

The Decline and Fall of the Defined Benefit Plan?

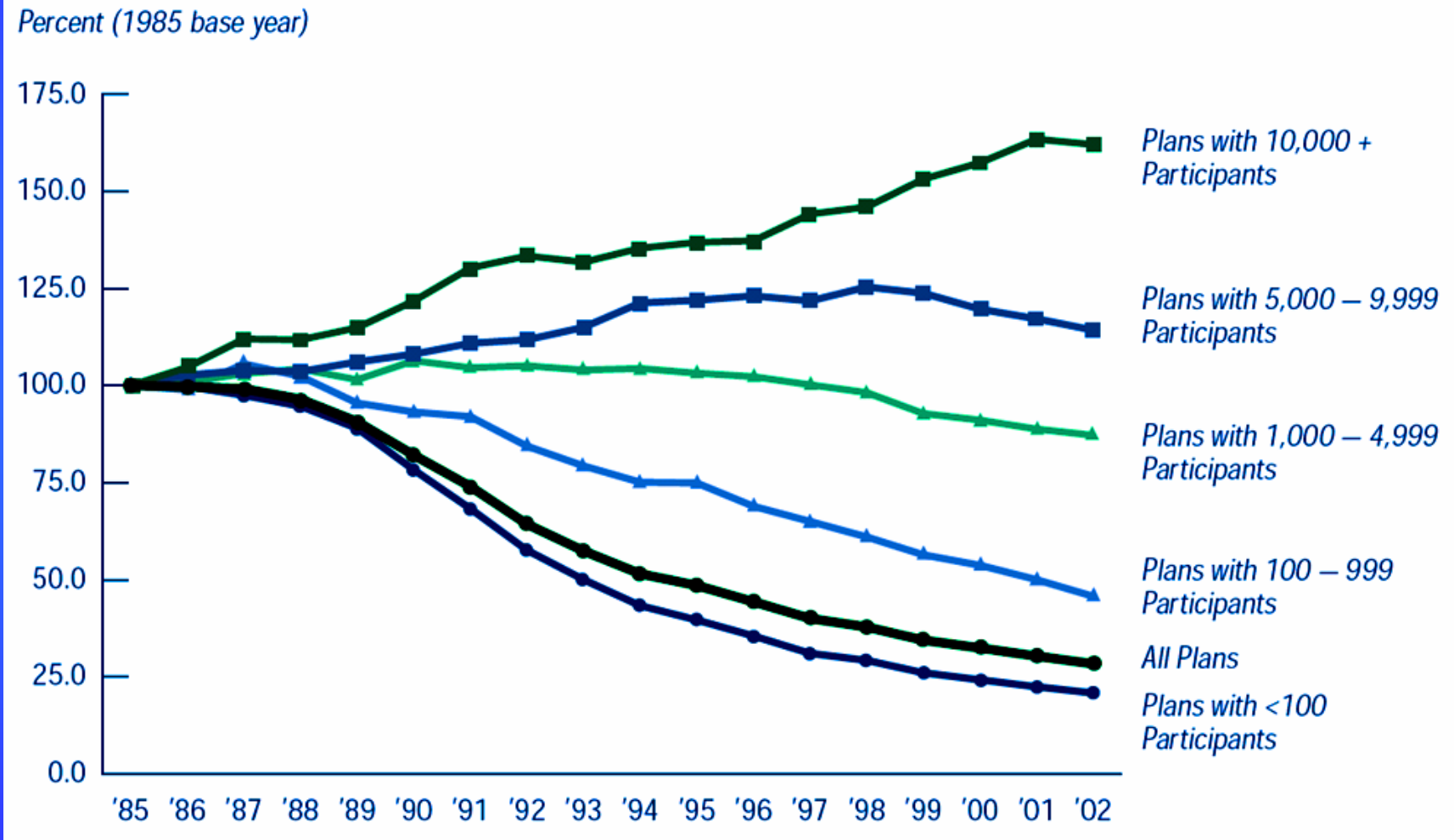
*Capital Matters: Managing Labor's Capital
Harvard University*

