EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

EBRI News

2121 K St. NW • Suite 600 • Washington, DC 20037-1896
(202) 659-0670 • www.ebri.org • Fax: (202) 775-6312

For Immediate Release: Dec. 21, 2005
Contact: John MacDonald, EBRI, 202/775-6341, macdonald@ebri.org

EBRI: Latest PBGC Pension Report Uses Old Data, Misses New Pension Freezes

WASHINGTON—Earlier today, the Pension Benefit Guaranty Corporation (PBGC) released a study demonstrating that 9.4 percent of defined benefit plans had "halted participants' benefit accruals" as of 2003.

The PBGC report is based on Form 5500 data, which employer/pension plan sponsors are required to file with the federal government on an annual basis but which are routinely several years old by the time they are compiled. Unfortunately, for purposes of tracking activity in a rapidly changing environment, this information may be close to obsolete in certain instances, according to the nonpartisan Employee Benefit Research Institute (EBRI). The PBGC pension freeze report (www.pbgc.gov/docs/frozenplans.pdf) is based on 2003 Form 5500 data, the most recent available, but misses recent activity by plan sponsors and probably undercounts a significant increase in pension freezes or terminations.

"The PBGC report misses much of what has been happening among defined benefit plans because the Form 5500 only asks about total plan freezes (ending accruals for all current participants and closing the plan to new hires), not those closing the plan to new hires and giving them a different plan," said Dallas Salisbury, EBRI president.

Salisbury continued: "The PBGC report also misses all of 2004 and 2005 activity. For example, a recent Watson Wyatt Worldwide analysis found that among Fortune 1000 firms in 2004, 11 percent of the sponsors had a frozen or terminated plan, up from just 7 percent only one year earlier. The PBGC report also misses any activity that occurred during calendar year 2003 that was treated as being within the 2004 plan year. For example, a sponsor with a plan year ending June 30, 2003 that took action in July 2003, would not report that until the 2004 5500."

Salisbury noted that defined benefit pension plans, by their nature, are long term, and even a "totally frozen" plan could take a century to close down as the last young participant finishes a career, retires, and then lives to 100. "The real issue for the system is what is happening to newly hired workers, and multiple surveys have found that closing plans to new hires has been widespread," he added.

"The PBGC report released today is alarming, since combining their 9.4% decline in plans due just to total 'hard freezes,' along with other plan closings for new hires and reported plan terminations (airlines, auto parts, steel, etc.), suggests a significant decline in the PBGC premium base and bad news for the future. Adding terminations moves the numbers higher," Salisbury said.

Based on EBRI simulations conducted in 2004, (www.ebri.org/pdf/briefspdf/0504ib1.pdf), Salisbury said that freezing benefit accruals for all private-sector defined benefit pension plans beginning in 2005 would have a large impact on younger cohorts. The average annual decrease in real first-year surplus (retirement income less retirement expenses) for those in the youngest cohort modeled (born between 1961 and 1965, inclusive, or those currently between ages 40 and 44) would be $4,886 for families, $2,752 for single males, and $1,686 for single females, the EBRI analysis showed.

"This is hardly the basis for good cheer and optimistic statements about the future of defined benefit plans and the PBGC," Salisbury said.

###

PR # 723