

EBRI

EMPLOYEE
BENEFIT
RESEARCH
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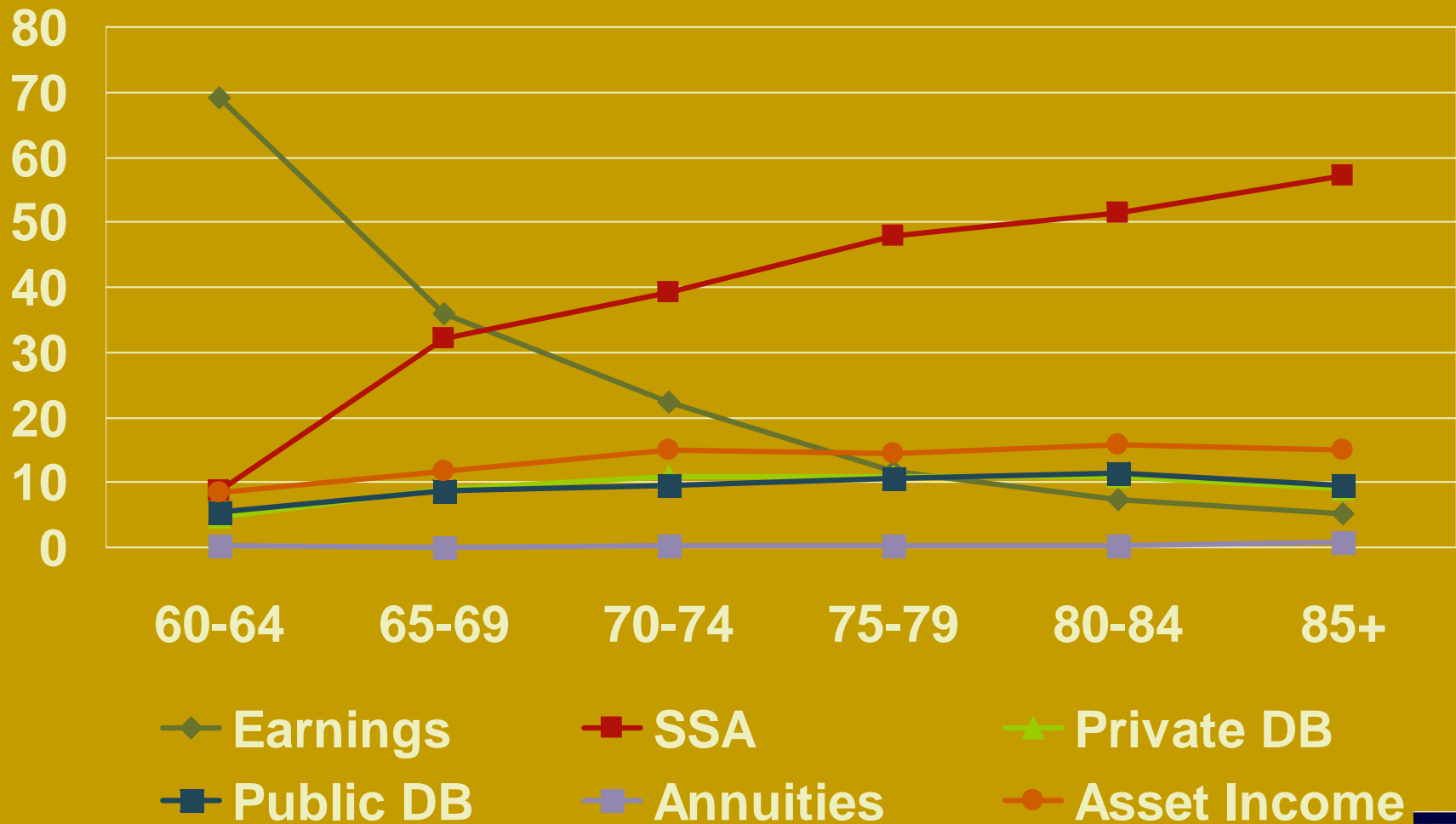
What Is The Future of Defined Benefit Pensions?