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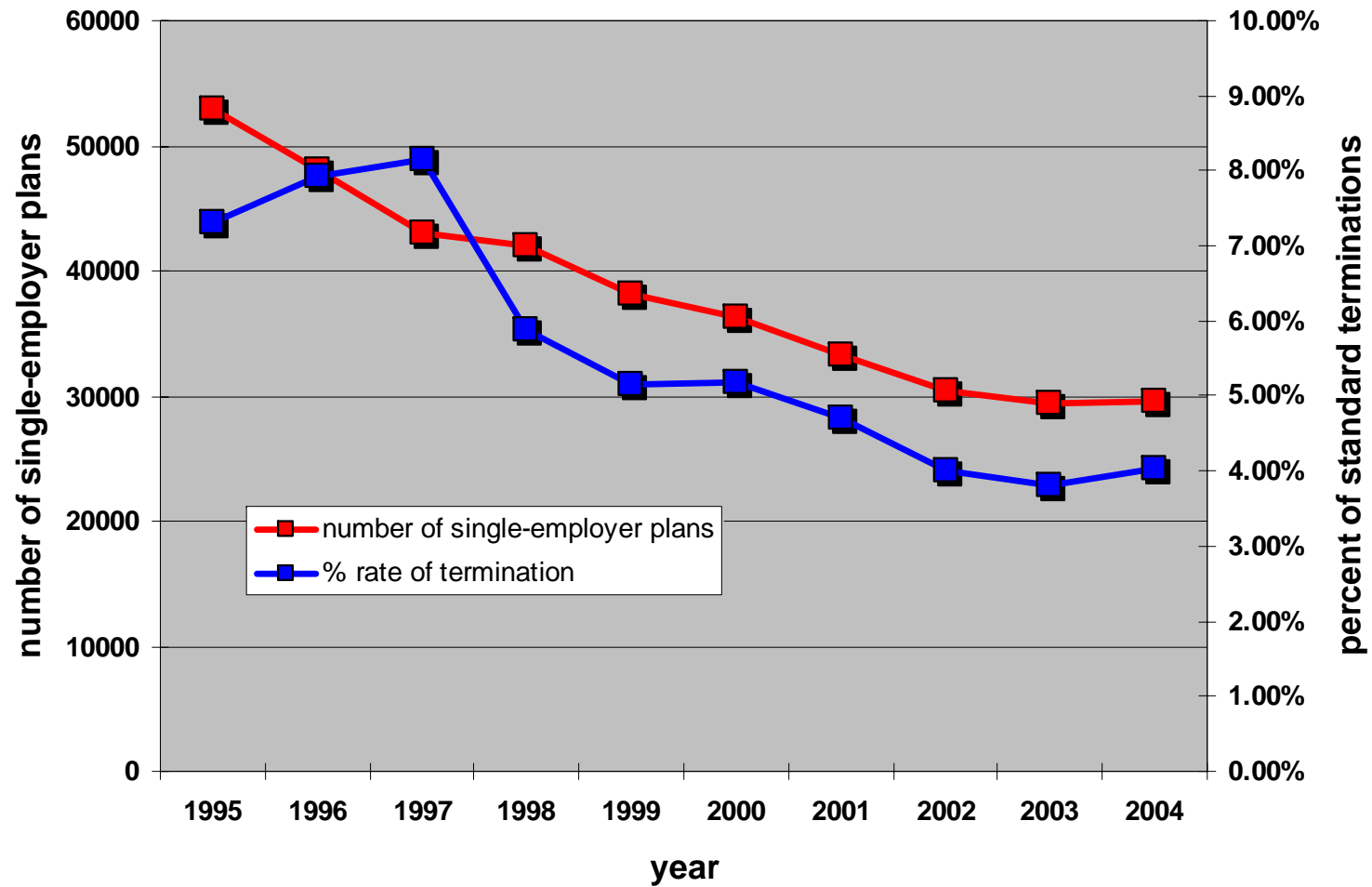
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Number of PBGC-Insured Plans, By Size, 1985-2002

