Bolton

September 20, 2024

Office of the PBGC Participant and Plan Sponsor Advocate's Retirement Security Initiative

Preservation of the Defined Benefit System: Fulfilling PBGC's Statutory Mission

2024 Roundtable Discussions

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> ***"As demographics change, people live longer, and more lifetime annuity options disappear from the landscape, a major policy question faces our nation: what does retirement security look like in America beyond the baby boomer generation, and for many Americans who do not have access to a defined benefit plan?"***
>
> - Office of the PBGC Participant and Plan Sponsor Advocate 2022 Annual Report

The Office of the Advocate and Bolton wish to thank those individuals who gave of their time and shared their insights as participants in these roundtable discussions. The views expressed in this report are a compilation of the opinions expressed by roundtable participants that reflect the substance of the collective conversations, and do not necessarily reflect the views of Bolton.

Objective and Background

Set against the backdrop of the 50th anniversary of the enactment of the Employee Retirement Income Security Act (ERISA), the Office of the Pension Benefit Guaranty Corporation (PBGC) Participant and Plan Sponsor Advocate sponsored a series of roundtable discussions as part of its Retirement Security Initiative, with support from Bolton, to explore what PBGC can do, in accordance with its statutory mission, to promote, preserve, and protect the private sector single-employer defined benefit system.

PBGC's Statutory Mission:

- Protect the retirement income of workers in private sector defined benefit plans
- Encourage the continuation and maintenance of these plans
- Provide timely and uninterrupted payment of pension benefits
- Keep pension insurance premiums at a minimum

These roundtable discussions touched on topics related to the preservation of the single-employer defined benefit system, the impact of PBGC premiums and surplus, and how new plan designs can address current barriers to defined benefit plan sponsorship and the needs of the modern workforce. The roundtable participants provided deep insight into plan sponsor and participant attitudes toward defined benefit plans in the U.S. and changes that would support the continuation and revitalization of these plans as a crucial component of Americans' retirement security.

How PBGC Can Promote the Continuation and Maintenance of Single-Employer Defined Benefit Plans

Roundtable participants emphasized that PBGC's extensive knowledge of the defined benefit system enables the agency to provide education to participants, plan sponsors, policymakers, and the public regarding PBGC's mission and services, as well as other wide-ranging topics related to defined benefit plans. They suggested that PBGC could expand its educational efforts in a variety of ways to inform stakeholders on issues related to the defined benefit system, lifetime income security, and financial literacy using various formats.

Roundtable participants also noted that PBGC has significant access to data on single-employer defined benefit plans and has invested in building sophisticated defined benefit modeling systems. As such, PBGC is uniquely able to promote understanding and informed decision-making by educating policymakers and other stakeholders on a myriad of issues related to financial risk and to the range of future outcomes for the defined benefit system. Possible areas where PBGC can support policymakers through research and modeling include:

- Evaluating how changes in PBGC premium structure would affect plan sponsor de-risking behavior and PBGC's future financial health,
- Stress testing a variety of future economic and demographic scenarios (in combination with potential alternative premium structures), and
- Illustrating how increased utilization of new and innovative plan designs would impact the single-employer defined benefit system.

Roundtable participants noted that individuals often struggle to find trusted, unbiased information on defined benefit plans, retirement security, and financial literacy, and that PBGC is well-positioned, as a trusted source, to support plan participants and the public by offering broad financial education. Roundtable participants suggested that PBGC collaborate with other federal agencies, such as the Consumer Financial Protection Bureau, to expand its educational efforts through various formats, including guides, videos, and case studies.

PBGC Single-Employer Premium Reform

Roundtable participants cited PBGC single-employer premiums as the top barrier to the adoption and continuation of defined benefit plans. While premiums are set by Congress, roundtable participants encouraged PBGC to take an active role in educating and providing data to support legislative changes that can address this barrier.

Roundtable participants overwhelmingly identified the disconnect between increasing annual PBGC premiums and the current surplus in PBGC's insurance program as a significant threat to the maintenance and continuance of the single-employer defined benefit system. PBGC's statutory mission to "keep premiums at a minimum" positions the agency front and center to provide support and technical expertise to further any policy discussions around premium reform and surplus management.

Roundtable participants opined that premium rates should be established by law using a principles-based framework that considers the current and projected financial state of the single-employer defined benefit system (including both the sponsored plans and the PBGC Single-Employer Insurance Program). Features of a reformed premium structure may include:

- ensuring premiums reasonably compensate for the insured risk, increasing when risk increases, and decreasing (or being eliminated) when it declines,
- incorporating reasonable anti-volatility measures to avoid significant, unexpected increases in premiums at a time when plans can least afford them, and
- maintaining a reasonable reserve (surplus) to provide financial stability to the system.

Removing the incentive to reduce headcount within pension plans, which is a significant driver of pension risk transfer activities, must factor prominently into any reform of the PBGC insurance structure.

Meeting the Needs of the Modern Labor Market

The trend toward increased workforce mobility and shorter worker tenure, combined with increased financial risks, additional regulatory burden, administrative complexity, and escalating costs (especially PBGC premiums), are driving employers out of the defined benefit system. The volatility of annual contribution costs and the significant limits (and penalties) on upside gain compared to the magnitude of the downside risk to plan sponsors has made defined benefit plans unattractive to employers seeking to minimize risks not related to their core business.

