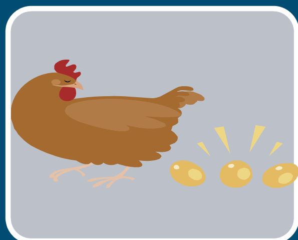
CAPITAL MATTERS: MANAGING LABOR'S CAPITAL CONFERENCE
April 23, 2010

Winning the Fight to Preserve Pensions in the Private Sector: Policy, Politics, and Practice

Randy DeFrehn, Moderator

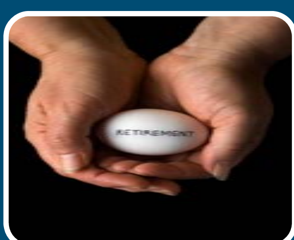
- **Teresa Ghilarducci**, Schwartz Professor of Economic Analysis, The New School, New York NY
- **Marc Le Blanc**, Fund Administrator, Sheet Metal Workers' National Pension Fund, Alexandria VA
- **David W. Powell**, Principal, Groom Law Group, Washington DC

Non traditional format



Talks will be Shorter than Usual 3, 7, 7, (strict time keeping by Randy)

Following each talk Randy comments, others for 2 minutes



Much Discussion From Audience

Response to ERISA …

Response to ERISA …

"The End of Pension Plans"

Response to MPPAA …

Response to MPPAA …

“The End of Pension Plans”

Response to PPA …

Response to PPA …

“The End of Pension Plans”

How did we get in this situation?

Teresa Ghilarducci

- Problems in Taft Hartley DB plans
  - Tax Code limited contributions
  - Slow growth of members
  - Bankruptcy of key employers
  - Downturn in the markets
  - Heath care costs ate pension contributions (note GAO report)

What weren’t the problems?

