ERISA AT 30:
THE DECLINE OF PRIVATE-SECTOR DEFINED BENEFIT PROMISES AND ANNUITY PAYMENTS

WHAT WILL IT MEAN?

EBRI-ERF Policy Forum
May 6, 2004

Current Pressures

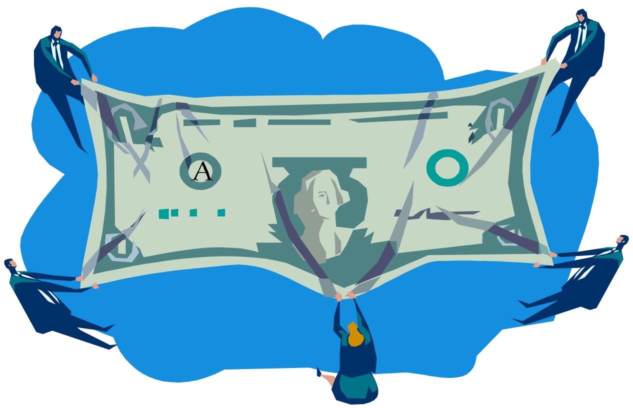
- Declining stock market and economic environment has had a major impact on all areas of retirement benefits
- Three out of every four US company Defined Benefit pension plans are under-funded
- Cost of medical care and prescription drugs have soared
- Employees saw large drop in Defined Contribution accounts
- Employees delaying retirement

Regulatory Uncertainty

- **Fiduciary Requirements**
  - **Enron**
  - **Mutual fund industry**
- **Defined Benefit Plan Funding Rules**
  - **Replacement VanDerheiar Treasury**
- **Defined Benefit Accounting Rules**
  - **Mark to market volatility**

Employers

- Feeling cost pressure
  - Operations
  - Benefits
- Reduce pension expense and cash requirements
- Reduce pay increases
- Staff reductions



EBRI
Employee Benefit Research Institute

Employer Reaction:
Issues & Considerations

- **Rising costs**
  - **Retirement plans**
  - **Medical (including retiree medical)**
  - **Stock option expensing**
- **Volatility (Surprises)**
- **Regulatory uncertainty**
- **Employee reaction**
- **Administrative costs of change**

Employer Reaction

- **Employers less likely to maintain DB plans**
  - **Re-evaluating/halting move to hybrid plan designs**
- **Provide more retirement planning education for employees**
- **Greater emphasis on documentation and adherence to fiduciary responsibilities**
- **Increasing administrative burdens combined with thin HR staff will increase need for outsourced services**