The shift toward defined contribution plans as the primary employer-sponsored retirement plan places participants in the tenuous position of assuming primary responsibility for accumulating adequate retirement savings. Without ready access to the guaranteed lifetime income provided by a defined benefit plan, workers are at risk of being underprepared for a financially secure retirement.

PBGC is also well-positioned to provide support and promote the continuation and maintenance of the defined benefit system by using its broad-ranging expertise to educate plan sponsors, participants, and the public regarding the value of defined benefit plans in improving retirement security outcomes for Americans, as well as the risks to participants and plan sponsors associated with these plans. As hybrid plan designs that blend features of defined benefit and defined contribution plans become more popular, roundtable participants suggested that PBGC educate stakeholders on how these plans work to share risk between plan sponsors and participants, such as by showcasing examples of effective risk-sharing designs and features.

Roundtable participants recognized that there is a looming retirement crisis in the U.S. that will have a detrimental effect on our economy, and that defined benefit plans may be the solution to reverse the trend and promote good retirement outcomes for workers. To accomplish this, defined benefit plans need to be promoted, rebranded, and redesigned to fit the needs of a modern economy, industry, and workforce, and PBGC premiums need to be rightsized to align with PBGC's statutory mission.

Methodology

The Office of the Advocate's Retirement Security Initiative involved six virtual roundtables, each ranging from two to two-and-a-half hours in length. The roundtables were held from April through August 2024 and all discussions were limited to nine or fewer participants. Four roundtables consisted of a diverse cross-sectional grouping of participants, one involved defined benefit plan participant stakeholders and representatives, and one included individuals representing the interests of plan sponsors. Bolton facilitated the roundtables and provided participants with a discussion guide tailored to the roundtable prior to each discussion. The discussions were not recorded, and the identity of roundtable participants and their affiliated organizations is confidential.

Overall, 52 individuals participated in the roundtables, representing participant and plan sponsor advocacy organizations, actuarial professionals, consulting firms, academics and research institutions, economists, defined benefit plan service providers, legal professionals, individuals with human resources expertise, individuals with investing backgrounds, and other thought leaders in the retirement industry. Furthermore, plan sponsor representatives came from organizations of varying size and industry (including manufacturing, telecommunications, transportation, publishing, healthcare, technology, and financial services), as well as taxable and non-profit organizations. Government observers were present during some but not all substantive discussions. More information about the composition of the participants and the roundtable groupings is provided in Appendix A.

The roundtable discussions largely focused on PBGC's mission to preserve and maintain the defined benefit system, actions the agency could take to fulfill its mission, and other PBGC-related factors relevant to the retirement security of Americans and the future of the single-employer defined benefit system.

Key Findings

Two significant elements of PBGC's statutory mission are to encourage the continuation and maintenance of private-sector defined benefit pension plans and to keep pension insurance premiums at a minimum. Roundtable participants offered insights into the factors that are driving the views of today's employers and workforce toward defined benefit plans, and shared wide-ranging suggestions and ideas for ways that PBGC could actively support the continuation of single-employer defined benefit plans, consistent with the agency's mission.

Promoting Continuation and Maintenance of Single-Employer Defined Benefit Plans

A recurring theme of the roundtable discussions was opportunities for PBGC to act within its statutory mission as an educator, thought leader, and champion for the continuation and evolution of the single-employer defined benefit system. PBGC's statutory mission empowers the agency to provide education to policymakers, plan sponsors and participants, and the public on a broad range of issues relating to retirement security for Americans.

Taking a More Active Role to Provide Public Awareness and Education

Roundtable participants stressed that education for participants, plan sponsors, and decision-makers is crucial to promoting the defined benefit system, and PBGC can play an active role in this education.

The roundtable participants shared that, increasingly, CEOs, CFOs, and advisors today did not "grow up" with a defined benefit plan, which has led to a lack of understanding of the advantages of a defined benefit plan as the most efficient vehicle for delivery of retirement income through the pooling of risk, and as a powerful tool for recruiting and retaining their workforce. Further, many rank-and-file employees often lack understanding about PBGC and defined benefit plans, and a lack of financial literacy education overall can negatively affect their ability to plan for and achieve a financially secure retirement. Collectively, this has led to a decline in appreciation for the role of defined benefit plans in supporting financial security in retirement.

"PBGC has an important role to play in the education, outreach, and promotion of defined benefit plans."

Roundtable participants emphasized that PBGC's extensive knowledge of the defined benefit system enables the agency to provide education to participants, plan sponsors, policymakers, and the public on PBGC's mission and services, as well as other wide-ranging topics related to defined benefit plans. These topics include the benefits and mechanics of defined benefit plans, the value of risk pooling for managing longevity and other financial risks, innovative plan designs, and the need both for liquid assets to pay for large expenses and reliable lifetime income in retirement.

Participants and the public often have difficulty finding trusted, impartial sources of information. PBGC is well-positioned to be a trusted voice regarding matters of retirement security beyond the information it currently provides to those whose benefits have been trusteed. In fact, ERISA contemplated a role for PBGC to provide broad-based financial education as it relates to defined benefits, specifically with respect to portability of benefits.

ERISA § 4009 (29 U.S. Code § 1309) grants PBGC statutory authority to:

> "…provide advice and assistance to individuals with respect to evaluating the economic desirability of establishing individual retirement accounts or other forms of individual retirement savings… and with respect to evaluating the desirability, in particular cases, of transferring amounts representing an employee's interest in a qualified plan to such an account upon the employee's separation from service with an employer."

