

ERISA @ 40

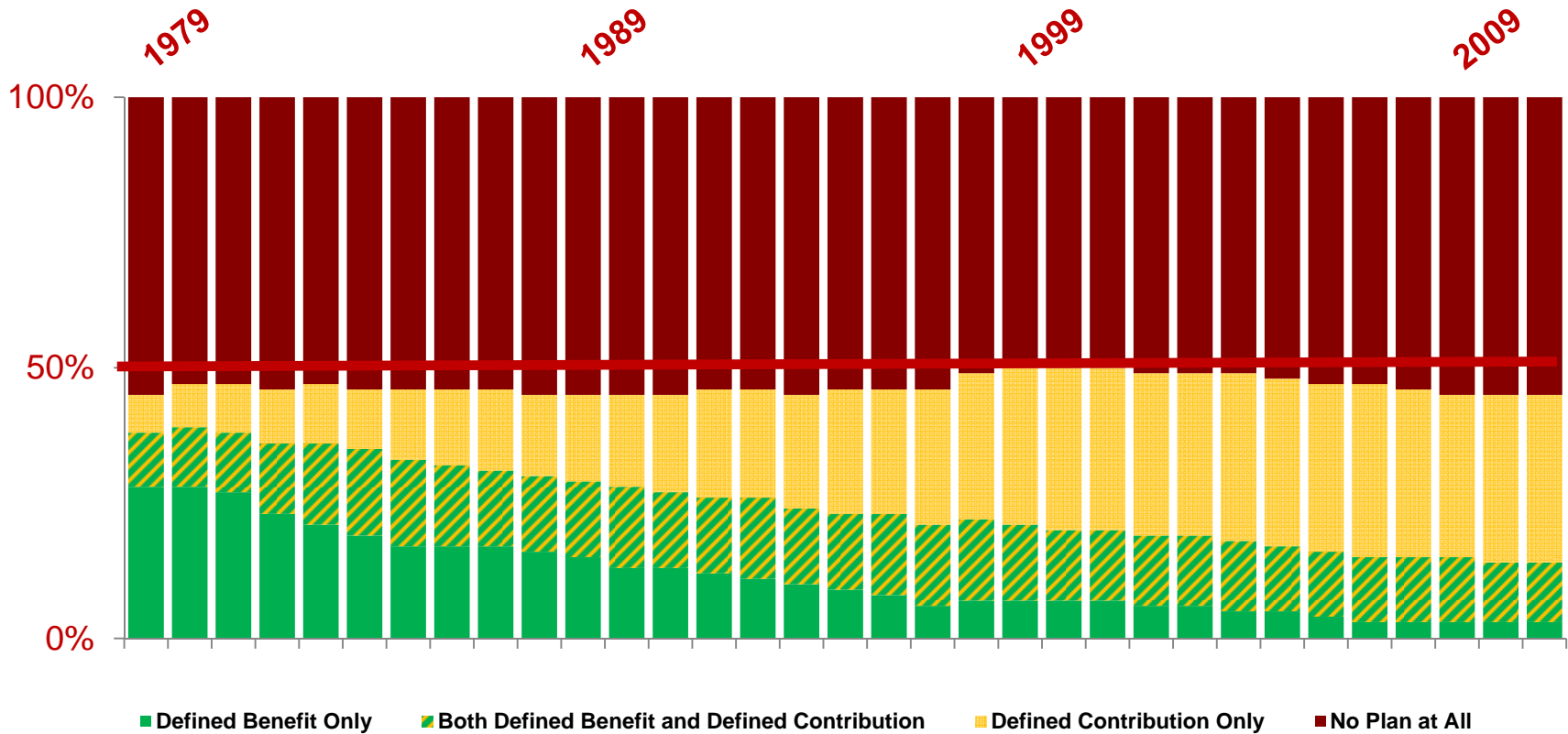
Thoughts on Retirement Security

Josh Gotbaum
Director, PBGC



Since ERISA:

Most private workers have NO retirement plan. Most that do have a DC plan without lifetime income.