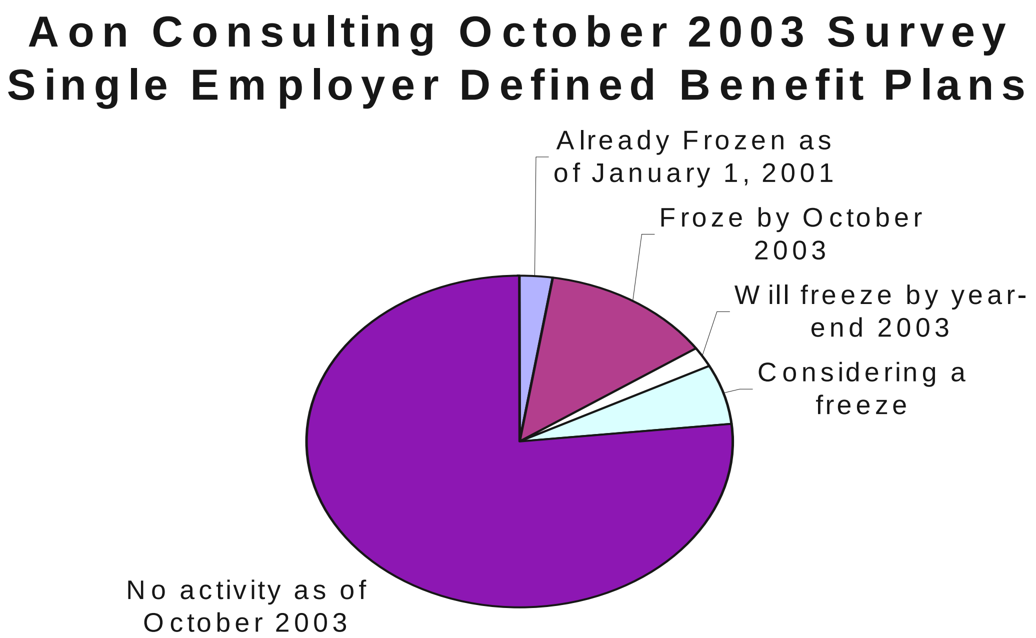
The ERISA Years

	1974	1978	2003
Private Non-Farm Workforce	62 million	71 million	109 million
Active Participants in a Private DB Plan (single-sgl+multi)	43.7%	40.8%	17-22%
65+ With Private DB Pension Annuity	15.9%	Highest Year Was 24.8%	22.8%
DB CB %	0%	0%	22-25%
DB LSD % Take When Offered	?	?	66-98%

