DOWNLOAD PDF FUTURE OF PRIVATE PENSION PLANS

Chapter 1 : Is Your Defined-Benefit Pension Plan Safe?

Just under 16 percent of private-sector workers were active participants in (k)-type plans in , compared with nearly 42 percent today. This number will grow in the years ahead, as more and more (k) plans adopt PPA-allowed automatic design features.

Personal Pension to Replace Defined Benefit Pensions Published January 26, As employers freeze and terminate their pension plans, a new option is emerging: Insurers were the original providers of pensions before employers started managing themselves Now, insurers are once again the solution as employers have frozen or terminated their defined benefit plans The Personal Pension allows you to get guaranteed annuity retirement income without your employer At one time in history, pensions were the bedrock of the American retirement. They provided a way for individuals to transition smoothly from working to retirement by providing a replacement for their income that they could depend on â€" no matter what happened in the market or how long they lived. Looking Back American Express started the trend back in with the introduction of the first pension plan in the United States. Adoption picked up over time until the peak in , when almost half of private sector employees were covered by pension plans. The decline of employer pension plans was the result of many factors, including: More mobility in the workforce â€" people were no longer interested in working for one employer for their entire careers Low interest rates â€" declining interest rates increased pension liabilities and in turn what employers needed to set aside Increase in longevity â€" longer lifespans also drove an increase in pension cost for the employers Introduction of the k â€" the advent of the defined contribution plan offered employers a cheaper way to provide retirement benefits Regulatory changes â€" changes to the way employers fund and account for pensions drove up costs The k: A Poor Replacement But, while pensions as they were structured at the time stopped being the appropriate retirement solution, their replacement was never meant to be the k. Insurance-Backed Private Pensions Employers are not the only institutions equipped to provide pensions to people. In fact, in the early days of the defined benefit pension system first half of the s , pensions were actually group annuity contracts managed by insurance companies. Insurance companies are professional risk managers, making them much better suited to manage the investment and longevity risks involved with providing guaranteed lifelong retirement paychecks to individuals. Over time, employers started to feel they could do the financial and risk management that the insurer was doing themselves. They stopped paying money to insurers to buy annuities for their employees and instead created pension funds. They decided how much money to set aside today to fund those future benefits. And, they decided how to invest the money. For years the system worked, and it was financially advantageous for the employer. But, driven by their aging workforces, market volatility, and changes to pension accounting rules, employers found pensions too much to manage. So what did many of them do? They asked insurance companies to buy out their pension funds and take over the responsibility of managing them. Pensions used to be annuities. That sums up the history of pensions. So what about the future? Pension Plans of the Future Employers are no longer offering defined benefit pension plans, but insurers are still experts in managing investment and longevity risk. But, these products and the distribution of them are ill-suited to be a real pension replacement. But, instead, private pension plans could be easily accessible and look something like this: An online platform exists with a full marketplace of options that an individual can see for themselves. In the same way mutual funds have made investing in the stock market easy, inexpensive, and accessible, this pension account would do the same for annuities. Over time, the individual is building themself a pension, locking in more and more guaranteed retirement income with every deposit. The Blueprint Income Solution: We started by creating a marketplace for existing income annuities where individuals can run their own quotes, compare options, and purchase if desired. Here you can see what annual contributions into a Personal Pension will guarantee you in annuity retirement income. From there, you can fill out the information to have one of our specialists follow up with you, or continue with the enrollment process on your own.

Chapter 2 : The decline of true pensions: A global overview and how Canada compares - The Globe and M

Beyond increasing the volatility of the pension fund, these laws increased the complexity and the scope of the regulatory burden facing private sector pension plans. The increased volatility of the funding levels made pension plan contributions less consistent from year to year.