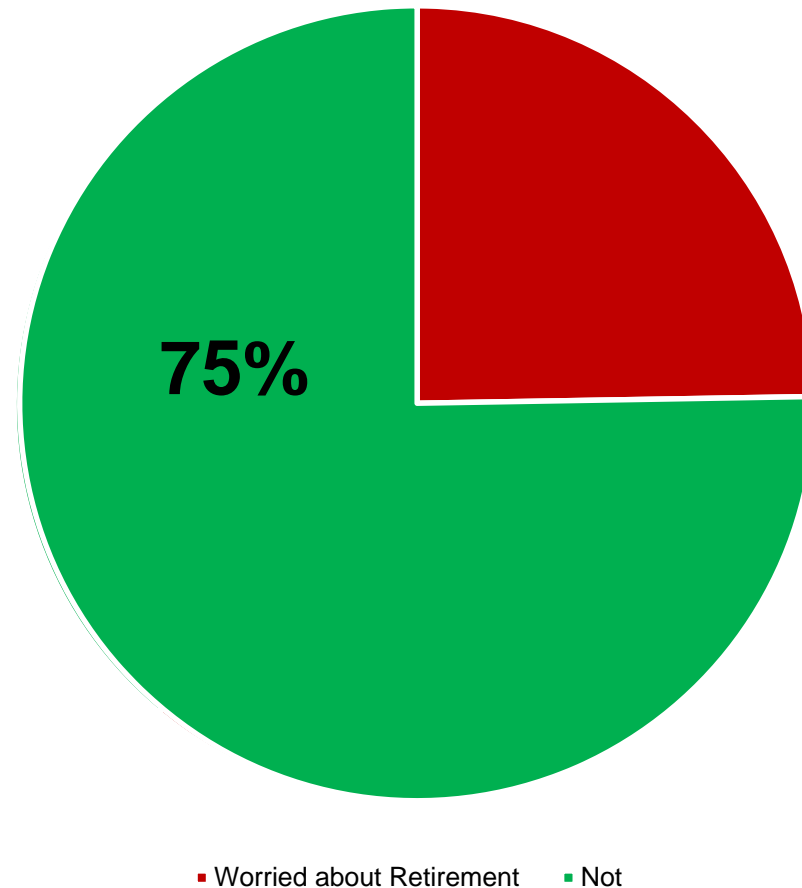
Percent of Private Wage & Salary Workers in Pension Plans

Source – EBRI

Retirement *IN*security

In 1979, most people weren't
Today, most people are:
concerned about their retirement

- **Workers living longer, but have few retirement savings.**
- **They plan to work longer, but many cannot.**



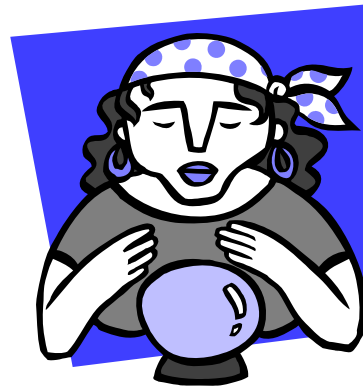
*Sources: 1979 Study of "American Attitudes Toward Pensions and Retirement: A Nationwide Survey of Employees, Retirees and Business Leaders." Commissioned by: Johnson & Higgins. Conducted by Louis Harris and Associates, Inc. , 2013 Gallup Poll

