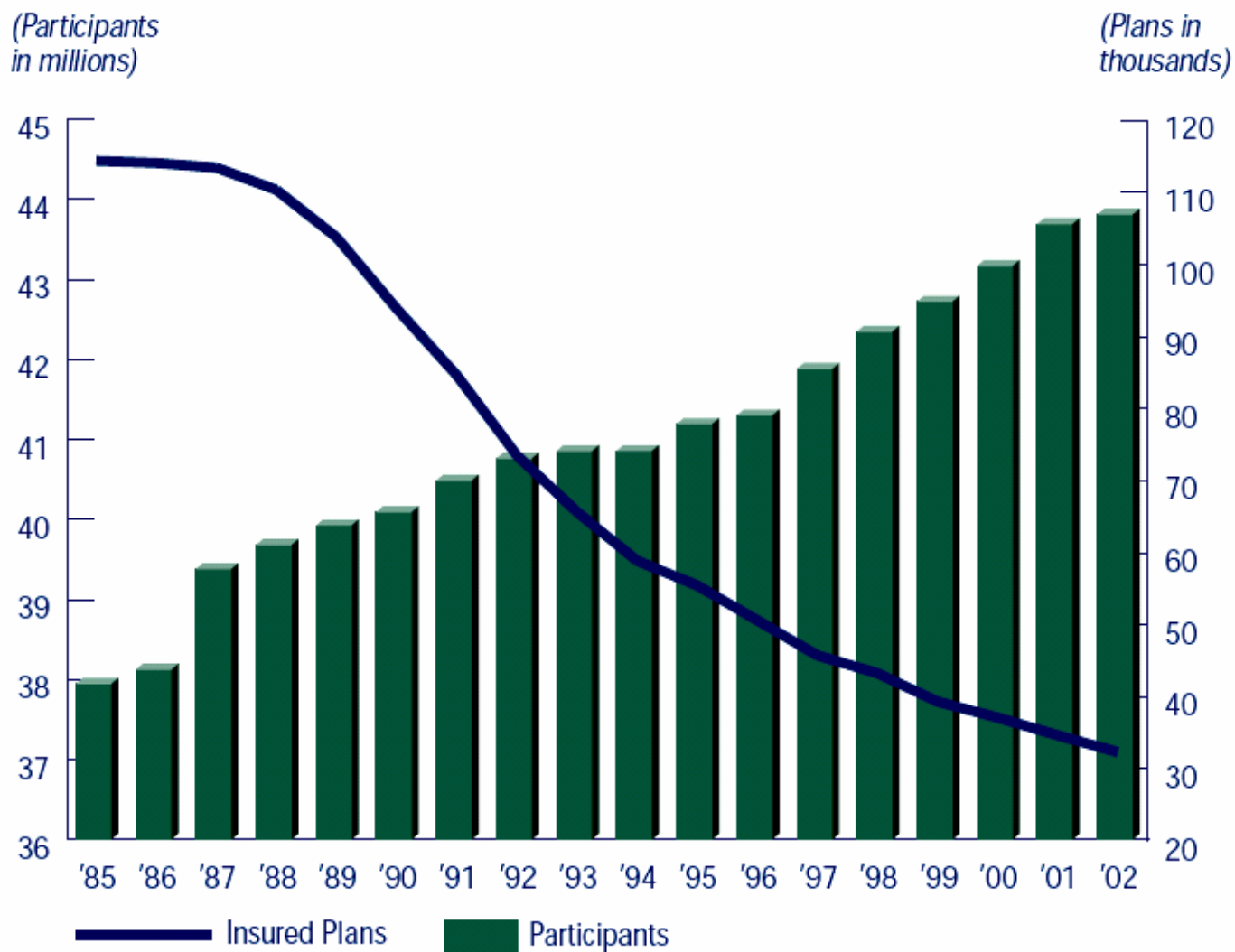


More On Plan Terminations

Standard Terminations, PBGC-Insured Plans, 1995-2004



PBGC-Insured Plans and Participants, 1985-2002



Some Signs of Stability

- **Multiemployer plans**
 - PBGC-covered plans have been relatively stable for decades and cover 10 million workers.
 - The multiemployer program experienced financial difficulties in 2003 but has rebounded somewhat in 2004.
- **State and local government employees**
 - These plans cover 14 million or 10% of the civilian workforce.
 - 90% of full-time employees have dbs.

