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The Role of Private Defined Benefit Pension Plans in US Retirement Income: Past, Present and Future Scenarios

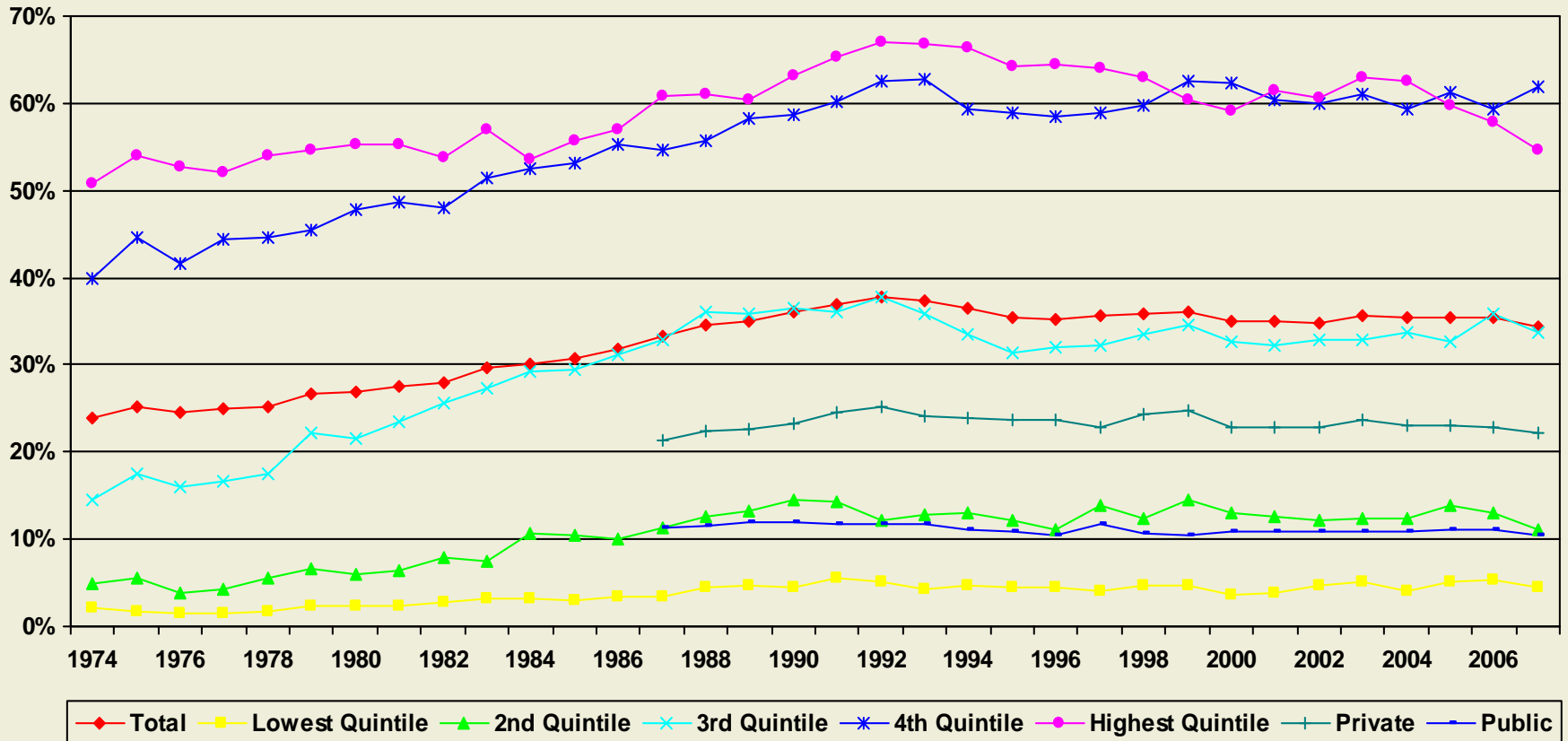
Spring 2009 Pension Research Council Conference: Restructuring Retirement Risk Management in a Defined Contribution World