IFEBP
52nd Annual
Employee Benefits Conference

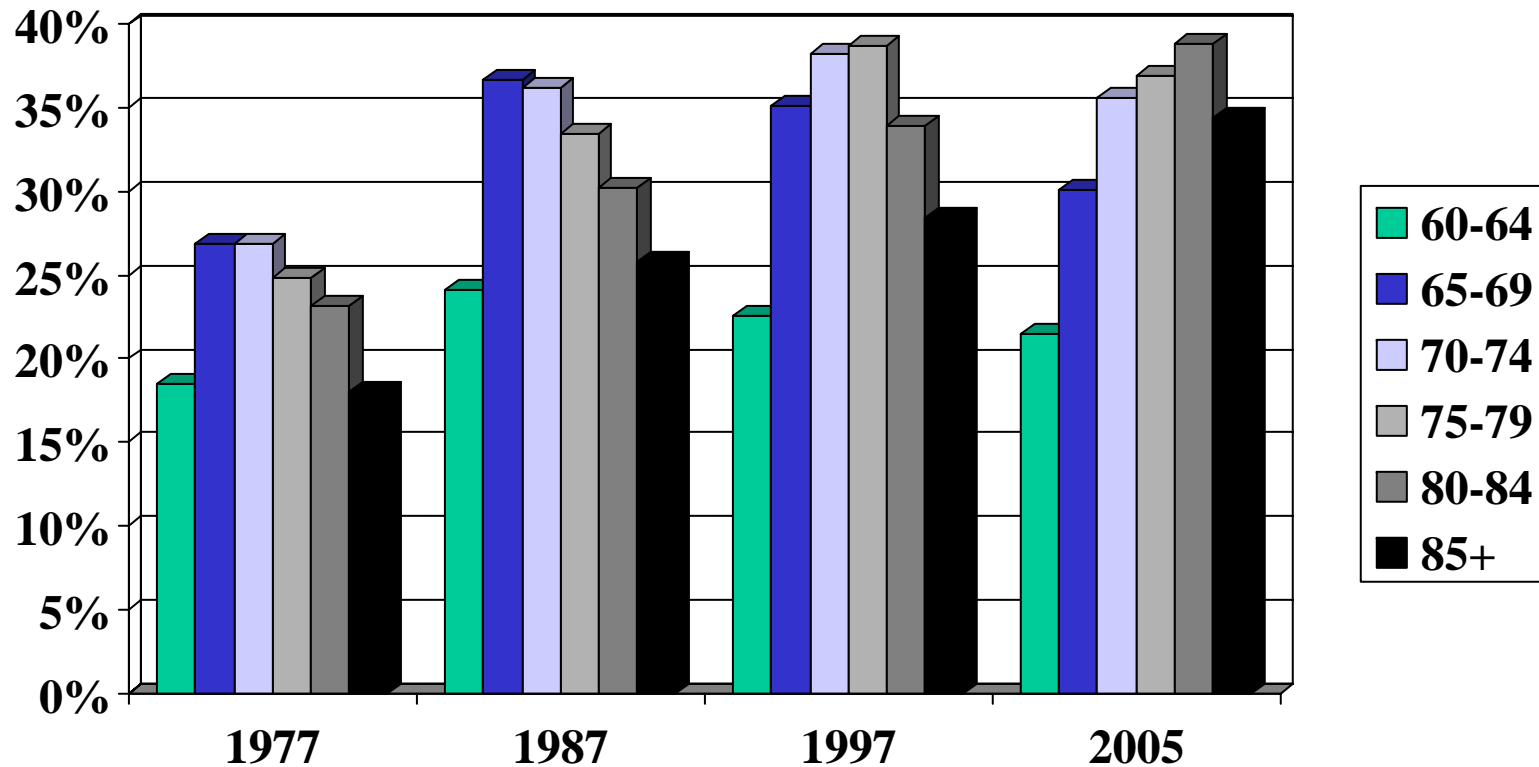
Dallas L. Salisbury
October 9, 2006



Percentage of total income by age for the retired population – 2005 – SSA Reliance