Things to Consider?

- 35 million workers are in private sector, single employer plans
 - Only about 50% are active.
 - Only 20% of the private sector labor force has a db.
- Investment performance has rebounded somewhat in 2003 and 2004.
 - Low interest rates are still a problem.
- Number of multiemployer plans is also starting to decline from about 2000 (1995-1998) to 1600 (2004).
 - Do these trends reflect the decline of unionization or the decline of dbs?
- Governmental plans are also under pressure.
 - Special/too lucrative benefit increases.
 - Funding issues.
 - Ideological/political push for dc plans.

Some Stabilization Strategies to Consider

- **Focus on strengthening large plans.**
 - Figure out where dbs work best.
 - Improve what we have.
 - Regulatory reform?
- **Rebuild confidence in the system's finances.**
 - Rationalize funding rules.
 - Reform accounting rules.
- **Modernize plan designs.**
 - But protect the reasonable expectations of workers.

The Future of Defined Contribution Plans

Evolution

- Pending pension legislation

OR

Revolution???

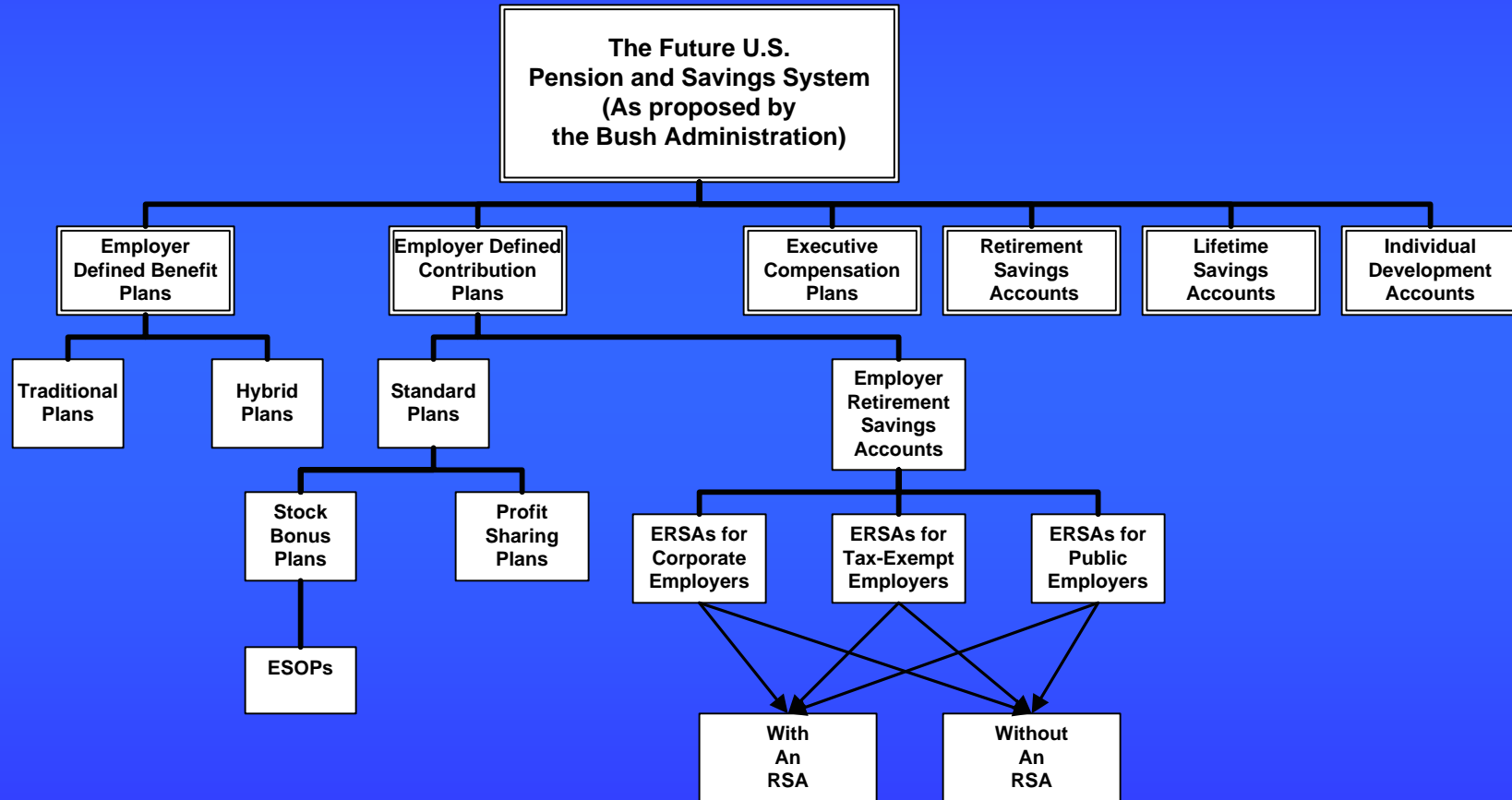
- Administration proposals: ERSAs, RSAs, LSAs, IDAs
- Tax Reform Panel: Save at Work, Save for Retirement, Save for Family