Craig Copeland and Jack VanDerhei, EBRI

Outline

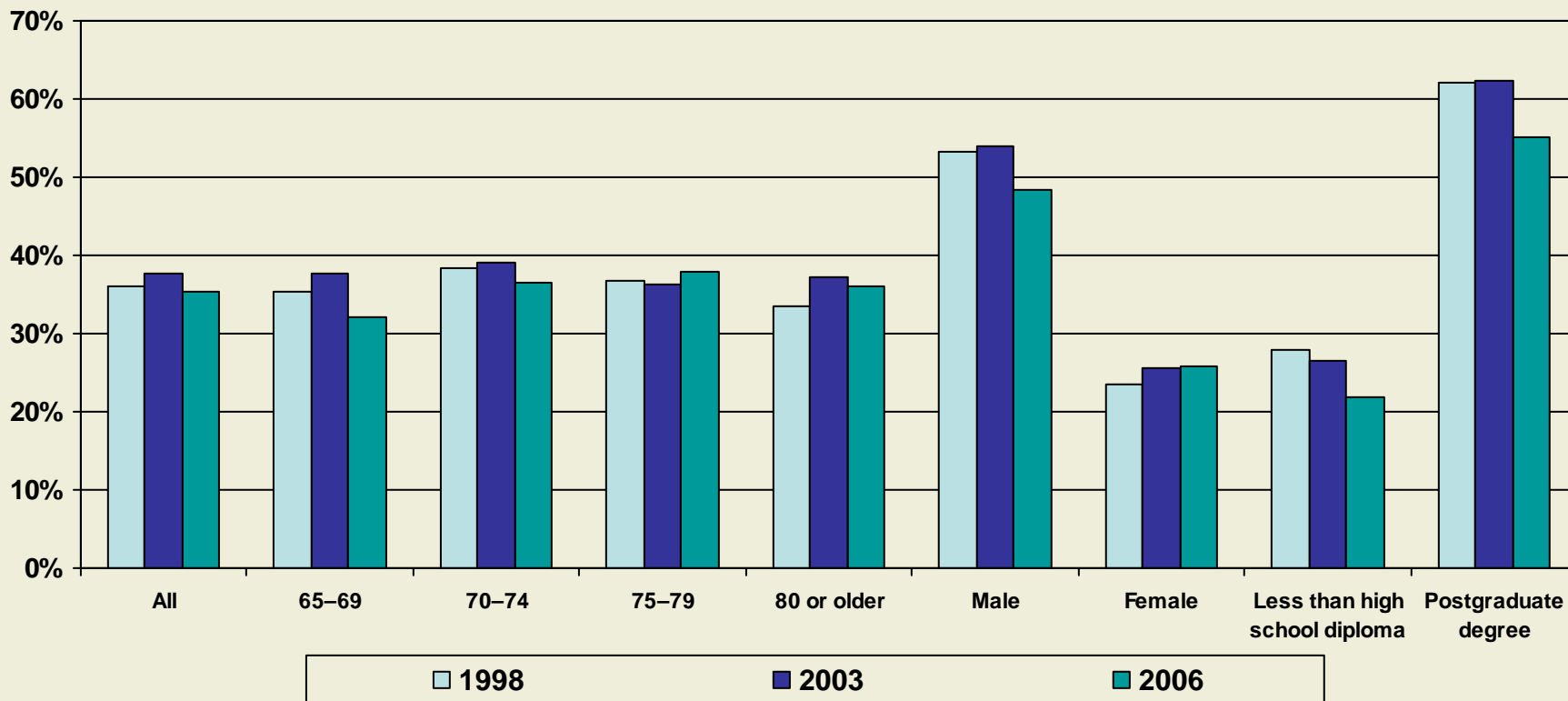
- Who actually received benefits under defined benefit plans.
 - Patterns by different workforce groups for 1998, 2003 and 2006.
- Simulation of expected FUTURE accruals/account balance increases at age 65 from:
 - defined benefit accruals under new jobs and
 - defined contribution plans account balances from ENHANCED contributions (if any) as a quid pro quo resulting from a freeze

