

New Trends In Defined Benefit Plans

Judy Miller, MSPA, FSA, MAAA
ASPPA Chief of Actuarial Issues

Trends

- Long-term downward trend in active plans
 - Volatility of cost (cash and accounting)
 - Over-funding risk
 - Employees don't value it
- Traditional to hybrid (cash balance)
 - Better cost control
 - Better understood (and appreciated)

Risk Management

- Traditional DB Plan
 - Longevity and investment risks
 - Final pay plans – also cost-of-living during working lifetime
 - Subsidized early retirement and other ancillary benefits
- Cash Balance plans
 - Career average benefit – “account” based
 - Variable rate of return (proposed market rate of return regs still not issued)

DB(k) Plans

- First available 2010
- Small employers only (2 to 500 ees)
- Exempt from top-heavy rules
- Deemed to satisfy the ADP and ACP tests
- Funded through a single trust with a single plan document
- Files a single Form 5500 and Summary Plan Description

DB(k) Plans

- Traditional DB of at least 1% of final average compensation per year (maximum 20 years), *or*
- Cash balance formula with pay credits based on age:
 - 2% age 30 or less
 - 4% over age 30 but less than 40
 - 6% age 40 but less than 50
 - 8% age 50 or over
- Plus, auto-enroll 401(k) with matching contributions of 50% of elective deferrals up to 4% of pay
- 100% vesting after 3 years for DB and any non-elective

DB(k) Concerns

- Little take-up;
- Guidance not issued and may not be able to address concerns:
 - Is the cash balance minimum deemed to satisfy the 133 1/3% accrual rule? Nondiscrimination rules?
 - If so, how are those rules applied if larger pay credits are provided?

To Improve DB(k)

- Fix DB(k) if guidance cannot make the cash balance provisions work.
- Allow matching contributions (even elective deferrals?) to go to the DB portion of the arrangement
- Allow more design flexibility (subject to nondiscrimination testing)
- Expand to larger plans

Other improvements for DB plans

- More design options*:
 - Variable employer-paid accruals in DB-type plans
 - Hybrid rules for hybrid plans
- Reduce over-funding risk
 - “Side car” trust

* See Conversation on Coverage POPP and GAP proposals