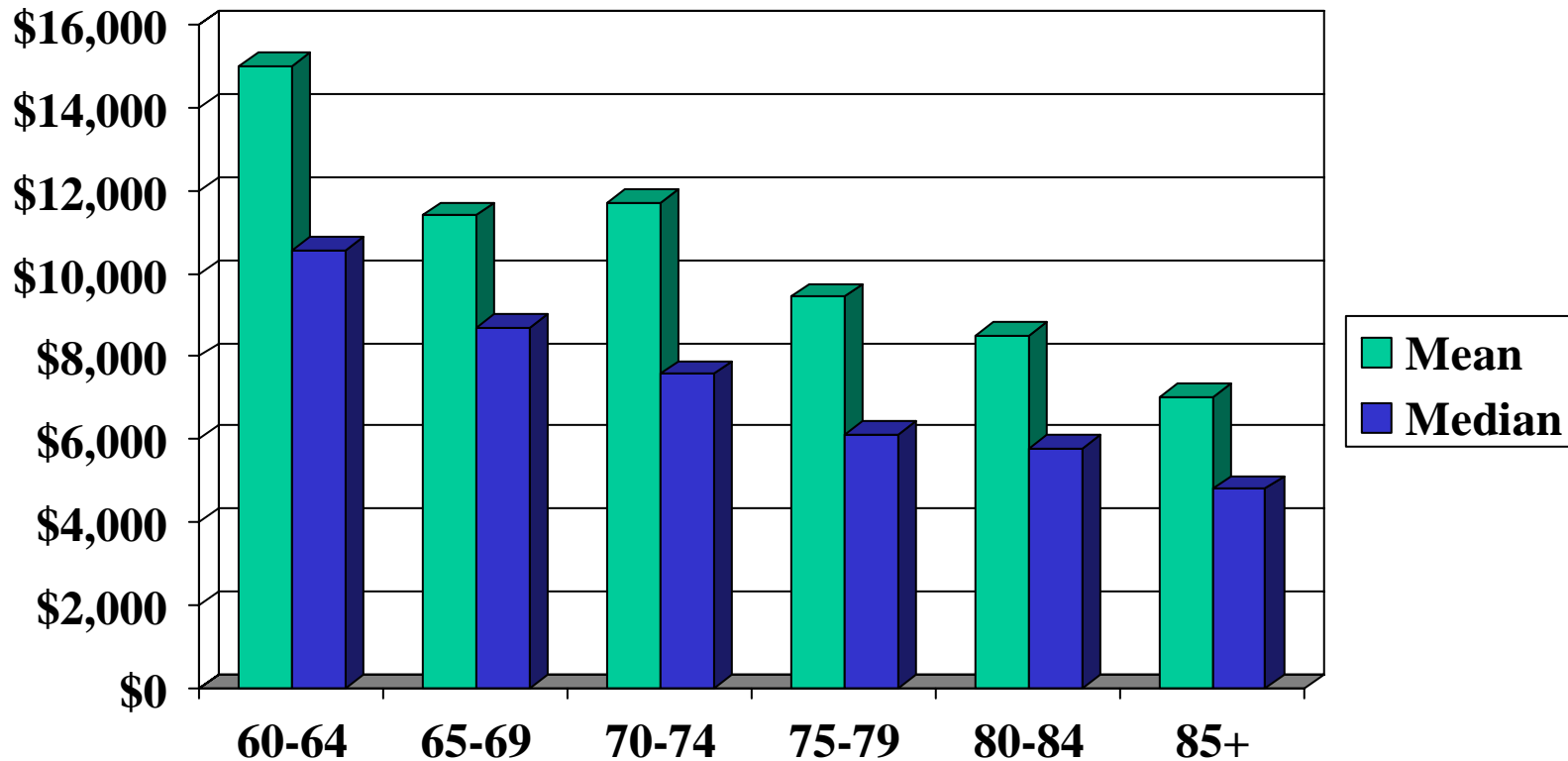


Percent With Public and Private Pension and Annuity Income 1977-2005



Source: EBRI CPS tabulations

Average and Median Annual Private Pension Income Amounts, by Age, 2005



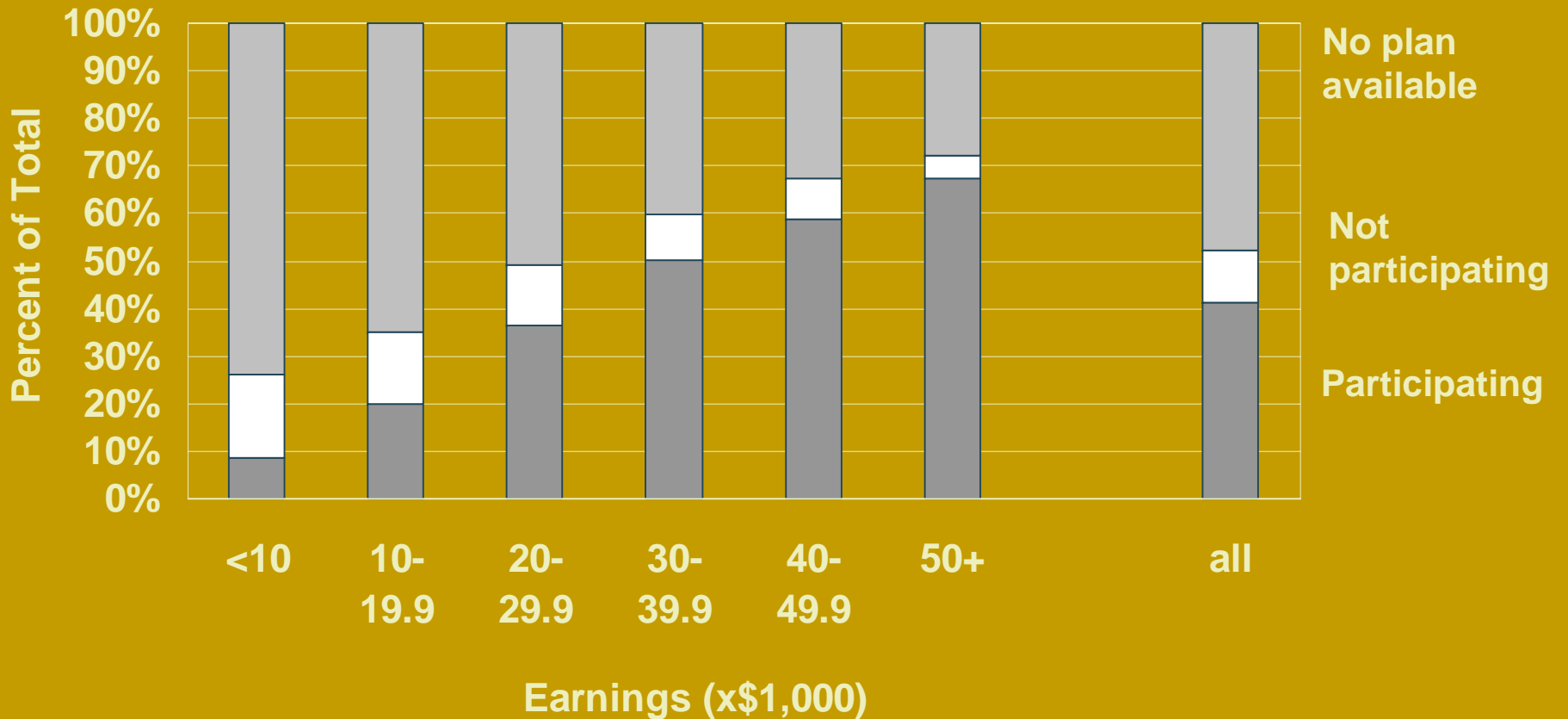
Source: EBRI tabulations of March 2006 CPS

The ERISA Years

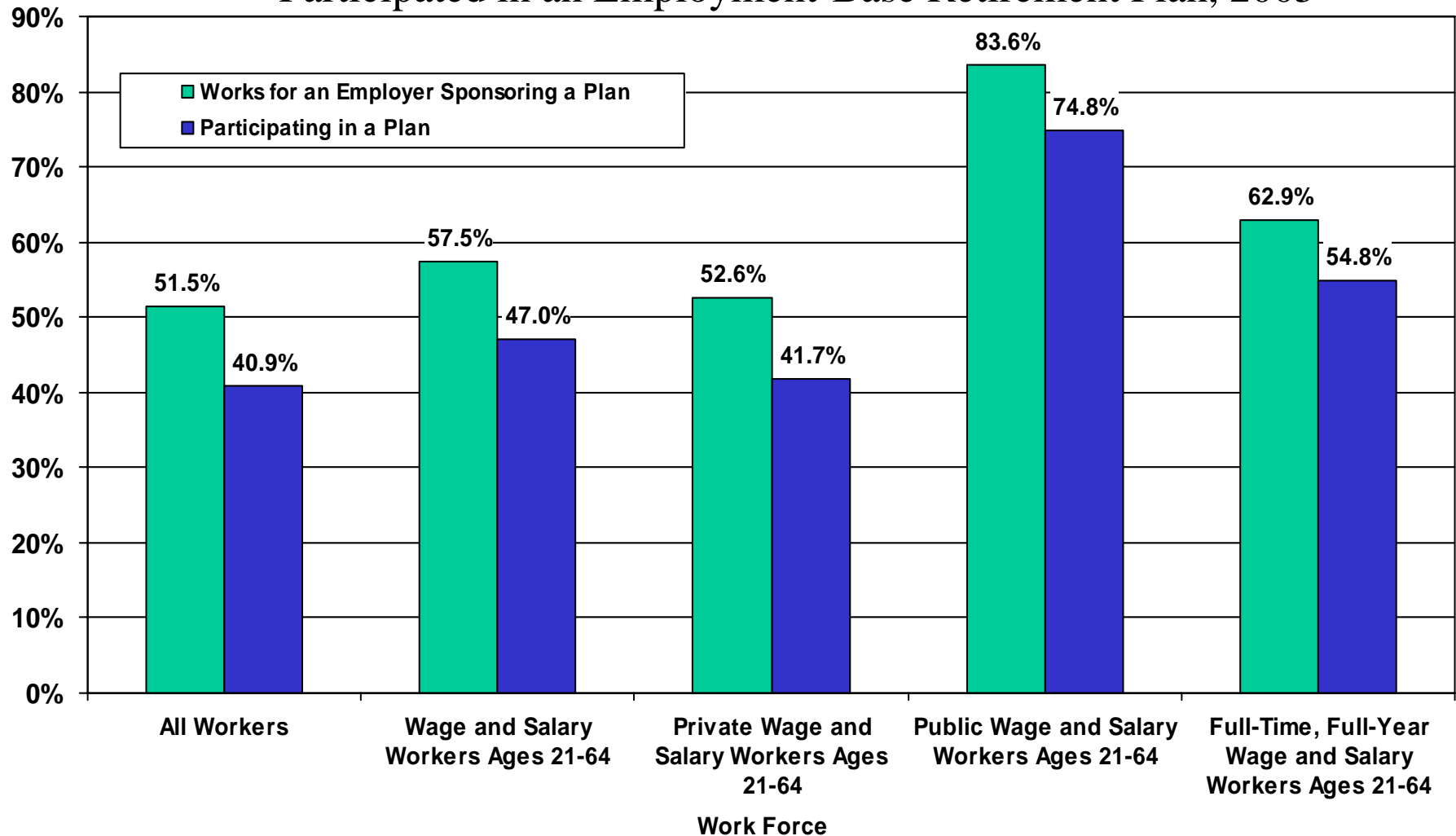
	1974	1978	2006
Private Non-Farm Workforce	62 million	71 million	109 million
Active Participants in a Private DB Plan (single-sgl+multi)	43.7%	40.8%	17%
65+ With Private DB Pension Annuity	15.9%	Highest Year Was 24.8%	22%
DB CB %	0%	0%	22-25%
DB LSD % Take When Offered	?	?	66-98%