Weaknesses of Current DC Plans

People Aren't Pension or Investment Experts



Underestimate Retirement Needs



Don't Save Enough



Running Out of Money When it's Too Late

Higher Fees = Lower Returns



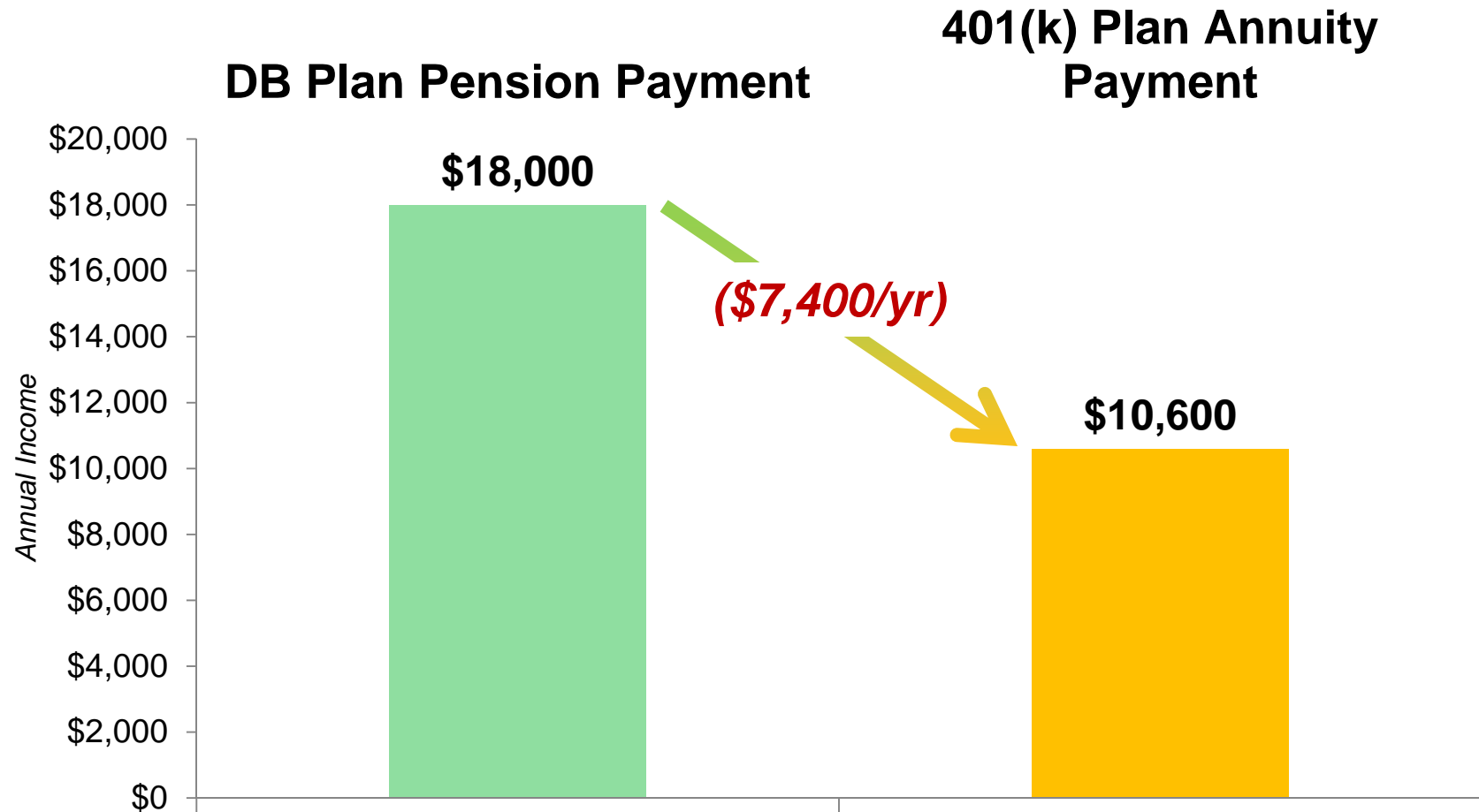
No Risk Sharing



No Lifetime Income

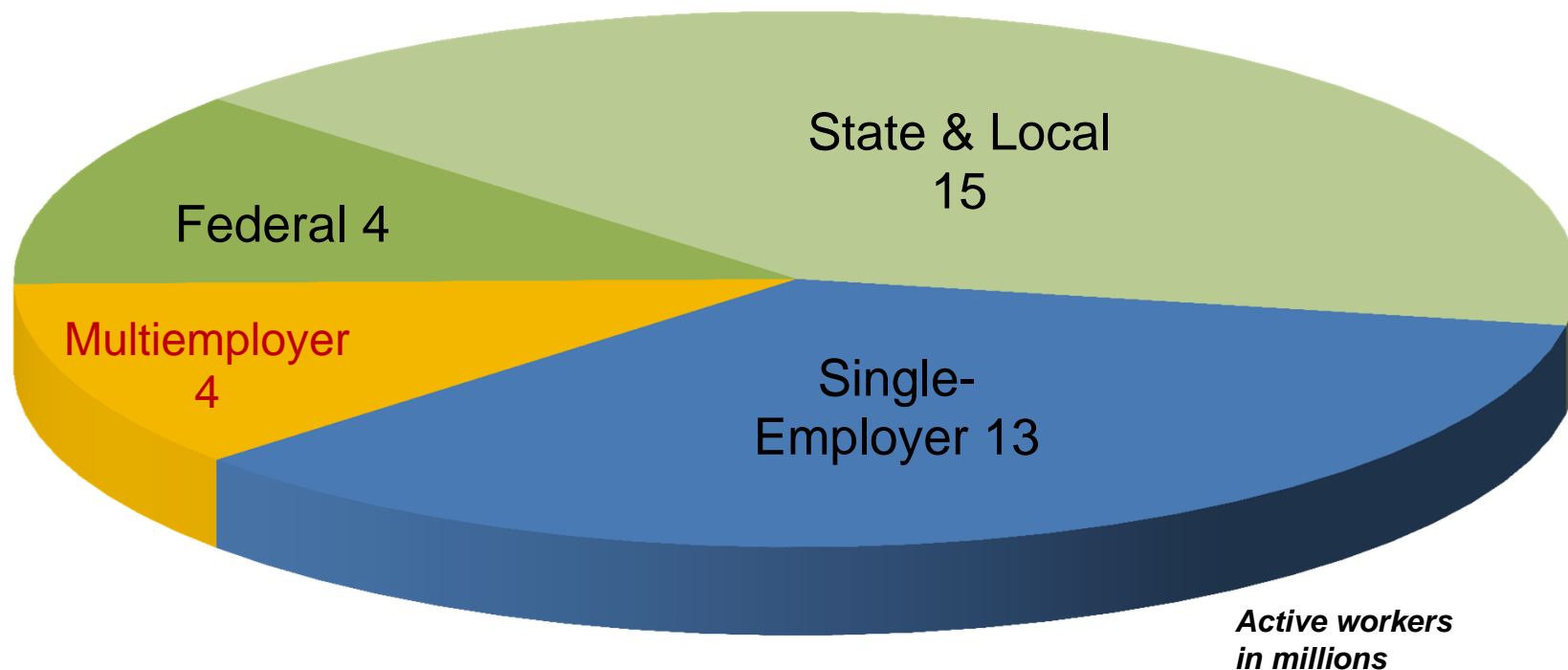


How much retirement income can be lost from the shift from DB to DC?