Pension computations[edit] Pension computations are often performed by actuaries using assumptions regarding current and future demographics, life expectancy, investment returns, levels of contributions or taxation, and payouts to beneficiaries, among other variables. One area of contention relates to the assumed annual rate of investment return. If a higher investment return is assumed, relatively lower contributions are demanded of those paying into the system. Critics have argued that investment return assumptions are artificially inflated, to reduce the required contribution amounts by individuals and governments paying into the pension system. For example, bond yields the return on guaranteed investments in the US and elsewhere are low and the U. If these rates were lowered by 1â€”2 percentage points, the required pension contributions taken from salaries or via taxation would increase dramatically. Attempting to sustain better-than-market returns can also cause portfolio managers to take on more risk. The IMF recommendations included raising the retirement age commensurate with life expectancy. In other words, this amount would have to be set aside today such that the principal and interest would cover the shortfall over the next 75 years. Over an infinite time horizon, these shortfalls average 3. State-level issues[edit] In financial terms, the crisis represents the gap between the amount of promised benefits and the resources set aside to pay for them. For example, many U. States contribute approximately 3. This would have to be raised to 5. States have significant time before the pension assets are exhausted. Sufficient funds are present already to pay obligations for the next 15â€”20 years, as many began funding their pensions back in the s. The CBPP estimates that states have up to 30 years to address their pension shortfalls. Nearly all debt issued by a state generally via bonds is used to fund its capital budget, not its operating budget. Capital budgets are used for infrastructure like roads, bridges and schools. Operating budgets pay pensions, salaries, rent, etc. So state debt levels related to bond issuance and the funding of pension obligations have substantially remained separate issues up to this point. During the second quarter of , the debt level was Pension promises in some states are contractually binding. In many states, constitutional amendments are also required to modify them. It bears little correlation to the percentage of state workers who are covered by a collective bargaining agreement. For example, the replacement rate in Missouri is In Colorado, replacement rates are higher but these employees are barred from participating in Social Security. But they will probably have to do so eventually, and the longer they wait, the larger those shortfalls could become. Most of the additional funding needed to cover pension liabilities is likely to take the form of higher government contributions and therefore will require higher taxes or reduced government services for residents". There are state pension plans and approximately 3, locally administered plans. The term unfunded liability represents the amount of money that would have to be set aside today such that interest and principal would cover the gap between program cash inflows and outflows over a long period of time. On average, pensions consume nearly 20 percent of municipal budgets. But if trends continue, over half of every dollar in tax revenue would go to pensions, and by some estimates in some instances up to 75 percent. In some cases, this might contradict state laws, leading to a set of constitutional questions that might be addressed by the U. The report concluded that: The decline in family income is expected to be much larger for last-wave boomers born from to than for first-wave boomers born from to , because last-wave boomers are more likely to have their DB pensions frozen with relatively little job tenure. In contrast, the percentage of workers covered by a defined contribution DC pension plan has been increasing over time. Most of the shift has been the private sector, which few changes in the public sector. Some experts expect that most private-sector plans will be frozen in the next few years and eventually terminated. Under the typical DB plan freeze, current participants will receive retirement benefits based on their accruals up to the date of the freeze, but will not accumulate any additional benefits; new employees will not be covered. Instead, employers will either establish new DC plans or increase contributions to existing DC plans. For many, the only thing protecting them from abject penury will be Social Security. Please update this article to reflect recent events or newly available information. May Due to the low savings ratio, rapidly increasing longevity, new taxation of pension funds for instance the removal of the right to reclaim withholding tax on equity dividends , and above all falling investment returns, many pension funds are in difficulties in the early 21st century. Most of these funds have moved from defined benefit final salary to contribution-based benefits. Thousands of private funds have been wound up. The government has[when? In October the UK Government implemented a mandatory automatic enrolment system where full-time employees and employers have to be make contributions to a workplace pension scheme [26]. The UK Government commissioned an independent review of the State pension age by John Cridlandand in , amongst other measures, it proposed increasing the state pension age to 68 and removing the triple lock on state pensions. Reform ideas are in three primary categories: Addressing the worker-retiree ratio, by raising the retirement age, employment policy, and immigration policy Reducing obligations by shifting from defined benefit to defined contribution pension types and reducing future payment amounts Increasing resources to fund pensions by increasing contribution rates and raising taxes. Recently this has included proposals for and actual confiscation of private pension plans and merging them into government run plans. In the United States, since there has been a significant shift away from defined benefit plans with a corresponding increase in defined contribution plans , like the k. As of [update] , governments were beginning to follow the private sector in this regard. Some countries have laws that require employers to opt employees into defined contribution plans. Demographic transition[edit] [citation needed][dead link] Inverse dependency ratio workers per dependent by world regions, â€", notably showing demographic windows in the US and East Asia. Some argue FAIR that the crisis is overstated, and for many regions there is no crisis, because the total dependency ratio â€" composed of aged and youth â€" is simply returning to long-term norms, but with more aged and fewer youth: The dependency ratio is not increasing significantly, but rather its composition is changing. Once the aged population grows, the dependency ratio returns to approximately the same level it was prior to the transition. Thus, by this argument, there is no pensions crisis, just the end of a temporary golden age, and added costs in pensions are recovered by savings in paying for youth. For example, in the United States, care for the youth is provided by parents, with the primary government expense being education, which is primarily provided by local and state governments, paid for by property taxes a form of wealth tax , while care for the aged is commonly provided by hospitals and nursing homes, and the expenses are pensions and health care, which are provided by the federal government, paid for by payroll taxes a form of income tax. Thus, local property taxes and the untaxed labor of parents cannot be directly handed off to fund pensions and health care, creating a coordination problem. The number of people of working age compared with the number of people beyond retirement age Participation rate: The proportion of the population that is in the labor force Defined benefit: A pension dependent on the amount contributed and related investment performance, where the risk falls mainly on the employee [1].

