An Afternoon With Pensions

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Why We're Here

RESOLUTION NO. 26
Pension Bargaining Education

WHEREAS, many IBEW local unions face increasing pressure from employers during contract negotiations to eliminate traditional defined pension plans for new employees and/or freeze the defined pensions of existing employees; and

WHEREAS, many employers are abandoning traditional defined pension plans and replacing them with cash balance or 401K plans; and

WHEREAS, given the volatility of investment options available to the average worker; and

WHEREAS, several studies predict that many workers will fall short of the required replacement income needed to produce a secure retirement;

THEREFORE, BE IT RESOLVED that the IBEW International Office provide local unions with information and training regarding the various kinds of pension plans and retirement savings programs to assist in negotiations.

SUBMITTED BY:
Local Union 199, Fort Myers, FL
Local Union 201, Beaver, PA
Local Union 986, Norwalk, OH
Local Union 1200, Washington, DC

Resolution adopted at 38th International IBEW Convention, September 2011

Outline of Today's Presentation

1. The Crisis in Retirement Income Security

2. An Overview of Basic Types of Private Sector Pension Plans

3. In-Depth Discussion of Defined Benefit and Defined Contribution Plan Issues

- Discussion – Q&A, Specific Situations, etc.
  - Some Suggested Topics:
    1. Analyzing Your Employer's Plan
    2. Just Say No (if you can)
    3. If The Employer Won't Take "No" For An Answer

- Additional Prepared Discussions:
  - ✓ Annex 1. Two IBEW-Sponsored Alternatives to Consider
  - ✓ Annex 2: Annual Funding Notices and Adjusted Target Funding Attainment Issues
  - ✓ Annex 3: A Primer on Pension Freezes

The Future of Pensions?

- Single employer Defined Benefit (DB) plans in jeopardy.
  - Increasingly relegated to shrinking unionized workforce.
- Trend is towards Defined Contribution (DC) plans generally.
  - Shift costs and risks from employers to workers
  - Smaller pension than in DB plan
- DC plans alone insufficient to provide for retirement security.
- An IBEW-sponsored multi-employer plan may be a viable alternative.

1. The Crisis In Retirement Security

NY Times Financial Columnist Admits He's Been Had . . .

OP-ED COLUMNIST

My Faith-Based Retirement

By JOE NOCERA
Published: April 27, 2012

My 60th birthday is less than a week and a half away, and if there is one thing I can say with certainty it's that 60 is not the new 50.

My body creaks and groans. My eyes aren't what they used to be. I don't sleep as soundly as I did just a few years ago. Lately, I've been seeing a lot of doctors, just to make sure everything still more or less works.

I've also found myself with a sudden urge to get my house in order — just, you know, in case. Insurance, wills, that sort of thing. Sixty is when you stop pretending you're going to live forever. You're officially old. Or at least old-ish.

The only thing I haven't dealt with on my to-do checklist is retirement planning. The reason is simple: I'm not planning to retire. More accurately, I can't retire. My 401(k) plan, which was supposed to take care of my retirement, is in tatters.

Your Money Guides

401(k)'s and Similar Plans »

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Fred R. Conrad/The New York Times

Joe Nocera

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http://www.nytimes.com/2012/04/28/opinion/nocera-my-faith-based-retirement.html?ref=joenocera

Retirement Risk Index

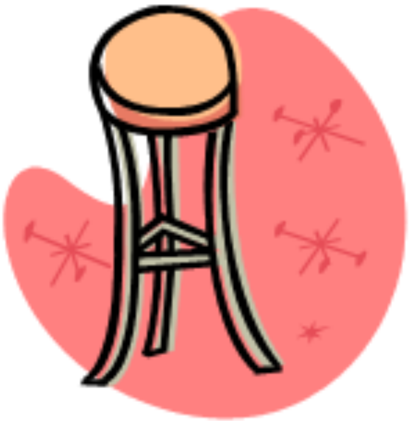
Income Group	**2004**	**2007**	**2009**
All	43%	44%	51%
Low Income	53%	57%	60%
Middle Income	40%	40%	47%
High Income	36%	35%	42%

Percentage of households at risk at age 65 by income group. At risk = being unable to maintain pre-retirement standard of living in retirement. Source: Center for Retirement Research, Boston College

Historically, Industrial Countries Have Encouraged Workers to Rely On the "3 Legged Stool" to Provide for Their Retirement

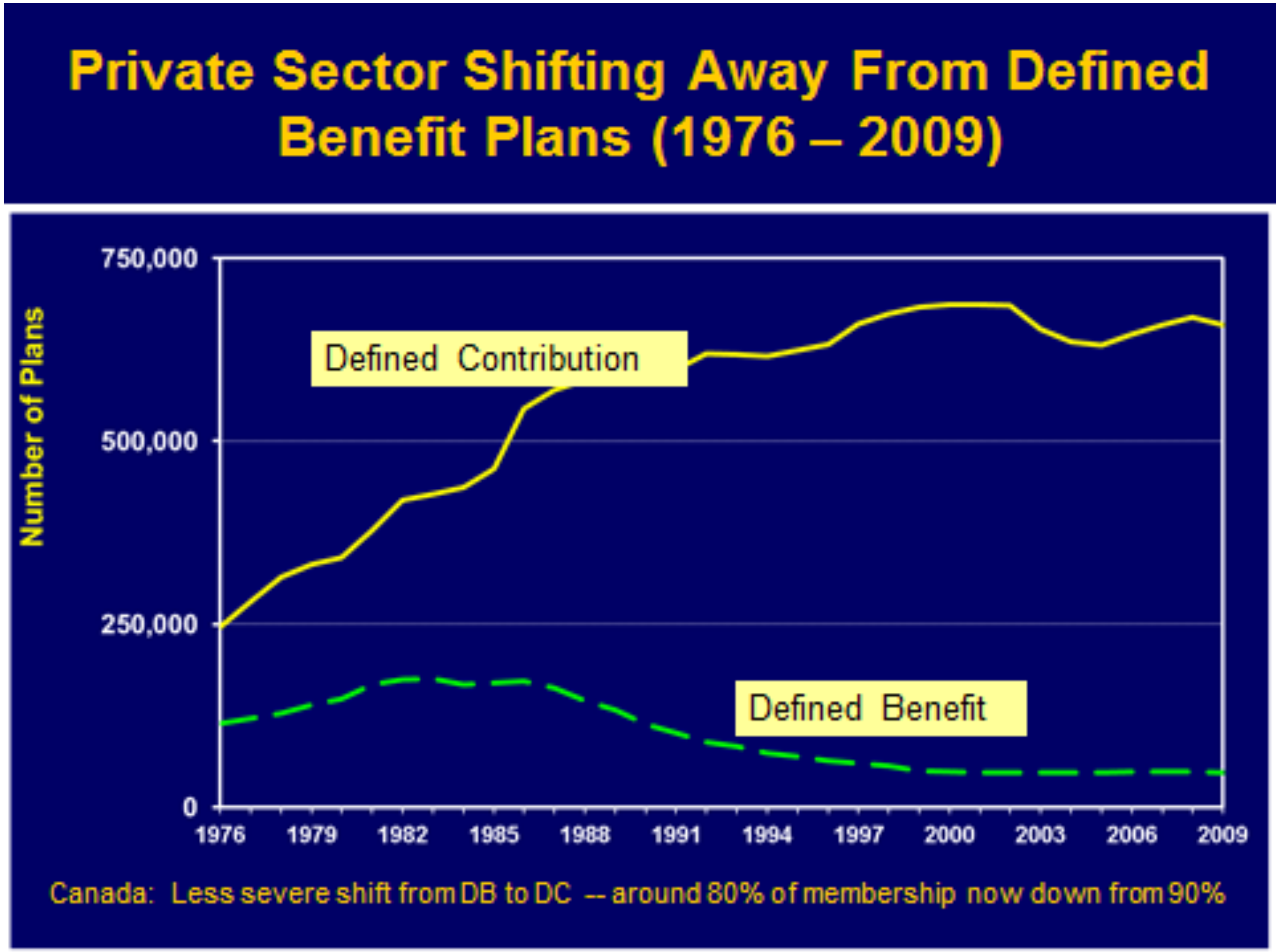
Retirement and the 3-Legged Stool

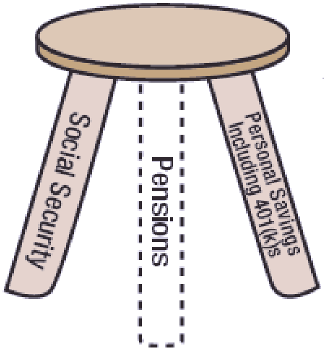
- Social Security/RRR
  - basic universal benefit
  - In Canada, Old Age Security, Canada/Quebec Pension Plan, Guaranteed Income supplement
- Job-related Pension
  - company sponsored plan or union plan
- Personal Savings
  - 401k plan, IRAs, other savings
  - In Canada, Registered Retirement Savings Plans (RRSPs)



