

Mercer/EBRI survey: Retirement Program Changes After PPA and New Accounting Rules

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Background

- December 2003 EBRI Policy Forum
 - Initial release of EBRI/ERF Retirement Security Projection model
 - Predicts probability of retirement income adequacy by age, gender, income, family status
- May 2004 EBRI Policy Forum
 - Uses EBRI/ERF Retirement Income Projection model to estimate impact of, inter alia:
 - Freezing of DB accruals
 - Conversion to cash balance plans
 - Employer provision/employee choice of lump sum distributions in DB plans
- May 2005 EBRI Policy Forum
 - Uses EBRI/ICI 401(k) Accumulation Projection model to simulate impact of automatic enrollment on future DC retirement income
- March 2006 EBRI Issue Brief
 - EBRI simulations on the percentage of compensation an employer would need to contribute to financially indemnify employees for the reduction in EXPECTED retirement income resulting from a freeze for CURRENT employees

Limitations of previous work

- No estimates on frequency
 - Needed to assume all employers sponsoring certain types of plans would react in a particular fashion (freeze, adopt automatic enrollment, etc) to establish the maximum possible impact
- No estimates on severity
 - Example: if plan sponsor freezes plan for current employees and increases employer match to 401(k) plan in response, how large is the increase?
- Particular problems with respect to job turnover
 - Need separate estimation models for freezing for NEW employees vs. freezing for CURRENT employees