Chapter 3 : Pensions crisis - Wikipedia

Plan For Your Future With A Private Pension If you have not yet reached 30, your retirement might seem a long way off, but it will come round quicker than you think. Suddenly your income will drop from what you have been earning to the amount of a state pension, which currently stands at approx. euros a month.

Employment-based pensions[edit] A retirement plan is an arrangement to provide people with an income during retirement when they are no longer earning a steady income from employment. Often retirement plans require both the employer and employee to contribute money to a fund during their employment in order to receive defined benefits upon retirement. It is a tax deferred savings vehicle that allows for the tax-free accumulation of a fund for later use as a retirement income. Funding can be provided in other ways, such as from labor unions, government agencies, or self-funded schemes. Pension plans are therefore a form of "deferred compensation". Some countries also grant pensions to military veterans. Military pensions are overseen by the government; an example of a standing agency is the United States Department of Veterans Affairs. Ad hoc committees may also be formed to investigate specific tasks, such as the U. Pensions may extend past the death of the veteran himself, continuing to be paid to the widow; see, for example, the case of Esther Sumner Damon , who was the last surviving American Revolutionary War widow at her death in Many countries have also put in place a " social pension ". These are regular, tax-funded non-contributory cash transfers paid to older people. Over 80 countries have social pensions. Disability pension Some pension plans will provide for members in the event they suffer a disability. This may take the form of early entry into a retirement plan for a disabled member below the normal retirement age. Benefits[edit] Retirement plans may be classified as defined benefit or defined contribution according to how the benefits are determined. A defined contribution plan will provide a payout at retirement that is dependent upon the amount of money contributed and the performance of the investment vehicles utilized. Hence, with a defined contribution plan the risk and responsibility lies with the employee that the funding will be sufficient through retirement, whereas with the defined benefit plan the risk and responsibility lies with the employer or plan managers. Some types of retirement plans, such as cash balance plans, combine features of both defined benefit and defined contribution plans. They are often referred to as hybrid plans. Such plan designs have become increasingly popular in the US since the s. Examples include Cash Balance and Pension Equity plans. Defined benefit plans[edit] Main article: Defined benefit pension plan A traditional defined benefit DB plan is a plan in which the benefit on retirement is determined by a set formula, rather than depending on investment returns. Government pensions such as Social Security in the United States are a type of defined benefit pension plan. Traditionally, defined benefit plans for employers have been administered by institutions which exist specifically for that purpose, by large businesses, or, for government workers, by the government itself. The final accrued amount is available as a monthly pension or a lump sum, but usually monthly. A simple example is a Dollars Times Service plan design that provides a certain amount per month based on the time an employee works for a company. While this type of plan is popular among unionized workers, Final Average Pay FAP remains the most common type of defined benefit plan offered in the United States. Averaging salary over a number of years means that the calculation is averaging different dollars. For example, if salary is averaged over five years, and retirement is in , then salary in dollars is averaged with salary in dollars, etc. The pension is then paid in first year of retirement dollars, in this example dollars, with the lowest value of any dollars in the calculation. Thus inflation in the salary averaging years has a considerable impact on purchasing power and cost, both being reduced equally by inflation This effect of inflation can be eliminated by converting salaries in the averaging years to first year of retirement dollars, and then averaging. In the US, 26 U. This method is advantageous for the employee since it stabilizes the purchasing power of pensions to some extent. If the pension plan allows for early retirement, payments are often reduced to recognize that the retirees will receive the payouts for longer periods of time. In the United States, under the Employee Retirement Income Security Act of , any reduction factor less than or equal to the actuarial early retirement reduction factor is acceptable. Companies would rather hire younger employees at lower wages. Some of those provisions come in the form of additional temporary or supplemental benefits, which are payable to a certain age, usually before attaining normal retirement age. In an unfunded defined benefit pension, no assets are set aside and the benefits are paid for by the employer or other pension sponsor as and when they are paid. This method of financing is known as pay-as-you-go. Social Security system is partially funded by investment in special U. In a funded plan, contributions from the employer, and sometimes also from plan members, are invested in a fund towards meeting the benefits. All plans must be funded in some way, even if they are pay-as-you-go, so this type of plan is more accurately known as pre-funded. The future returns on the investments, and the future benefits to be paid, are not known in advance, so there is no guarantee that a given level of contributions will be enough to meet the benefits. If a plan is not