Source: Neil Gladstein, IAM Strategic Resources

Unfortunately, With Distressing Speed, the "Pension" Leg of the Three Legged Stool Is Vanishing





ebri.org
Employee Benefit Research Institute
March 2012 • No. 369
Issue BRIEF

The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings

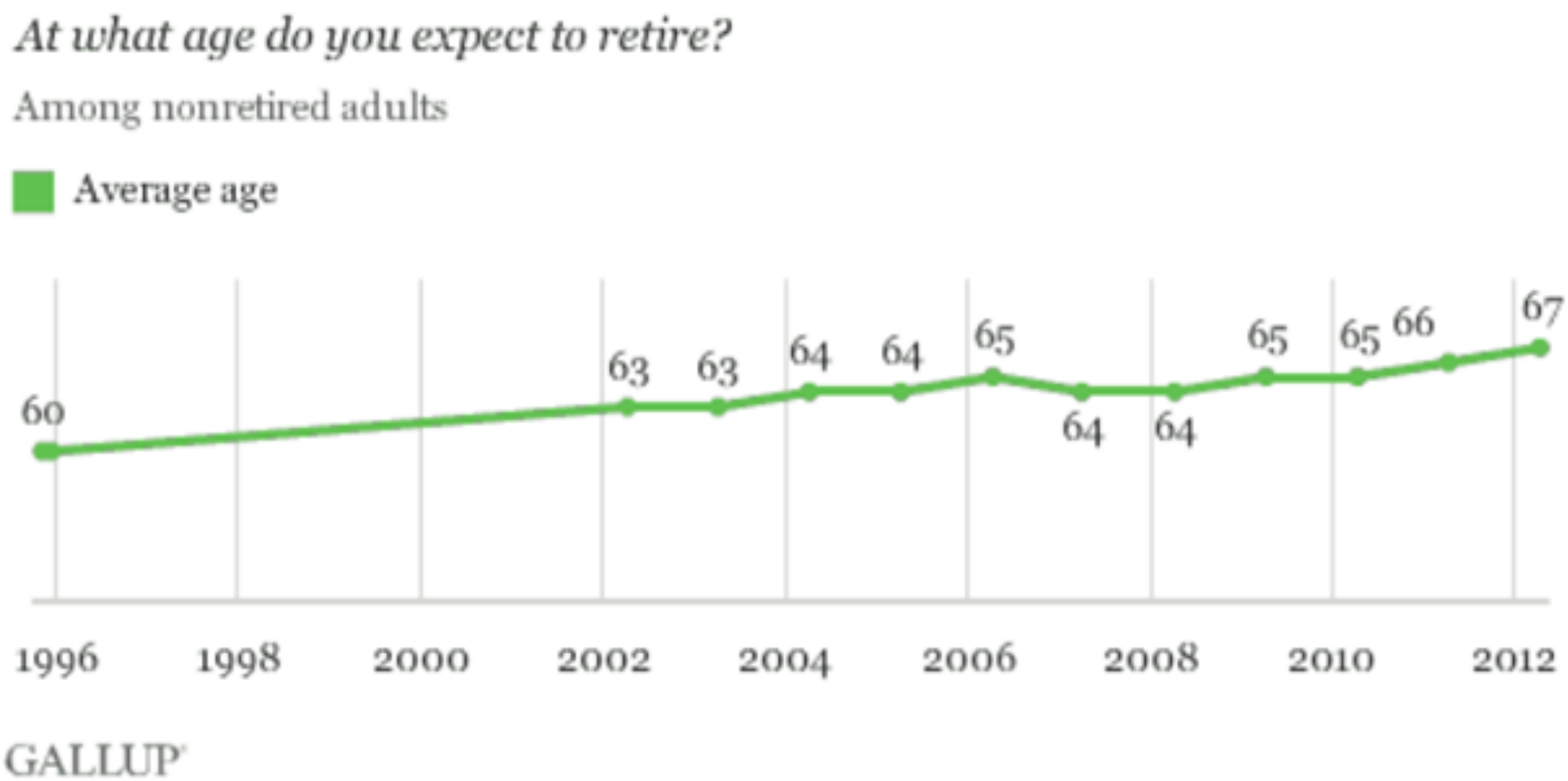
By Ruth Helman, Mathew Greenwald & Associates; and Craig Copeland and Jack VanDerhei, EBRI

At a Glance:

- Americans' confidence in their ability to retire comfortably is stagnant at historically low levels. Just 14 percent are very confident they will have enough money to live comfortably in retirement (statistically equivalent to the low of 13 percent measured in 2011 and 2009).
- Employment insecurity looms large: Forty-two percent identify job uncertainty as the most pressing financial issue facing most Americans today.
- Worker confidence about having enough money to pay for medical expenses and long-term care expenses in retirement remains well below their confidence levels for paying basic expenses.
- Many workers report they have virtually no savings and investments. In total, 60 percent of workers report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000.
- Twenty-five percent of workers in the 2012 Retirement Confidence Survey say the age at which they expect to retire has changed in the past year. In 1991, 11 percent of workers said they expected to retire after age 65, and by 2012 that has grown to 37 percent.
- Retirees report they are significantly more reliant on Social Security as a major source of their retirement income than current workers expect to be.
- Although 56 percent of workers expect to receive benefits from a defined benefit plan in retirement, only 33 percent report that they and/or their spouse currently have such a benefit with a current or previous employer.

http://ebri.org/pdf/surveys/rcs/2012/EBRI_IB_03-2012_No369_RCS.pdf

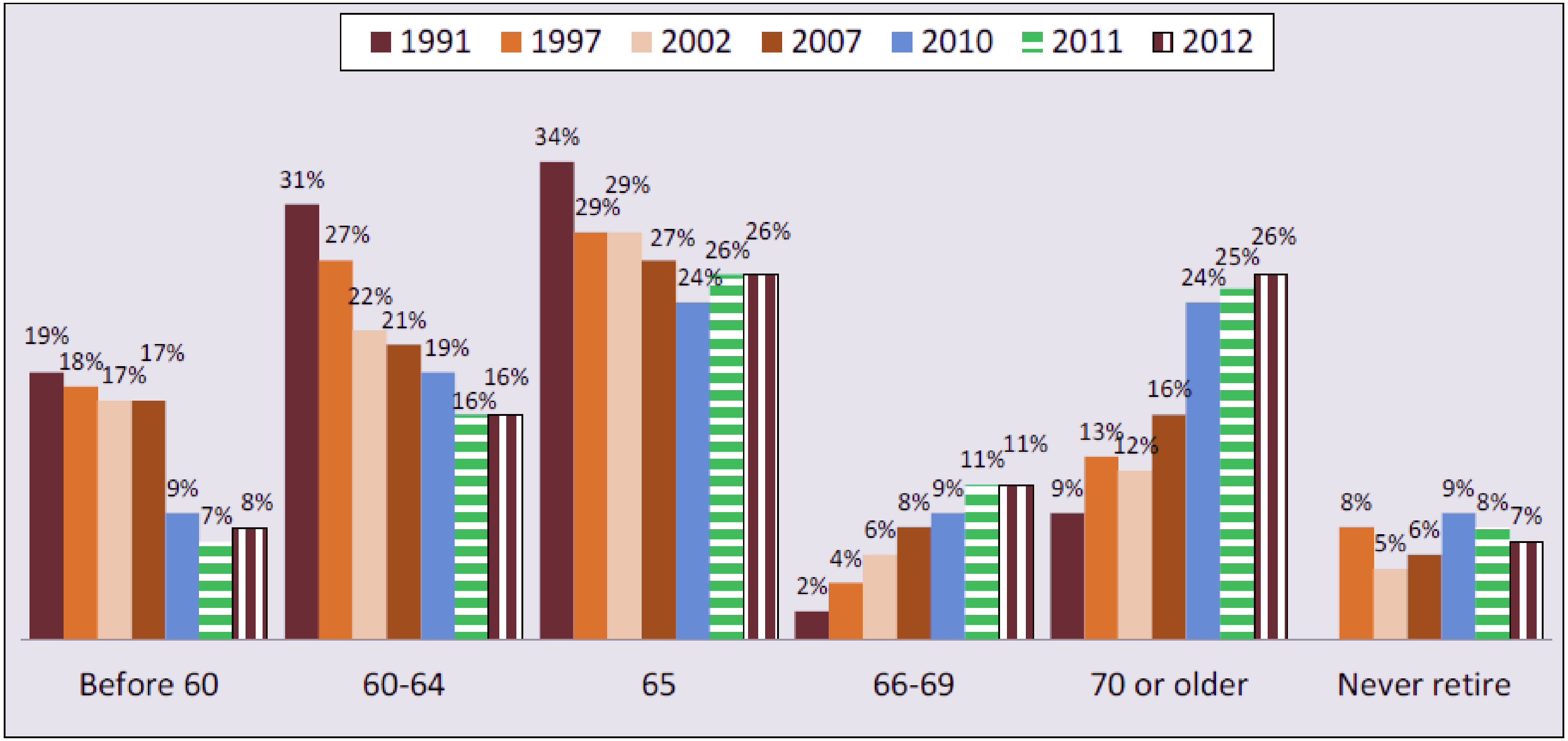
As Gallup's Annual Survey Confirms: Employees Expect to Work Longer and Retire Later