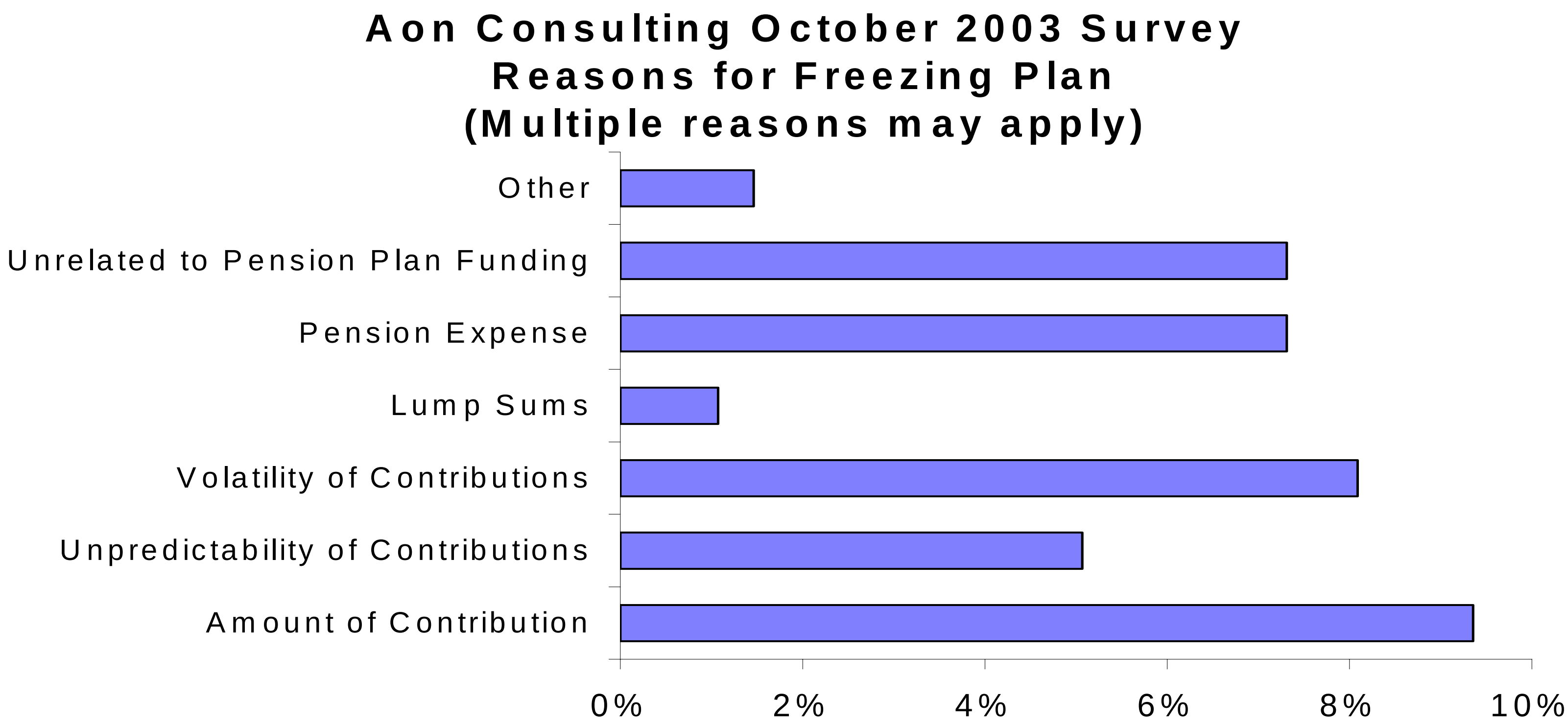
Reasons for DB Decline

- New Economy Firms Did Not Do DB
- Small Firms Favor DC
- Decline of Manufacturing Employment
- Bankruptcy/Insolvency DB Terminations
- Workforce Preferences When The Baby Boom Was Young and Exploding Into The Workforce
- Changes in Domestic and Global Competition
- Changes in Relative Program Costs

Freezing Pension Plans



Freezing Pension Plans



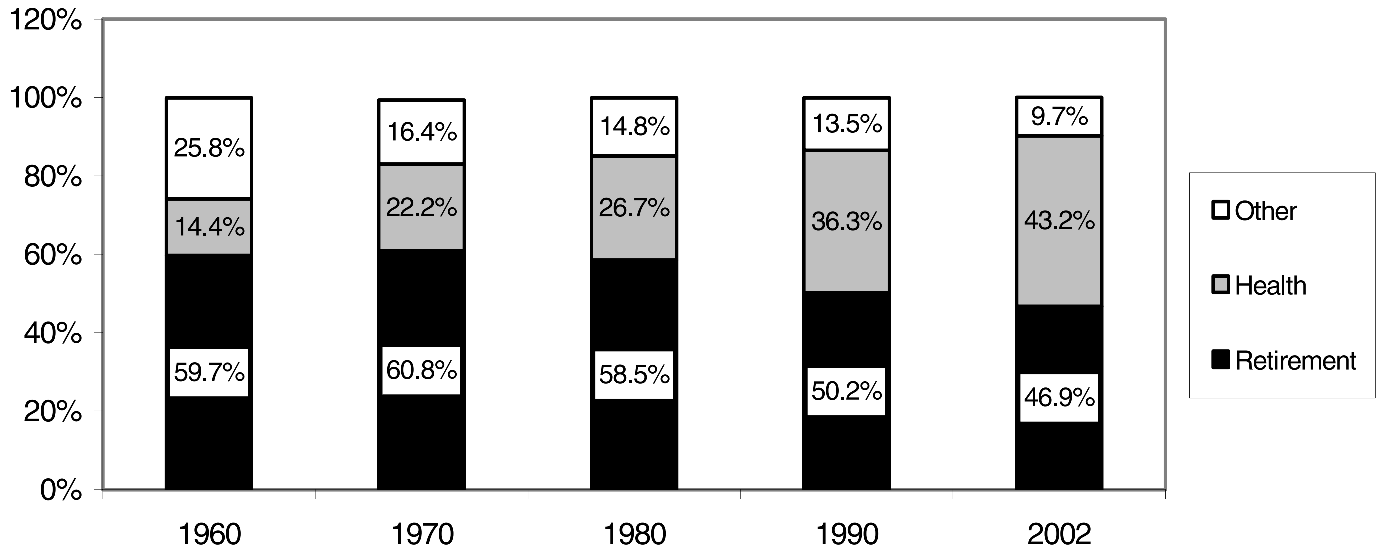
Reasons for Annuity Decline

- Early Departing Executive and Worker Preferences
- Competition with DC Plans
- IRS Rulings On Equal Treatment
- Interest Rate and Rate of Return Environment
- Desire To Shift Longevity Risk
- Relative Marketing Emphasis of Financial Services Organizations and Planners