well-funded, the plan sponsor may not have the financial resources to continue funding the plan. This section needs additional citations for verification. Please help improve this article by adding citations to reliable sources. Unsourced material may be challenged and removed. Defined benefit pensions tend to be less portable than defined contribution plans, even if the plan allows a lump sum cash benefit at termination. Most plans, however, pay their benefits as an annuity, so retirees do not bear the risk of low investment returns on contributions or of outliving their retirement income. The open-ended nature of these risks to the employer is the reason given by many employers for switching from defined benefit to defined contribution plans over recent years. The risks to the employer can sometimes be mitigated by discretionary elements in the benefit structure, for instance in the rate of increase granted on accrued pensions, both before and after retirement. The age bias, reduced portability and open ended risk make defined benefit plans better suited to large employers with less mobile workforces, such as the public sector which has open-ended support from taxpayers. This coupled with a lack of foresight on the employers part means a large proportion of the workforce are kept in the dark over future investment schemes. Defined benefit plans are sometimes criticized as being paternalistic as they enable employers or plan trustees to make decisions about the type of benefits and family structures and lifestyles of their employees. However they are typically more valuable than defined contribution plans in most circumstances and for most employees mainly because the employer tends to pay higher contributions than under defined contribution plans , so such criticism is rarely harsh. The "cost" of a defined benefit plan is not easily calculated, and requires an actuary or actuarial software. However, even with the best of tools, the cost of a defined benefit plan will always be an estimate based on economic and financial assumptions. So, for this arrangement, the benefit is relatively secure but the contribution is uncertain even when estimated by a professional. This has serious cost considerations and risks for the employer offering a pension plan. One of the growing concerns with defined benefit plans is that the level of future obligations will outpace the value of assets held by the plan. This "underfunding" dilemma can be faced by any type of defined benefit plan, private or public, but it is most acute in governmental and other public plans where political pressures and less rigorous accounting standards can result in excessive commitments to employees and retirees, but inadequate contributions. Many states and municipalities across the United States of America and Canada now face chronic pension crises. In the United States, the Social Security system is similar in function to a defined benefit pension arrangement, albeit one that is constructed differently from a pension offered by a private employer; however, Social Security is distinct in that there is no legally guaranteed level of benefits derived from the amount paid into the program. Individuals that have worked in the UK and have paid certain levels of national insurance deductions can expect an income from the state pension scheme after their normal retirement. The state pension is currently divided into two parts: Individuals will qualify for the basic state pension if they have completed sufficient years contribution to their national insurance record. The S2P pension scheme is earnings related and depends on earnings in each year as to how much an individual can expect to receive. It is possible for an individual to forgo the S2P payment from the state, in lieu of a payment made to an appropriate pension scheme of their choice, during their working life. For more details see UK pension provision. Defined contribution plans[edit] Main article: Defined contribution plan In a defined contribution plan, contributions are paid into an individual account for each member. Defined contribution plans have become widespread all over the world in recent years, and are now the dominant form of plan in the private sector in many countries. For example, the number of defined benefit plans in the US has been steadily declining, as more and more employers see pension contributions as a large expense avoidable by disbanding the defined benefit plan and instead offering a defined contribution plan. Money contributed can either be from employee salary deferral or from employer contributions. The portability of defined contribution pensions is legally no different from the portability of defined benefit plans. In the United Kingdom, for instance, it is a legal requirement to use the bulk of the fund to purchase an annuity. The "cost" of a defined contribution plan is readily calculated, but the benefit from a defined contribution plan depends upon the account balance at the time an employee is looking to use the assets. So, for this arrangement, the contribution is known but the benefit is unknown until calculated. Despite the fact that the participant in a defined contribution plan typically has control over investment decisions, the plan sponsor retains a significant degree of fiduciary responsibility over investment of plan assets, including the selection of investment options and administrative providers. A defined contribution plan typically involves a number of service providers, including in many cases:

Chapter 4 : PPT - The Future of Private Pension Plans PowerPoint Presentation - ID

The Future of Private Retirement Plans provides the most comprehensive review available today of how the American retirement system is changing, and why. (k) Valuations Published: November 1, (k) Balances and Changes Due to Market Volatility.