Retirement plan participation, private wage and salary workers, 2005

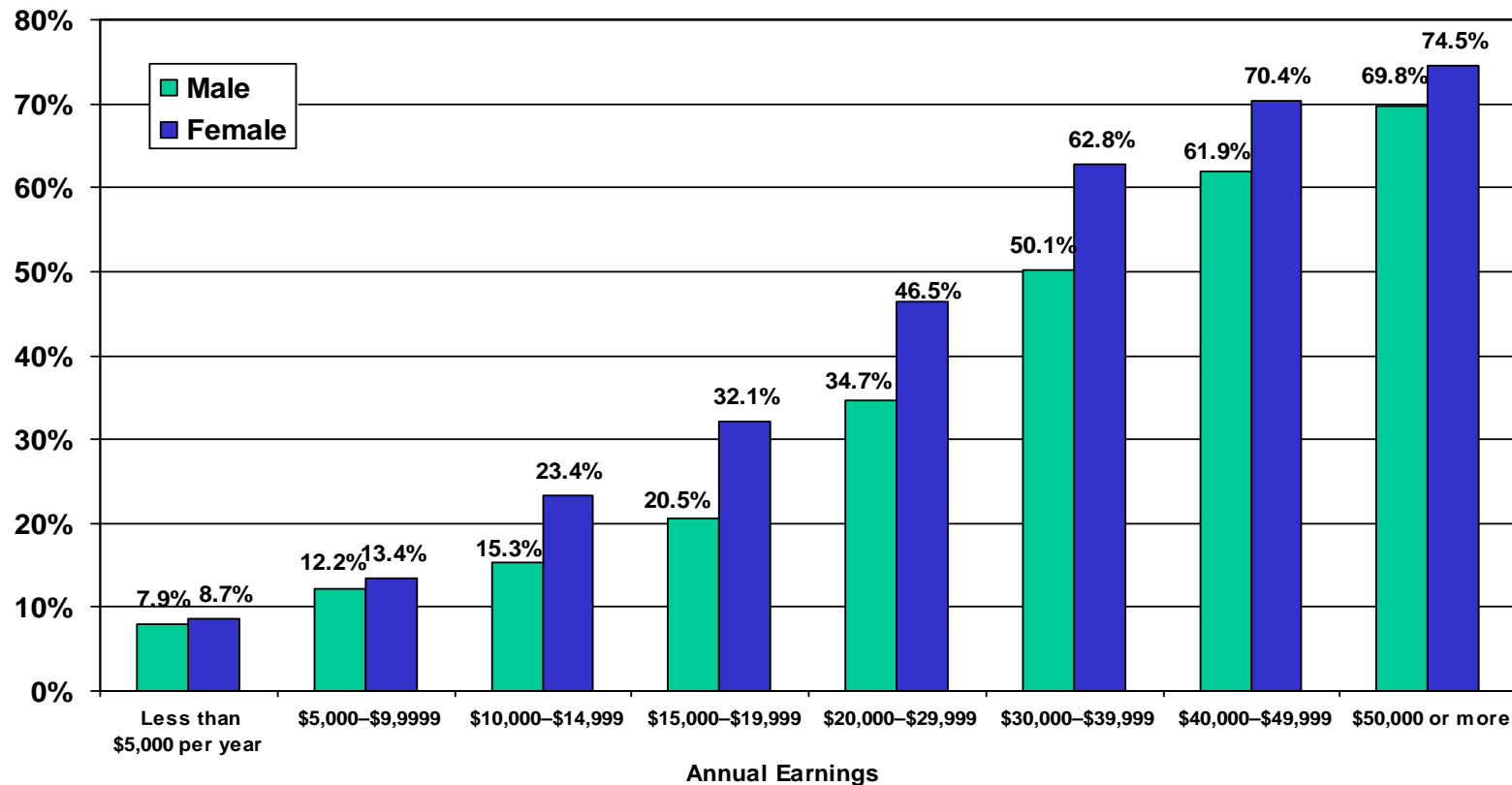


Percentage of Various Work Forces Who Work For an Employer That Sponsored a Retirement Plan, and the Percentage Who Participated in an Employment-Base Retirement Plan, 2005