DB assumptions: Worker retires at 65 after 30 years with \$60,000 in final average pay and a DB benefit of 1% times years of service. 401(k) assumptions: Worker retires at 65 after 30 years of participation in a 401(k) plan (contributing 5% per year and earning an average of 5% per year) and buys a retail annuity. Assumes 1.1% wage growth and \$60,000 in final average pay.

75 million still in DB plans including 36 million active workers



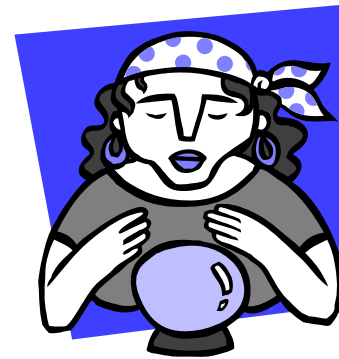
*Source: Private sector plans – PBGC calculations based on Form 5500 and premium data, generally 2010.
Public sector plans – EBRI' generally 2008/9*

Why are Employers Quitting DB Plans?

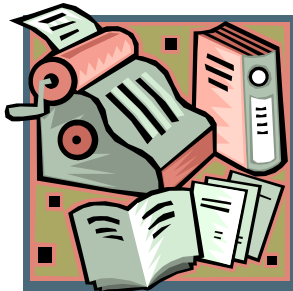
To Share Costs with Employees



Funding Requirement (Un)predictability



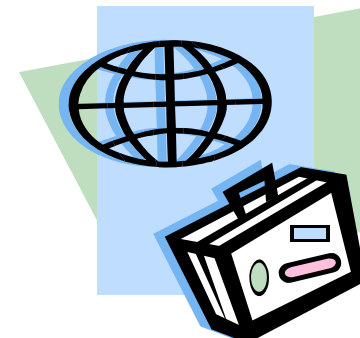
Effect on Financial Accounts



Complex Regulations & Legal Risk



Portability



Aren't there alternatives to traditional DB & DC plans?

Traditional Pensions

Final Pay DB Plans

Hybrid Options

- ✓ **401k's with lifetime income**
- ✓ **Cash Balance Plans**
- ✓ **Pension Equity Plans**
- ✓ **Floor Offset Plans**

Defined Contribution

401(k)
403(b)
Profit Sharing Plans


What Can We Do?

(Josh's List, not PBGC's)

- ***PRESERVE THE PLANS WE HAVE***
 - Save Multiemployer Pensions
 - Stop Encouraging Lump Sums
- ***ADMIT EMPLOYER LIMITS***
 - Less Legal & Financial Responsibility
 - More Flexibility & More Options
- ***ADMIT MOST PEOPLE AREN'T WARREN BUFFETT***
 - Stop Pretending that Improving Financial Literacy is Enough
 - Less "Plan". More "Save"
 - Warn about the dangers of lump sum payments
 - Less "choice". More auto-enrollment
- ***BRING BACK LIFETIME INCOME***
 - Designate lifetime income option as "QDIA" for 401Ks