This education can help highlight the advantages and strategic value of defined benefit plans.

Roundtable participants also suggested considering potential partnerships for educational efforts, such as a collaboration between PBGC and the Office of the Advocate or other agencies. These educational efforts could take on many forms, including "how to" guides, case studies, storytelling, glossaries of key terms, translation services, blogs, videos, and public service announcements. Other organizations can provide examples, best practices, and templates for promoting these educational efforts, particularly those related to financial literacy. For example, the Consumer Financial Protection Bureau (CFPB) provides easy to access and understand information on financial literacy topics.[1] Roundtable participants suggested that PBGC engage in similar educational activities, potentially in collaboration with the CFPB or other federal agencies.

> **"People find it difficult to visualize their future... They need tools to help them understand how today's decisions related to retirement distributions, savings levels, and debt impact their future financial security."**

Artificial intelligence and other emerging technologies have tremendous potential to support participants with making better financial decisions around retirement savings and managing distribution options, and support plan sponsors with streamlining and automating the administration and financial management of retirement plans. This is another area where roundtable participants expressed that PBGC could utilize these technologies to support educational efforts.

Defined Benefit System Promotion Through Research and Modeling

PBGC has extensive expertise in modeling the future financial state of the defined benefit system and conducting research related to the defined benefit system. With significant access to data and defined benefit modeling systems, PBGC is well-equipped to project a range of future outcomes and provide insight on future defined benefit plan trends. PBGC regularly produces analysis and reports on policy alternatives to its internal and external stakeholders. Roundtable participants agreed that PBGC can – and should – do more in this area.

The annual PBGC Projections Report includes modeling of the future financial state of the PBGC Single-Employer Insurance Program (Single-Employer Program) over the next 10 years,

[1] *Financial Literacy Annual Report*, Consumer Financial Protection Bureau, August 2024. https://files.consumerfinance.gov/f/documents/cfpb_financial-literacy-fy-2023_annual-report_2024-08.pdf

including a single stress test scenario.[2] PBGC could leverage this work to model other economic and demographic scenarios, giving a more complete understanding of how various risk factors affect the single-employer system and the mitigating effect of its asset allocation strategy on these stressors.[3]

Roundtable participants suggested that PBGC could also utilize its data and modeling capabilities to evaluate the effect on the single-employer system of broader adoption of new and innovative plan designs. Showcasing alternative and hybrid plan designs and illustrating how they meet the needs of the modern workforce and employers while reducing risk within the system (by utilizing the best features of traditional defined benefit and defined contribution plans) could facilitate the normalization of these designs in the market.

Improving Interactions with Participants and Plan Sponsors

"As the environment in which defined benefit plans operate changes, so must the way in which they are monitored and regulated."

Roundtable participants agreed that PBGC would increase its value to plan sponsors by advocating for the business community (without which there would be no private sector defined benefit plans) and championing changes that support the modernization of defined benefit plans. Most employers do not interact with PBGC often, other than to pay premiums. These employers generally feel that they pay high premiums, are a low risk to PBGC's solvency, and do not receive commensurate support, value, or return on investment for the premium paid. For employers to remain in the system and incur this expense, they want to feel that they derive a benefit of comparable value.

Those who do interact with PBGC during monitoring activities and corporate transactions frequently find that it takes an extensive amount of time and resources to respond to PBGC inquiries and information requests. As a result, they incur substantial consulting and legal fees that add to the cost of maintaining the defined benefit plan and reduce the financial resources available for funding the plan and operating their business. These fees are particularly burdensome for smaller employers. Roundtable participants suggested that the focus of these requests should be primarily on the future viability of the sponsoring entity and its ability to provide promised benefits.

"Empower PBGC employees to make smart, reasonable, customer-service focused decisions… This will avoid the undesirable outcome of driving good risks out of the system and leaving behind the less desirable risks by… focusing enforcement efforts on those who genuinely pose the greatest risk to the system."

Concerns about time and cost also apply to the out-of-bankruptcy distress termination process, where a lengthy review and negotiation jeopardizes the sponsor's ability to continue in business and undermines the purpose of the process (which is to save the company). Even for employers

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[2] The stress test considers a high-claims event similar to that experienced during the period 2001 – 2006, where the system's equity assets incur a 33.5% loss and new bankruptcy claims over a six-year period equal to $38 billion.

[3] *Pension Benefit Guaranty Corporation Investment Policy Statement*, PBGC, August 2023.

that are not likely to exit the system through this process, knowing that, should a distress termination become necessary, it will be a reasonable process to navigate may increase their willingness to enter or remain in the system rather than moving forward with a standard termination process to avoid the possible "pain" and cost that comes with a distress termination.

Participants' most complex interactions with PBGC relate to benefit claims, and of particular concern are situations in which participants are mistakenly excluded from data the plan administrator turns over to PBGC. Roundtable participants expressed that there should be greater acknowledgement by PBGC that, despite reasonable and diligent efforts, past records of a plan sponsor are often full of gaps. For this reason, participants can face difficulty when trying to prove to PBGC that they are owed a benefit from a terminated plan, and in some cases the agency's administrative review process can take years to resolve. This delay can be particularly troublesome for survivors who depended on benefits earned by their spouse as a source of their retirement income. PBGC's processes should be evaluated so that they are more consistent with the burden of proof required by of a typical plan sponsor for similar claims.[4]

PBGC Single-Employer Premium Reform

Roundtable participants overwhelmingly identified premium reform as the single change that would have the greatest impact on the preservation of the single-employer defined benefit system. PBGC should leverage its resources to advise policymakers regarding the structure of the private insurance system, including how premiums and surplus are connected.