Percentage of Americans Age 65 or Older With Pension and Annuity Income, by Income Quintile, 1974-2007 (CPS Data)



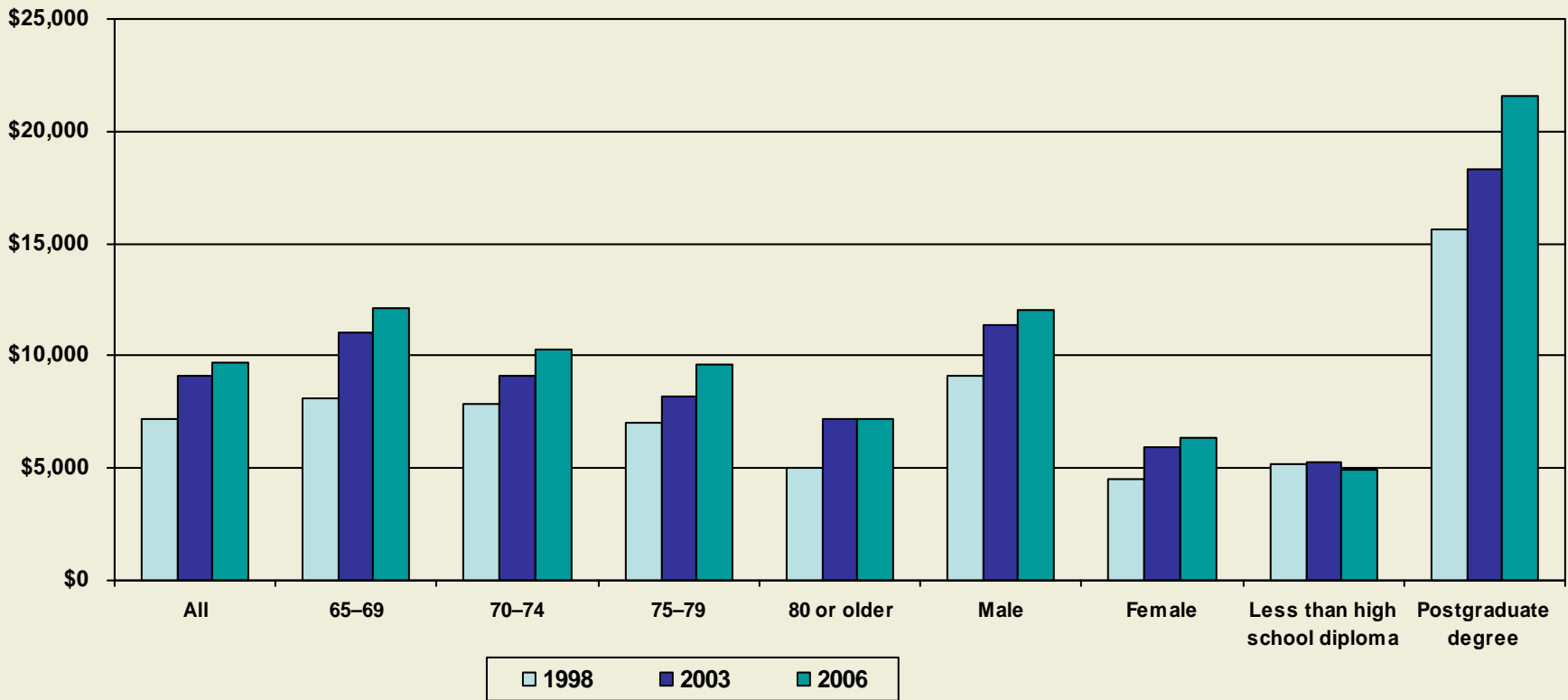
Source: EBRI Databook, EBRI estimates from the Current Population Survey March Supplements.