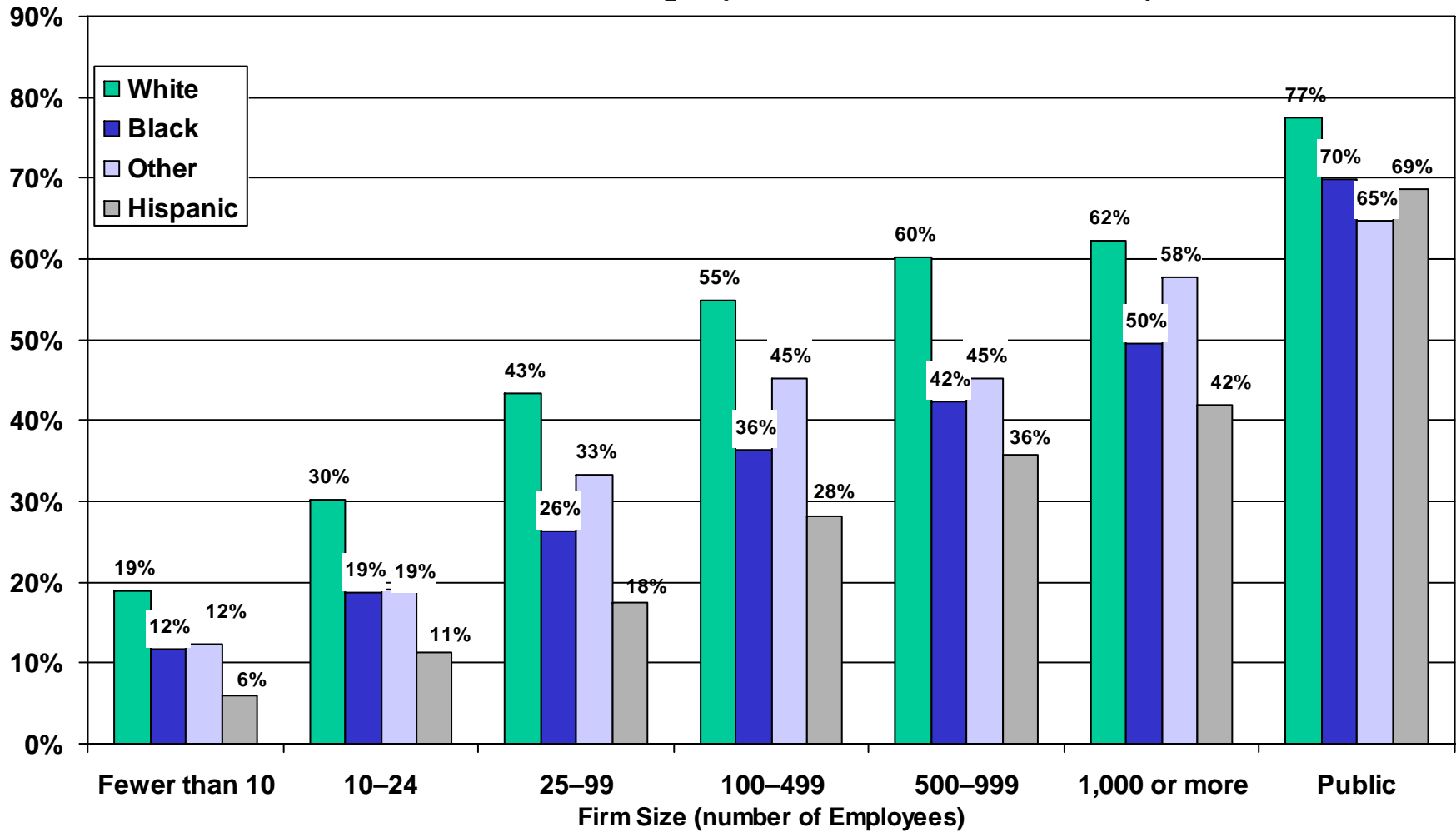
Source: Employee Benefit Research Institute estimates from 2006 March Current Population Survey.

Percentage of Wage and Salary Workers Ages 21–64 Who Participated in an Employment-Based Retirement Plan, by Annual Earnings and Gender, 2005



Source: Employee Benefit Research Institute estimates from 2006 March Current Population.

Percentage of Wage and Salary Workers Ages 21–64 Who Participated in an Employment-Based Retirement Plan, by Firm Size (Number of Employees) and Race/Ethnicity, 2005