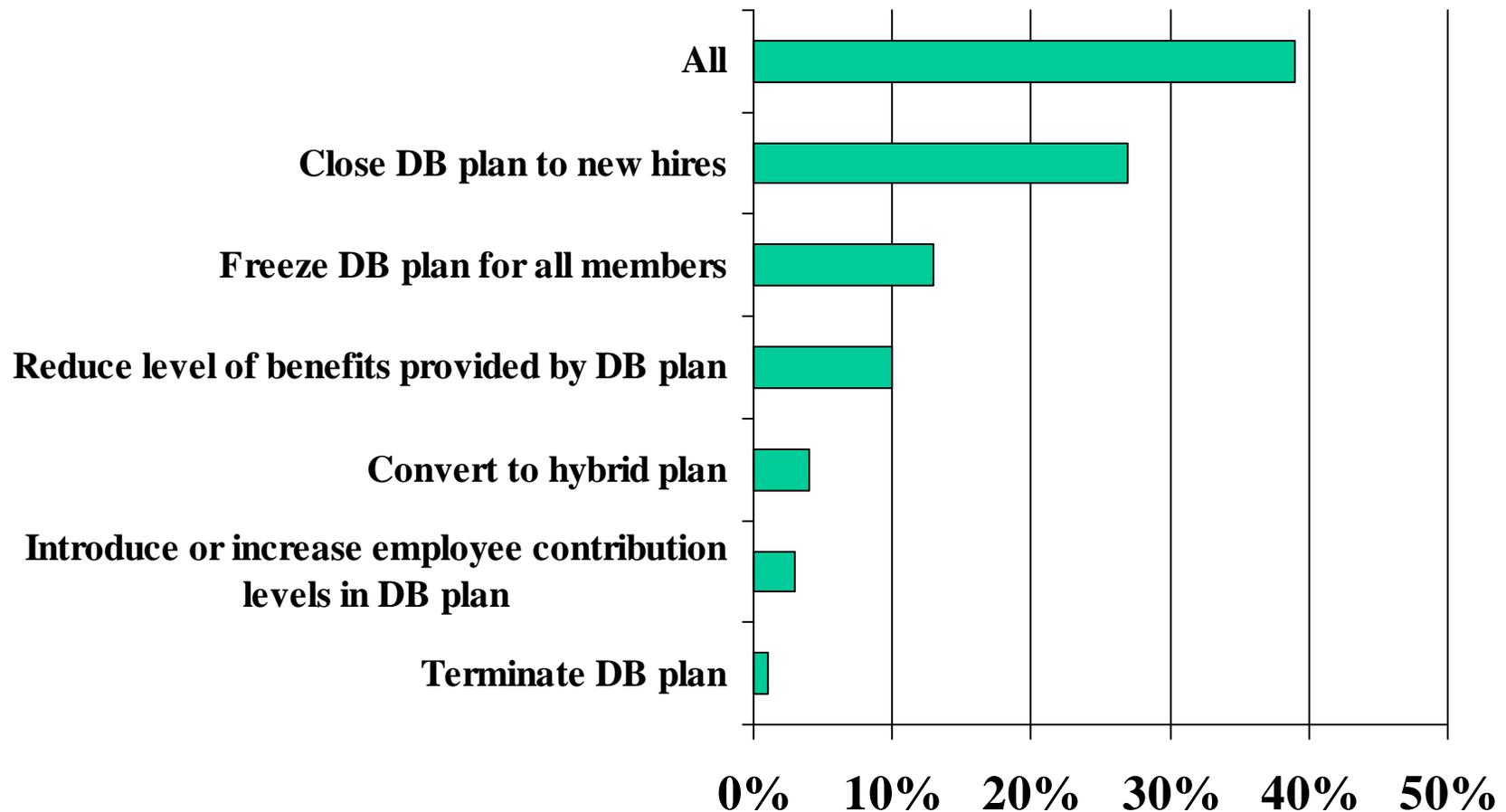
Scope of current project

- Phase one: Mercer/EBRI survey
 - Provides analysis of changes made to retirement plans since the passage of PPA and the introduction of FAS 158 as well as the drivers behind the decision making process
 - Full results to be published this summer
- Phase two: update of EBRI simulation models
 - Detailed actuarial information collected as part of the survey process will be used to re-parameterize the models mentioned