Multiemployer Pension Plans

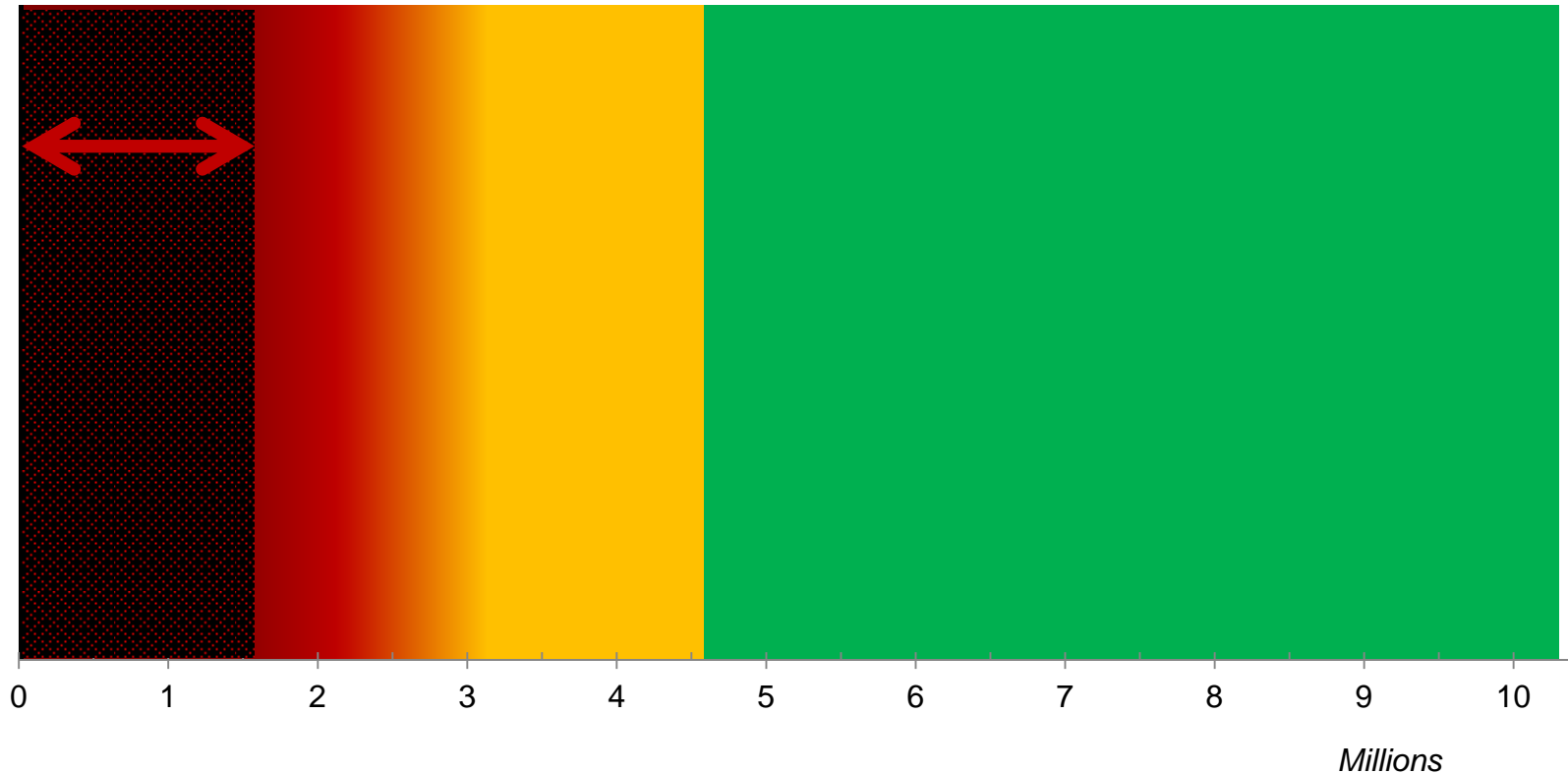
*Multiemployer proposals are presented for information only;
neither PBGC nor the Administration has endorsed any proposal.*