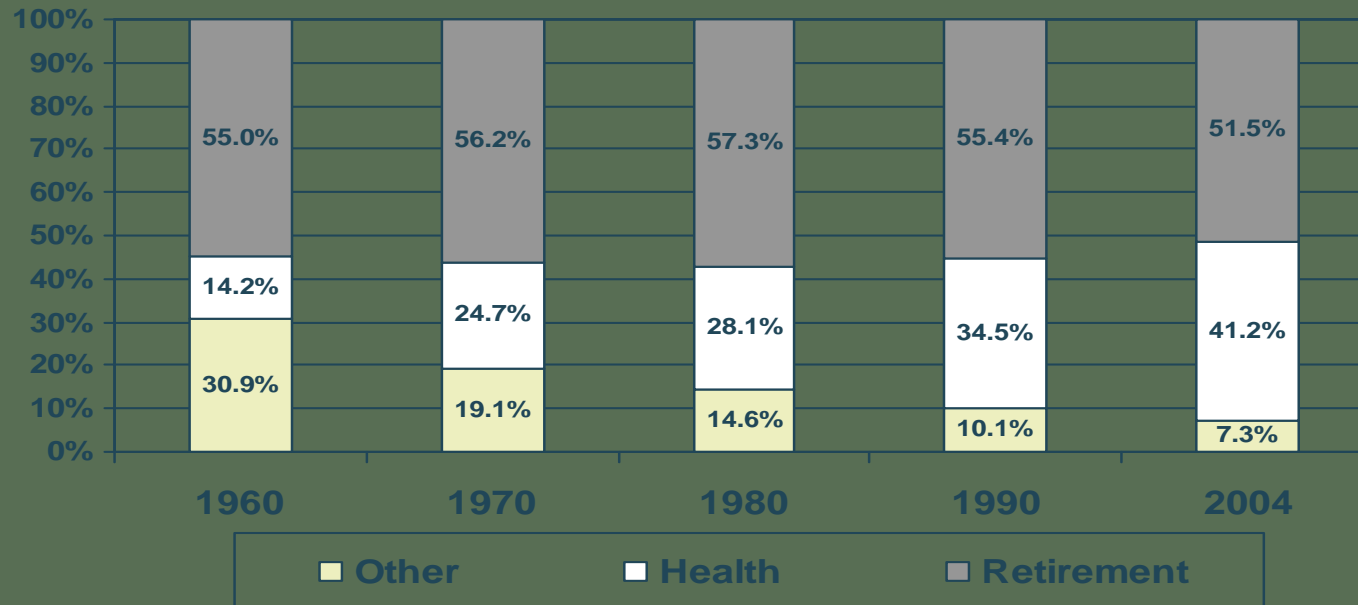


Source: Employee Benefit Research Institute estimates from 2006 March Current Population Survey.



Where benefit dollars went – 1960 - 2004

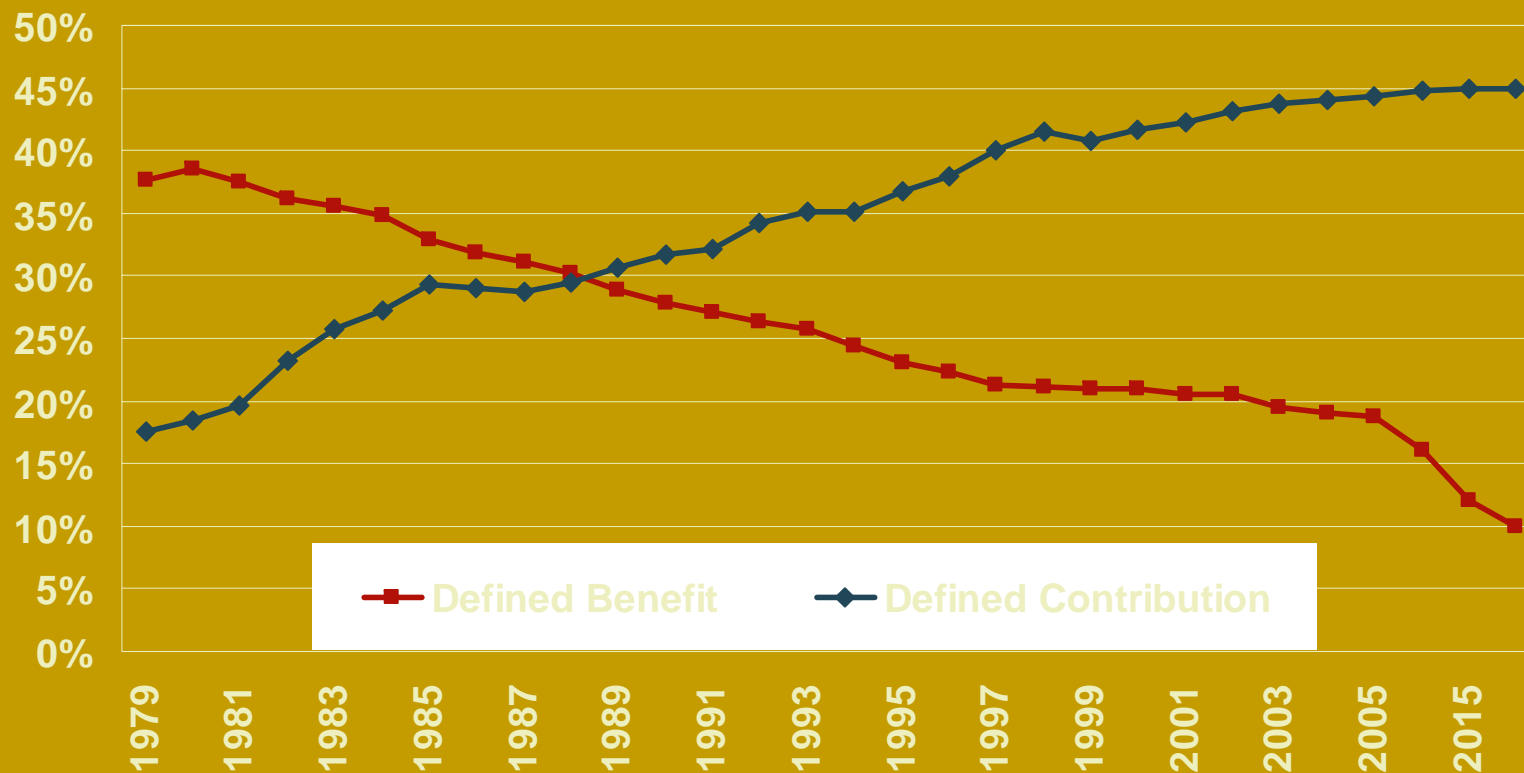
Share of Employer Benefit Spending by Benefit Type, 1960-2004



Source: Employee Benefit Research Institute tabulations based on U.S. Department of Commerce, Bureau of Economic Analysis data.