Percentage of Americans Age 65 or Older Who Have Pension Income, by Various Demographic Characteristics, 1998, 2003, and 2006 (SIPP Data)



Source: Employee Benefit Research Institute estimates of the 1996, 2001, and 2004 Survey of Income and Program Participation (SIPP) Topical Module 7.

Median Pension Income for Those Receiving It, by Various Demographic Characteristics, 1998, 2003, and 2006 (SIPP Data and 2006\$'s)



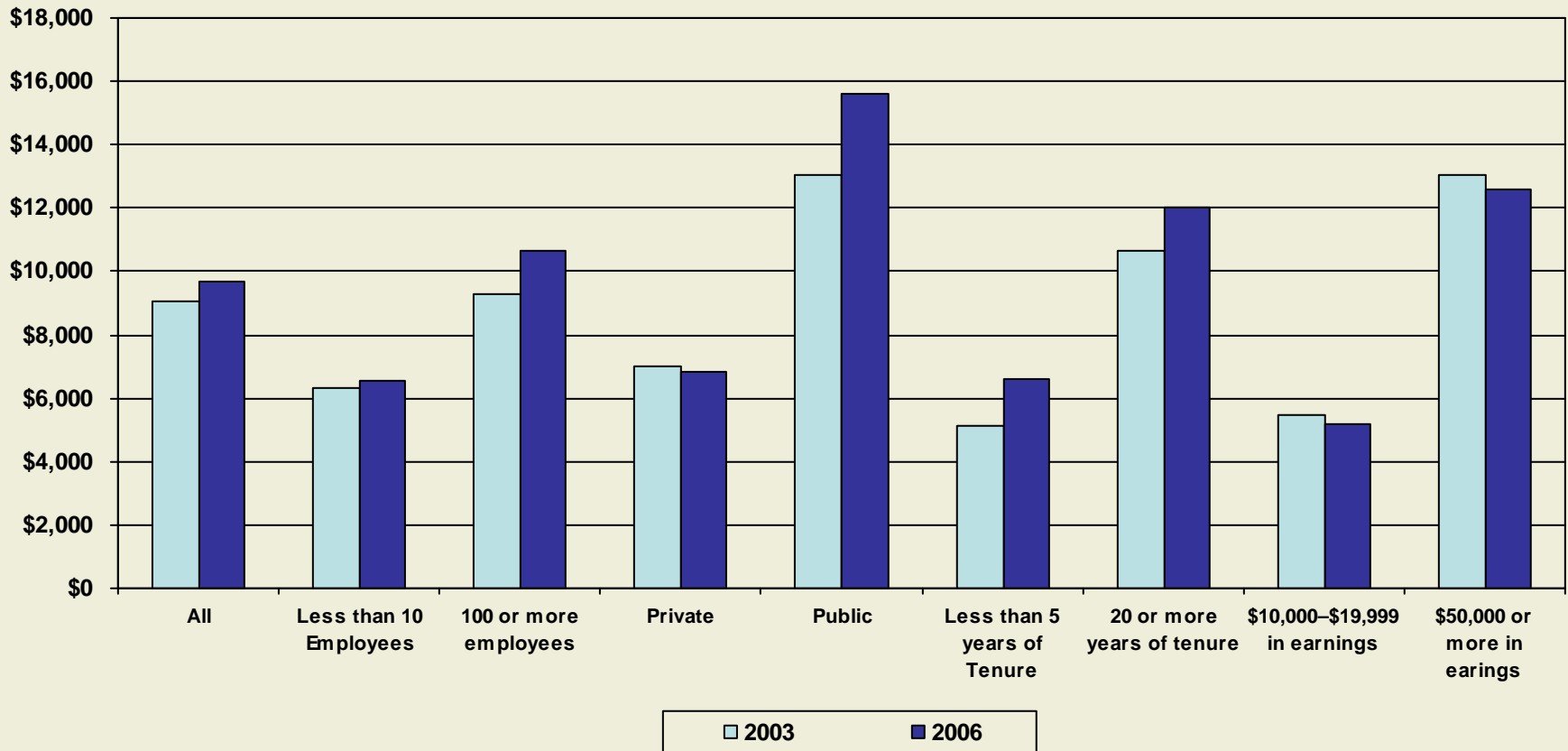
Source: Employee Benefit Research Institute estimates of the 1996, 2001, and 2004 Survey of Income and Program Participation (SIPP) Topical Module 7.