The Pending Pension Bills

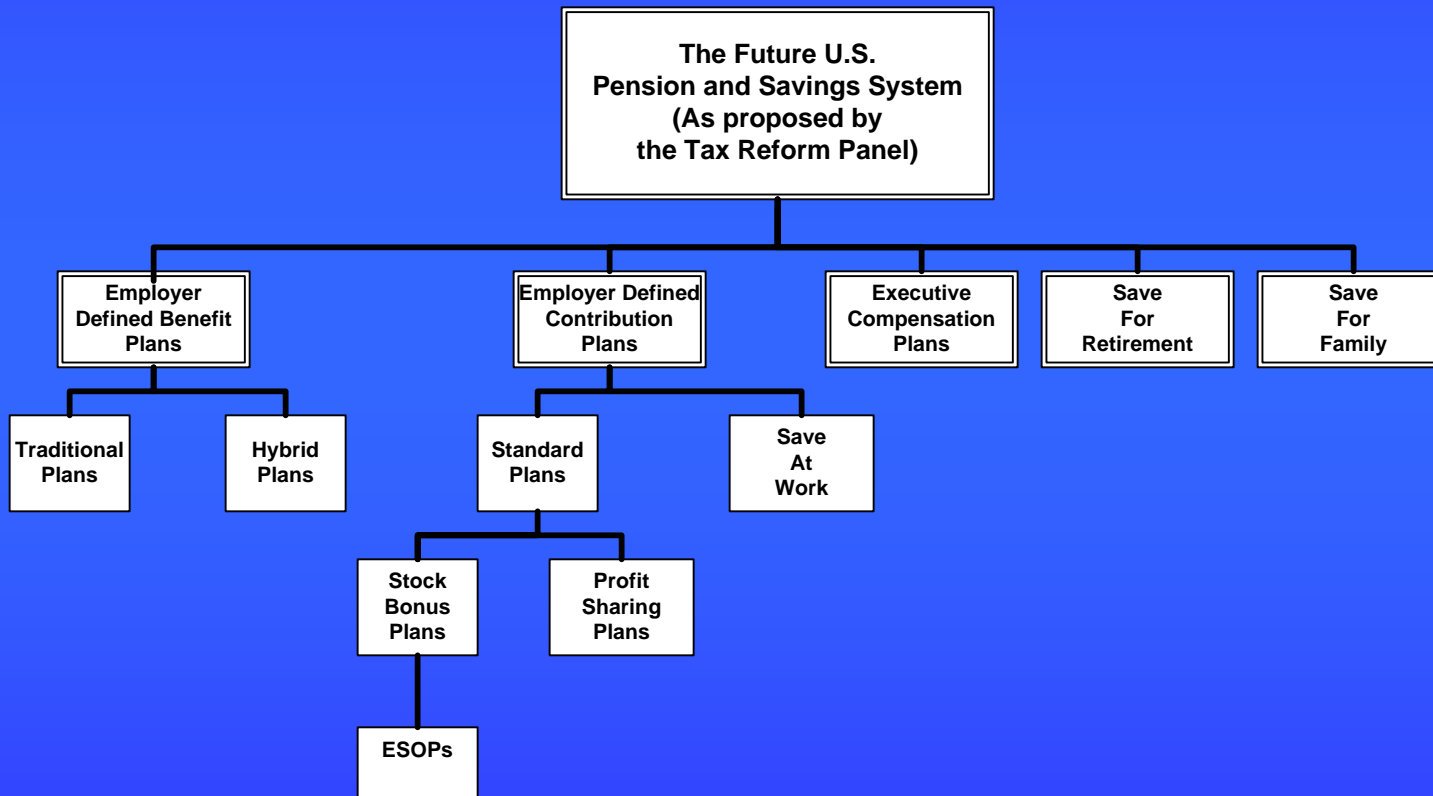
- **H.R. 2830 – Pension Protection Act of 2005 (12/15/05)**
 - EGTRRA changes made permanent
 - Automatic enrollment features
 - PT exemption for investment advice from service providers
 - Saver's Credit made permanent
 - Cash balance plans legitimized, prospectively only
 - Phased retirement distributions permitted at 62