previously to allow detailed analysis of the impact of PPA/FASB on retirement income adequacy in the private sector
 - Expected publication date: late 2007

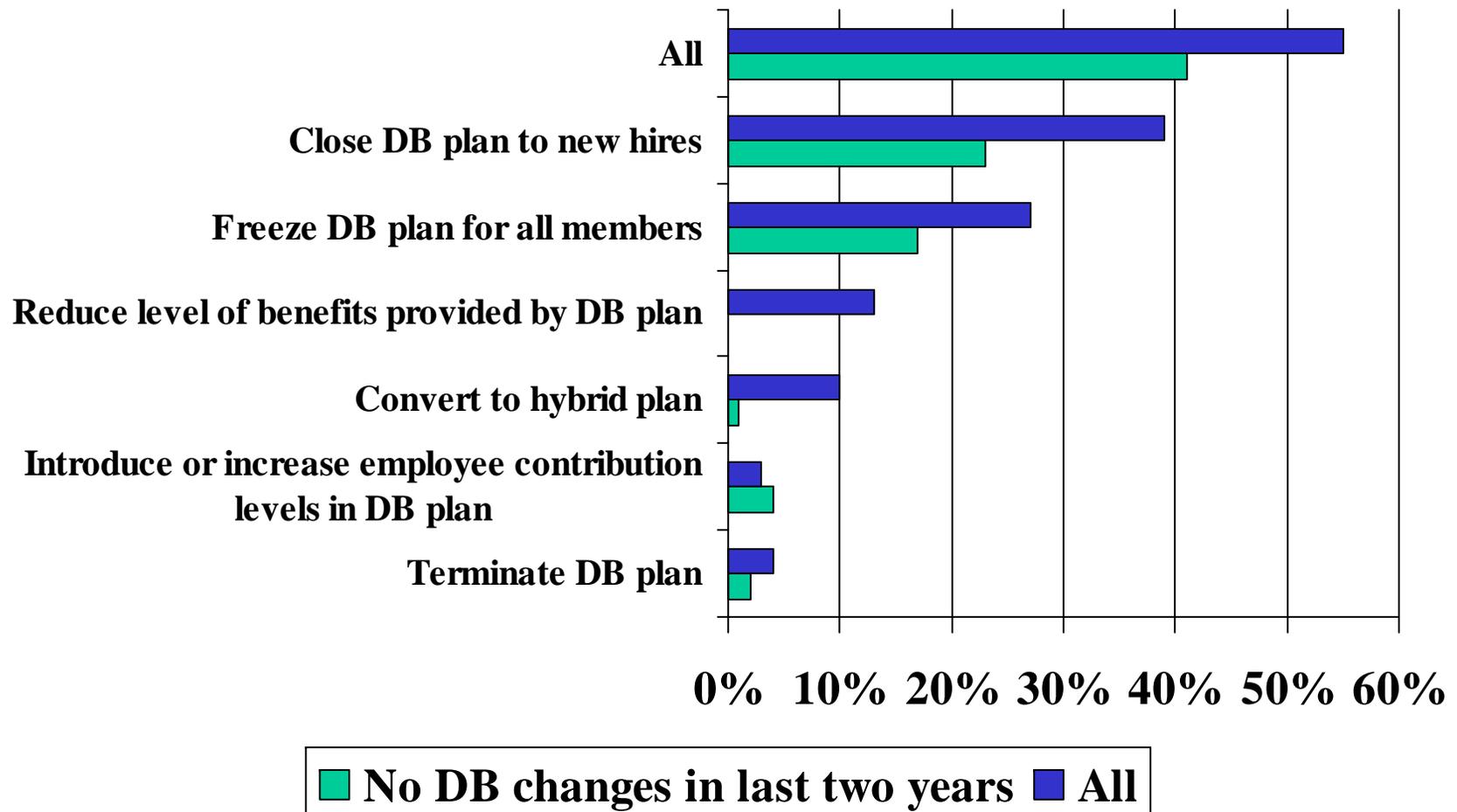
Mercer/EBRI survey

- Fielded in April 2007
 - Provides sponsors with additional time to have done a cost/benefit analysis of their plan design options
 - 162 responses thus far
- Collects information on generosity parameters
 - Both DB and DC
 - Both pre and post plan change (if any)