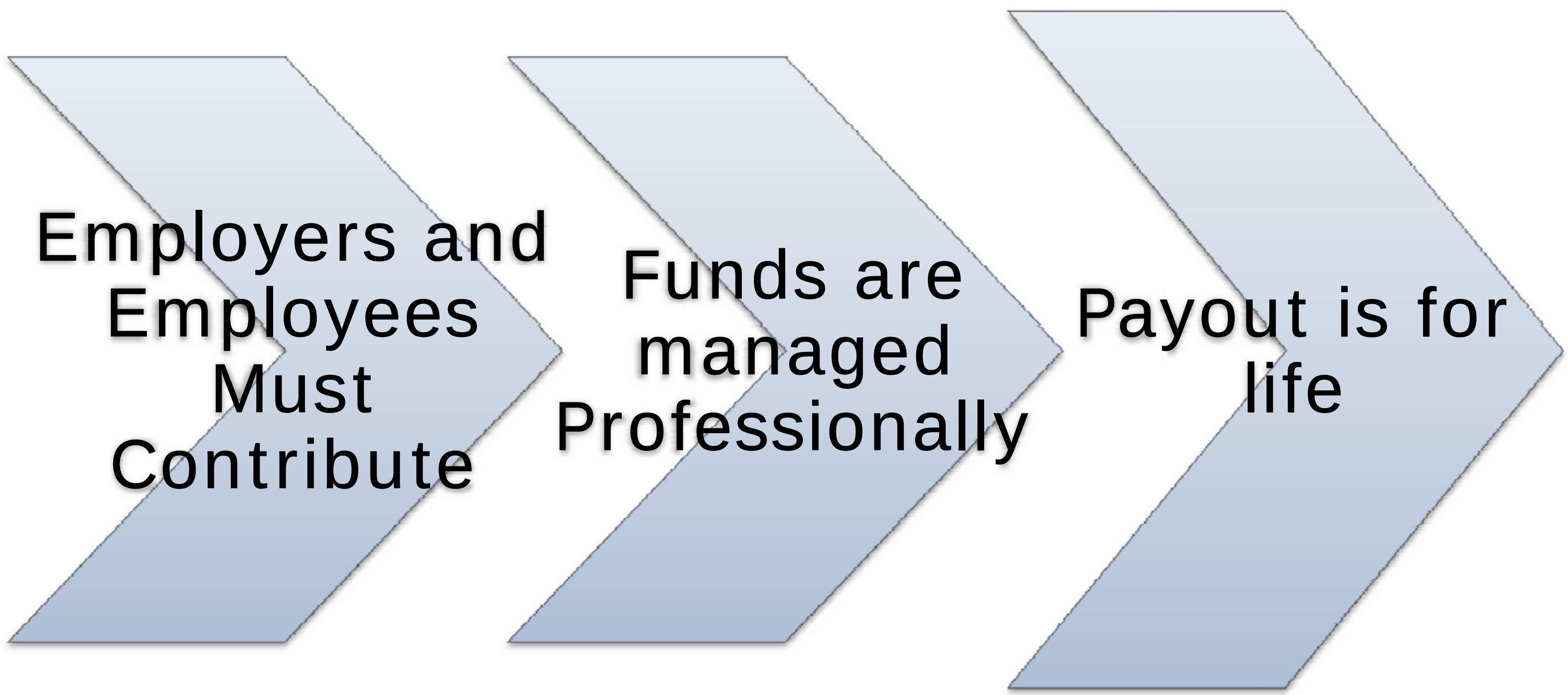
Teresa Ghilarducci

NOT Problems in Taft Hartley DB plans:

- Actuarial assumptions were not as bad
- Lump sums were not a problem
- Most investments were sound

Multiemployer plans could be the future

Teresa Ghilarducci



David Powell

What is the state of Taft Hartley pension plans?

David Powell

- Underfunding similar in private plans
- PPA ’06 and crises burdened DBs
- Multiemployer plans get keen attention
- Difficult to increase future contributions to address past service underfunding

Short term solutions

David Powell

- Political relief
- New investment strategies
- Hope

Are there longer term solutions?

What are the trade-offs?

Pension goals

David Powell

- Labor: a secure and adequate retirement

- Management: cost; liability; volatility

What are some of the ideas to resolve the tensions between those goals?

David Powell

- Redesigning defined benefit plans
  - Move to career average from final years of service (where not unit benefit)
  - Later retirement ages, lower early retirement subsidies
  - Reduce investment risk and increase contributions
  - Allow reduction in benefits or COLAs in proportion to underfunding ("risk sharing")

What are some of the ideas that might make DC plans more attractive?

David Powell

- Annuitize distributions
- Discourage lump sums
- Take investment decisions back from employees
- Encourage more, earlier enrollment, higher contributions

Do hybrid plans offer some solutions? David Powell

- Can allow employees to participate in the upside of investments
- Allows benefits to change in proportion to returns
- Can use a DB formula for a floor, and have a DC benefit in addition
- Can eliminate lump sums and require annuitization
- Can build returns into annuitized distributions

Do we have plans that have actually tried some of these things? David Powell

- Yes where employers were fairly parentalistic
- Developed in the first half of the 1900s
- Superseded by typical ERISA DB and DC plans
- Some examples still exist – outside ERISA

What is a “Hay Huggins” plan intended to do? David Powell

- Provide an annuity, not lump sums
- Provide investments that are low expense and managed by professional investment managers
- Reduce the risk of underfunding by allowing benefits to fluctuate with actual returns

First example: Protestant denominational pension plan organized shortly before WWI

David Powell

- Mainly for clergy; contributions 13% of total compensation
- Contributions are made to purchase accumulation units
- Church board oversees professionally managed fund
- Accumulation units converted to annuity units at retirement
- Value of units set annually in proportion to asset performance

Second example: Texas Municipal Retirement System

David Powell

- In operation since 1948; as of YE 2009, had 139,000 participants from 830 cities, $15.9 Bn in assets
- Employers, employees contribute to purchase accumulation units in professionally managed fund
- Converted to annuity at retirement
- Only partial lump sum allowed
- COLAs not automatic

Marc Le Blanc

Can the Feds really help?

- DOL's role is limited
- PBGC's Statutory Mandate
- Treasury's perceived worldview
- Financial system regulators
- Besides the Feds, the Digit Heads!

Department of Labor

- Disclaimer first
- No role in funding issues
- Some help with disclosure
- Experience

PBGC

Mandate

"to encourage the continuation and maintenance of voluntary private [defined benefit] pension plans"- *ERISA §4002*

Notwithstanding the Kudlow Report, PBGC is not backed by full faith and credit of federal government…

Department of Treasury's vision

- Pay-day IRA's and DC spend-down
- Experience with amortization extensions, 204(h), for example
- PPA Regulatory Guidance: e.g., emergence criteria

Treasury official quiet on White House role in funding debate

By Doug Halonen April 12, 2010, 3:38 PM ET
Pensions & Investments

Administration Endorses Funding Relief w/ Four Qualifications

BNA Pension Reporter, April 15

Financial regulators

Testimony of Steve Abrecht, Director of Benefits and Capital Stewardship, SEIU, to the ERISA Advisory Council, Sept 17, 2009

Yet, in spite of our fiduciary correctness, because of a huge mismanagement of risk by some of the largest financial firms in our country …..we now find ourselves in deep trouble.

Should we be concerned about...

The objective of this project is to enhance the disclosure requirements of an employer's participation in a multiemployer plan.

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