



# **Corporate Defined Benefit Pension Plans and the 2008-09 Financial Crisis**

## **Impact and Sponsor and Government Reactions**

**Pension Research Council 2011 Annual Conference  
Wharton School, May 5-6, 2011**

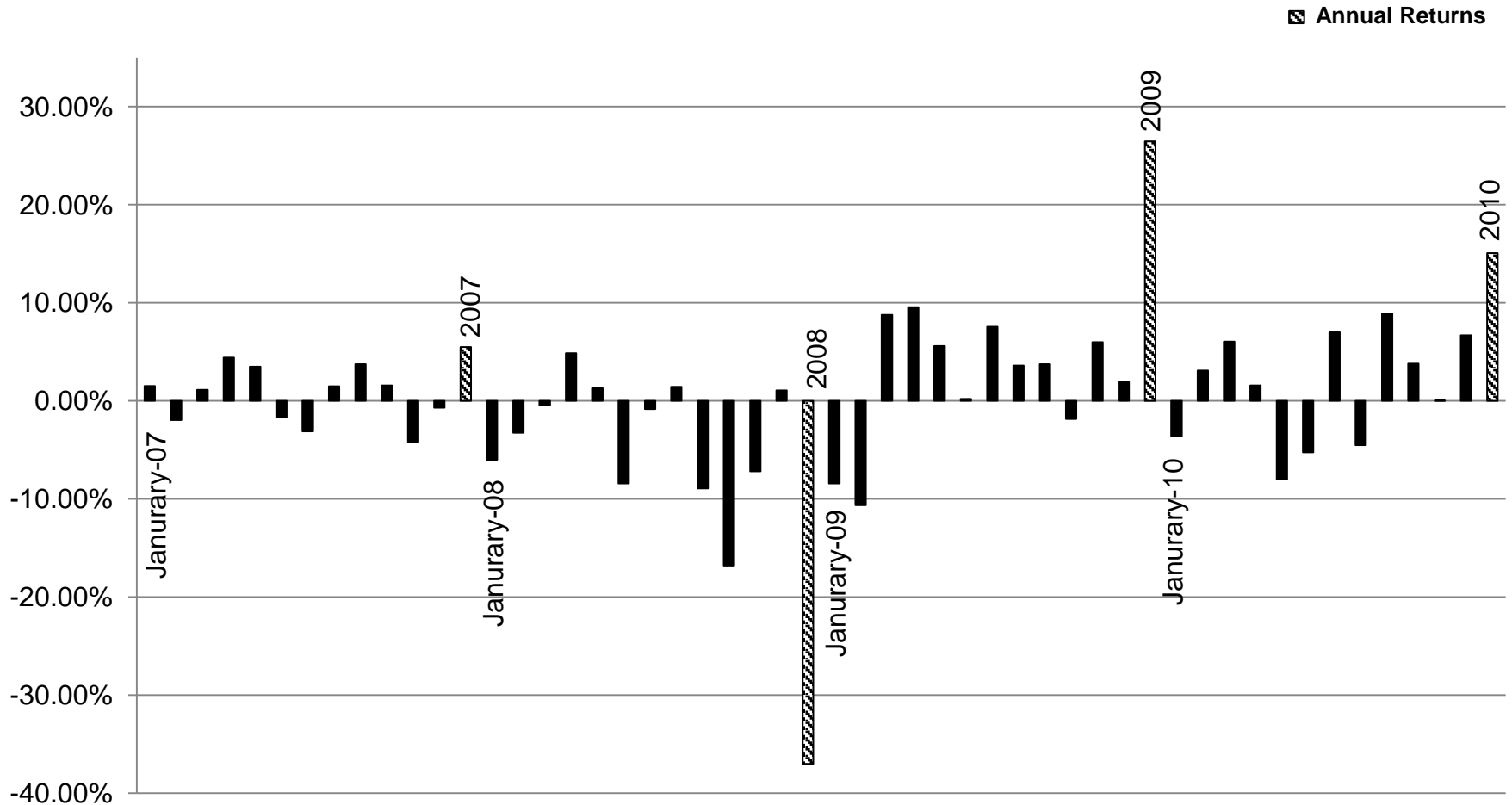
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# Outline