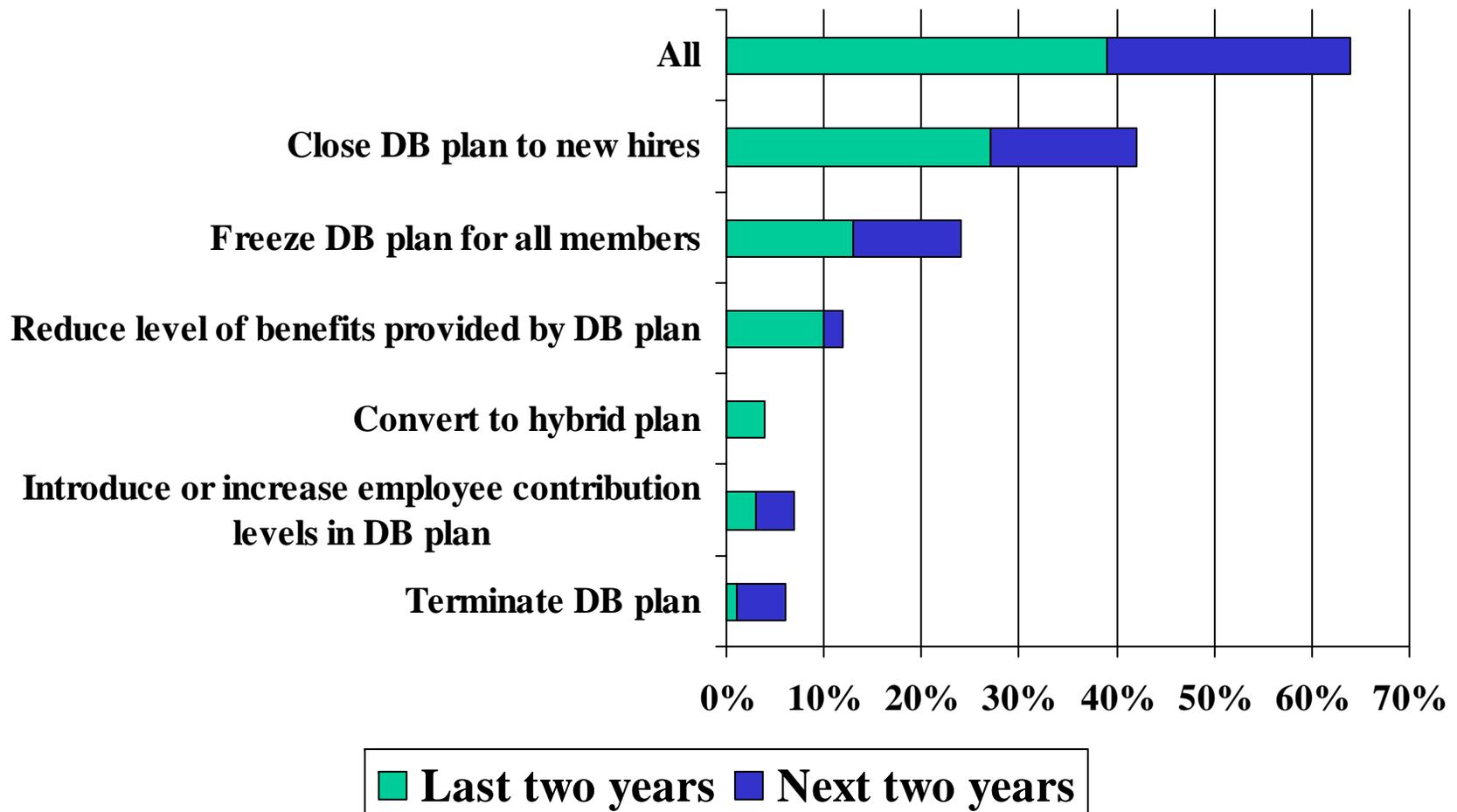
Percentage of sponsors having made a DB plan change in the last two years by type of change