Reversing the Pension De-Risking Trend

The private defined benefit system is, overall, in better financial condition today than in the early 2000s. Yet, at the same time, the cost and complexity associated with defined benefit plan sponsorship has significantly increased, and the costs are borne by plan sponsors. The legal, administrative, actuarial, and, most notably, PBGC premium costs of a pension plan make it more difficult to execute the sponsoring organization's primary purpose of producing goods and providing services. These costs can be especially prohibitive for smaller employers, often discouraging these organizations from sponsoring defined benefit plans.

The avoidance or reduction of PBGC premiums – which currently range from $100 to nearly $800 per participant – is a significant driver of the increased appetite for de-risking strategies over the last decade.[5] Many plan sponsors are choosing to exit the system through de-risking strategies that include pursuing lump sum windows, group annuity buyouts, and full plan termination, since these activities are often more cost-efficient over the long term than paying high PBGC premiums to retain benefits within the plan. Research conducted by PBGC and the Life Insurance Marketing and Research Association (LIMRA) illustrate this trend:

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[4] In many cases, a plan sponsor will accept documentation such as pay stubs, W-2 statements, employee IDs, and service award letters that substantiate the period of employment and compensation paid, along with an attestation from a participant that no distribution was previously received.

[5] The avoidance of PBGC variable rate premium is also a significant driver of many sponsors' contribution policies as those who can afford to will often fund their plan to eliminate unfunded vested benefits.

- From 2015 – 2022, over 4.1 million participants were removed from private sector single-employer defined benefit plans as the result of pension risk transfer activity.[6] Approximately half of these participants accepted a lump sum offer, and the remainder were settled through purchase of a group annuity buy-out contract.
- In 2023 insurers wrote $41.3 billion in group annuity buy-out contracts to settle defined benefit plan obligations.[7] Comparable 2015 sales were $13.6 billion.[8]

Lowering premium rates overall is essential to slowing the trend of plan sponsors taking risk off their balance sheets by transferring it to participants and the private insurance market, where ERISA and PBGC insurance protections are diminished.[9]

PBGC Premiums and Surplus are Inextricably Linked and Should be Managed as Such

Roundtable participants discussed the need for a premium structure that reflects the current risk environment and surplus levels. Premium rates are inextricably linked to surplus in any insurance system, as they work in tandem to ensure the system remains financially strong and able to meet its future obligations.

Although premium setting authority does not lie with PBGC, PBGC's statutory mission calls for it to "keep premiums at a minimum." Consequently, the agency can use its unparalleled data and insight into the drivers of risk within the defined benefit system to advise policymakers regarding reforms to the premium structure.

PBGC premium increases enacted through the Pension Protection Act have addressed the concerns of the early 2000s regarding the long-term solvency of the Single-Employer Insurance Program. The agency reported a surplus of $44.6 billion for FY23[10] that is projected to continue growing over the next decade.[11] Additionally, the PBGC's current investment policy adopts a liability-driven investing strategy that is designed to hedge 95% of the system liability's interest rate risk.[12]

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[6] *Updated Analysis of Single-Employer Pension Plan Partial Risk Transfer*, PBGC, June 2024.

[7] *U.S. Pension Risk Transfer Premium Jumps 53% in Fourth Quarter 2023*, LIMRA, March 2024.

[8] *Buyout Sales by Quarter 1Q 2012 – 4Q 2016*, LIMRA, 2017.

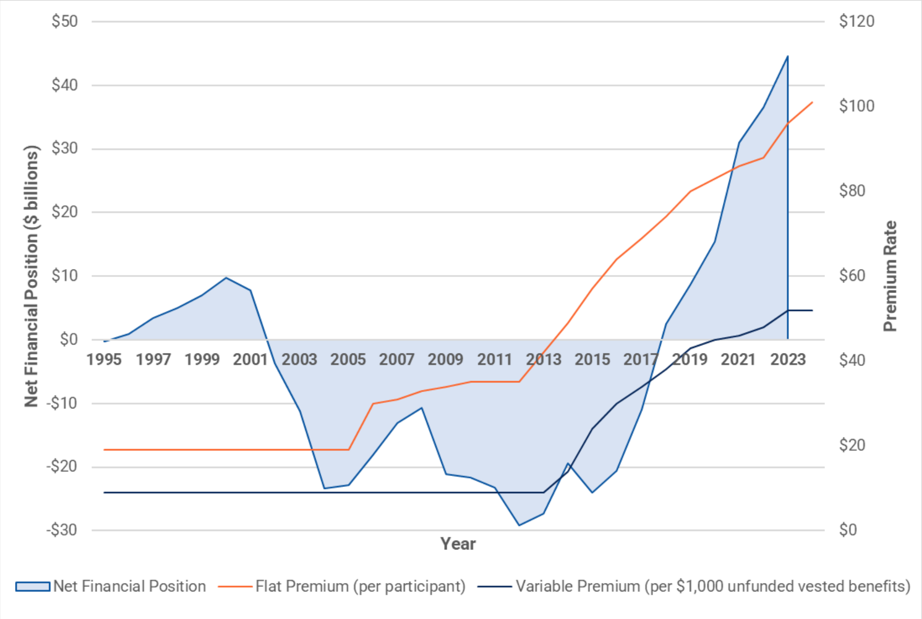
[9] State guaranty association coverage, which varies from state to state, along with solvency and reserve requirements imposed on private insurers, replace PBGC insurance protections following a group annuity purchase.