Source: Gallup's annual Economy and Personal Finance survey, conducted April 9-12.
http://www.gallup.com/poll/154178/Expected-Retirement-Age.aspx

The Employee Benefit Research Institute Has Tracked the Same Data, by Expected Retirement Age

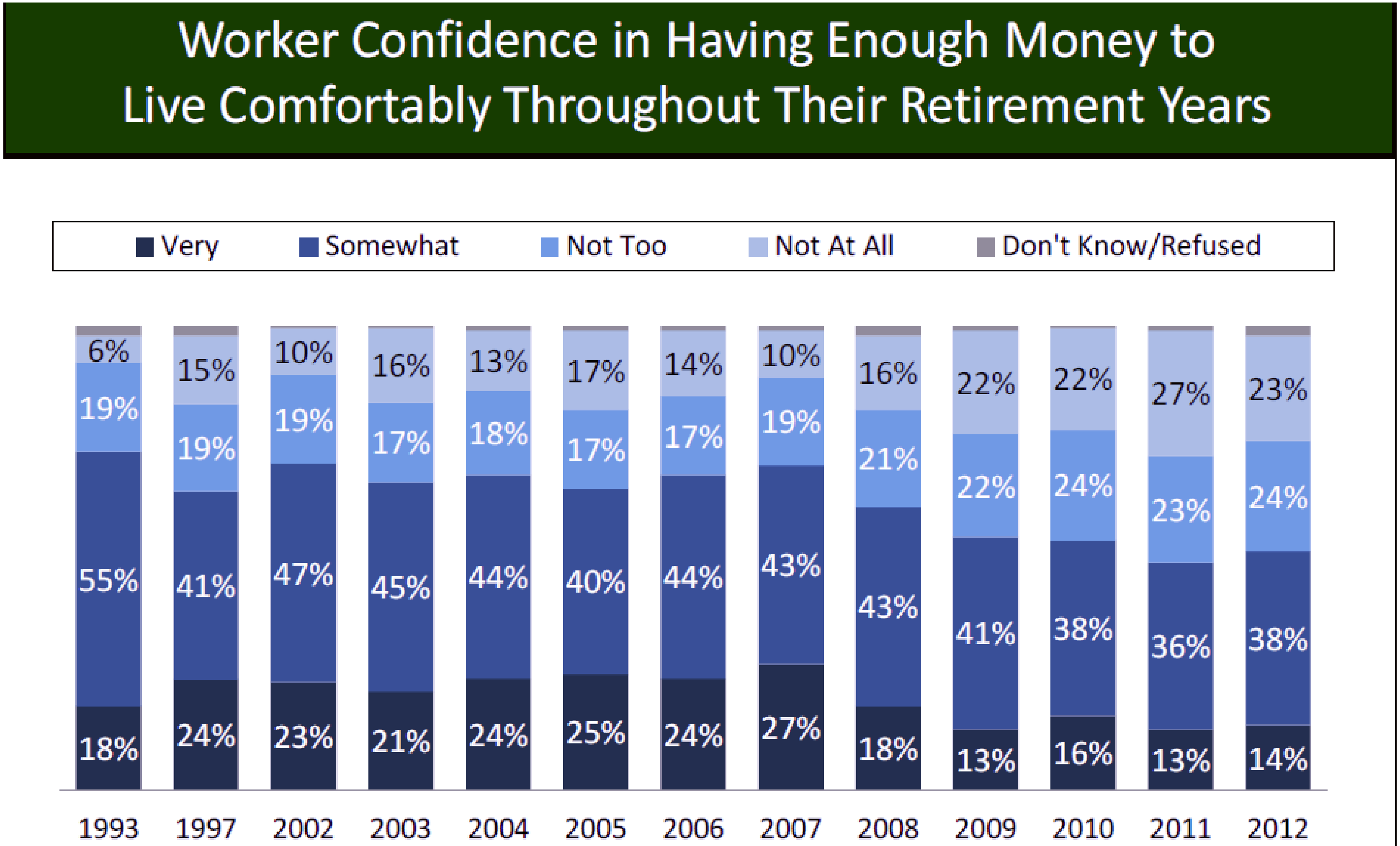
Trend in Workers' Expected Retirement Age



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1991–2012 Retirement Confidence Surveys.

http://ebri.org/pdf/surveys/rcs/2012/fs-02-rcs-12-fs2-expect.pdf

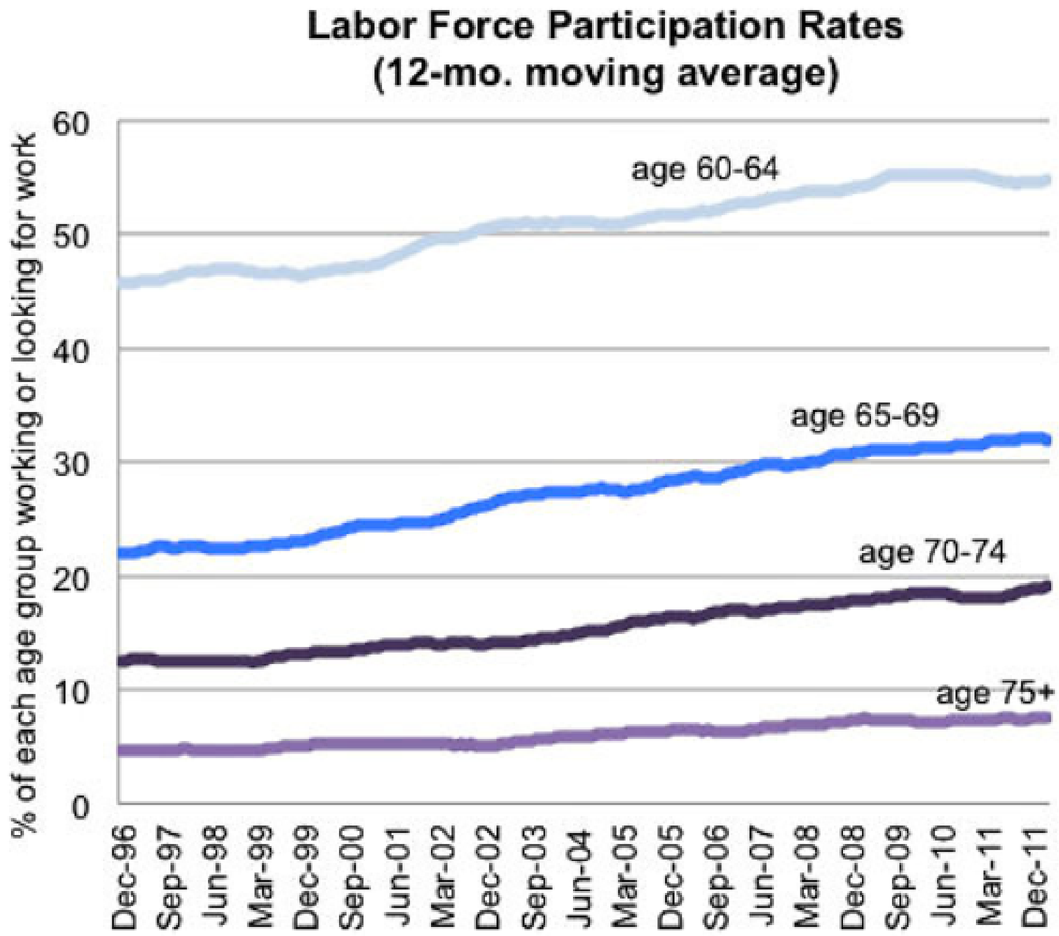
And Workers' Confidence In Being Able to Retire Comfortably Has Declined



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1993–2012 Retirement Confidence Surveys.

http://ebri.org/pdf/surveys/rcs/2012/fs-01-rcs-12-fs1-conf.pdf

In Every Retirement "Cohort," the Percentage of those Remaining in the Workforce has Moved Up Steadily



Source: Bureau of Labor Statistics

http://economix.blogs.nytimes.com/2012/05/02/retirement-slipping-farther-and-farther-away/?hp

Home / Get the Facts / Statistics

Why Pensions Are Important

This fact sheet explains the role pensions play in the overall retirement security of American workers, retirees, and their families.