Where Benefit Dollars Go

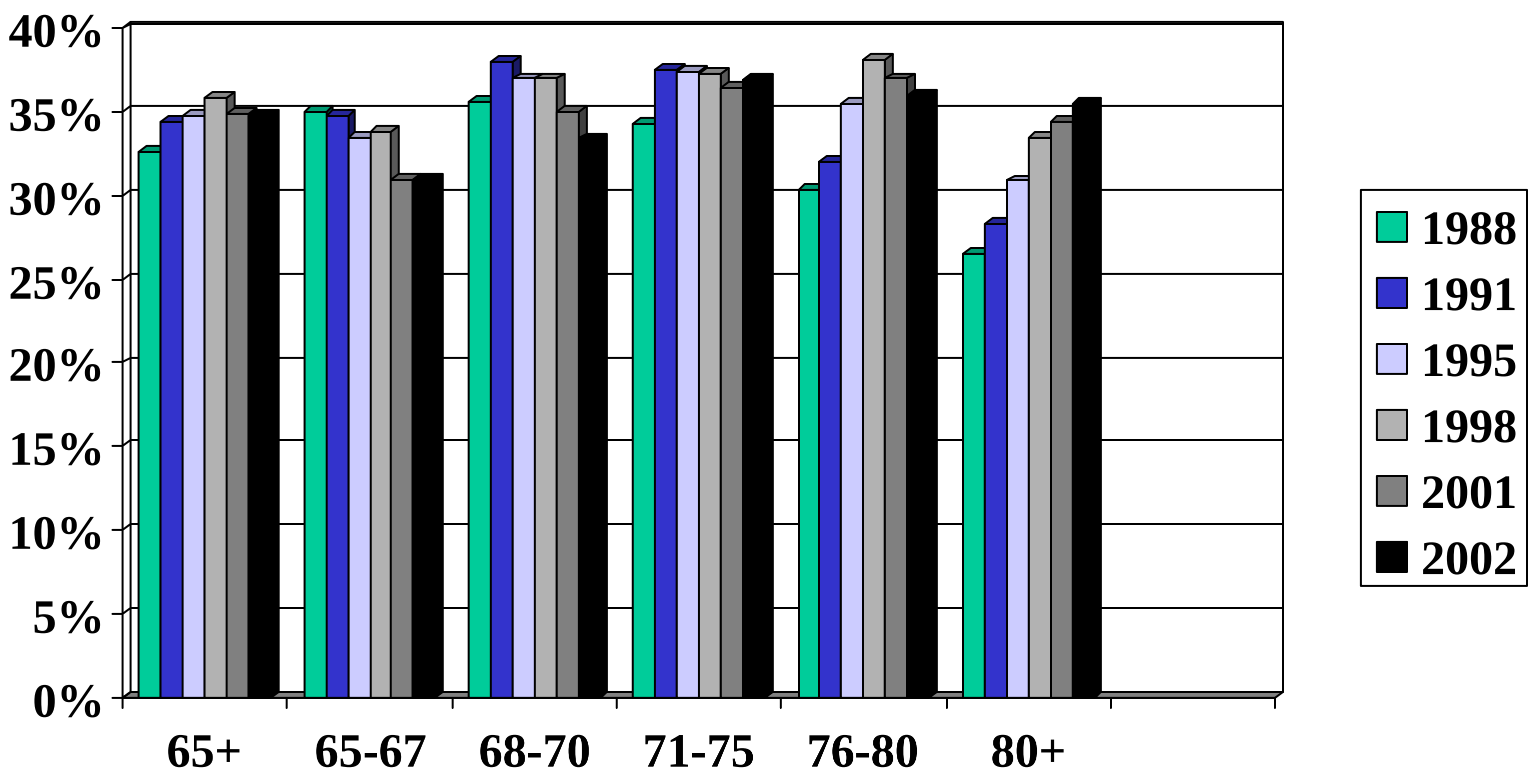
Figure 2

Employer Spending on Benefits as a Percentage of Total Benefit Spending, Selected Years, 1960–2002