[10] *2023 Annual Report*, PBGC, November 2023. https://www.pbgc.gov/sites/default/files/documents/pbgc-annual-report-2023.pdf.

[11] PBGC's FY 2023 Projections Report shows that even under the most adverse scenario modeled the PBGC's Single-Employer Insurance Program remains solvent for the next 10 years. https://www.pbgc.gov/sites/default/files/documents/fy-2023-projections-report.pdf.

[12] *Pension Benefit Guaranty Corporation Investment Policy Statement*, PBGC, August 2023.

Historical PBGC Single-Employer Program Net Financial Position and Premium Rates



Source: *PBGC 2021 Pension Insurance Data Tables*, S-1 (net financial position) and S-39 (premium rates), https://www.pbgc.gov/prac/data-books

"It is hard for companies with large stable balance sheets to understand why they have to pay $100 per person for the opportunity to sponsor a plan that functionally poses no risk to PBGC and, by virtue of that, other companies."

A healthy surplus in PBGC's Single-Employer Insurance Program, combined with PBGC's investment policy (designed to minimize the risk of future deficits) and the overall improvement in the funded status of individual plans, makes this an ideal time to consider options for reforming the premium structure to reflect these changed conditions.

Among roundtable participants there was significant interest in tying premiums to the funded status of PBGC. While some level of PBGC surplus should be encouraged, certain thresholds in PBGC funded status could trigger the premium calculations to be reduced, and at a certain level, could result in a temporary premium holiday.

There was broad agreement among roundtable participants (including individuals representing of both plan sponsor and participant interests) that premium rates should be established by law using a principles-based framework that factors in the financial state of the PBGC Single-Employer Insurance Program, and that any changes in premium rates must come "off budget" and not be considered in the legislative scoring process. Roundtable participants were strongly in agreement that the use of PBGC premiums in the budget to fund unrelated initiatives has allowed premiums to continue to increase when the surplus in the Single-Employer Insurance Program has significantly mitigated the need for this source of income.

Roundtable participants were generally in favor of Congress establishing a premium structure with benchmarks and related guidelines for setting specific premium rates that PBGC or an independent oversight body could then apply. Such a structure must be carefully designed to ensure that any mechanism to restore premiums following a drop in the PBGC program's funded status is not triggered at the worst possible time for plan sponsors (for example, in times of economic distress).

The subject of reflecting plan sponsor risk into the premium rate structure garnered mixed reactions from roundtable participants. While many acknowledged that this is a legitimate risk factor for consideration, some participants expressed concern about how employers would view a premium structure that puts them into different categories based on risk factors such as perceived employer or plan financial strength, investment policy, or plan design features.

Meeting the Needs of the Modern Labor Market

Today's labor market is different from the labor market when ERISA was enacted. Ensuring the continuation of a robust private sector defined benefit system necessitates evolving how plans are designed, administered, communicated, and regulated to address the factors that currently serve as a barrier to defined benefit plan sponsorship and meet the needs of the modern-day workforce.

Flexibility, Portability, and Future Income Security

Roundtable participants observed that the modern workforce experiences frequent job changes, shorter tenures, multiple part-time positions or gig work, and has different views and expectations on direct and indirect compensation. Traditional single-employer defined benefit plans are efficient for long-term workers and much less so for workers who tend to change jobs frequently. The modern workforce's enhanced mobility often results in the forfeiture of defined benefit accruals if individuals change jobs prior to meeting the typical three-to-five year vesting requirements.[13] Even when benefits vest, employees may not appreciate the value of a relatively small annuity benefit left behind at a prior employer and, if permitted, will often convert that annuity benefit to a lump sum that may be rolled over to another retirement plan or used to pay current expenses, leading to a leakage of the retirement income of American families.[14]

This trend toward employee mobility, along with a variety of other cost and risk factors, are driving employers toward defined contribution plans as the primary or sole retirement benefit. Defined contribution plans place most of the risk and responsibility for accumulating sufficient retirement funds, as well as managing the decumulation of those assets, on the participant. Low levels of financial literacy, particularly related to lifetime income and longevity, mean that many Americans don't adequately understand how much they will need to save for retirement.[15] Exacerbating this lack of financial literacy is that many Americans struggle to save for retirement due to current financial constraints such as housing costs, student loans, childcare (or eldercare), disability, and irregular income. These issues affect American workers in different ways. Younger workers new to the workforce may focus on meeting current financial needs rather than long-term savings, while stay-at-home parents and those who experience a

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[13] The median tenure of workers in the U.S. was 4.1 years in 2022, with significant variation based on demographic factors such as gender, ethnicity, age, industry, and education. *Employee Tenure in 2022*, Bureau of Labor Statistics, https://www.bls.gov/news.release/pdf/tenure.pdf.

