P&I | PLAN SPONSOR DIGEST
Wednesday, November 29, 2023

PENSION FUNDS
November 20, 2023 05:00AM

Is renewed interest in DB plans real, or just a pipe dream?

By Brian Croce

James Kegley

Dennis Simmons thinks that companies are genuinely looking at the possibility of reopening DB plans, but there are still some issues standing in the way.

The news around corporate defined benefit plans over the past couple decades has been bleak, with companies expeditiously freezing or terminating plans. But with some help out of Washington, experts say there's an opportunity for employers to reopen plans still on their books or provide their workers with guaranteed income in retirement.

"For a sponsor that has a frozen plan that has participants concerned about guaranteed income, you don't necessarily need some new solution in the DC plan, you've got a guaranteed income thing over there," said Jon Barry, managing director at **MFS Investment Management**. "So maybe it's worth thinking about reopening that because that could be one piece to the puzzle in helping participants with their retirement income challenge."

Standing in the way of widespread adoption are outdated funding rules and rising Pension Benefit Guaranty Corp. premiums, sources said.

"If those issues get addressed, companies can be a lot more focused on the substance of what really helps participants save for retirement," said Dennis Simmons, executive director for the **Committee on Investment of Employee Benefit Assets**, whose 115 members are asset owners with more than $2.5 trillion of defined benefit and defined contribution assets. "I do think that companies are looking at the possibility of reopening plans. They've restructured, they've generally gotten to fully funded status and they can refocus on strengthening pension arrangements."

On that front, **International Business Machines Corp.**, Armonk, N.Y., recently announced that beginning on Jan. 1 it is introducing a company-provided benefit for U.S. employees called the Retirement Benefit Account within the existing **IBM** Personal Pension Plan.

The RBA will replace current company contributions to the IBM 401(k) Plan, but employees can continue to contribute to their 401(k) plan, an IBM spokesperson said in an emailed statement.

Currently, IBM offers employees a 5% 401(k) match, according to the company's 2022 annual report.

"IBM is continually making improvements to how we support employee financial well-being," the company statement said. "By introducing this retirement benefit within the IBM's Personal Pension Plan, which is stable and well-funded, IBM is able to provide a benefit to employees that also helps diversify their retirement portfolios."

The IBM Personal Pension Plan was closed in 2005 and frozen in 2008. In 2022, IBM purchased group annuity contracts from Prudential Insurance Co. of America and Metropolitan Life Insurance Co. to transfer a total of $16 billion in U.S. defined benefit plan liabilities. The plan had $23.6 billion in assets as of Sept. 30, according to *Pensions & Investments* data.

IBM declined to comment further.

John J. McKevitt, a consulting actuary at Cheiron, said IBM's move shows that "employers want to consider opportunities to diversify their retirement offerings. I think it may also speak to employers considering new and in some old ways of encouraging employee retention."

Offering employees a lifetime income vehicle while allowing them to contribute to a 401(k) plan makes sense in today's environment, said Michael P. Kreps, a principal at Groom Law Group. "This idea of moving people back into a system where they have a DB benefit, a DC benefit and Social Security and using the employer match to fund the DB benefit, that's not a new idea but it's a really good idea," he added.

The American Benefits Council late last month sent a letter to congressional leaders urging action to address issues within the single-employer defined benefit plan system.

Chief among the concerns was rising PBGC premiums.

The Pension Benefit Guaranty Corp.'s single-employer program, with a net $44.6 billion surplus as of Sept. 30, has been growing steadily, according to the PBGC's annual financial report released Nov. 16. The projected mean position at the end of fiscal year 2032 is a surplus of $63.6 billion, according to a separate report released in August.

"Why are we having this huge tax on DB plans that's pushing them out when no one would suggest there's a need for these premiums?" said Lynn Dudley, senior vice president, global retirement and compensation policy, at the council.

In 1998, 49% of the Fortune 500 companies offered a traditional defined benefit plan that was open to new salaried employees. By 2021 that number had declined to 3%, the council noted, citing data from Willis Towers Watson.

The decline accelerated in 2006 when PBGC premiums started rising quickly following passage of the Pension Protection Act, which focused on shoring up the defined benefit system. The PBGC's flat-rate premium and variable-rate premium have both more than quintupled since 2005, the council noted: the flat rate to $96 (indexed) per participant from $19 and the variable rate to 5.2% from 0.9% of underfunding.

"PBGC does not need current premium levels to sustain its insurance program, and continuing to dramatically overfund the program will not provide additional benefits or protections for employees," said Andy Banducci, senior vice president for retirement and compensation policy at the ERISA Industry Committee, in a statement.

The increase in PBGC premiums has "crowded out money that employers feel is available for employee benefits," McKevitt said. "It has provided a disincentive for employers to maintain a defined benefit pension plan."

Added CIEBA's Simmons, "In a system where the PBGC themselves is saying that they're in good shape, we think it's time to rationalize where the level of premiums."

It's not just the PBGC that is in good shape these days. Many corporate DB plans, largely due to rising interest rates, are now overfunded. Data from Milliman projects the 100 largest corporate DB plans were 104.2% funded as of Oct. 31 with a surplus of $50 billion.

"Employers are being incentivized under the current rules to get rid of some or all of their plans because PBGC premiums are high and funding rules are compelling at least some to overfund their plans," Kreps said.

For plan sponsors with overfunded DB plans, reopening the plan or offering a benefit through it should be considered, MFS' Barry said.

"There's a funding source that can be tapped into to help pay for these benefits and some of the administrative costs through that surplus," he said.

Kent A. Mason, a partner at law firm Davis & Harman and outside counsel for the American Benefits Council, said such plans are now at risk of termination. The reason is due to current law that stipulates that surplus assets in pension plans are permitted to be used to pay for nonelective contributions to a defined contribution plan, but only if the plan is terminated. So if a plan wants to use some of its surplus then it'd likely have to terminate their pension plan.

"If we don't see legislation in the next few months probably, there will be terminations that could have been avoided," Mason said.

If lawmakers in Congress could "settle on a set of rules that was more accommodating to market-based approaches in DB plans, and we could reduce the PBGC premiums on those plans to something more reasonable ... I think we could get to a place where it actually incentivizes employers to have a DB plan," Kreps said.

Corporate plan sponsors have turned to liability-driven investing strategies to minimize volatility in their pension plans and stabilize funding, an approach that could still be effective with reopened plans, Barry said.

"I think the combination of an overfunded pension plan and a well-thought-out LDI strategy can put a plan sponsor in a place where they've got a plan, they've got assets that can help pay for these accruals and the variability in cost is going to be very low," Barry said.

But whether Congress will act remains to be seen, though Simmons said in his conversations with lawmakers, there is interest. "There are few issues in Washington today that are bipartisan and strengthening retirement savings, keeping people in the system, those are issues that resonate on both sides of the aisle," he said.

. . . .

[Here is a link to the full Pensions & Investments article: https://www.pionline.com/pension-funds/renewed-interest-db-plans-real-or-just-pipe-dream?utm_source=p-i-plan-sponsor-topical-email&utm_medium=email&utm_campaign=20231129&utm_content=hero-image&CSAuthResp=1701358595873%3A0%3A360797%3A0%3A24%3Asuccess%3A15835A75C438B172A673CDFD38E8C992#cci_r=]