Percentage of Americans Age 65 or Older Who Have Worked for Pay With Pension Income, by Characteristics of the Employee's Former Employer or the Employee's Status Prior to Retirement, 2003 and 2006



Source: Employee Benefit Research Institute estimates of the 2001 and 2004 Survey of Income and Program Participation Topical Module 7.

Median Pension Income of Those Age 65 or Older Who Have Worked for Pay With Pension Income, by Characteristics of the Employee's Former Employer or the Employee's Status Prior to Retirement, 2003 and 2006



Source: Employee Benefit Research Institute estimates of the 2001 and 2004 Survey of Income and Program Participation Topical Module 7. All dollar figures in 2006 dollars.

Previous analysis of pension freezes

- VanDerhei, Defined Benefit Plan Freezes: Who's Affected, How Much, and Replacing Lost Accruals, EBRI Issue Brief, March 2006
 - Simulate loss of DB wealth if CURRENT employees had pension accruals frozen
 - Simulate the ENHANCED contribution plan sponsor would need to provide for the remainder of the employee's tenure to financially indemnify them
 - Ran under two alternative ror's: 4 and 8 percent
 - final-average plan @ 4 percent: median rate is 13.5 percent, and the threshold rate for the 75th percentile increases to 21.0 percent.
- Butrica, Iams, Smith, and Toder, The Disappearing Defined Benefit Pension And Its Potential Impact On The Retirement Incomes Of Boomers, CRR WP 2009-2
 - uses the Model of Income in the Near Term to simulate the impact of an accelerated transition from DB to DC pensions on the distribution of retirement income among boomers
 - scenario in which employers freeze all remaining private sector DB plans and a third of all state and local plans over the next five years