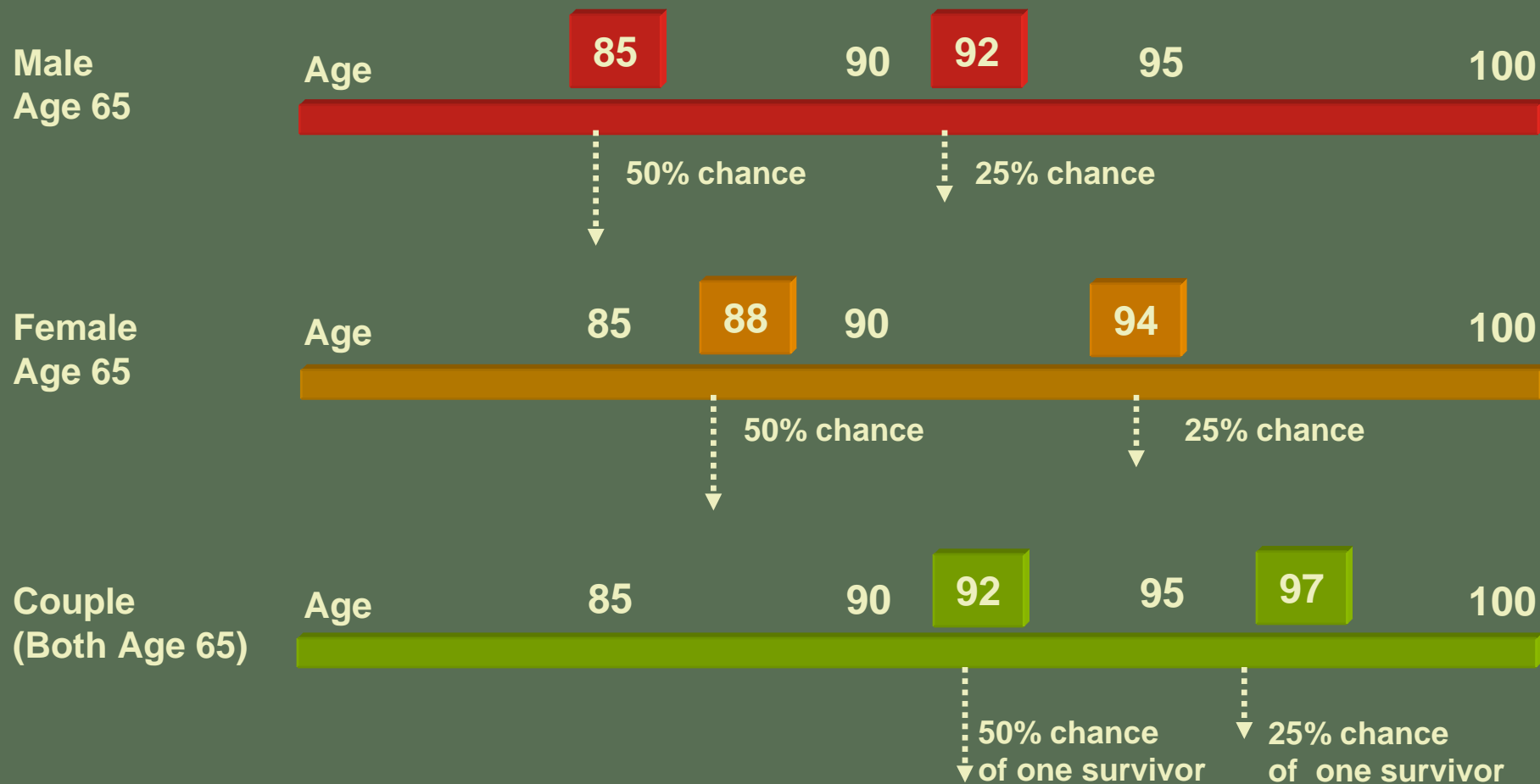


Longevity risk is shifting to individuals As defined benefit plans decline





Most will live longer than they think



Source: Annuity 2002 Mortality Table. Figures assume you are in good health.

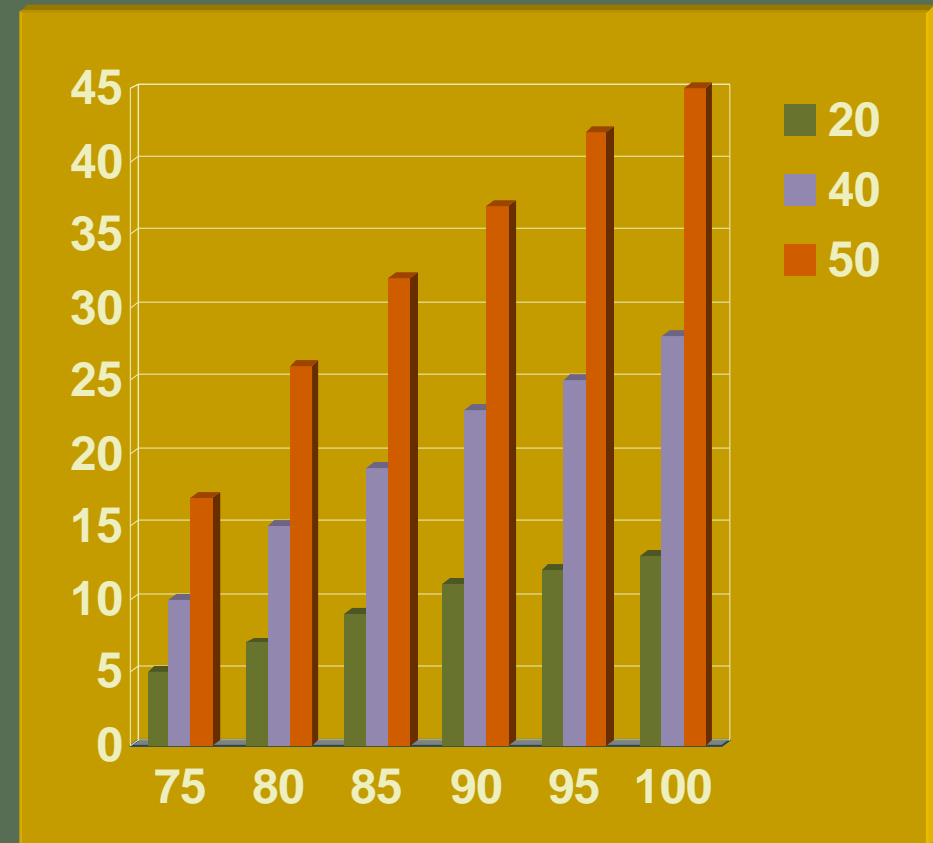


Responsibility for longevity risk requires greater individual savings

How much do you need to save if you work until 67?