[14] The leakage of retirement assets from long-term savings reduces the pool of money available to support both the participant and their spouse during retirement, which disproportionately affects the surviving spouse who often has fewer options to rebuild depleted savings.

[15] The *2023 Retirement Income Literacy Study* from the American College of Financial Service found the overall average retirement income literacy score in the U.S. is only 31%. with knowledge of retirement plans (31%), retirement income (29%), life expectancy (27%), and annuities (12%) trailing the average score. https://insights.theamericancollege.edu/rils-key-findings/.

disability lose access to employer-funded benefits while out of the workforce (as well as income from which to save on their own).

Roundtable participants also cited survivor and spousal benefits as extremely valuable aspects of defined benefit plans for participants. Survivor and spousal benefit protection is particularly valuable for lower income workers and women who may spend significant time out of the workforce. These are two groups that face some of the greatest challenges in accumulating enough retirement income, particularly in situations where employer-funded contributions are not available.[16]

Without access to employer funded benefits, individuals take on the entire burden of saving for retirement. Of the 126 million private-sector workers in the U.S. only 53% participate in any employer-sponsored retirement plan, and only 11% participate in a defined benefit plan.[17]

Employer Concerns with Volatility, Complexity, and Risk

Roundtable participants remarked that plan sponsors tend to view defined benefit plans as having greater risk than defined contribution plans. Resurrecting interest in defined benefit plans requires addressing the concerns of human resources, finance, and legal executives.

HUMAN RESOURCES	FINANCE	LEGAL
Recruiting, rewarding, retaining, and eventually retiring talent needed to support the organization Employee appreciation Ability to communicate the value of stability and longevity protection provided by defined benefit plans	Relatively high level of cost certainty and predictability Protection from incurring the worst financial results when the business can least afford it Opportunity for gain and loss on the organization's investment on a level playing field	Ability to maintain regulatory compliance and fulfill fiduciary responsibilities Legislative certainty/stability Litigation risk (real or perceived)

Defined benefit plans designed with the needs of today's workforce in mind can serve as a valuable tool for the attraction and retention of desired talent if they are communicated to emphasize plan features that appeal to workers. Roundtable participants felt that educating plan sponsors on designs that address these needs and on effective ways to communicate these benefits to participants falls within PBGC's mission to preserve the defined benefit system.

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[16] *Growing Disparities in Retirement Account Savings,* U.S. Government Accountability Office, August 2023. https://www.gao.gov/blog/growing-disparities-retirement-account-savings.

[17] *National Compensation Survey: Employee Benefits in the United States*, Bureau of Labor Statistics, March 2023. https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2023.htm.

Further, under the current ERISA and IRS requirements and the U.S. GAAP accounting requirements,[18] defined benefit plan costs can vary significantly from year to year. Often, the annual cost of a defined contribution plan is higher than the annual cost of a defined benefit plan that provides a comparable level of retirement income, however the lower volatility of defined contribution plan costs is attractive for sponsors.

Sponsors are more willing to assume volatility in costs and investments if they see there is value for that cost and an opportunity for both gain and loss on a level playing field. In the current defined benefit system, there is a perceived imbalance (or asymmetry) in the risk-reward trade-off that is leading plan sponsors to exit the system. Sponsors are faced with very little upside to the investment in the plan and significant downside when assets decrease with no change to liabilities. Roundtable participants consistently cited several examples of this asymmetry:

- The need to fund investment losses quickly to maintain funded status (to reduce or eliminate PBGC variable rate premiums and avoid benefit restrictions) without having the ability to utilize surplus assets when funding improves significantly,
- Incurring high excise taxes on surplus assets accumulated within a plan that most commonly result from favorable investment or demographic experience, and
- Paying PBGC premiums into an insurance program for coverage that may not be utilized without the possibility of reduction in premium or refund when the system is overfunded.

"The combination of the PBGC premium structure and the 50% excise tax on reversion of surplus assets creates a 'heads they win, tails you lose' scenario for plan sponsors who choose to fund their plans to eliminate variable rate premiums."

Roundtable participants emphasized the urgent need to provide plans sponsors with reasonable flexibility to access plan surplus without jeopardizing benefit security for participants. They cited the recent decision by IBM to reopen their cash balance plan as an illustration of how excess defined benefit assets can be used to achieve a positive outcome for both the plan sponsor and participants. IBM shifted employer-funded benefit accruals away from a defined contribution plan and into a cash balance defined benefit plan to utilize the surplus for the benefit of employees in one of the few ways that is permissible under current rules. The existence of that surplus also creates a "soft landing" for a plan sponsor getting back into the defined benefit plan space by providing a cushion against volatility of accounting results in the short-term. In addition, by moving the employer contribution into a defined benefit structure, IBM allows employees who need to take a temporary saving holiday to still accrue employer-funded benefits rather than falling further behind in preparing for retirement.

[18] U.S. GAAP Accounting for defined benefit plans is governed by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 715. These standards require benefit costs to be expensed as accrued on a basis that reflects a combination of current market conditions and long-term assumptions. The resulting annual expense can be more or less than the cash contribution required under ERISA, and the asset or liability recognized on the plan sponsor's balance sheet can vary greatly from year to year.