Pensions are Important to Retirement Security

Social Security provides only a safety net.	
Average yearly Social Security payment:	**$14,766**
Annual minimum-wage salary:	**$15,080**
Average portion of pay Social Security replaces:	**42%**
Most retirees have little in personal savings.	
Median total savings of older households:	**$36,100**
Median income from savings of older Americans:	**$1,054**
MEDIAN INCOME OF OLDER AMERICANS:	**$19,167**
Retirees with pensions have greater income security.	
Median yearly income of retirees with pensions:	**$30,279**
Percentage of older Americans with a pension:	**35%**

http://www.pensionrights.org/publications/statistic/why-pensions-are-important

How Much is Enough?

- A frequently used rule of thumb is that a "Replacement Ratio" of about 75% of pre-retirement income is the minimum required for an "adequate" retirement (post-retirement income/pre-retirement income = replacement ratio)
- Many argue that this level is inadequate, certainly for lower-wage workers (more highly compensated employees may require a lower replacement ratio)

Home / PRC Perspectives Blog

Can we call it a comeback...for DB plans?

Posted by Joellen Leavelle on April 03, 2012

I hope so. According to a newly-released Towers Watson survey, it looks like defined benefit pension plans are making a comeback – especially among younger workers.

According to the **2011 Towers Watson Retirement Attitudes Survey**, younger workers are increasingly recognizing that guaranteed income in retirement should play a role in the decision-making process when selecting an employer. The survey shows that 63 percent of workers under 40 said that their company's defined benefit plan was an important factor when they decided to work for their current employer, up from 28 percent in 2009. DB plans also help with employee retention: 72 percent of the same group of workers say that their employer's retirement plan is an important reason that they haven't switched jobs, up from 37 percent in 2009.

The data also show that younger workers aren't the only ones who recognize the economic security that pensions can provide. The percentage of workers 40 and older who say that their employer's defined benefit plan is a big reason why they stay with their current employer is also on the rise. Other findings from this survey show that growing numbers of workers in all age groups would trade pay increases for more generous retirement benefits. Not only that, employees with DB plans are more confident in their ability to retire than those who rely solely on 401(k)s and other retirement savings plans.

It isn't that hard to figure out why employees of all ages are placing renewed importance on traditional pensions. After all, these retirement plans provide retirees with guaranteed lifetime income. In 401(k) and other retirement savings plans, workers must figure out how much they can afford to set aside, decide where to invest their money, have the discipline keep the money in the 401(k) until retirement, and then cross their fingers that the stock market doesn't crash. Finally, once they do retire, they have to figure out how to make their 401(k) money last. Maybe that's why at least one poll shows that **Americans fear retirement more than death**.

http://www.pensionrights.org/blog/can-we-call-it-comebackfor-db-plans

Insider

Volume 22 | Number 2 | February 2012

American Workers Seek More Security In Retirement and Health Plans

By Steve Nyce

Since the 2008-2009 financial crisis, America's economic engine has continued to sputter. Unemployment remains high, pay is stagnant (or worse), and health and retirement plans don't seem as generous, predictable or secure as they used to be. Employees remain anxious about their long-term retirement prospects, and many fear further reductions in retirement benefits and higher out-of-pocket health care costs.

The silver lining is that the downturn has sharpened the focus on retirement security and health spending. Recent financial losses and higher health costs have highlighted the value of security, and many workers exhibit a new willingness to pay for guaranteed benefits.

which highlights American workers' attitudes toward their household finances, employer-provided benefits and retirement readiness. The first article, "Retirement Planning in a Post-Crisis Economy," focused on workers' finances, retirement plans and savings, and retirement delays. The last article will examine the changing impact of retirement and health benefits on attracting and retaining employees.

Survey highlights

- Over the last three years, retirement security has acquired a higher value for nearly nine in 10 older workers.
- Health care costs top the list of workers' retirement security worries.
- Most employees identify their employer's retirement program as their primary means of saving for retirement, especially younger workers with a

In This Issue

News in Brief

http://www.towerswatson.com/assets/pdf/mailings/Towers-Watson-February-2012-Insider.pdf

2. Overview of Basic Types of Private Sector Pension Plans

- Defined Benefit
- Defined Contribution
- So-Called “Hybrid Plans”

Types of Pension Plans

- **Defined Benefit (DB)**
  - Guaranteed, known monthly annuity for life (although many offer a "lump sum" payout option)
  - Typically include disability, death and survivor benefits
  - Employer bears the risk of underperformance (and the benefits of overperformance)
  - Poor investment returns combined with frequent low contribution levels and historically low interest rates (discount rates) have resulted in many plans being seriously underfunded
  - The pain of significantly increased required employer contributions will likely be ameliorated over time by the combination of resulting increased assets and lower stated liabilities as interest/discount rates return to "normal" levels
  - Insured by the Pension Benefit Guarantee Corporation (within legislated maximums)
  - 2006 Pension Protection Act introduced major new funding requirements and benefit restrictions under some circumstances

Types of Pension Plans (continued)

- **Defined Contribution (DC)**
  - Basically, tax-advantaged savings plans
  - Individual account plans; now typically 401(k) plans, but historically included other types of plans such as supplemental savings, money purchase, profit sharing, and stock bonus plans
  - Contributions from employer and/or employee
    - Some provide for employee-only contributions
    - Some have specified automatic employer contributions (typically expressed as a percentage of payroll)
    - Some also include an employer-match formula – an employer matches employee contributions (typically 25%, 33%, 50% or 100% of employee contributions) up to a specified maximum (a 50% match of employee contributions up to 6% of pay is a common formula)
  - After the contributions are made, all risks are borne by the employee and the amount available for retirement is completely dependent on the account balance
  - Expenses and fees are typically borne by the employee as well
  - DC Plans have historically underperformed DB Plans to such an extent that DB Plans have been shown to be able to produce the same benefit for a 46% lower cost (see NIRS slides below)
  - Not guaranteed by the PBGC

Types of Pension Plans (continued)