- I. The External Environment and Corporate Pension Plans
- II. Funding Status of Plans
- III. Investments
- IV. Employer Contributions
- V. DB Plan Sponsorship and Design
- VI. Temporary Funding Relief from the Government
- VII. PBGC Single-Employer Insurance Program
- VIII. Reform Proposals
- IX. Conclusion

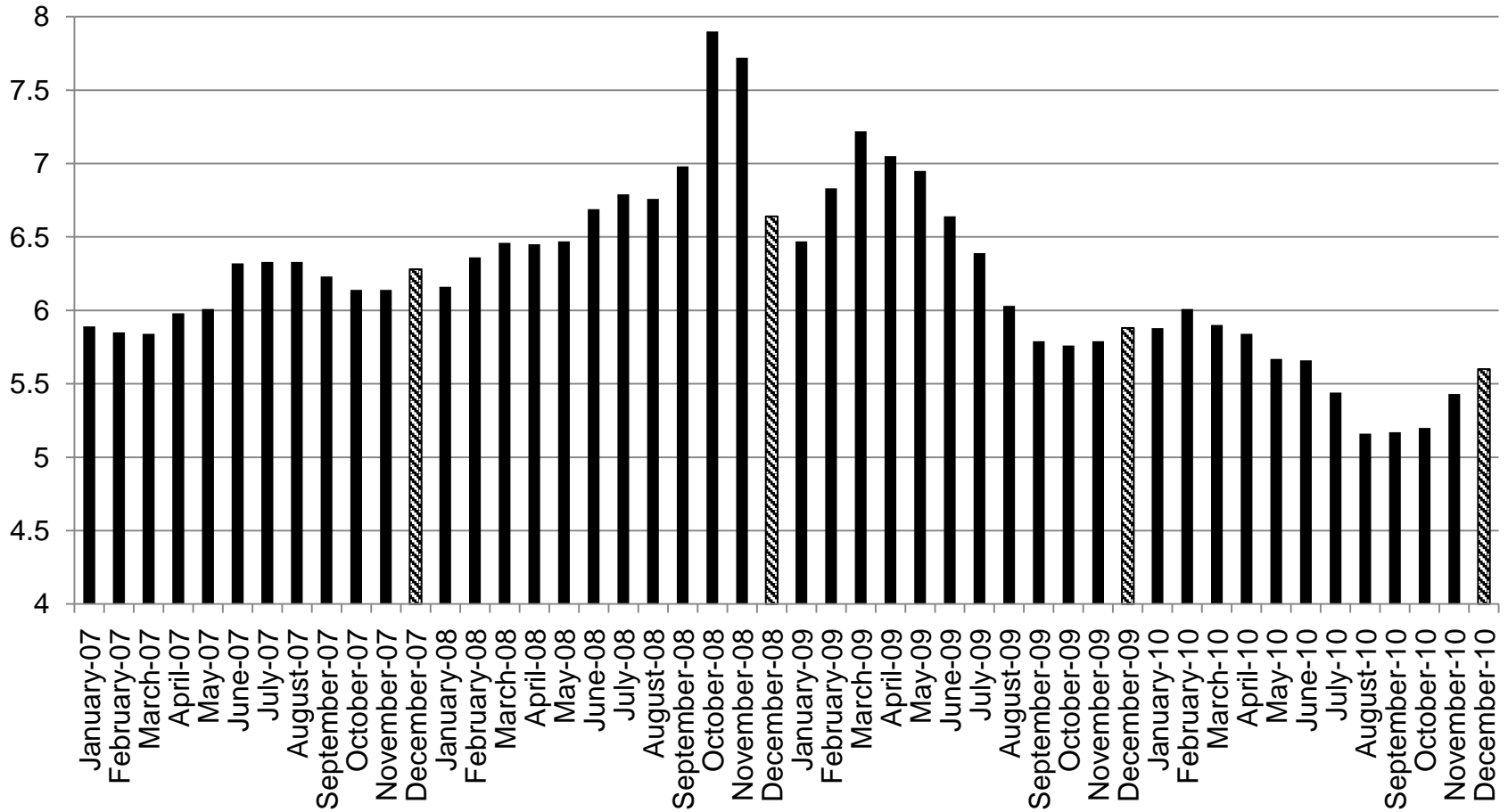
# S&P Total Index Returns

## *Monthly and Annual, 2007-2010*



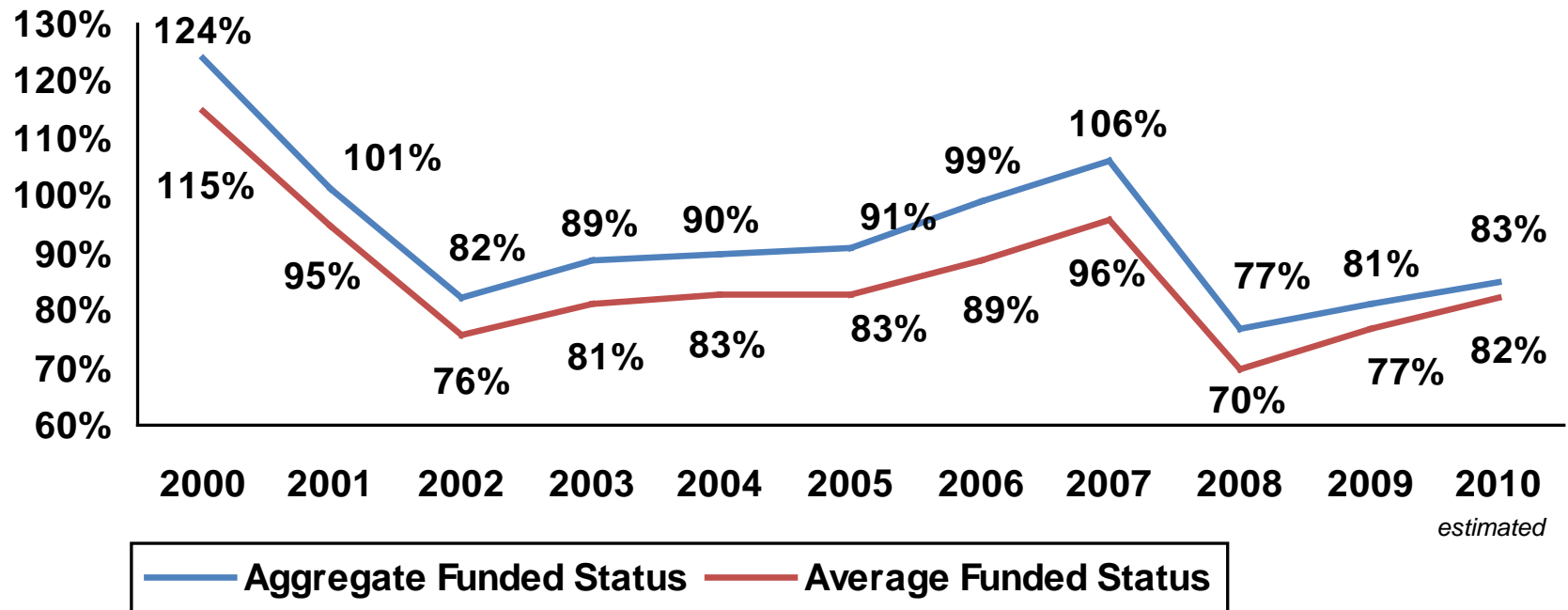
# Composite Corporate Bond Rate (CCBR) (%)