Other options for utilizing defined benefit plan surplus raised by roundtable participants include allowing plan sponsors to use their surplus defined benefit plan funding to pay for other tax-preferred employee benefits (such as healthcare) or reducing the excise tax on surplus reversions (with sensible limitations to avoid abuse). Of course, these options require legislative change, which should include guardrails to ensure surplus is not depleted too quickly, since funded status can fluctuate. The surplus assets available for use outside the defined benefit plan could be held in a separate "sidecar trust," or commingled within the pension plan trust.

The complexity that comes with defined benefit plans relative to defined contribution plans is also a concern for executives. Extensive regulations and annual filing requirements from PBGC and other government agencies add to the cost and complexity of administering pension plans. Plan sponsor decision-makers are more willing to accept complexity when they can articulate the value of that added complexity to their business. Roundtable participants shared the concern that many executives today are not able to do so, which presents an educational opportunity for PBGC.

Roundtable participants suggested that a more principles-based approach to regulation and enforcement – including the use of more regulatory safe harbors - could go a long way to reduce the weighting of compliance and litigation risk in employers' analysis of whether to stay in or exit the defined benefit system. Frequent legislative action also introduces uncertainty for plan sponsors that is unappealing and can factor into the decision to terminate plans.

Modernizing Plan Design

Roundtable participants indicated that employers would have a greater appetite for defined benefit plan options that allow for more risk-sharing between employer and employee. Future pension plan designs should aim to integrate the best features of defined benefit and defined contributions into hybrid solutions that:

- provide automatic employer-funded benefit accruals (including during disability),
- balance risk among stakeholders,
- provide reliable income for retirees,
- offer income protection for surviving spouses, and
- facilitate portability of annuity benefits.

Roundtable participants identified market-return cash balance plans and variable annuity plans as options that effectively integrate the best features of defined benefit and defined contribution plans. These hybrid, "risk-sharing" plans typically allocate all or most of the investment risk to participants while retaining longevity and other demographics risks with the employer. Variable annuity plans, originally developed in the 1950s, are also making a comeback and offer many of the same benefits as market-based cash balance plans. Today's variable annuity plans often include anti-volatility features (such as floors and caps on the adjustments related to investment return), allowing the employer to design a plan that offers the appropriate level of risk sharing with their participants.

> **"Early adopters of market-based cash balance plans (dating back to the early 2000s) have demonstrated that these designs can weather events like the 2008 financial crisis and still provide participants with a reasonably secure, stable level of post-retirement annuity income."**

The “composite plan” concept developed by the National Coordinating Committee on Multiemployer Plans (NCCMP) could also be a consideration for single-employer plans. Structured like a traditional defined benefit plan, the plan sponsor defines the level of benefits to be paid as annuities, and retains the investment, mortality, and other demographic experience risk. When significant underfunding occurs, the sponsor is empowered (or required) to take action to correct the underfunding through a combination of increased contributions, reduced future (or in extreme cases, legacy) benefit accruals, or the scaling back of ancillary benefits.

Roundtable participants also shared that pooled employer defined contribution plans are growing in popularity in the U.S. and would translate well to the defined benefit system. The UK and Canada have been successful with pooled employer and multi-employer pension schemes. For example, the Canadian Association of Administrators and Trusts (CAAT) Pension Plan in Canada demonstrates the effective implementation of a pooled employer plan that shares cost and risk between employers and employees. In the CAAT Plan:

- Contribution rates are fixed. Each employer can choose what level of contributions are made, and both members and employers contribute.
- Benefits accrue based on annual contributions and the benefit rate is consistent across all employers.
- Accrued benefits can be adjusted based on funded status to make the plan sustainable.
- Employees receive a lifetime income benefit with conditional inflation protection.
- The program is funded on a going concern basis, not a solvency or wind-up basis.
- There is no walkaway (withdrawal) liability for sponsors.

The benefits of pooled employer arrangements include shared governance and risk, centralized administration (including participant communication and education), economies of scale to reduce costs, professionally managed investments, and portability of benefits among employers as workers change jobs.

Facilitating the transfer of annuity benefits between plans of unrelated employers allows participants to retain the benefit of risk pooling without requiring their prior employer to assume that risk.[19] Pooled employer plans could be implemented that allow an employee to participate for a full life cycle (active employment and retirement) or that are only open to terminated employees and retirees buying into the plan to convert an account balance to an annuity.

These hybrid plans reduce or eliminate many of the barriers that inhibit employers from adopting and maintaining defined benefit plans while providing features that are attractive to today’s workforce.

[19] Participants may also find it beneficial to be able to roll defined contribution assets into a defined benefit plan to access the benefits of risk pooling.

Conclusion

PBGC's statutory mission empowers and obligates the agency to take an active role to encourage the continuation and maintenance of the defined benefit system by identifying and providing education addressing barriers to plan sponsorship and to participant appreciation of the valuable lifetime income benefits these plans provide. The conversations with roundtable participants illuminated three key points:

- **PBGC is uniquely positioned to offer thought leadership to educate stakeholders, including policymakers, on a wide range of issues related to the retirement security of Americans.** PBGC personnel have broad-ranging expertise that is invaluable to providing education for policymakers, plans sponsors, and consumers about defined benefit plans and their value in providing lifetime retirement income and financial stability during retirement. Assessing policies for regulatory enforcement and benefits administration to ensure they reflect current risks and best practices is critical to PBGC's support of participants and plan sponsors.
- **As high PBGC premiums are the top barrier to plan continuation and adoption, there is an urgent need to right-size premiums in light of the current PBGC program surplus.** Developing a principles-based framework that reflects the inextricable link between premiums, surplus and risk is essential to continuation of the defined benefit system. Without premium reform, plan sponsors will continue to exit the system through pension risk transfer activities.
- **The future of defined benefit plan sponsorship will need to look different to address the needs of the modern labor market.** This includes a more balanced sharing of risk, encouraging plans to be well-funded without the risk of inaccessible surplus, increased portability of annuity benefits, and less dependency on individuals making prudent financial decisions.