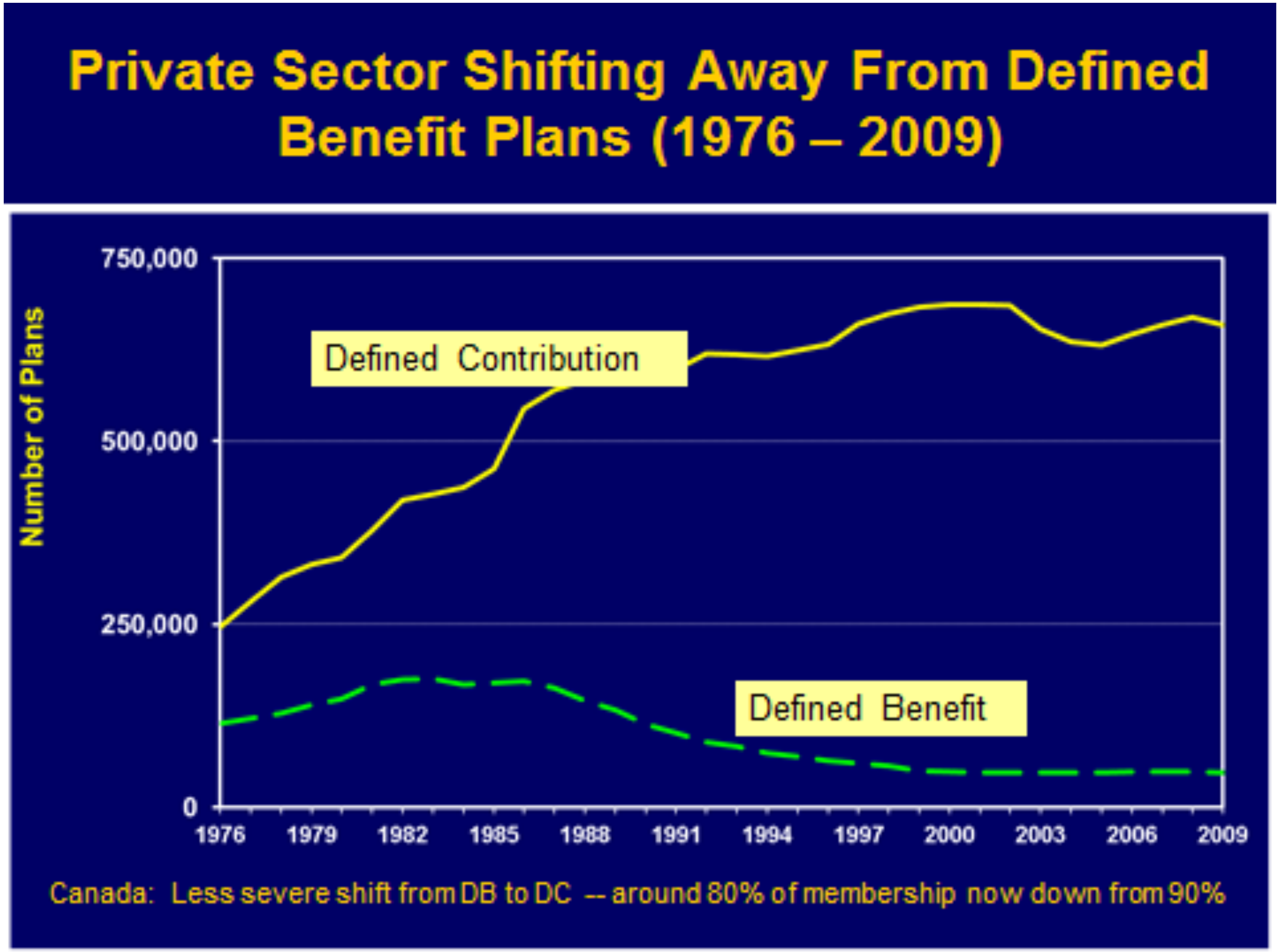
- **So-Called “Hybrid Plans”**
  - Increasingly, employers are proposing and/or implementing plans which combine both DB and DC features, but with typically much lower DB benefits
  - Examples would be retaining the DB plan, but with lower future benefit accruals, and adding a 401(k) plan on top (usually with quite low employer contributions but some sort of employee contribution match)
  - Another example would be a Cash Balance Plan (either as a replacement for the existing DB plan or in combination with either the existing DB plan or a DC plan). While complex, key elements of a Cash Balance Plan include:
    - They are actually DB plans, but are presented as if they were DC plans (“notional” employer contribution levels and account balances)
    - While DB plan benefits are typically based on career-end salary levels, Cash Balance plans are “career average” plans which frequently provide much lower retirement benefits for full-career employees
    - While required to offer a monthly life annuity as the default option, they typically feature lump sum distributions

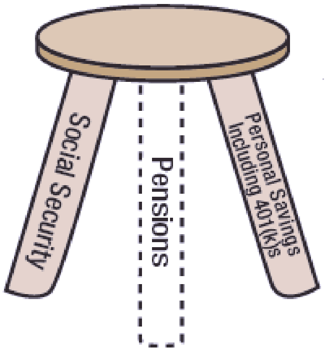
DB v. DC in Private Sector 2009

	DC	DB
% of Plans	93%	7%
% of Active Participants	80%	20%
% of Assets	60%	40%

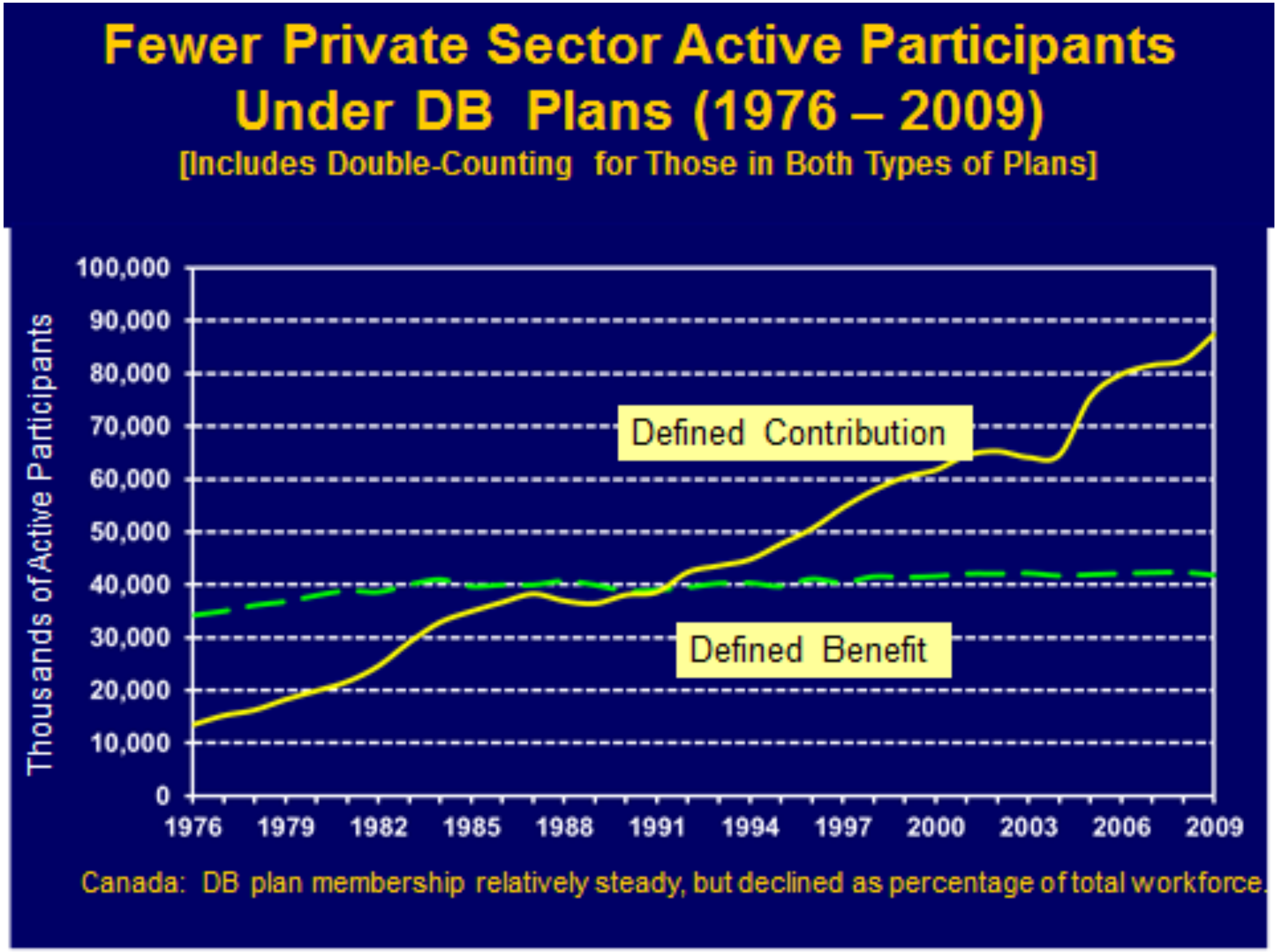
For Canada, 59% of plans were DB; 80% of participants were in DB; 90% of assets were in DB plans.

Again, With Distressing Speed, the "Pension" Leg of the Three Legged Stool Is Vanishing





Although the Number of Defined Benefit Pension Plan Participants Remained Stable Through 2009
(We Haven't Seen 2010-on Data Yet, Though . . .)



3. In-Depth Discussion of Defined Benefit and Defined Contribution Plan Issues

Why Defined Benefit Pensions Are Good For Our Society

- People with pensions are less likely to be at risk in retirement
- Features of Defined Benefit (DB) pensions enhance retirement income adequacy
  - *DB pensions provide broad-based coverage*
  - *DB pensions provide secure money for retirement*
  - *DB pensions provide professional asset management*
  - *DB pensions provide a lifetime income*
  - *DB pensions provide special protections for spouses*
- Recent trends in DB pension coverage raise concern
- Many Americans will fall short in retirement without DB pensions

ISSUE BRIEF
May 2008

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

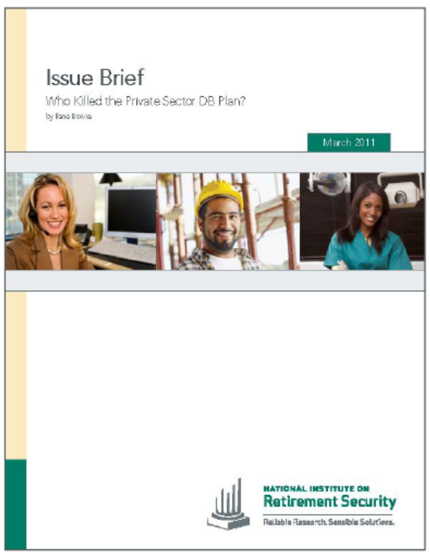
Retirement Readiness
What Difference Does A Pension Make?
By Beth Almeida

Table 2 — **Percent of Households "At Risk" at Age 65 by Birth Cohort and Retirement Plan Coverage**

Retirement Plan Coverage	Early Boomers Born 1946-1954	Late Boomers Born 1955-1964	Generation X'ers Born 1965-1972
All households	35%	44%	49%
Households with both DB pension & DC plan	12%	21%	25%
Households with a DB pension plan	15%	20%	30%
Households with a DC plan	49%	52%	48%
Households with no retirement plan	50%	60%	65%

Source: Munnell et al 2007

Who Killed the Private Sector DB Plan?