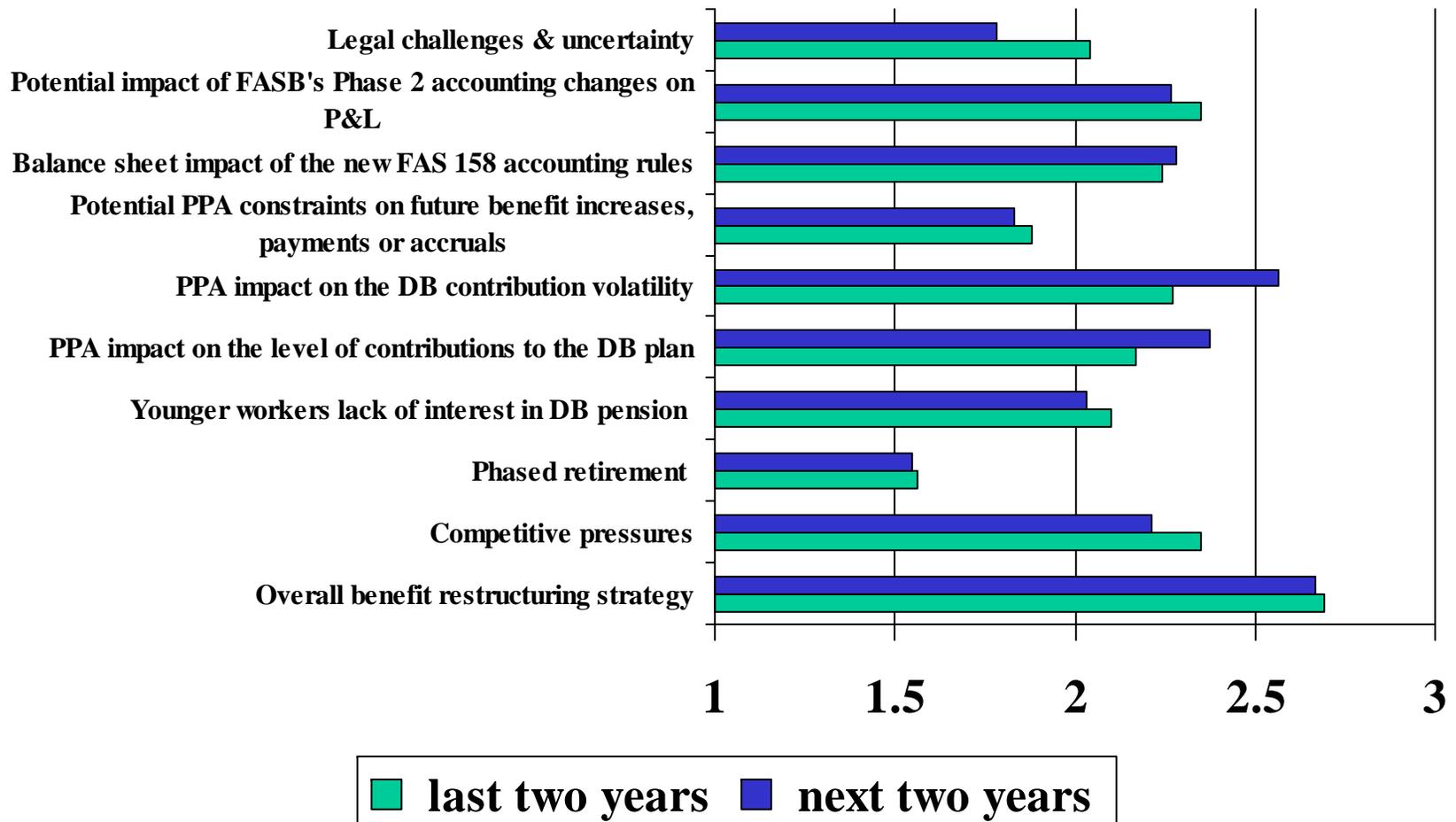
Percentage of sponsors planning to make a DB plan change in the next two years by type of change and whether they have already made one in the last two years