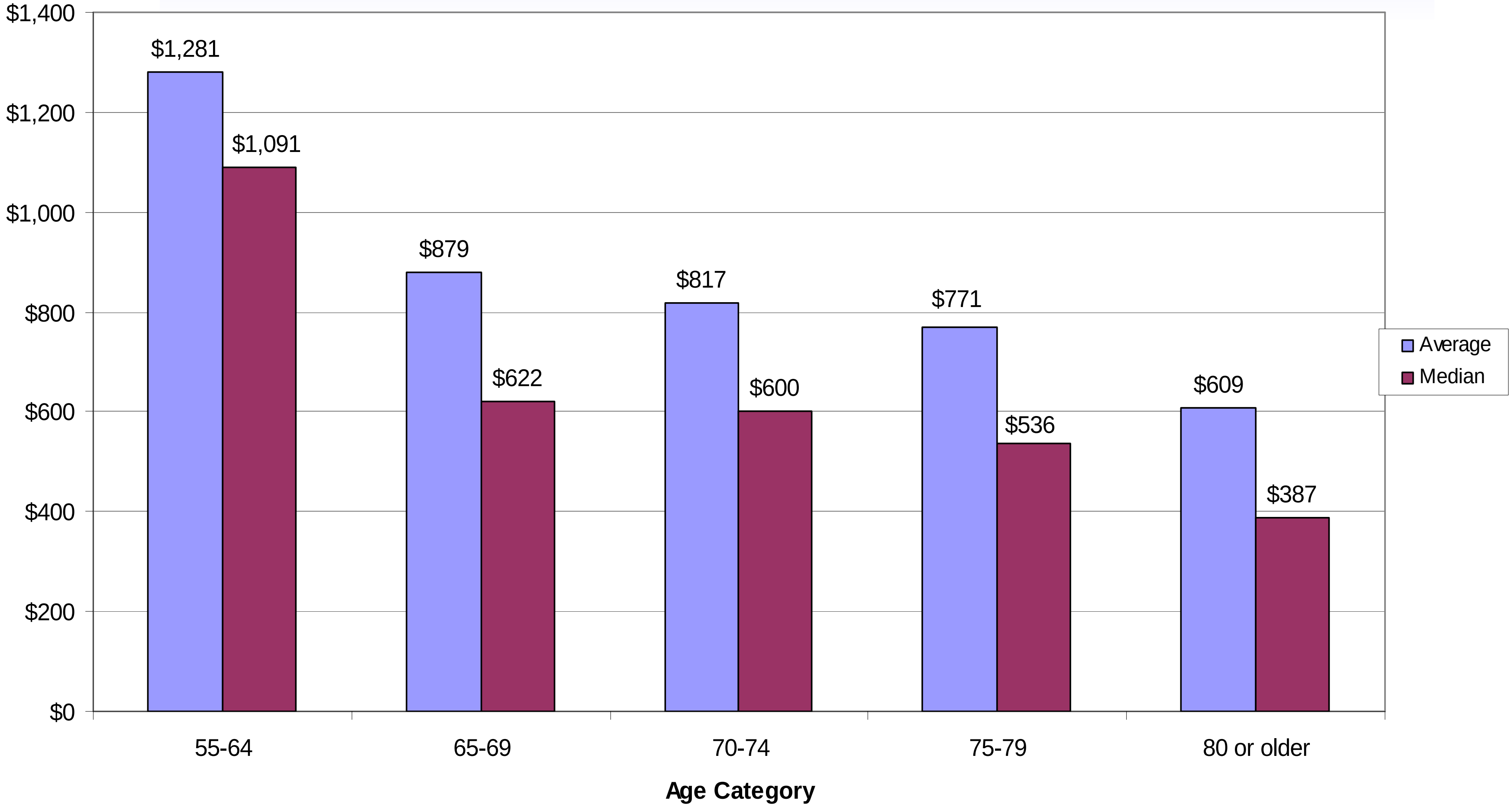
Source: Employee Benefit Research Institute tabulations of data from the U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts of the United States.