For both the employers that sponsor retirement plans and the workers who participate in them, the future of employment-based retirement plans seems to be in question: Financial publications report the ongoing decline in value of the largest asset for most Americans â€" their homes â€" and an ongoing rise in foreclosures. An ever-growing number of surveys report that those lucky enough to still have a job now expect to work many years longer because they cannot afford to retire. Yet, it is the only source of income for one-quarter of current retirees, and the primary source for nearly three-quarters. That dependence will only grow for baby boomers. Yet, for more than half of all retirees, Medicare and Medicaid are the only meaningful health and long-term care protection they have in retirement â€" and, again, that dependency will only increase for baby boomers. Retirement plans, retirement programs and the very concept of retirement are all changing at a rapid pace. Many retirees are already being forced to change their decisions on spending, investments and lifestyle, among other things. Many retirees would now like to return to work. Phased retirement, which has been advocated in recent years as a way to keep individuals from leaving the work force entirely, could now shift to becoming a way to ease people into retirement more quickly. The most current data for show that, among all nonagricultural wage and salary workers the ones most likely to have benefits , almost two-thirds 64 percent had an employer that sponsored a retirement plan at work, but less than half 47 percent participated. For workers who are in a k -type retirement plan, the average annual employee contribution is 7. Automatic enrollment in k plans is spreading quickly and participation rates in plans are rising as a result. Most workers are choosing to remain in the plan. The positive results are leading to more adoptions of auto-enrollment each week. Some employers are responding by simply increasing the initial rate, and others by moving to automatic escalation. These changes matter because so many American workers now depend on k s for their savings and future retirement income. Just under 16 percent of private-sector workers were active participants in k -type plans in , compared with nearly 42 percent today. This number will grow in the years ahead, as more and more k plans adopt PPA-allowed automatic design features. The hope was that employers with no defined benefit pension would move to establish a cash balance plan, but that has happened only on a limited basis among firms. Post-PPA, some large employers have shifted from traditional defined benefit to cash balance plans. The economic crisis has affected defined benefit pension plans in ways that could lead to more decisions to freeze these plans in place, convert them to cash-balance plans or move them entirely to k -type plans: First is the dramatic decline in the equity markets. Second is the decline in government interest rates and the prospect of lower corporate bond interest rates ahead, which cause the present value of liabilities of defined benefit pension plans to grow. Third is the dramatic increase in required contributions under current PPA rules to pension plans that this combination of equity losses and low interest rates can demand. This number will continue to decline, as employers that do not have workforces uniquely suited to a traditional defined benefit plan convert to cash balance or k -type plans. However, the continuous flow of new contributions with each pay period helps fill the hole, while also allowing the purchase of new investment shares at lower prices, holding the potential for higher eventual balances than if the equity markets had never declined. So far, k participants have remained what some might view as amazingly calm, based on reports from several organizations that provide or administer k plans. Low double-digit percentages have shifted assets or stopped contributing, and k loan and hardship-withdrawal rates have changed little from historical patterns. The longer someone has been in a k plan, the larger the balance â€" and the bigger the potential loss. Thus, it will take longer for these workers to catch up, as the economy recovers and the markets climb. There are no data to suggest that participants are yet responding in the single smartest way: Decades ago, a professor told me that the hope of every investor should be to have flat markets until shortly before you retire, so that your purchases get you the greatest ultimate value. Employers do not yet seem to be communicating aggressively for workers to contribute more to their k s now, but campaigns are beginning. They can be expected to accelerate. Lawmakers watch the news closely, have seen their own k -type balances decline and are hearing from constituents and family members. While retirement savings are not at the very top of the political agenda, they are high on the pain threshold with constituents. This could have implications for the existing voluntary employment-based retirement system in the United States. The data do not support this contention, relative to the objectives contained in existing statutes and legislative histories. But some academics suggest that the objectives were wrong and that k plans should be judged against an objective of providing adequate retirement security when combined with Social Security. Even some financial trade groups have suggested that mandated automatic enrollment defaults in employer-sponsored k plans would be acceptable. For employers, this policy direction would appear to mean not only mandated costs but less control over a major form of benefits compensation. For workers, it might also mean mandatory savings â€” putting money aside for their own retirement. It is far too early to know what the policy outcome will be. But as a matter of retirement planning and savings advocacy, it suggests a growing recognition that most Americans have saved far too little to afford the retirement they have dreamed of, even if they have managed to save enough to at least survive in retirement. My own conclusion is that the current economic crisis â€” similar to the Great Depression â€” will produce a fundamental change in individual savings behavior that will be with us for the decades immediately ahead. This has attendant implications both for a consumer-based economy and for personal financial responsibility and thrift. Financial emergency is the immediate cause, but we can also expect that a combination of government, employer, media and other thrift and savings advocacy forces will arise and grow in the years ahead, with or without system reforms. If your orientation is that of consumption and debt, the change will be somewhat depressing, as I believe the inevitable shift already evident in the growing personal savings rate will be toward thrift and savings. If your orientation is like mine, to save for personal economic security, then the increased number of Americans with reserve funds and the ability to realize their retirement dreams â€” rather than just survive â€” will be viewed as good news. Potentially, the result could be a greatly expanded and possibly mandated at some point in the future market for personal finance products and services for business and improved economic security for workers. In short, the future of retirement can be brighter as a result of what we will have been through. And despite the considerable pain our nation is currently going through, I believe it will be.