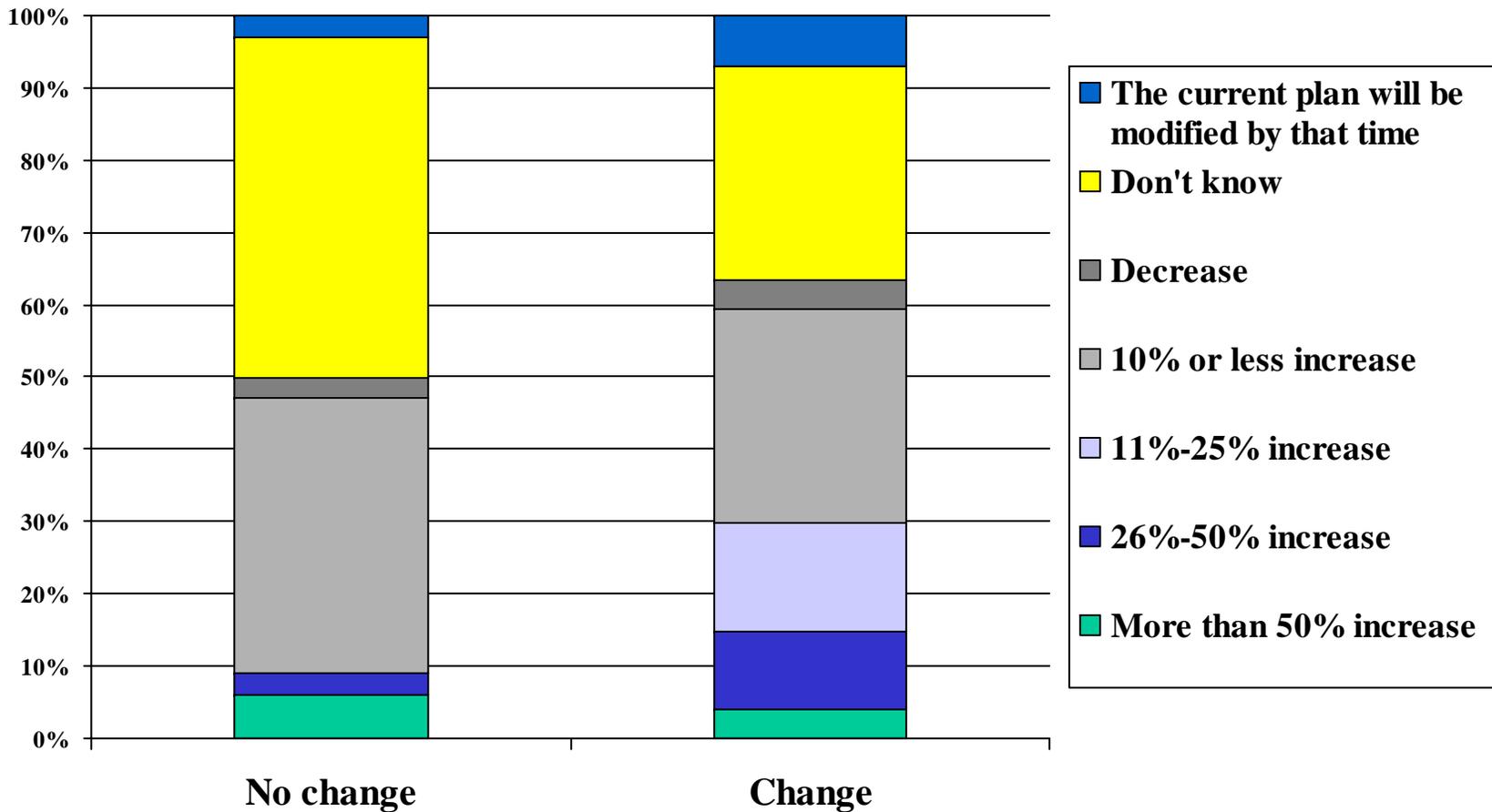
Percentage of DB sponsors having made a DB plan change in the last two years or planning to make one in the next two years by type of change



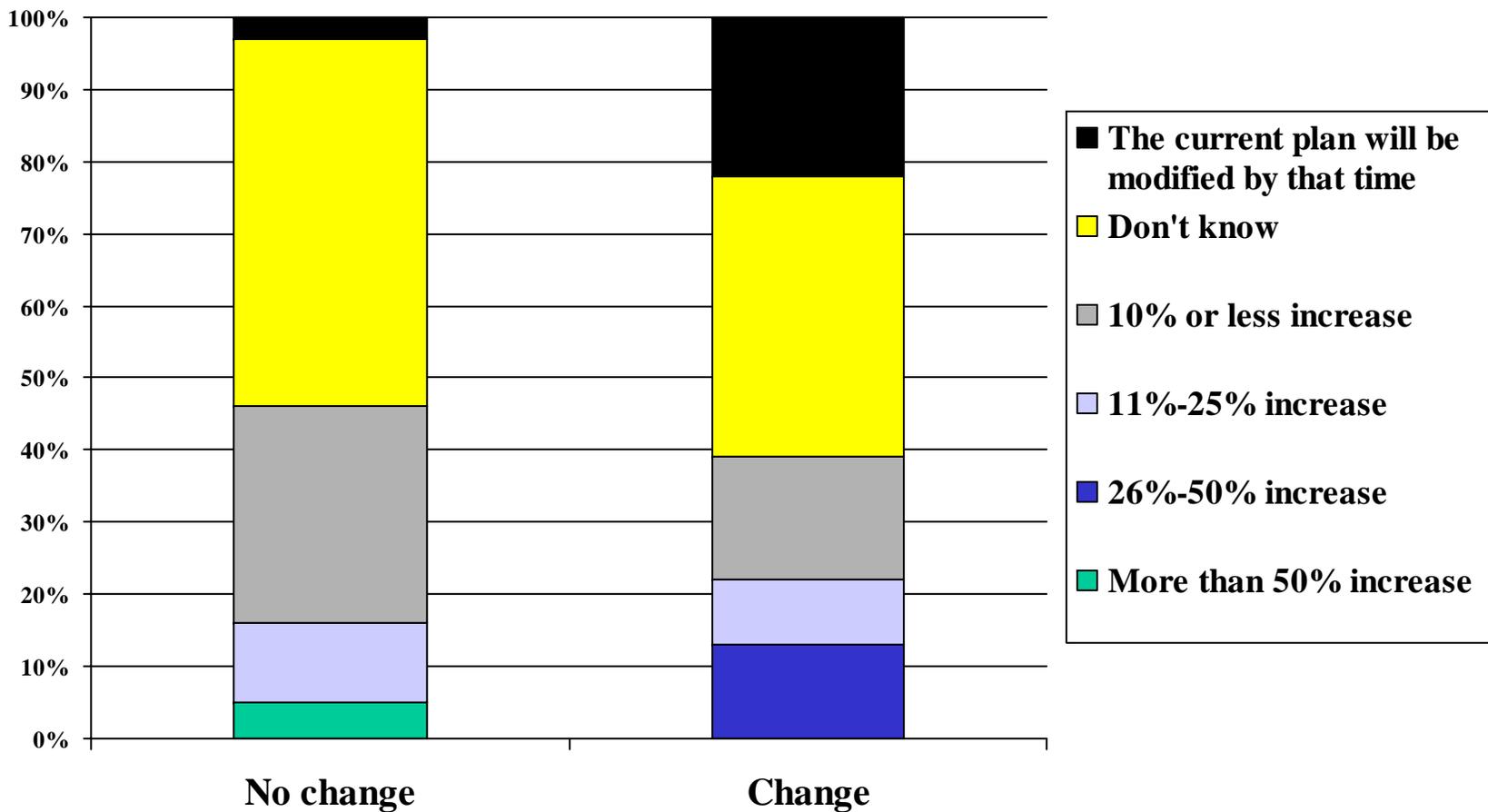
Importance of change drivers for DB sponsors by whether they have already changed vs. plan to change (1=not important, 3= very important)