EBRI/Mercer survey of plan sponsor responses to PPA

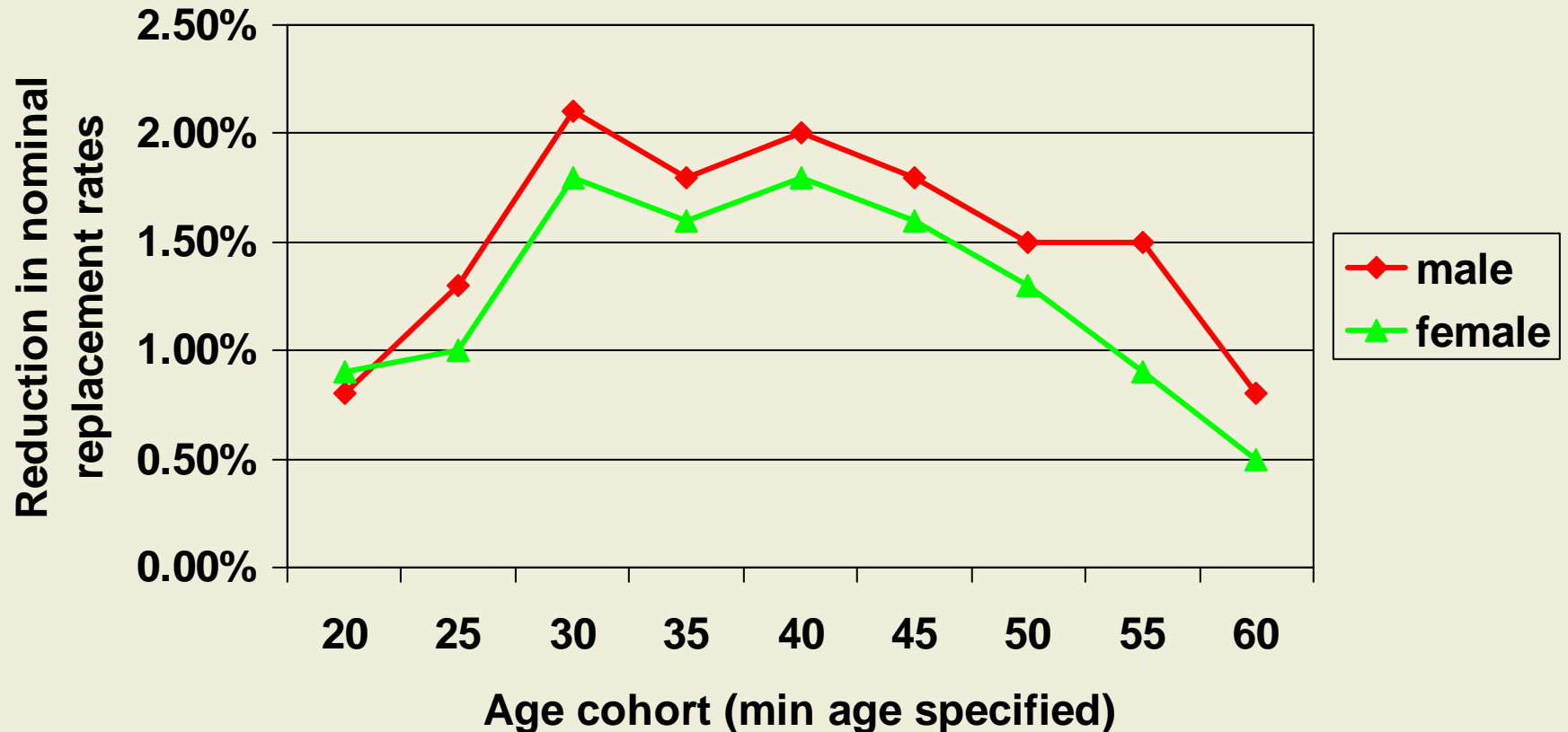
- Fielded in April 2007
 - Provides sponsors with sufficient time to have done a cost/benefit analysis of their plan design options
 - 162 responses
- Collects information on generosity parameters
 - Both DB and DC
 - Both pre and post plan change (if any)
- Allows us to compute the distribution of enhanced DC contributions for plan sponsors instituting a DB freeze

EBRI/ERF Retirement Security Projection Model*

- Only using the accumulation portion of the model
- DB plan parameters coded from a time series of several hundred plans
 - Current results are limited to final average DB plans only
- 401(k) behavior based on individual administrative records
 - Asset allocation
 - Contribution
 - Loans
 - Withdrawals
 - Cash-outs/Rollovers
 - Module turned off for enhanced contributions in this study, assumes all incremental balances remain with plan sponsor
 - Provides parity with assumption of no pre-NRA cashouts on incremental DB accruals
- Time series data for the years 1926 through 2008 were used for Large Cap Stocks and Long-Term Corporate Bonds to simulate the DC portfolios
- Running for private sector workers only