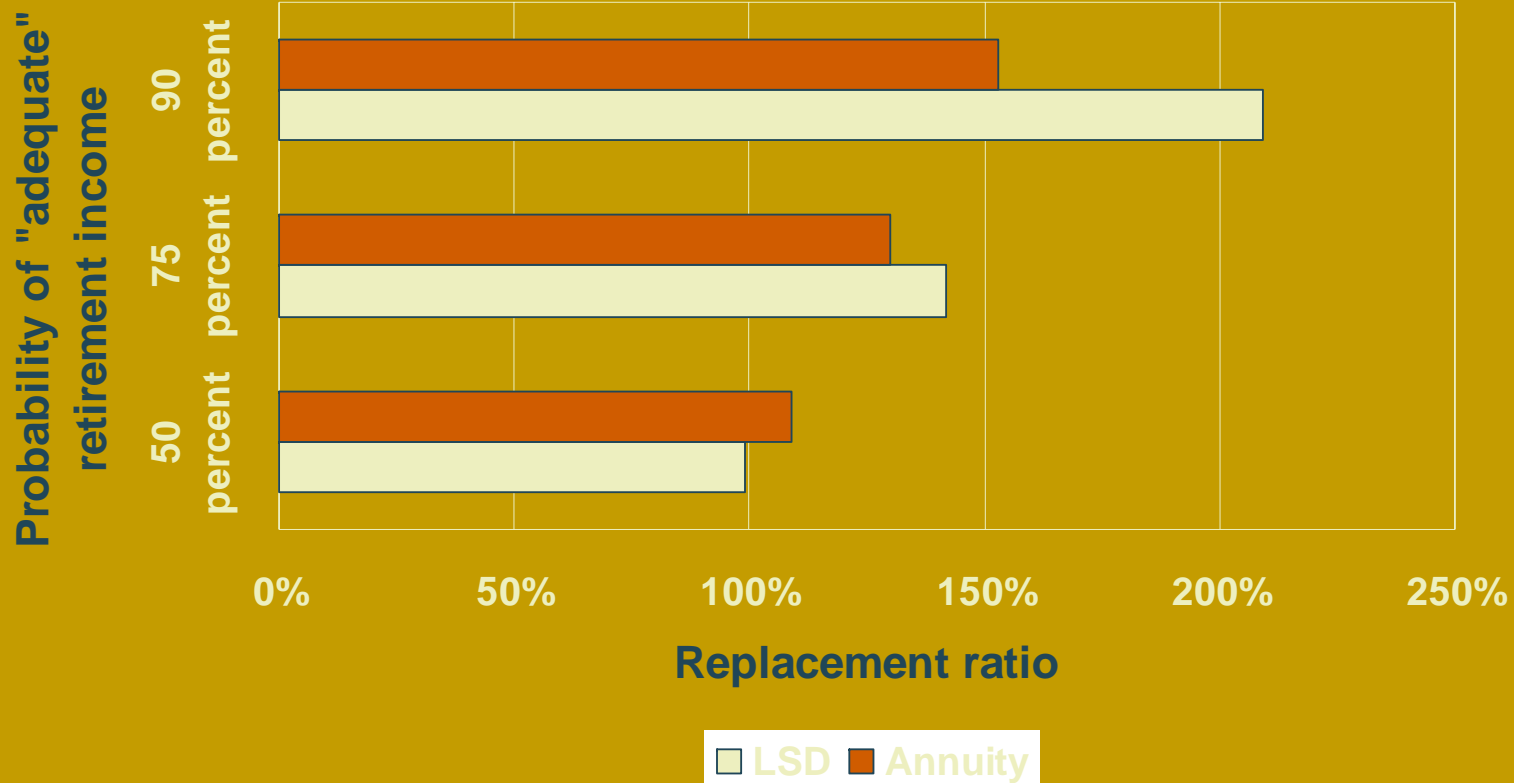
Starting at age 20 and saving consistently for 47 years will support a long life at rates many are now saving.

Waiting until 40 or 50 moves the numbers to the stars unless retirement is delayed.





Longevity risk results in higher replacement rate targets with a lump sum distribution



Source: Tabulations from Figure 14 of September 2006 EBRI Issue Brief. Assumes optimal asset allocation for each situation.

A World of Change

- Traditional Actuarial
- Regulated Prices
- Domestic Focus
- Union Growth
- Life Income Focus
- Pay As You Go
- Long Service Workers
- Lowest Cost
- Financial Analyst
- Free Market
- Global Focus
- Union Decline
- Lump Sums
- Fully Advance Funded
- All Workers
- Stable Cost

A World of Change

- Paternalistic Provision
- Long Product Life
- Low Dependency Rate
- Risk Management
- Cover Longevity Risk
- Pool Risks In Plan
- Shareholder Risk
- Flat Longevity
- Appreciation Wanted
- Short Product Life
- High Legacy Group
- Avoid Risks
- Avoid Longevity Risk
- Avoid Plan Risk
- Individual Risk
- Longevity Extension

Auto Industry

- DB plan freezes
- DB plan changes
- DB redesigns to Hybrids
- Replacement with DC plans

Different Future DB Paths

- Single Employer
- Multi-Employer
- Public Employer

Future Necessities

- Secure past legacy costs
- Fund benefit increases as they are given (PPA)
- Freeze plan if funding goes to far south (PPA)
- Mark to market on assets and liabilities will limit ability to dig holes and PPA mortality rules and PBGC changes will further constrict freedom

The Future

- Will workers put life long trust in others keeping income promises?
- What industries have the prospect of long life and long term pricing power?
- With medical research advances bringing ever longer lives, what institutions should bear the burden annuity income promises?
- Can public sector workers benefits survive if they are among the only workers with them?
- Can “retirement” survive as a concept in the world of tomorrow?
- Could we even afford mandated programs that would provide adequate retirement income in a free market economy that essentially allows unlimited offsetting debt?

The Beginning Is The End