Key Findings

- Traditional DB pension plans still make sense:
  - **For employees:** Better ensure retirement security
  - **For employers:** Cost-efficient and effective recruitment and retention tool
- Yet employers have been closing DB plans since 1980s.
- This is due to several factors…

Key Findings

- Employers closing plans due to:
  - Increased regulation
  - Industry changes
  - Poor knowledge of employee preferences for DBs
- Employers NOT closing plans due to the inherent cost of providing DB benefits – it's the ***volatility***.

Traditional DBs Still Make Sense for Employees

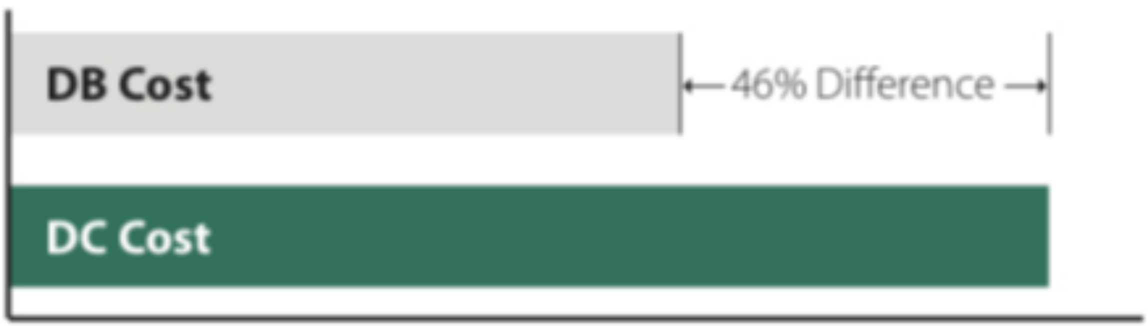
- DBs are the best way for most Americans to stay middle class in retirement.
  - See *Retirement Readiness: What Difference Does a Pension Make?* (NIRS 2008)

- Americans with DBs more likely to be self-sufficient, less likely to need public assistance.
  - See *The Pension Factor: Assessing the Role of DB Plans in Reducing Elder Hardships* (NIRS 2009)

Pensions Cost-Effective for Employers

DB plans remain the most economical way to fund retirement.

Cost to Achieve a Target Benefit in Retirement



"The [DB] plan is an efficient vehicle in the delivery of retirement benefits."

–Hewitt survey of DB plan sponsors

Source: A Better Bang for the Buck (NIRS 2008)

Cost, Cash Flow, Contributions

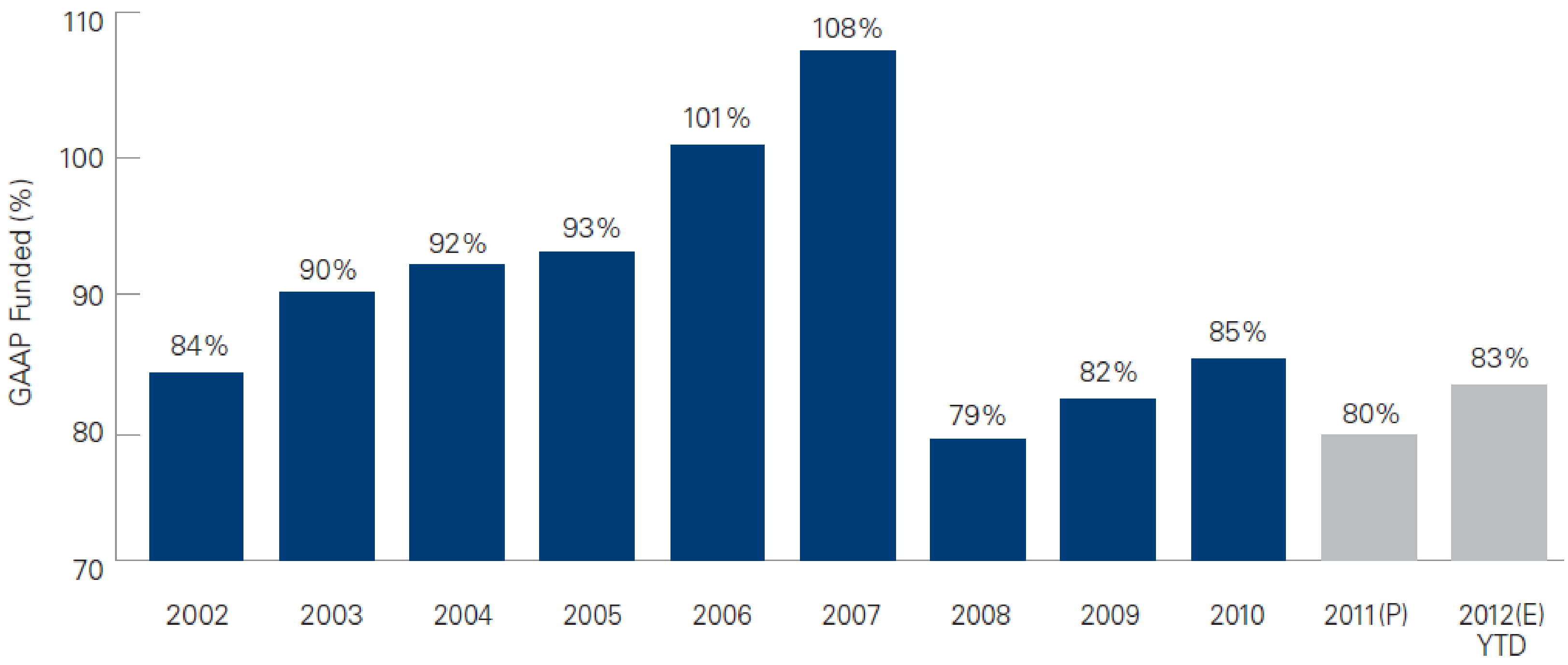
- **Cost:** Firms NOT closing plans due to inherent cost of DB benefits.
- **Cash Flow:** Many firms cite contributions' affect on cash flow as impediment to sponsorship.
- **Contributions**: As firms have frozen their DBs, contributed less to the new DC plans. (Ghilarducci and Wei)

"Whatever the arguments about the merits of the new wave of [DC plans], if you put less money in, you will get less money out."

–*The Economist*

Goldman Sachs: Funded Status Has Started to Recover

Exhibit 1: Funded status has started to recover given rise in equity markets and interest rates
S&P 500 US plans; 2011 preliminary results based on our 50-company "First Take" sample