10 Million in Multiemployer Plans

3 Million in Distressed Plans

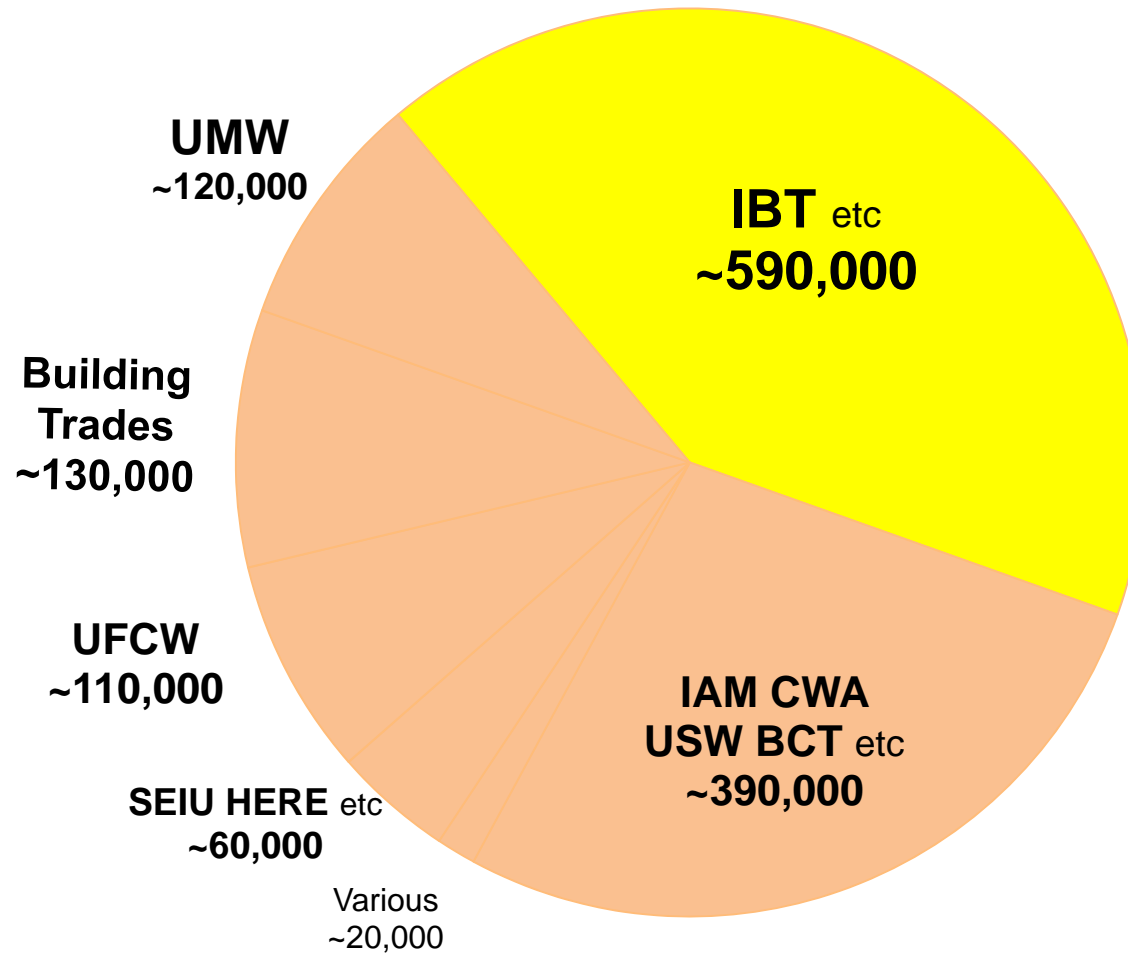
~1½ Million in Plans Likely to Fail



Without Changes, Multiemployer System Could Collapse

- **For decades, plans were adequately funded, then: historic market losses**
- **Plans responded by increasing contributions & reducing future benefits**
- **Most plans are recovering, but “orphans” burden recovery of many plans**
- **Plans covering ~1.5 million will fail**
- **Contagion could bring down healthy plans, too**
- **PBGC will run out of money**