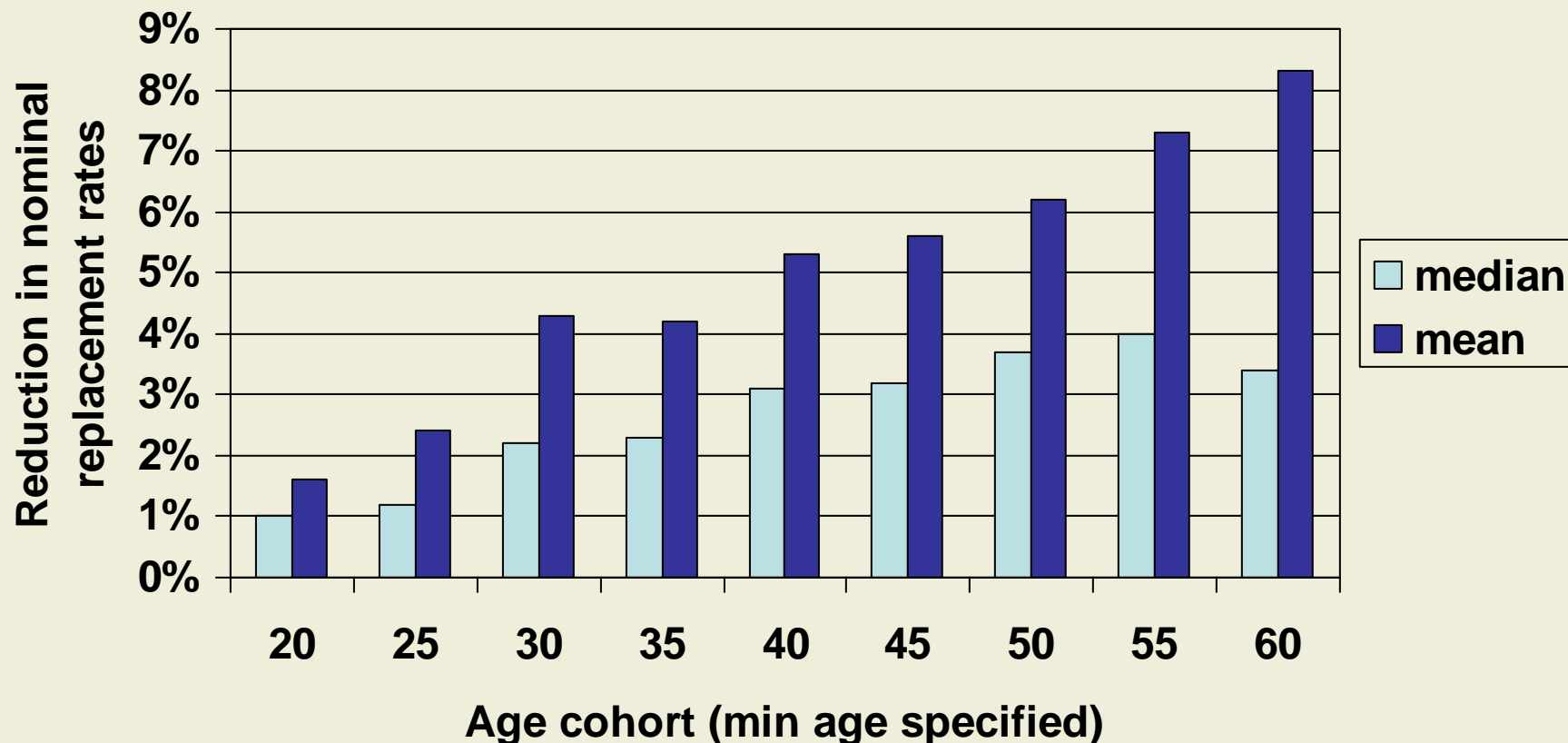
* For details on the model, please see: Jack VanDerhei and Craig Copeland, "Can America Afford Tomorrow's Retirees: Results From the EBRI-ERF Retirement Security Projection Model," EBRI Issue Brief, November 2003

Expected reduction in nominal replacement rates if all private defined benefit plans were to freeze accruals for NEW employees immediately, by gender and age