IMMEDIATE impact of PPA on minimum funding contributions by whether DB sponsor plans to change plans in the next two years

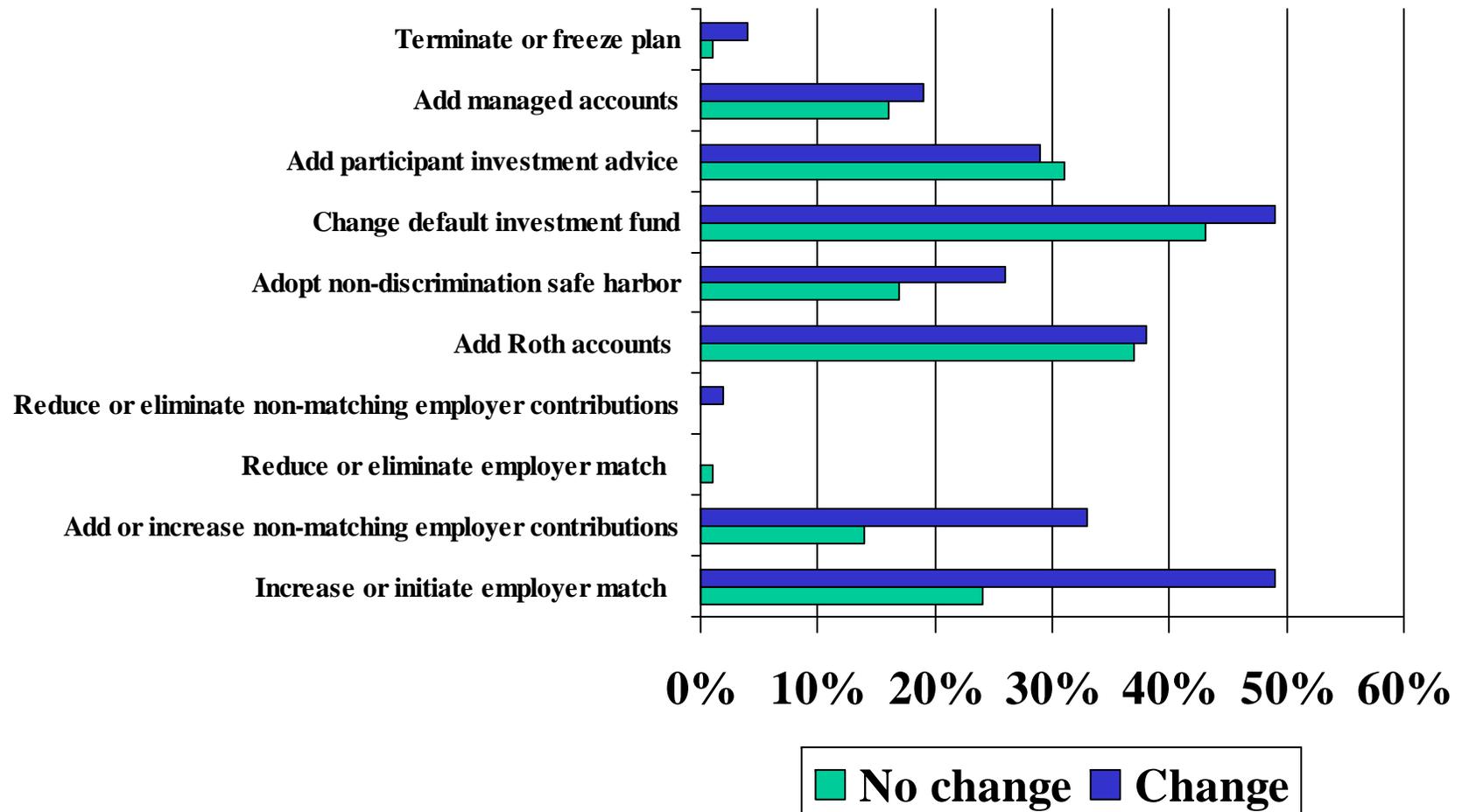


Impact OVER 5 TO 10 YEARS of PPA on minimum funding contributions by whether DB sponsor plans to change plans in the next two years



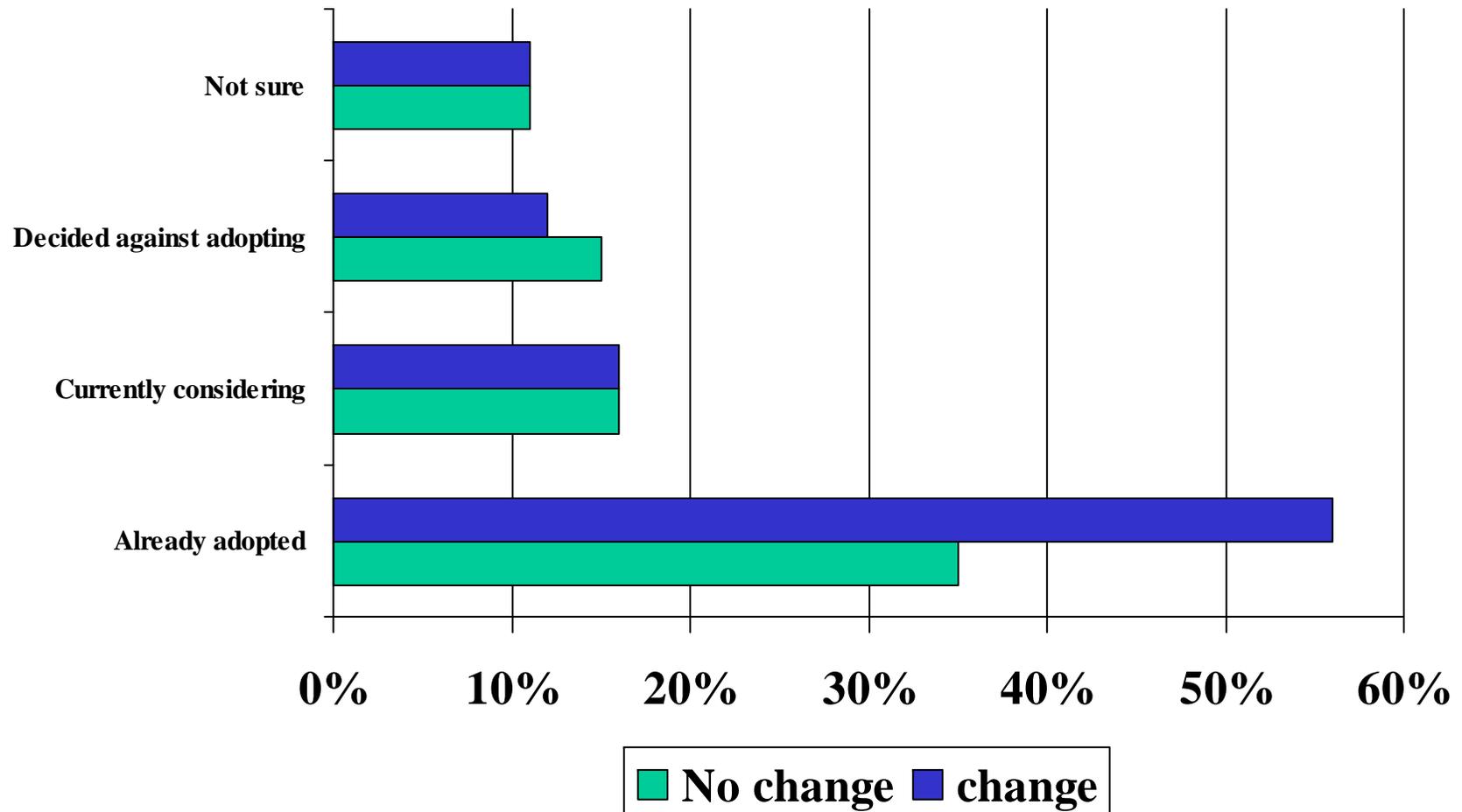
Source: Tabulations from Mercer/EBRI Survey of Retirement Program Changes After PPA and New Accounting Rules, April 2007