Failing Plans Involve Many Unions & Industries

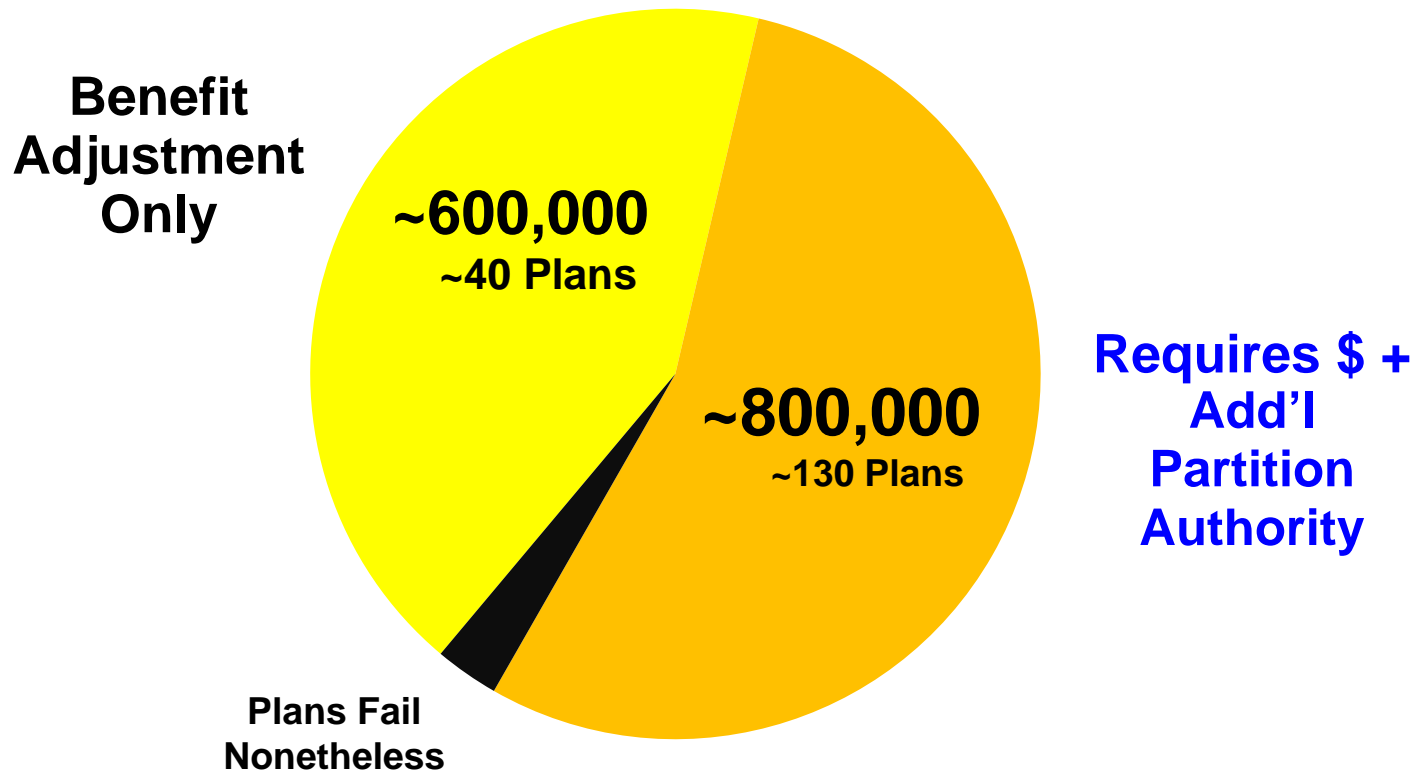


Proposals*

- **More flexibility in plan designs**
- **Withdrawal liability reforms**
- **Funding relief**
- **For **severely distressed** plans:**
 - **PBGC pays for orphans to prevent insolvencies at higher benefit guarantee levels**
 - **Additional adjustment authority to prevent insolvency & keep benefits above PBGC levels**

** Sources: Retirement Security Review Commission, various legislative proposals
Note: No recommendations have been endorsed by PBGC or the Administration*

Most Distressed Plans can Avoid Insolvency w/ Immediate Changes in Law & PBGC Support



Approximate numbers of participants & plans. Preliminary analysis using limited available data & assuming near-term implementation .

How might benefits change for distressed plans?