Percent With Public and Private Pension and Annuity Income 1988-2002



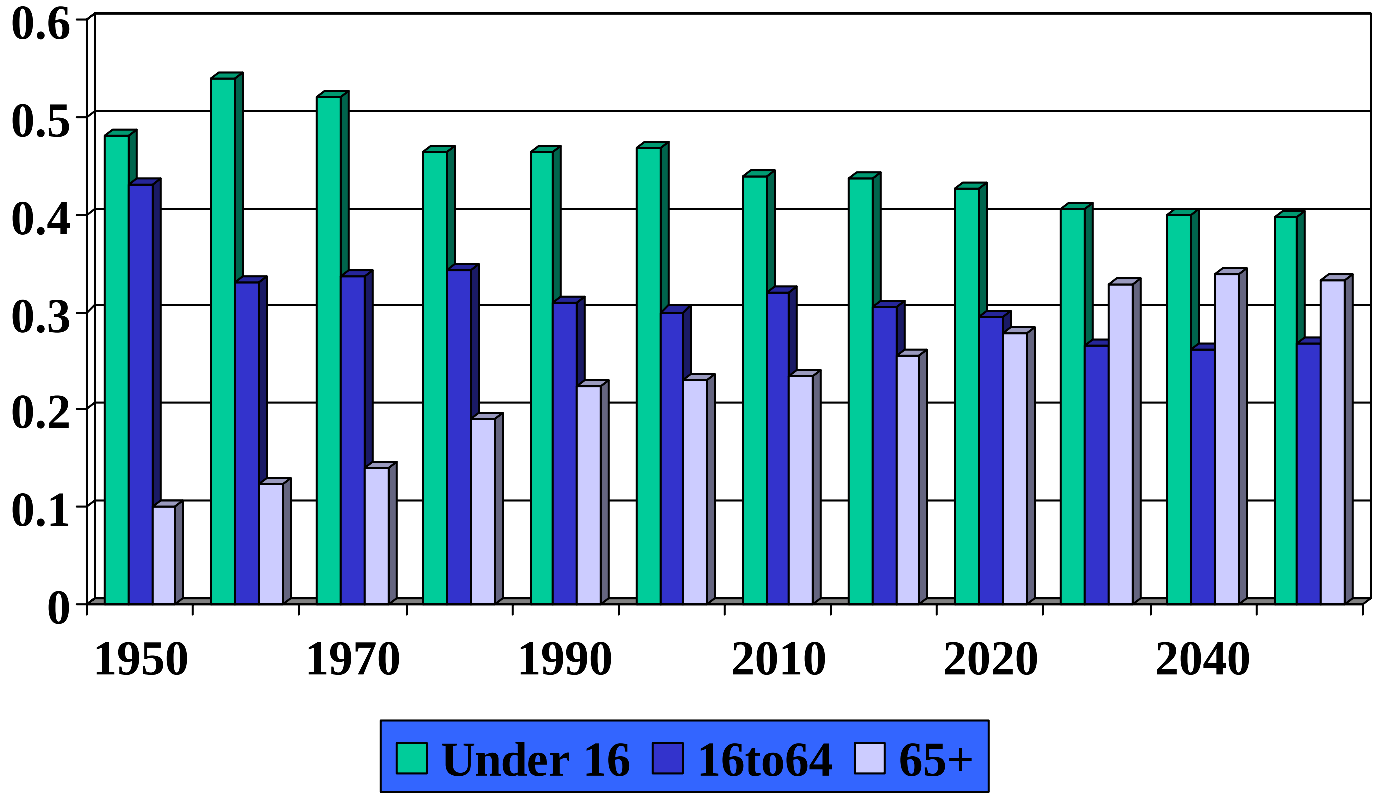
Source: EBRI CPS tabulations, EBRI Notes v24n12, 12/03

Average and Median Monthly Private Pension Income Amounts, By Age



Source: Employee Benefit Research Institute estimates of the 2001 SIPP (2003).

Proportion of Non-Workers By Age



Policy Forum Issues

- What is likely to happen in the future to DB plans?
- What will alternative outcomes mean?
- What if all DB plans are frozen ?
- What if only annuities were paid from all plans?
- What are the possible implications for future retirement security?
- How will different constituencies react/respond to alternative regulatory actions and design futures?

Let’s move to the analysis.

Jack VanDerhei and Craig Copeland