Chapter 5 : Private Pension Plans Replace Employer Pensions | Blueprint Income

Defined Benefit Pensions: Looking Back. American Express started the trend back in with the introduction of the first pension plan in the United States. Adoption picked up over time until the peak in , when almost half of private sector employees were covered by pension plans.

World map background in origami style. Milevsky and Alexandra C. Copyright c by Moshe A. This book is available at bookstores and online booksellers Pension systems in all of the regions we are focusing on have changed since the financial crisis. These reforms followed an earlier wave of changes implemented in the previous decade. The United States Story continues below advertisement In , approximately 60 per cent of the employed population had pension coverage of one kind or another, with the proportion of defined benefit to defined contribution plans split close to equally. In the latest year for which data are available , 46 per cent of American workers aged 21 to 64 participated in an employer-sponsored pension plan â€" but only 26 per cent participated in a defined benefit pension, with the remainder in defined contribution plans. And of the workers participating in defined benefit plans, more than one in two are in the public sector. The United Kingdom The role of the defined benefit pension in the United Kingdom has diminished drastically since the year , especially in the private sector. The decline has been so steep that many observers believe that the defined benefit plan "cannot survive as an institution" in the private sector. Across the United Kingdom in , there were a total of 8. For both DB and DC occupational pensions, in , just under two thirds of membership 65 per cent, or 5. This is in contrast to when the pension survey from which these data are taken was first run , when active membership of occupational schemes was divided equally between the private and public sectors. For the younger generation, the option of joining a DB scheme is much reduced. In , only 38 per cent of DB plans were open to new members. In , the number of active participants in DC plans outnumbered active participants in DB plans. The United Kingdom is now undertaking a major reform of its pension system. In October , the government began rolling out automatic enrollment into workplace pension schemes. Once complete in February , all employers will have a legal duty to enroll all qualifying workers in a workplace pension plan, which can be either defined contribution or defined benefit. To support automatic enrollment, the government has also established the National Employment Savings Trust NEST , a trust-based occupational defined contribution scheme. And, most recently, in March the requirement that U. Options for accessing savings in DC pensions now include withdrawing funds over time or as a lump sum, in addition to annuitizing. Story continues below advertisement Story continues below advertisement Canada In Canada, steady public sector employment growth, where DB pension coverage is nearly universal, has partially obscured the large decline in voluntary occupational pension coverage in private-sector employment over the past decade. In , a total of 33 per cent of the Canadian labor force was enrolled in a registered pension plan, a proportion that is unchanged since Eighty-six per cent of public-sector workers are enrolled in a registered pension plan again, a figure unchanged since , but the proportion of private-sector workers covered by a pension plan declined from 27 per cent in to 24 per cent in At the same time, the proportion of public-sector workers enrolled in a DB pension plan increased from to , from 93 to 94 per cent, while the proportion of private-sector workers with DB plans fell dramatically, from 73 to 48 per cent â€" and where DB plans exist in the private sector, most new employees are not offered membership in DB plans. A recent survey of retirement readiness found a strong majority of Canadians â€" approximately 80 per cent â€" are financially prepared for retirement. Australia In Australia, the advent of compulsory superannuation, a mandatory employer contribution to a private pension plan, in prompted the closure of many employer-sponsored pension plans. Twenty years ago, in , there were slightly over 4, employer-sponsored plans; by , that number had fallen to just Today, the Australian employer-provided pension system stands out from other industrial country systems for two reasons: Story continues below advertisement At retirement age, members of a superannuation plan can withdraw the accumulated capital as a lump sum or as an income stream. Currently, most benefits are taken as a lump sum at least in part , and the pensions industry in Australia is now grappling with the question of how lifetime income in retirement can be generated from these plans. Today, about 55 per cent of workers in New