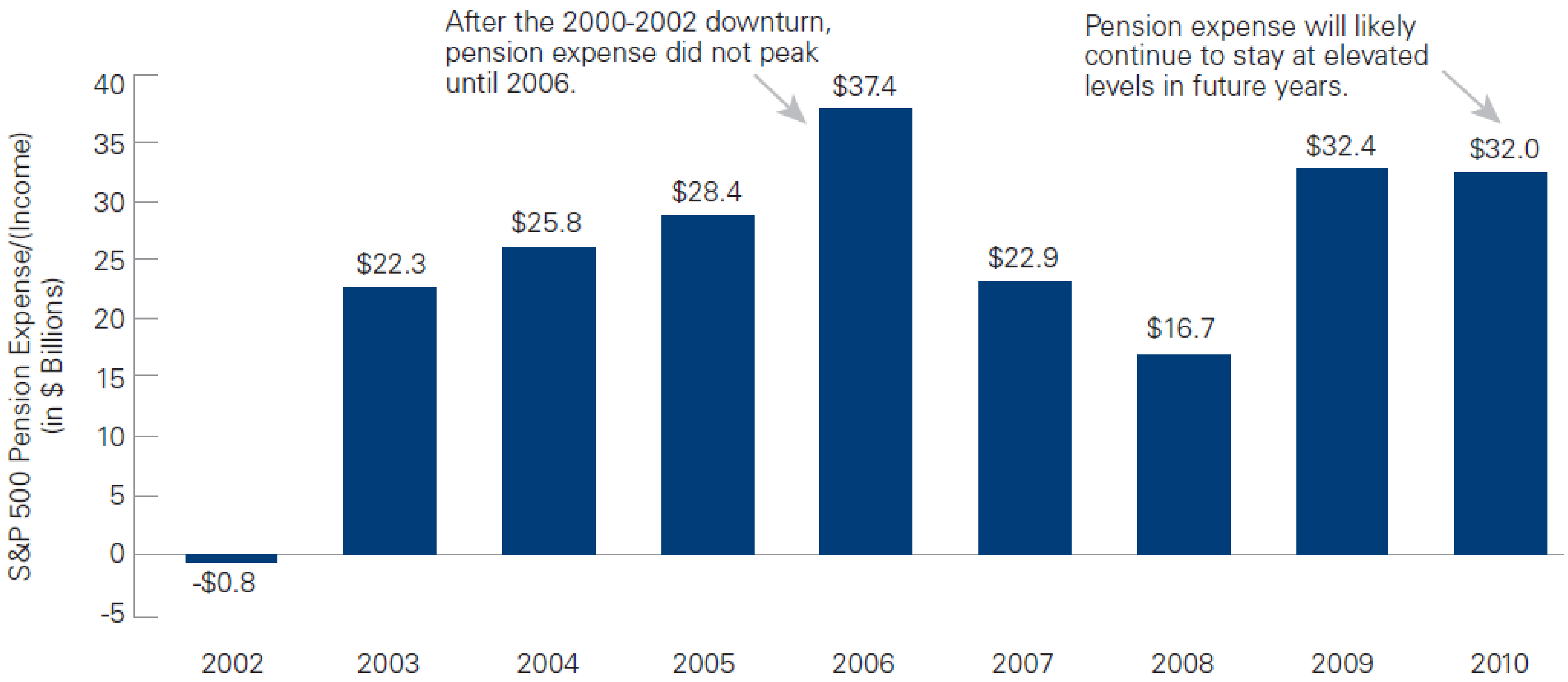
Source: Goldman Sachs Asset Management; company reports.

White Paper 2012, "Pension Review 'First Take:' Highlights, Challenges and Changes for 2012, Goldman Sachs Asset Management, http://www.gsam.com

Pension Expense Growth Lags Recovery in Funded Ratios

Exhibit 2: Elevated pension expense has garnered attention in recent years

S&P 500 US plans

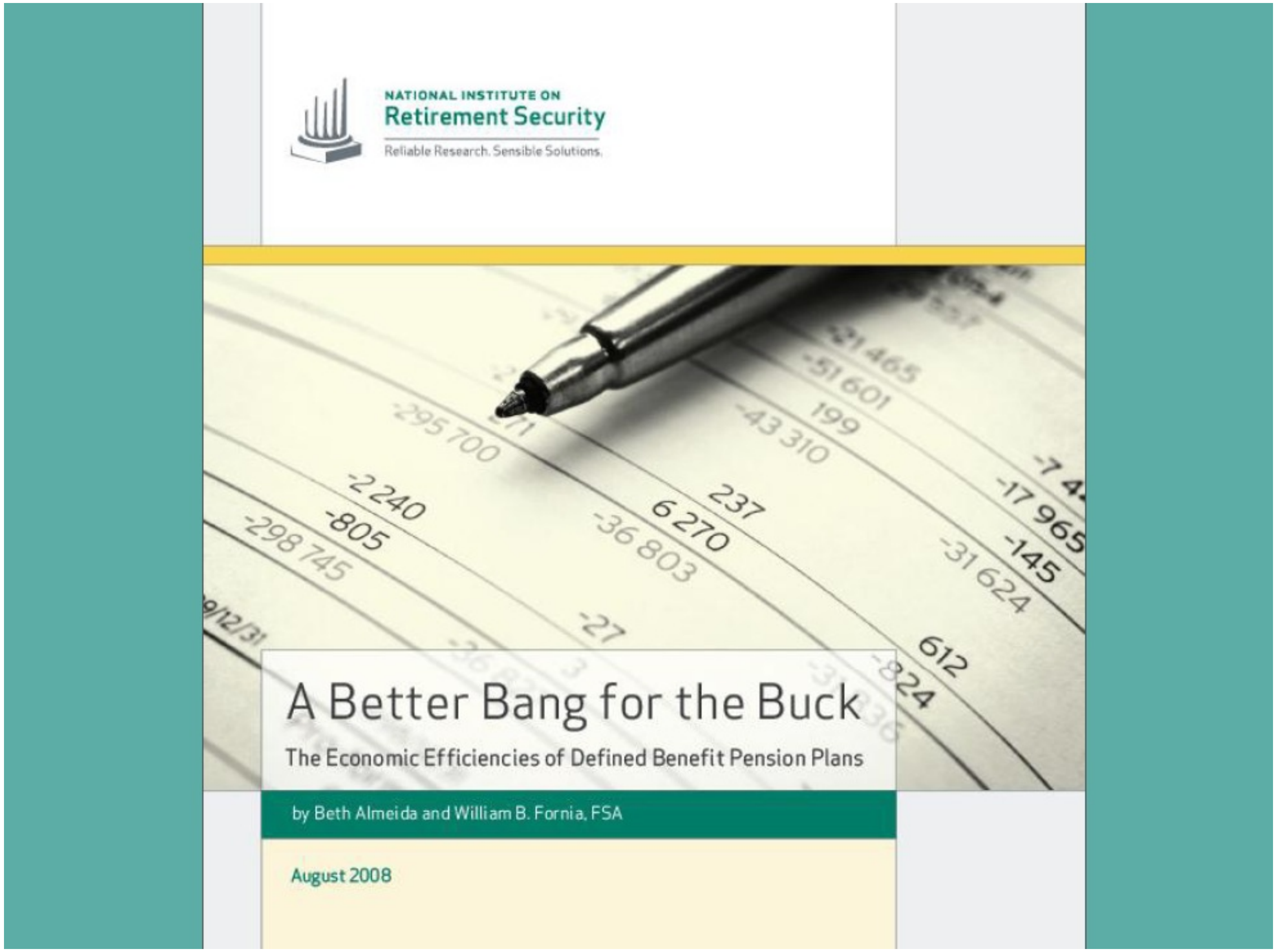


Source: Goldman Sachs Asset Management; company reports.

401k Plans Aren't Getting the Job Done

- **What workers need**
  - Roughly 10 times annual pay
  - 15-18% of salary every year for 30 years
- **What workers actually have**
  - Typically 2-3 times annual pay.
  - Average deferral rate for workers who make less than $100,000 per year just over 5%.
- **According to the 2007 Federal Reserve Survey of Consumer Finances (the most recent full survey available)**
  - The median 401(k)/IRA balance for participants approaching retirement was only $78,000 – and this was before most of the stock market crash.

Why Are DB Plans So Much More Efficient than DC Plans In Providing Retirement Benefits?



http://www.nirsonline.org/storage/nirs/documents/better_bang_for_the_buck_ppt.pdf

Why We Did This Study

- Evaluate claims that “DC plans save money”

- How do the costs of delivering retirement benefits through each type of plan compare?
  - Apples-to-apples comparison
  - Calculate the cost to deliver the same level of retirement benefits
    - DB plan
    - DC plan