Percentage of DB sponsors making specific DC plan changes as a function of whether they have modified the DB plan in the last two years



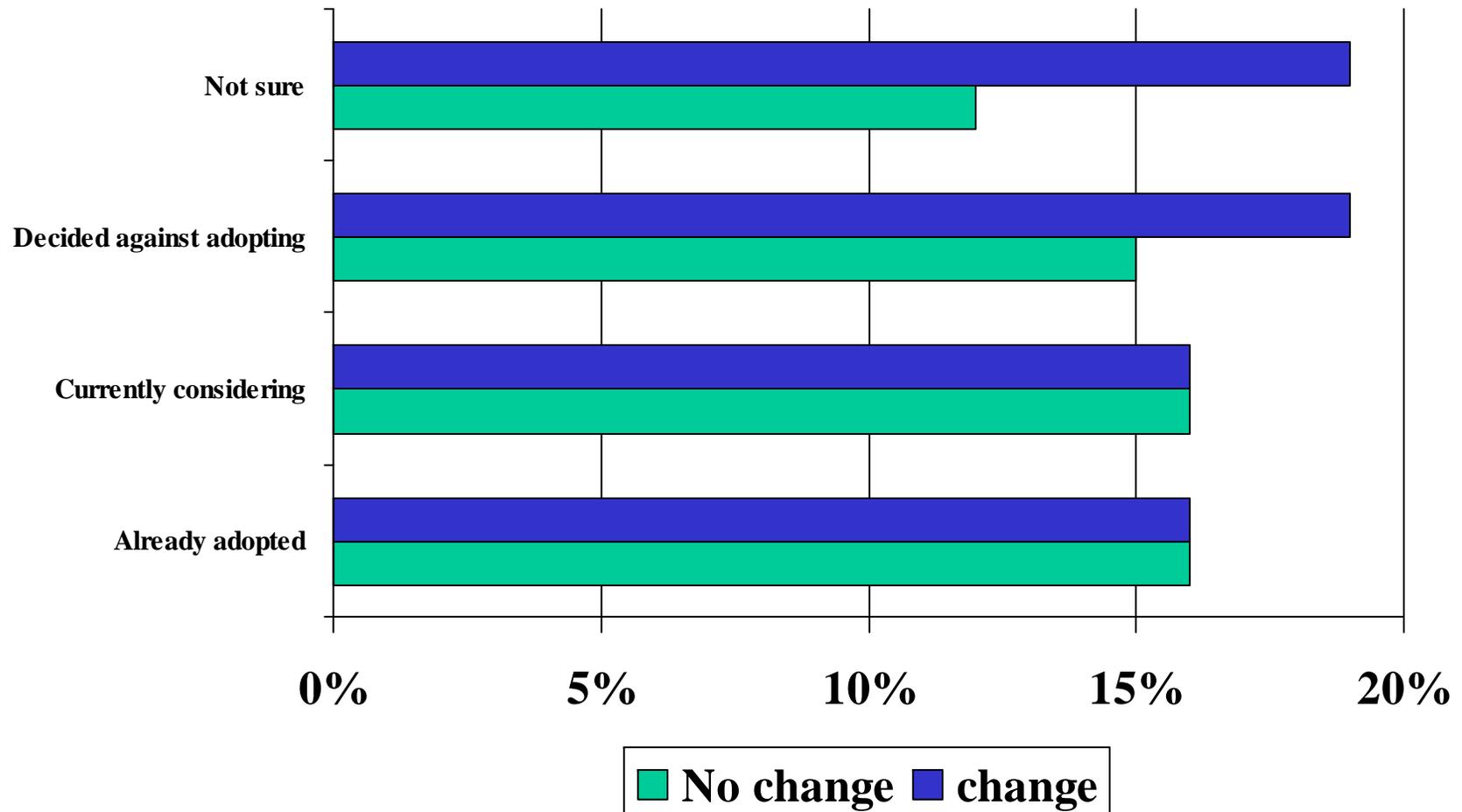
Source: Tabulations from Mercer/EBRI Survey of Retirement Program Changes After PPA and New Accounting Rules, April 2007

Percentage of DC sponsors considering or having adopted automatic ENROLLMENT features by whether they have modified the DB plan in the last two years



Source: Tabulations from Mercer/EBRI Survey of Retirement Program Changes After PPA and New Accounting Rules, April 2007

Percentage of DC sponsors considering or having adopted automatic ESCALATION features by whether they have modified the DB plan in the last two years



Source: Tabulations from Mercer/EBRI Survey of Retirement Program Changes After PPA and New Accounting Rules, April 2007

Next steps

- Add the detailed actuarial data to construct frequency and severity models
- Use Form 5500 data to weight observations
 - To control for any sample bias