Zealand are enrolled in KiwiSaver accounts. KiwiSaver entitles members to a lump sum, not a pension, on withdrawal at age 65 or over. Prior to the development of the national KiwiSaver program, less than 10 per cent of the population of New Zealand had access to a company-sponsored pension plan.

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Chapter 6 : The Future of Retirement Plans â€” Employee Benefits

At 21%, the current coverage level in the private sector is not stable since an estimated 40% to 50% of existing DB pension plans are closed to new members. These figures include both DB and DC.

By Rich White Updated November 1, â€” Recently, however, issues of financial solvency have put the availability of these benefits in question. DB plans are complex and opaque to many participants. This article offers some specific ideas for evaluating the financial health of your plan quickly and easily. To learn more, read: When the Studebaker Corporation closed its automobile manufacturing plants in , 7, workers lost virtually all of their retirement benefits. As of the first quarter of , the Investment Company Institute reported that U. Good News and Bad News If you are counting on a defined-benefit pension plan for part of your retirement financial security, be aware of some good and bad news. The Good On the bright side, if problems are looming in a plan that promises your benefits, you now have more ability than in the past to learn the truth and plan for any shortfalls. Also, if you participate in a private DB plan offered by a company, provisions of the Pension Protection Act of PPA should increase your odds of receiving the full pension payout promised by requiring increased contributions by the company sponsoring the plan. Federal government plans - These plans cover civil service employees, retired military personnel and some retired railroad workers. The promised benefits are backed by secure funding largely U. Treasury debt and the taxing power of the U. These are considered the safest DB plans in the United States. State and local government plans - These plans cover state and local government employees, teachers, police, firefighters and sanitation workers. Three layers of security support benefit promises of these plans: They have been steadily declining and, as of , there are approximately 1, plans representing approximately 10 million participants, according to the PBGC. A Quick Reference Guide " can alert you to the signs that your pension plan is being misused. Most assets can be valued accurately, but the valuation of liabilities is far more complex. Performed by a qualified actuary , liability valuation must include an estimate of how many participants will qualify for benefits and how long those participants may live. Before , DB plans were required to use the yield on the year U. In a normal yield curve , long-term rates are higher than short-term - and the lower the discount rate a plan uses, the more its future liabilities will be worth. That, in turn, could cause these plans to fall short of adequate funding. To read more about yield curves and their uses, see our Bond Basics Tutorial. Is Your Plan Underfunded? This requirement was most difficult for cash-strapped, unprofitable companies that already have under-funded plans. Any significant downturn in the stock market could lead to even more plan failures. Therefore, the important information you want to know about your plan is: If your company is not financially strong and the stock market turns down, your next stop may be to rely upon the PBGC as guarantor of your benefits. If a town or county goes broke and cannot pay pension benefits, participants must look to state statutes for relief. In a few states, the law is clearly favorable for pensioners by stating: Accrued benefits of these systems shall not be diminished or impaired. On the opposite extreme are states that treat pension rights as gratuities - meaning workers have no contractual right against the state. In between are states that provide no constitutional or statutory protections but do have strong histories of case law protecting public pensions. Conclusion With some research, you can decide how much of your "retirement ranch" you want to bet on DB plan promises. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

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Chapter 7 : The Future of Pension Plans: Penn Wharton Public Policy Initiative

A pension plan is a retirement plan that requires an employer to make contributions into a pool of funds set aside for a worker's future benefit.