## *Month-end, 2007-2010*



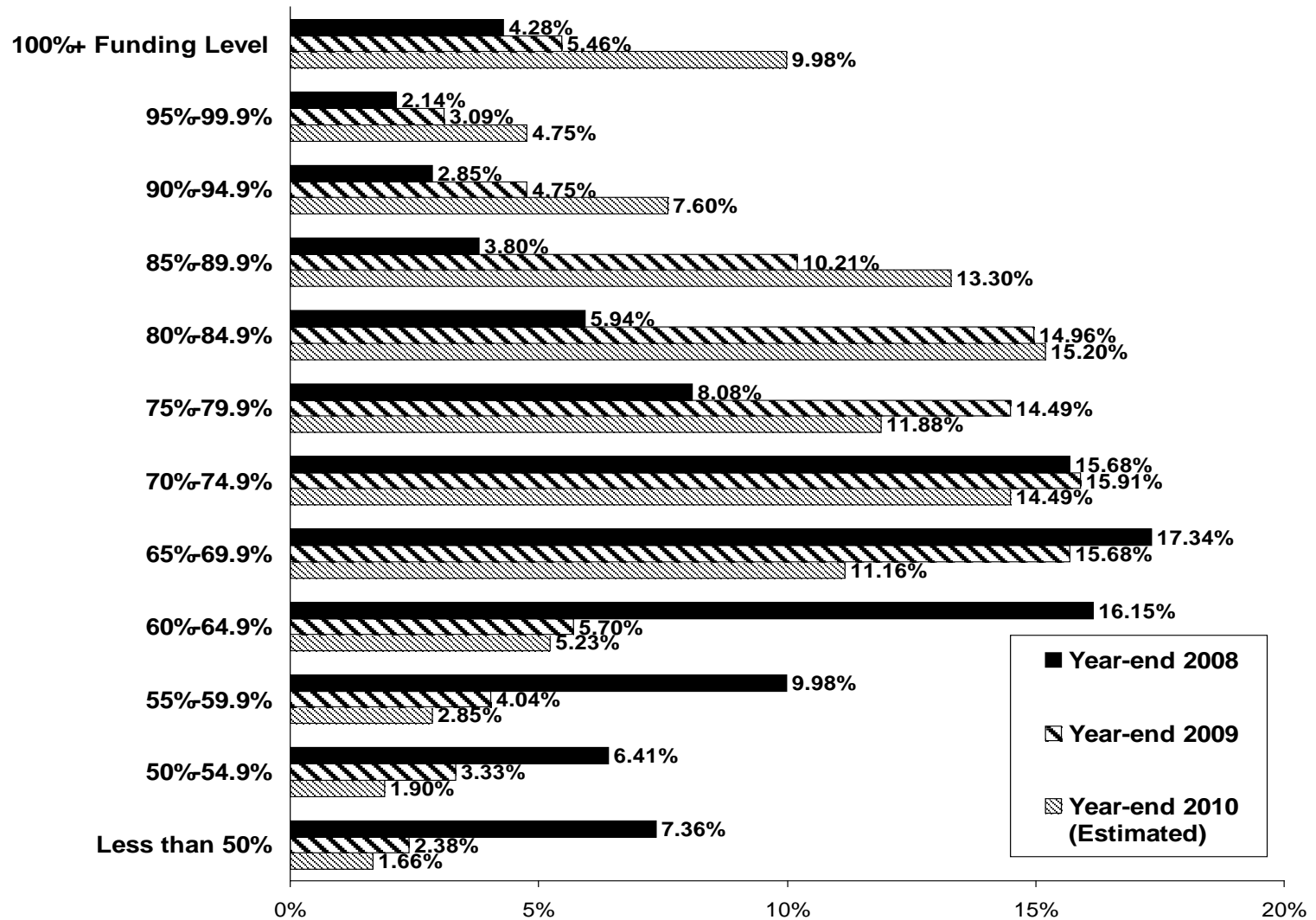
# Pension Funding Status for Fortune 1000 Companies