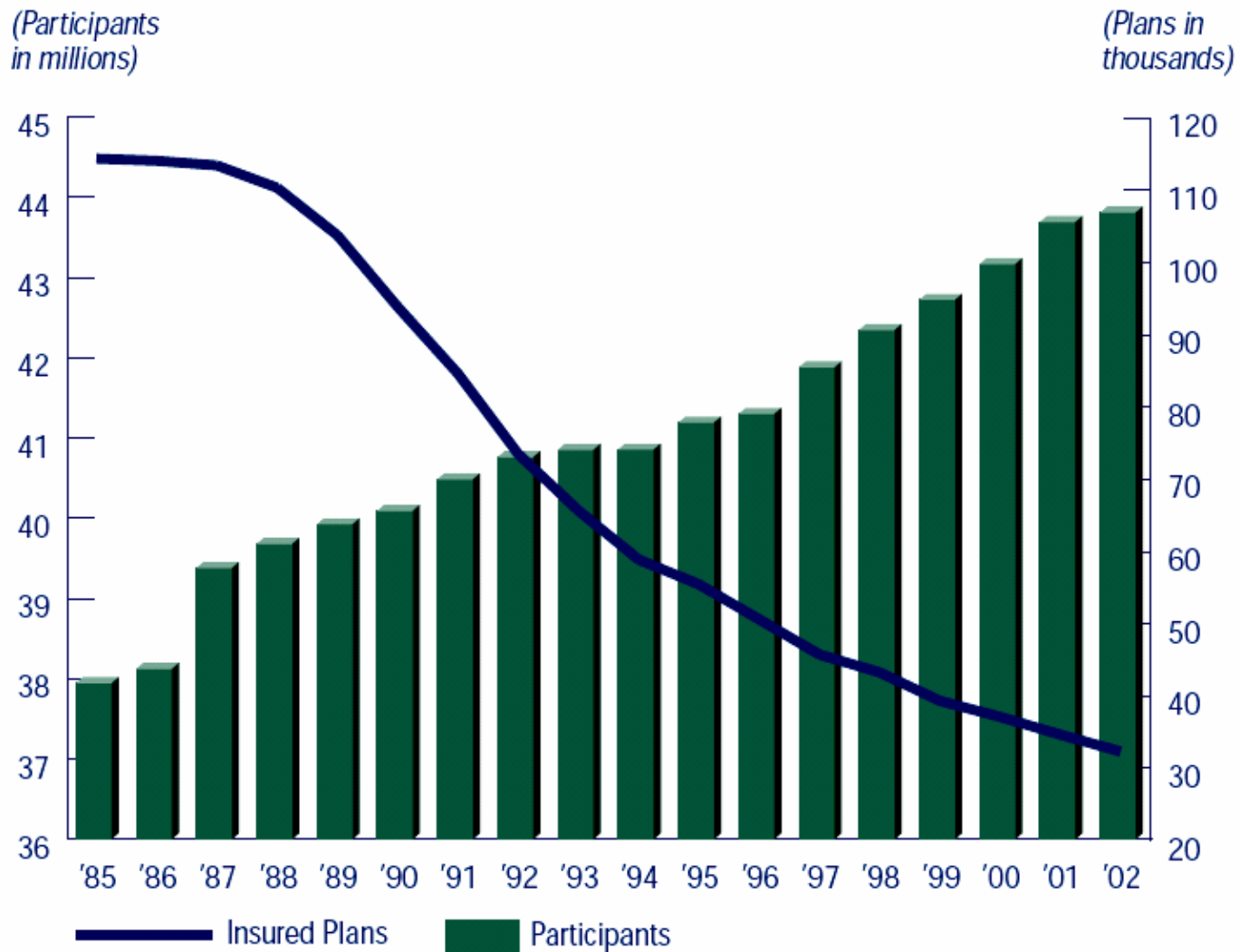


More On Plan Terminations

Standard Terminations, PBGC-Insured Plans, 1995-2004



PBGC-Insured Plans and Participants, 1985-2002



Other 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.

