New Trends In Defined Benefit Plans

Judy Miller, MSPA, FSA, MAAA
ASPPA Chief of Actuarial Issues
Trends

• Long-term downward trend in active plans
  – Volatility of cost (cash and accounting)
    • Over-funding risk
  – Employees don’t value it

• Traditional to hybrid (cash balance)
  – Better cost control
  – Better understood (and appreciated)
Risk Management

• Traditional DB Plan
  – Longevity and investment risks
  – Final pay plans – also cost-of-living during working lifetime
  – Subsidized early retirement and other ancillary benefits

• Cash Balance plans
  – Career average benefit – “account” based
  – Variable rate of return (proposed market rate of return regs still not issued)
DB(k) Plans

- First available 2010
- Small employers only (2 to 500 ees)
- Exempt from top-heavy rules
- Deemed to satisfy the ADP and ACP tests
- Funded through a single trust with a single plan document
- Files a single Form 5500 and Summary Plan Description
DB(k) Plans

• Traditional DB of at least 1% of final average compensation per year (maximum 20 years), or

• Cash balance formula with pay credits based on age:
  – 2% age 30 or less
  – 4% over age 30 but less than 40
  – 6% age 40 but less than 50
  – 8% age 50 or over

• Plus, auto-enroll 401(k) with matching contributions of 50% of elective deferrals up to 4% of pay

• 100% vesting after 3 years for DB and any non-elective
DB(k) Concerns

- Little take-up;
- Guidance not issued and may not be able to address concerns:
  - Is the cash balance minimum deemed to satisfy the 133 1/3% accrual rule? Nondiscrimination rules?
  - If so, how are those rules applied if larger pay credits are provided?
To Improve DB(k)

• Fix DB(k) if guidance cannot make the cash balance provisions work.
• Allow matching contributions (even elective deferrals?) to go to the DB portion of the arrangement
• Allow more design flexibility (subject to nondiscrimination testing)
• Expand to larger plans
Other improvements for DB plans

• More design options*:  
  – Variable employer-paid accruals in DB-type plans  
  – Hybrid rules for hybrid plans

• Reduce over-funding risk  
  – “Side car” trust

* See Conversation on Coverage POPP and GAP proposals