## *Funding Status Percentage by Year, 2000-2010*

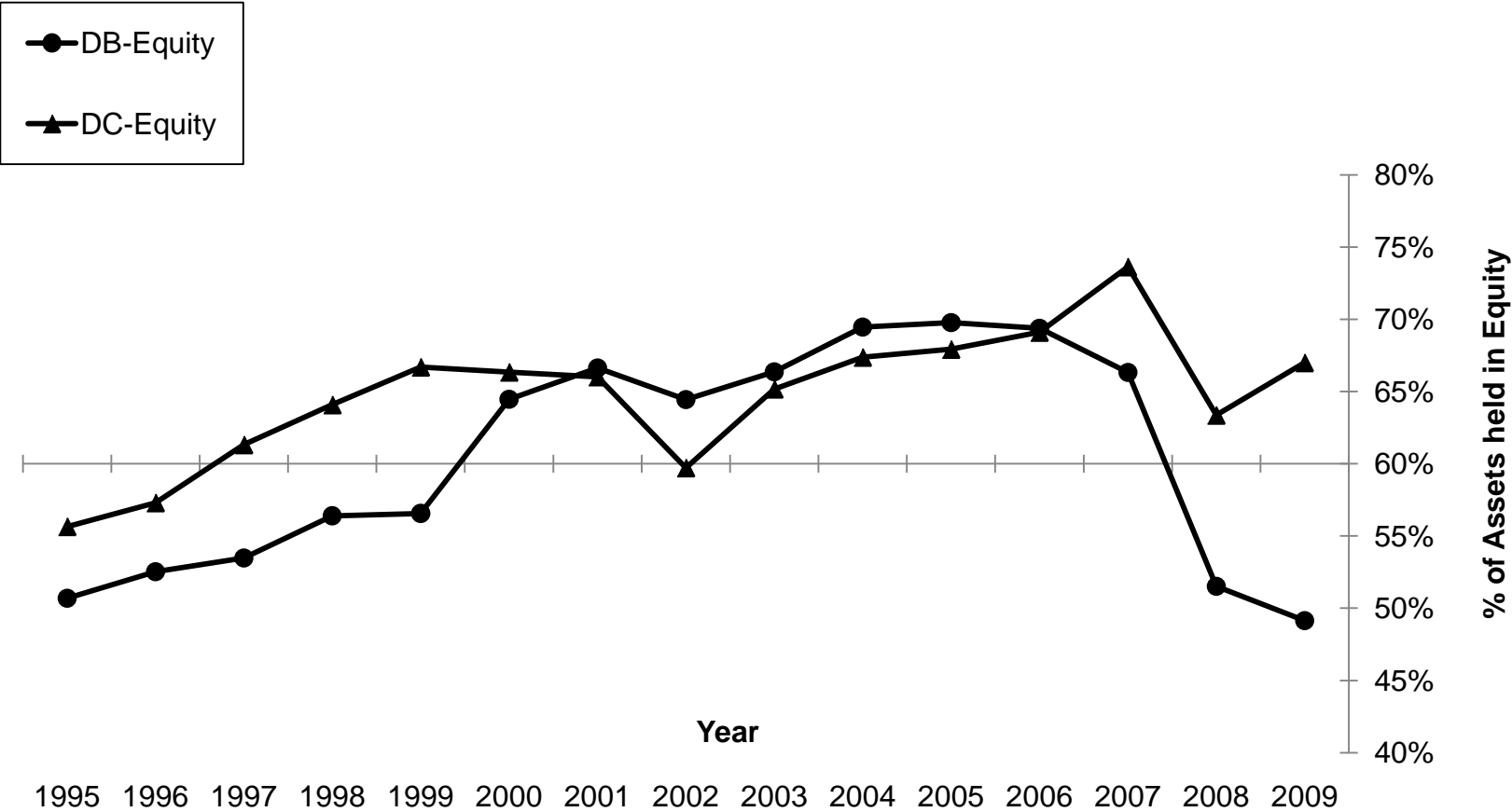


# Distribution of Funding Status

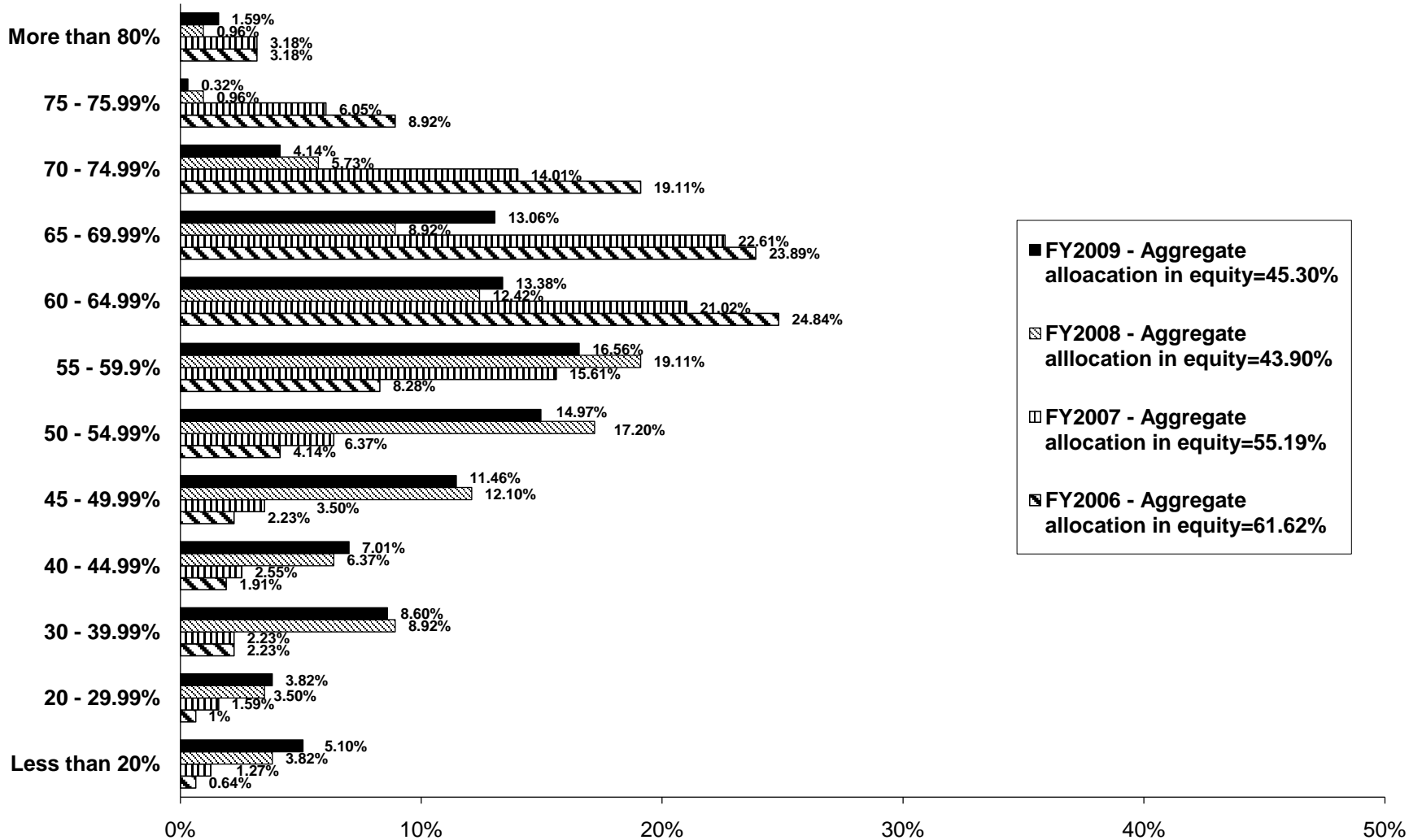
## 2008-2010



# Equity Shares for Private DB and DC Plan Investments 1995-2009



# Distribution of DB Plan Asset Allocations to Equities 2005-2009





**Total Employer Contributions to Corporate DB Plans,  
Fortune 1000 Companies**  
*1999-2009 (in thousands)*

*Fiscal Year*

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1999	\$10,760,323
2000	\$16,685,625
2001	\$13,856,128
2002	\$44,351,971
2003	\$71,950,882
2004	\$52,305,607
2005	\$55,333,997
2006	\$44,775,654
2007	\$33,187,663
2008	\$35,920,612
2009	\$60,459,778