NIRS Methodology

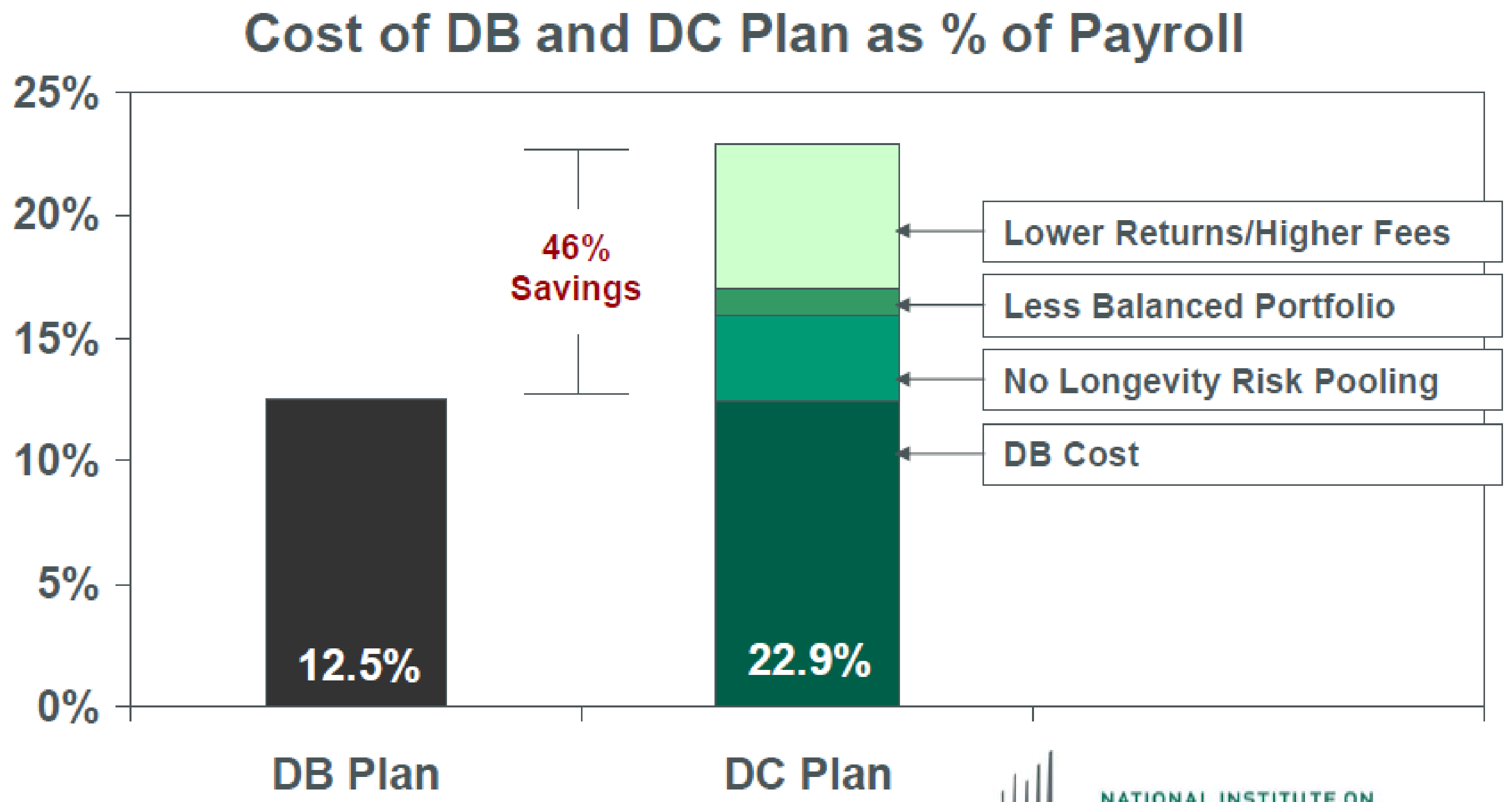
- NIRS modeled a population of 1,000 female teachers who work for 30 years - their final salary is $50,000
- They defined a “target” retirement benefit – about $2,200/month – at age 62, replacing about 53% of final salary with the DB pension benefit (Social Security would be in addition to this)
- They then calculated the cost to fund this benefit through a DB plan structure, then through a DC plan structure

What We Found

- The DB approach saves money compared to the DC approach. Three reasons …

1. DB pension plans pool “longevity risks”
2. DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
3. DB pension plans achieve better investment returns because of professional asset management and lower fees

DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan



NATIONAL INSTITUTE ON Retirement Security

Tallying the DB Plan Cost Savings

1. Longevity risk pooling saves 15%
2. Maintenance of portfolio diversification saves ... 5%
3. Superior investment returns save 26%

All-in costs savings in DB plans 46%

In other words - a DB plan can provide the same benefit at almost half the cost of a DC plan

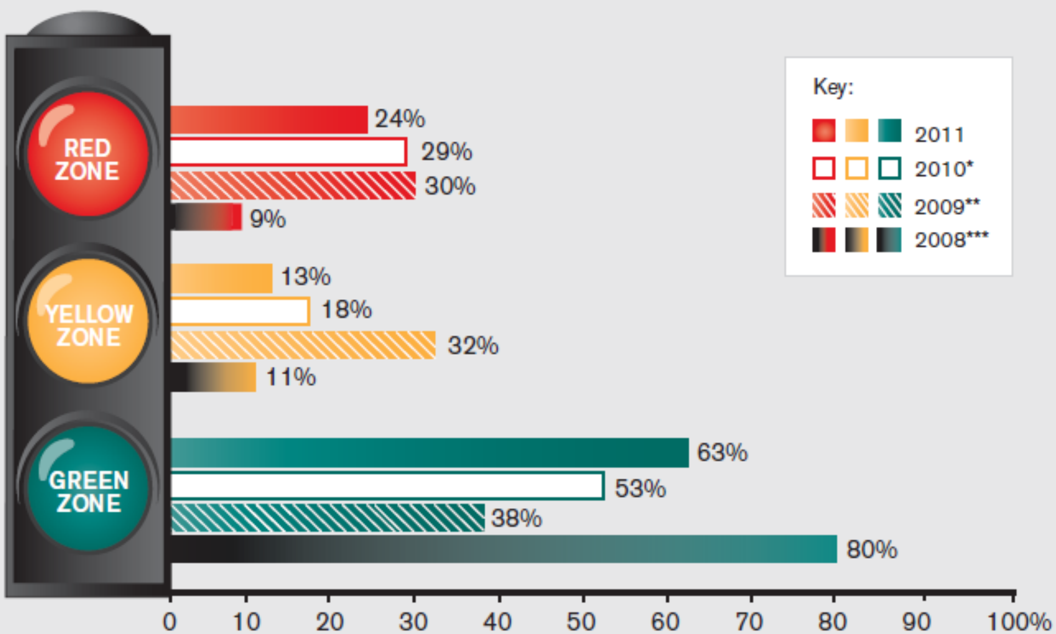
Single v. Multi-Employer DBs

- Multi-Employer
  – Collectively bargained
  – Jointly administered by labor and management
  – No one employer controls plan
  – Risk is pooled
  – Investment gains typically benefit participants
  – Portable among participating employers
- Single Employer
  – Sometimes collectively bargained
  – Administered solely by Employer trustees
  – Risk on one employer
  – Investment gains/over-funding typically benefits employer
  – Not portable in U.S.

Multi-employer plan funding issues

- **Segal & Co. green/yellow/red zone graphic**

Graph 1: Breakdown of Plans' Certified Zone Status in 2011, 2010, 2009 and 2008 by Percentage of Plans in Each Zone*



* More than 370 plans are represented in all four surveys.

** A report of the results from Segal's *Survey of Plans' 2010 Zone Status* is on the following page of Segal's website: http://www.segalco.com/publications/surveysandstudies/winter2011zonestatus2010.pdf

*** A report of the results from Segal's *Survey of Plans' 2009 Zone Status* is on the following page of Segal's website: http://www.segalco.com/publications/surveysandstudies/winter2010zonestatus2009.pdf

**** A report of results from Segal's *Final Survey of Plans' 2008 Zone Status* is on the following web page of Segal's website: http://www.segalco.com/publications/surveysandstudies/spring09zonestatus2008.pdf

Cash Balance Plans

- Repeating/Elaborating on points from earlier slide
- Cash Balance Plan -- either as a replacement for the existing DB plan or in combination with either the existing DB plan or a DC plan (earlier versions of Cash Balance Plans had major ERISA problems, mostly eliminated now and won't be described here).
- While complex, key elements of a Cash Balance Plan include:
  - They are actually DB plans, but are presented as if they were DC plans ("notional" employer contribution levels and account balances)
  - Actuary determines required employer contribution based on benefit accruals, funding levels, and regulations (just like any other DB plan)
  - PBGC coverage just like any other DB plan
  - While DB plan benefits are typically based on career-end salary levels, Cash Balance plans are "career average" plans which frequently provide much lower retirement benefits for full-career employees
  - While required to offer a monthly life annuity as the default option, they typically feature lump sum distributions
- Many more details . . . Can be discussed later if desired (just ask)

Discussion

- Discussion – Q&A, Specific Situations, etc.
  - Some Suggested Topics:
    1. Analyzing Your Employer's Plan
    2. Just Say No (if you can)
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Resources and Acknowledgements

Selected Resources

- General information
  - Pension Rights Center - www.pensionrights.org
  - National Institute on Retirement Security - www.nirsonline.org
  - Employee Benefit Research Institute – www.ebri.org
- Government agencies
  - Pension Benefit Guarantee Corporation (PBGC) – www.pbgc.gov
  - U.S. Department of Labor's Employee Benefits Security Adminstration – www.dol.gov/ebsa/
- Tools
  - Form 5500s – www.freerisa.com
  - Annuity estimators – www.immediateannuities.com (one of many)

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  - The National Institute on Retirement Security – www.nirsonline.org
  - The Employee Benefit Research Institute – www.ebri.org