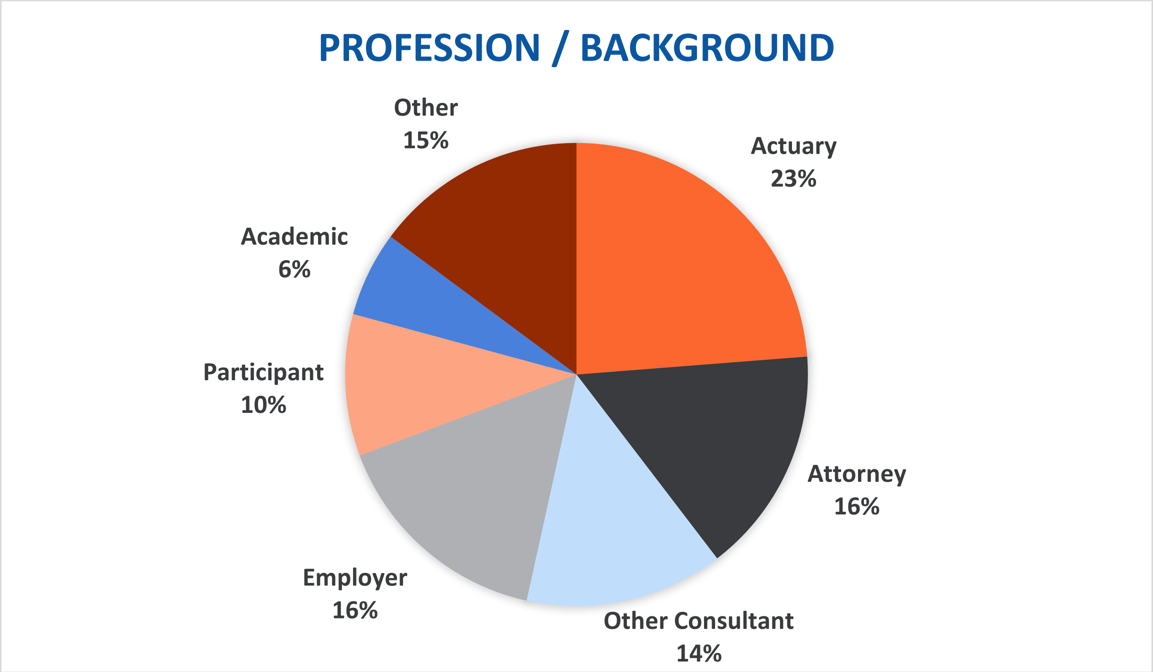
Preserving the private sector defined benefit system requires a coordinated effort among all stakeholders and policymakers to modernize how these plans are designed, administered, communicated, regulated, and insured. Maintaining the status quo will continue to have materially detrimental consequences for the retirement security of all generations of Americans, but enhanced educational efforts by PBGC can have a meaningful impact.

APPENDIX A – Roundtable Participant Demographics

The roundtable discussions involved a total of 52 participants with varied backgrounds, including:

- Plan sponsors,
- Defined benefit plan retirees and retiree associations,
- Labor unions and employee benefit associations,
- Pension assistance projects,
- Public policy and advocacy organizations for plan participants and sponsors,
- Actuaries, investment advisors, attorneys, administrators, and other service providers,
- Academic and research institutions specializing in retirement policy,
- Public policy and advocacy groups focused on retirement policy and reforms, and
- Experts in defined benefit plan systems outside the U.S.

The chart below summarizes the experience and focus areas of these individuals.



Roundtable participants representing employer interests were drawn from a diverse group of employer industries and had experience that spanned small employer, mid-market, and large employer, as well as perspectives from outside the United States. The following table summarizes the demographic composition of the employer representatives in the roundtables.

Industry	Employer Size	Plan Status	U.S. Geography	Representation
Manufacturing	5,000 - 25,000	Closed	South/Midwest	Finance
Technology	250,000+	Open	National	HR/Benefits
Media	5,000 - 25,000	Open	National	HR/Benefits
Shipping	250,000+	Open	National	Finance
Telecomm	100,000 – 150,000	Partially closed	National	HR/Benefits
Non-Profit	Less than 1,000	Closed	Mid-Atlantic	Legal
Manufacturing	1,000 - 5,000	Closed, partially frozen	South	HR/Benefits
Healthcare	1,000 - 5,000	Open[20]	Mid-Atlantic	HR/Benefits

The roundtable discussions were structured around three areas of focus identified by the Office of the Advocate:

- Preservation and maintenance of the single-employer defined benefit system, including actions PBGC could take to encourage plan continuation and mitigate factors that drive sponsors to de-risk,
- Current and future PBGC single-employer premiums, and
- Future considerations for the single-employer defined benefit system, including alternative and innovative plan designs.

[20] This plan sponsor had a second frozen defined benefit plan that is now terminated.

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