# Retirement Plan Type for 2010 Fortune Companies *1998-Today (For Newly Hired Employees)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Today
<b>Total DB Pension Plans</b>	74	74	74	73	72	72	70	68	61	53	48	45	41
<b>Traditional DB Plan</b>	67	61	60	55	48	42	40	39	36	30	22	20	17
<b>Hybrid Pension Plan</b>	7	13	14	18	24	30	30	29	25	23	26	25	24
<b>DC Plan Only</b>	26	26	26	27	28	28	30	32	39	47	52	55	59

Source: Towers Watson.

Note: Sponsorship shown as the retirement plan offered to new hires at the end of the year. The today column reflects data through August 2010 (based on the 2010 Fortune List of 100 largest companies) and includes announcements for future plan changes in 2010 and beyond.

# Estimates and Simulations of Measured Funded Status and Required Minimum Contributions

*2008-2014*

Plan year	<u>A. Pre-Relief Act without funding relief</u>			<u>B. Relief Act with estimated elections</u>		
	Funded status (%)	Contribution (\$b)		Funded status (%)	Contribution (\$b)	
		Actual	Minimum		Actual	Minimum
2008	95.3	77.9	37.1	95.3	77.9	37.1
2009	94.6	92.1	24.7	94.6	92.1	24.7
2010	88.8		91.2	88.8		88.6
2011	77.5		163.0	77.4		155.3
2012	79.8		175.4	79.4		170.5
2013	87.1		148.5	86.5		147.3
2014	91.3		135.5	90.6		135.8

Source: Towers Watson.

# PBGC – Single Employer Insurance Program, Net Position

## *2001-2010 (in millions)*

<i>Fiscal Year</i>	Total Assets	Total Liabilities	Net Position
2001	\$21,768	\$14,036	\$7,732
2002	25,430	29,068	(3,638)
2003	34,016	45,254	(11,238)
2004	38,993	62,298	(23,305)
2005	56,470	79,246	(22,776)
2006	59,972	78,114	(18,142)
2007	67,241	80,352	(13,111)
2008	64,612	75,290	(10,678)
2009	68,736	89,813	(21,077)
2010	77,827	99,421	(21,594)

Source: PBGC Annual Reports.