- **S. 1783 – Pension Security and Transparency Act (11/16/05)**
 - Automatic enrollment; default investments
 - Diversification of company stock accelerated
 - Quarterly benefit statements, annual investment notice
 - Safe harbor for qualified independent investment advice
 - Faster vesting for all employer dc contributions
 - No tax on employer-provided retirement planning advice
 - Dbk plans authorised

Administration Proposals for DC Simplification



Tax Reform Panel Proposals for DC Simplification



Comparing Simplification Proposals

	Proposed by	Combines	Contributions	Tax Rules	Special Rules
ERSAs	Administration, work-based plans for retirement	401(k), 403(b), 457(b) plans, SIMPLEs and SEPs	\$15,000	Pre-tax or Roth	Corporate employers have discrimination (simplified) rules, none for governments, some rules for non-profits – top-heavy, integration, cross-testing rules remain
SAWs	Panel, work-based plans for retirement	401(k), 403(b), 457(b) plans, SIMPLEs and SEPs, Thrift Savings Plan	\$15,000	Pre-tax	Simplified discrimination rules, apply to all employers? Auto enrollment features
RSAs	Administration, individual plans for retirement	IRAs, Roth IRAs	\$5,000	Roth	Earnings required, no income/age limits
SFRs	Panel, individual plans for retirement	IRAs, Roth IRAs, non-qualified plans, inside buildup in insurance	\$10,000	Roth	Distributions only at 58 or on death or disability
LSAs	Administration, general purpose saving	Coverdell IRAs, 529 plans	\$5,000	Roth	Earnings not required, no income/age limits
SFFs	Panel, general purpose saving	HSAs, FSAs, Coverdell IRAs, 529 Plans, Savings Bonds	\$10,000	Roth	\$1,000 annual withdrawal feature
IDAs	Administration	New, for low-income savers	\$100 match up to \$500	?	For higher education, 1 st home purchase, small business expenses

Predictions for 2006

- New db funding rules will be adopted
- Auto enrollment features for dcs will probably be authorized too
- Savings plan simplification has some momentum
 - But there is strong resistance from the employee benefits community
 - It's not clear which proposal is preferable
 - Details of both proposals are skimpy
 - What happens to other defined contribution plans?
- **But it's a election year. This could mean Congress might**
 - Do something
 - OR
 - Do nothing.