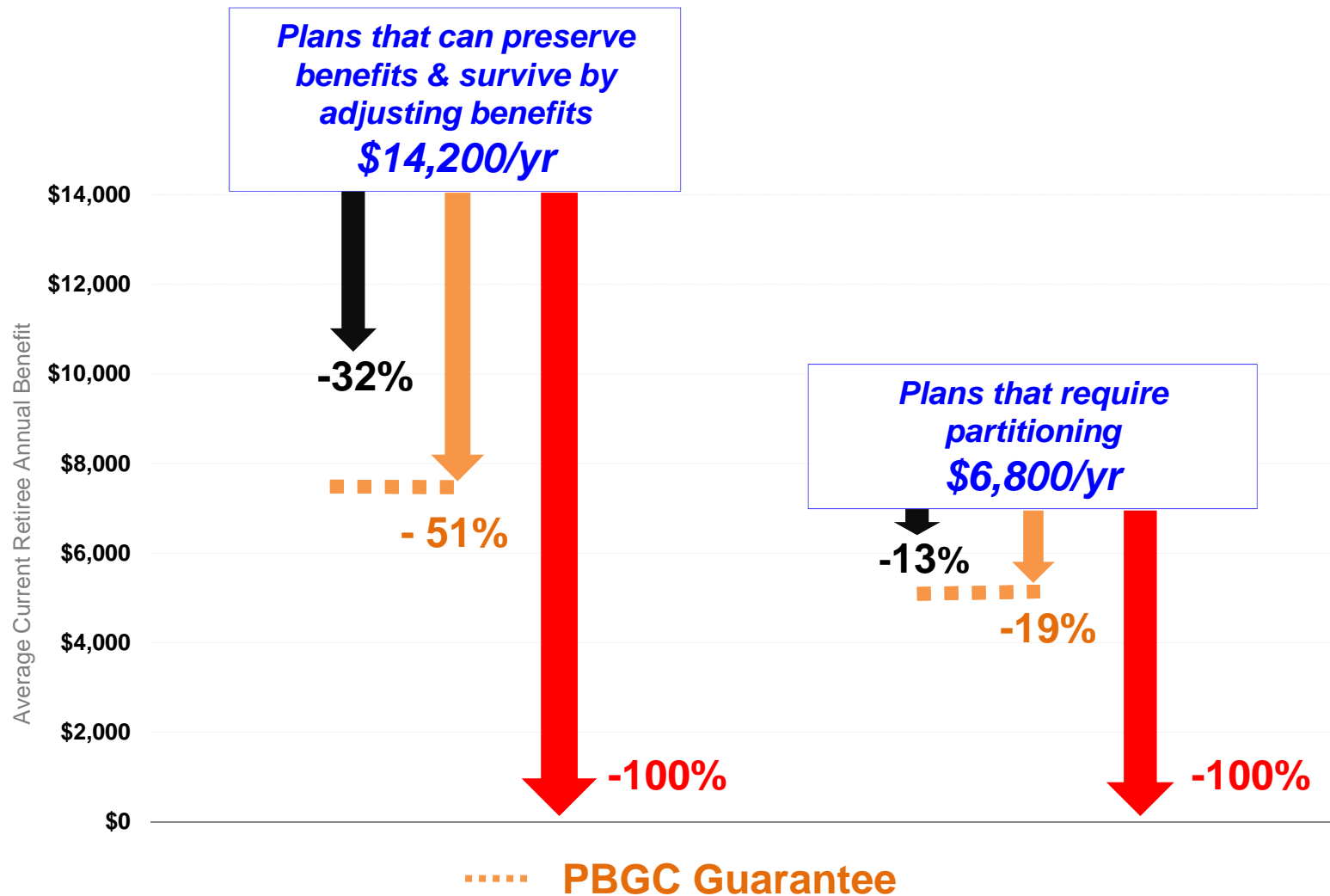
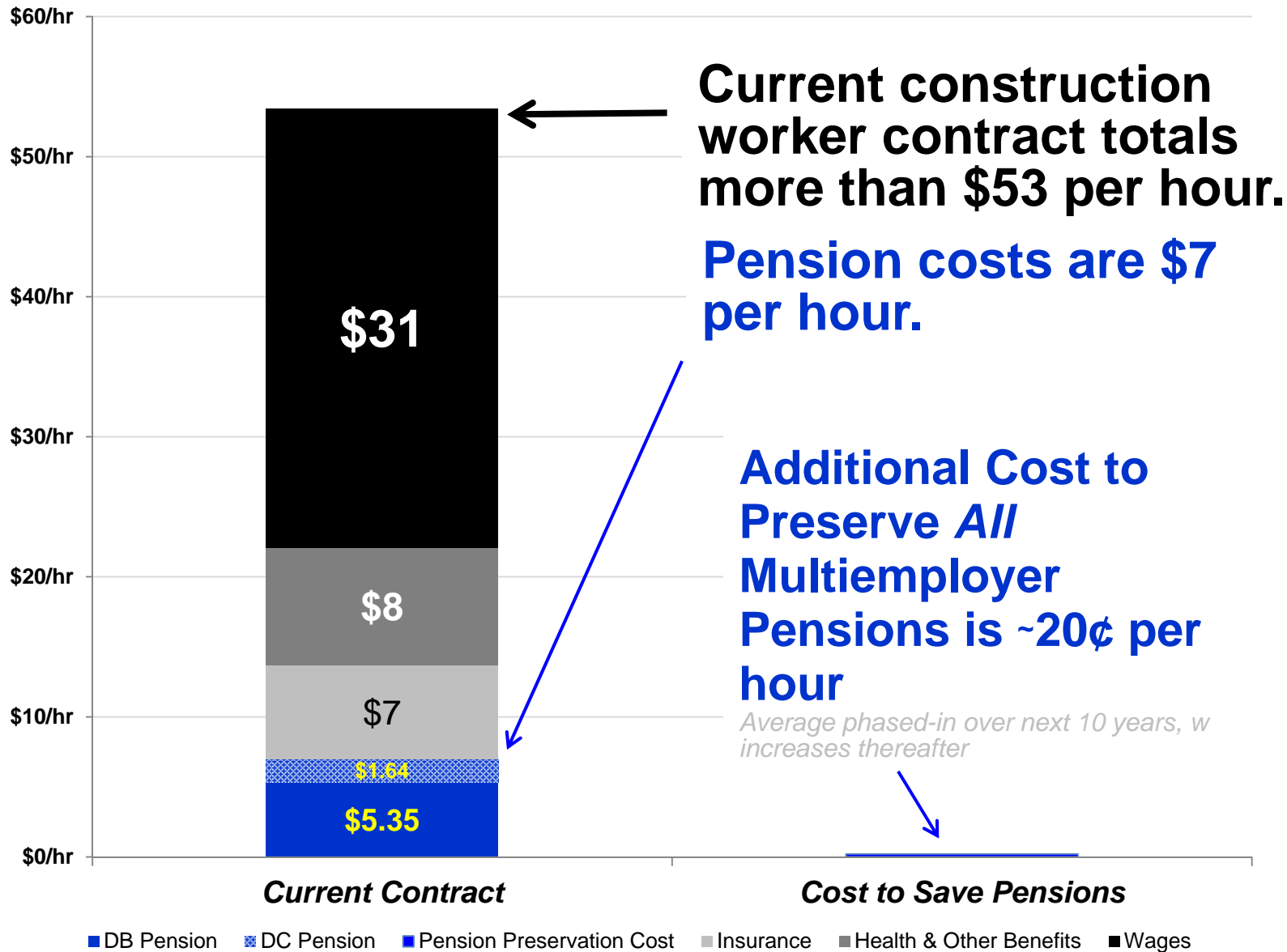


Illustration based on requested limited analysis of available data, using benefit levels for current retirees
Includes partitioned orphans. Excludes plans projected to go insolvent that cannot be saved with any proposed authorities

How Can This be Paid For?

- **Plan premiums, not taxpayer \$**
- **Affordable *if shared* among all plans**
- **Phased in over many years**
- **Allow PBGC affordability reductions**

Is This Affordable?



Pensions in Bankruptcy



Pensions in Bankruptcy

PBGC is an active, aggressive, professional, but *unsecured creditor*.

- + American Airlines
- + Sun Capital
- Friendly's Ice Cream
- Harry & David

Sometimes PBGC interests align with other creditors; sometimes they do not.