# PBGC Single-Employer Insurance Program, Annual Operations

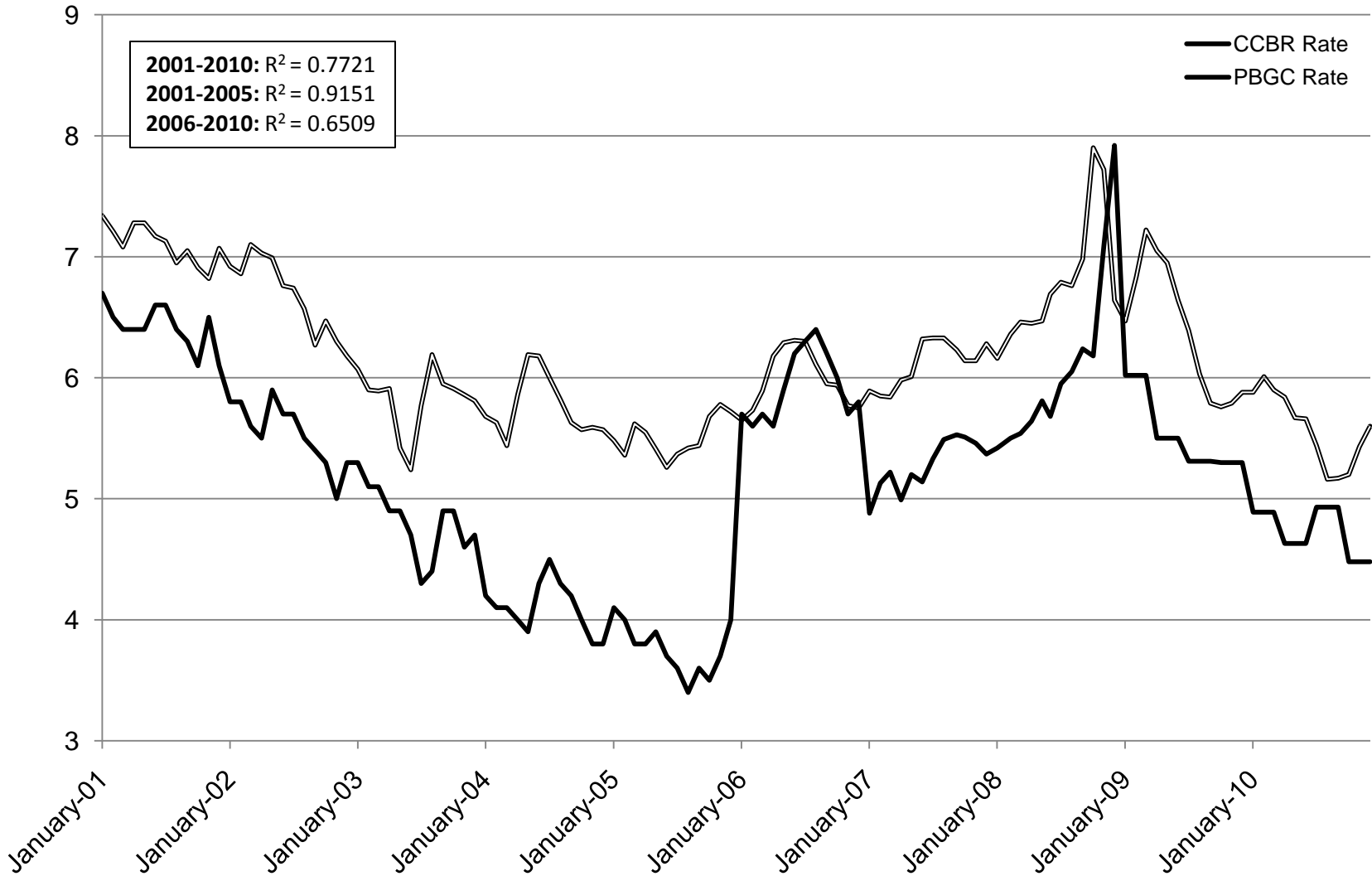
## *2007-2010 (in millions)*

	<i>Fiscal Year</i>			
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Premium and other income	\$2,261	\$1,838	\$1,363	\$1,531
Investment income (loss)	7,594	6,330	(4,164)	4,737
Actuarial charges and adjustments (credits)	9,421	13,901	(4,813)	346
Losses (credits) from completed and probable terminations	509	4,234	(826)	399
Administrative, investment and other expenses	442	432	405	492
Net income (loss)	(517)	(10,399)	2,433	5,031

Source: PBGC Annual Reports.

# CCBR and PBGC Discount Rates

## 2001-2010



# Reform Proposals

- I. New Third-Party Institutions Proposed
- II. Maintain Role of Employer
- III. Obama Administration Proposal: Raise PBGC Premiums
- IV. Reduce Risk to Sponsors
  - I. Reform Excess Funding Excise Tax for “Guaranteed” DB Plans
  - II. Create “Flexible Structured” Plan
    - a. Cut and increase benefits in limited response to funding
    - b. Different regimes possible, to be specified in law
  - III. Improve PBGC accounting for agency liabilities

# Conclusions

- I. Funding Declined
- II. Plan Sponsors Reduced Riskiness of Investment Portfolios
- III. Increased Contributions (Beyond Minimum)
- IV. Temporary and Sometimes Conditional Funding Relief
- V. Reform Continued
- VI. Tension Remains between Appropriate Location of Risk-Bearing and Structured Nature of Benefits