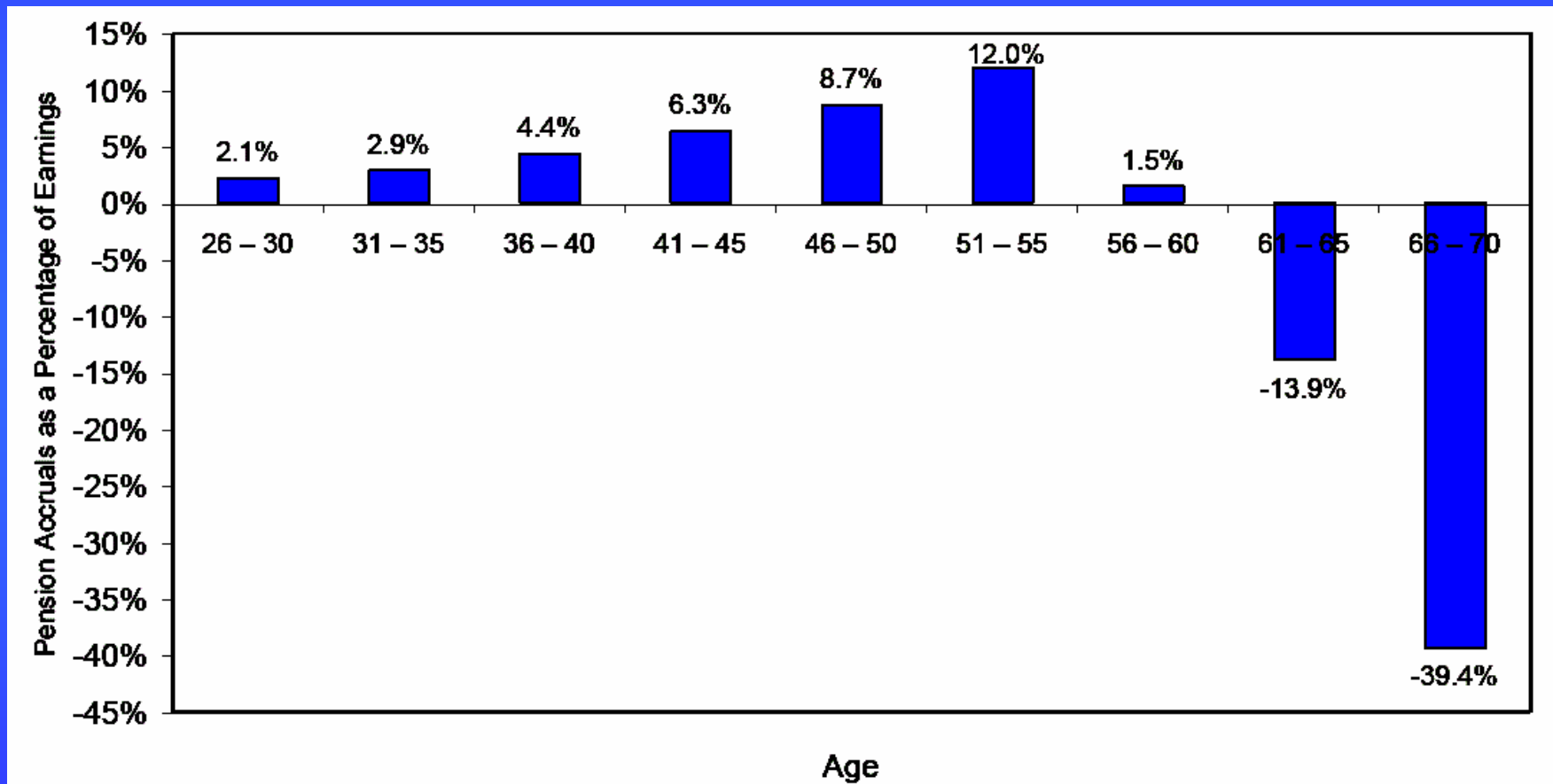
Reversible Decline or Death Spiral?

- 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.

Other Trends

- **Turbulence in mature industries affecting some very large plans.**
 - Workers losing vested benefits.
 - DBs begin to look more risky than dcs.
- **Change in expectations about pension benefits.**
 - New or no social contract between employees and employers?
 - Short-term commitments only.
 - Preference for dcs.
- **Increased longevity; Baby Boom retirement; stress on Social Security**
 - Workers need to work longer.
 - DB designs are counter-productive.

Average Accruals in Defined Benefit Plans (beginning at age 25)



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.

Design Suggestions

- **Enhancing the appeal of dbs.**
 - **More visible benefits.**
 - **Portable benefits for terminated/vested workers.**
 - **A minimum portable benefit for short-term and younger workers.**
 - **Permit employees to purchase a larger benefit or additional years of service.**

- **Designing plans appropriate for an aging society.**
 - **Coordinate normal retirement age with Social Security retirement age.**
 - **Reduce early retirement subsidies going forward.**
 - **Reduce late retirement penalties.**
 - **Provide incentives for part-time work and phased retirement for older workers.**