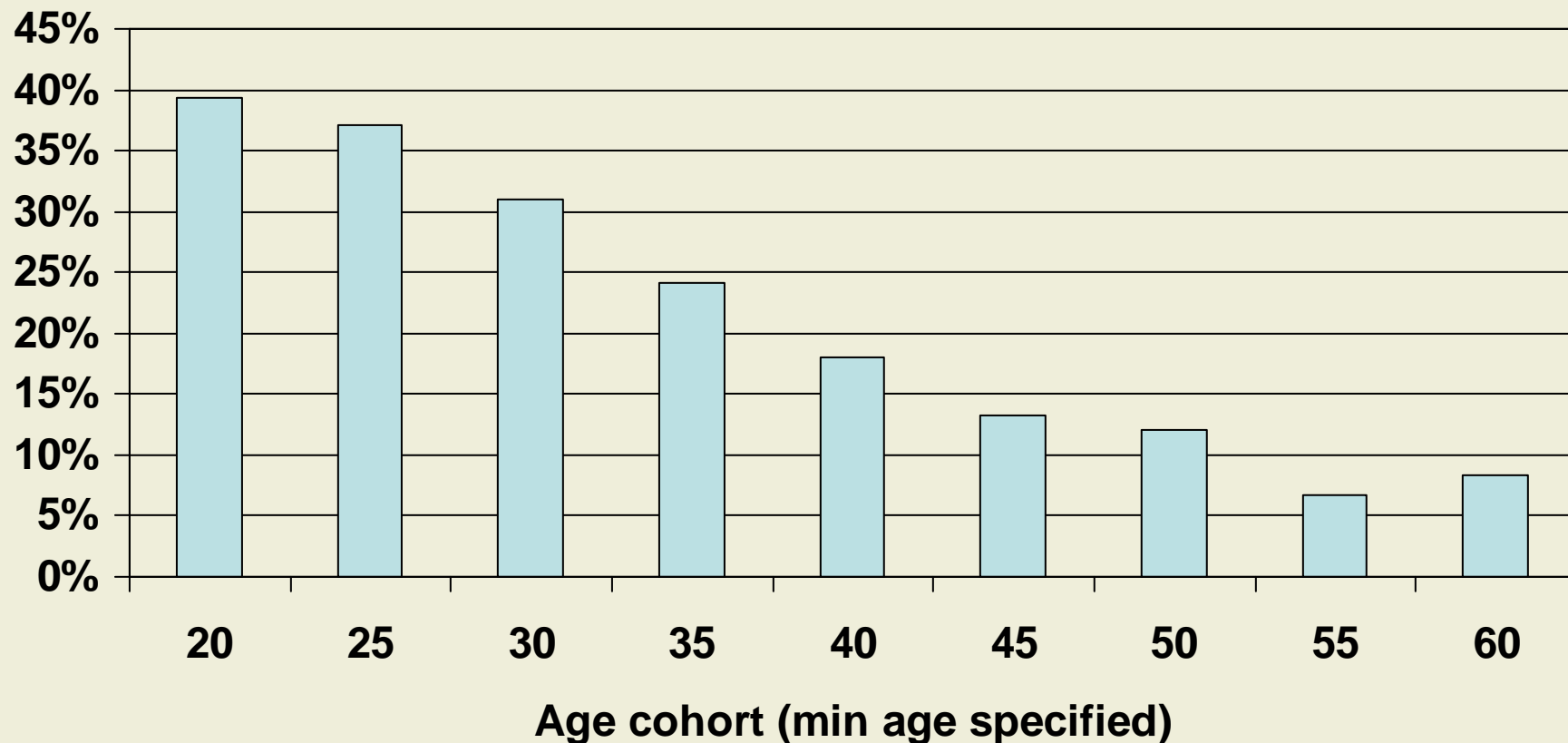


Source: Author's simulations based on April 2009 version of EBRI/ERF Retirement Security Projection Model™

Expected CONDITIONAL reduction in nominal replacement rates if all private defined benefit plans were to freeze accruals for NEW employees immediately, by age



Percentage of those with "lost" DB wealth due to a pension freeze who are expected to have a larger total nominal replacement rate from the DC enhanced contributions (if any)



Source: Author's simulations based on April 2009 version of EBRI/ERF Retirement Security Projection Model™

Median percentage of compensation required as an ENHANCED employer contribution for future years covered by a defined contribution plan in lieu of a frozen defined benefit plan for financial indemnification.



Future work

- Make enhanced DC contribution a function of existing DB features
- Expand to include existing members frozen in current plan
- Account for differentials in plan design for DBs
- Test for interaction with auto enrollment, auto escalation
- Transition matrix for private and public sector employers