

EBRI/ERF Policy Forum

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The Decline of Private-Sector Defined
Benefit Promises and Annuity Payments

What Will it Mean?

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A Culture of Employee Choice

- Most companies have developed a culture of employee choice
 - Multiple savings plan investment options
 - Flexible benefits
 - Alternative work schedules
 - Telecommuting
 - Employee self-service arrangements
 - Early retirement arrangements
 - Choice of lump sum pension distributions

Employee Choice and Cost Control

- In an effort to control costs, many companies have changed or cut back retirement benefits and choices:
 - Eliminated COLAs for DB benefits
 - Reduced subsidies for early retirement
 - Reduced 401(k) matching contributions
 - Decreased choice in retiree medical and Rx coverage
 - Eliminated early out programs (3+3 incentives)
 - Reduced the accrual rate for DB benefits or switched to cash balance plans

Employee Choice and Cost Control

- The popularity of lump sum pension distributions have increased benefit costs:
 - Discount rate is currently significantly lower than the assumed return on trust assets
 - Employees are likely to realize lower returns and have greater investment risk vs. pooled pension funds
 - Significant potential “cost” to the retiree of misjudging longevity

What Companies May Do

- Refocus on pension payments as retirement “income” rather than as a retirement “bonus”
- Rebuild the total “benefits model” based on a **partnership** with employees in providing for their financial security:
 - More specificity regarding the role of the company and the expected role of the employee
 - Increased emphasis on educating employees regarding their financial needs in retirement

What Companies Won't Do

- Continue the total benefits package in its current form
- Accept increased levels of uncontrollable benefits expense
- Accept increased volatility in earnings from benefits costs/funding
- Decrease total pay for their top talent
- Completely abandon existing DB plans
- Adopt new DB plans