Read news articles about multiemployer funding What are multiemployer pension plans? Multiemployer pension plans are retirement plans negotiated by a union with a group of employers typically in the same industry. Collective bargaining contracts say how much the employers must contribute to the plans for their employees. The plans are run by trustees selected by the union and the employers. The trustees typically determine the amounts that the plans will pay in lifetime monthly benefits. There are more than 10 million workers and retirees in 1, multiemployer plans. How well funded are multiemployer pension plans? The majority of multiemployer pension plans, covering most multiemployer plan participants, are adequately funded , but some plans are projected to run out of money within 20 years. How many multiemployer plans are at risk of running out of money? According to PBGC projections, approximately to plans, covering 1. The PBGC estimates that roughly one-third of the affected participants are in two large plans in the trucking and mining industries. Why are some multiemployer plans underfunded? There are a variety of reasons for funding shortfalls in certain multiemployer pension plans. Changes in the economy have resulted in a dramatic decline in union jobs, leaving many plans with many more retirees than active workers. This, together with company bankruptcies and withdrawals from plans, has caused a significant decrease in employer contributions to plans. In addition, investment losses in and again in the stock market collapse greatly reduced the amount of money in plans. What happens when a multiemployer plan runs out of money? When a multiemployer pension plan no longer has enough money to pay benefits in a particular year, the plan is considered to be insolvent. At that point, two things happen: How are PBGC multiemployer guarantee levels calculated? PBGC guarantees for multiemployer plans are calculated by multiplying the number of years participants have worked under a plan times a percentage of the monthly benefits they have earned under the plan. If a plan runs out of money and benefits are reduced to the PBGC levels, the reductions can be substantial. How do I find out if my multiemployer plan is underfunded? Every year, your plan is required to send you a funding notice, which details financial information about the plan, including how well-funded it is. Your plan is also required to notify you if it becomes underfunded. See our fact sheets for more information about funding notices , and the types of cuts that can affect workers when plans are underfunded. The Center for Retirement Research at Boston College has compiled a list of plans that may be permitted to cut benefits as a result of the new law. See the list here. How can underfunded multiemployer plans be preserved for the long term? The law largely reflects suggestions made by the National Coordinating Committee on Multiemployer Plans, a coalition of employers, unions and plan trustees, in its report, Solutions not Bailouts. A summary of the cutback provisions of the law is here. It is also unprecedented and undermines a fundamental protection of the federal private pension law. A number of common-sense ideas have been suggested to help ensure that financially troubled multiemployer plans will be able to continue paying pensions. These ideas include letting plans join together to save on administrative costs; relieving employers of obligations for workers and retirees whose employers are no longer contributing to the plans; and providing more money to the PBGC to help the agency assist plans and provide higher guarantees. These approaches and ones specific to different industries should be implemented, rather than reducing the hard-earned and much-needed benefits of retirees. What would my pension be under the Multiemployer Pension Reform Act of ? If you are a retiree currently receiving a pension from a financially troubled multiemployer plan, you can use our Multiemployer Pension Cutback Calculator to find out how much you could lose in benefits if your pension were cut back to percent of the amount guaranteed by the PBGC. Are you a retiree in a multiemployer plan whose benefits might be cut under the Multiemployer Pension Reform Act of ? If so, share your story on our Story Bank.

Chapter 8 : Pension - Wikipedia

*The future of private pension plans (Studies in social security and retirement policy) [Norman B Ture] on blog.quintoapp.com *FREE* shipping on qualifying offers.*

In a defined-benefit plan , the employer guarantees that the employee receives a definite amount of benefit upon retirement, regardless of the performance of the underlying investment pool. The employer is liable for a specific flow of pension payments to the retiree the dollar amount is determined by a formula, usually based on earnings and years of service , and if the assets in the pension plan are not sufficient to pay the benefits, the company is liable for the remainder of the payment. American employer-sponsored pension plans date from the s, and at their height, in the s, they covered nearly half of all private sector workers. S are covered by a defined-benefit plan today. In a defined-contribution plan , the employer makes specific plan contributions for the worker, usually matching to varying degrees the contributions made by the employees. In common parlance, "pension plan" often means the more traditional defined-benefit plan, with a set payout, funded and controlled entirely by the employer. Some companies offer both types of plans. They even allow employees to roll over k balances into their defined-benefit plans. There is another variation, the pay-as-you-go pension plan. Set up by the employer, these tend to be wholly funded by the employee, who can opt for salary deductions or lump sum contributions which are generally not permitted on k plans. Otherwise, they similarly to k plans, except that they usually offer no company match. Companies that provide retirement plans are referred to as plan sponsors fiduciaries , and ERISA requires each company to provide a specific level of plan information to employees who are eligible. Plan sponsors provide details on investment options and the dollar amount of worker contributions that are matched by the company, if applicable. Employees also need to understand vesting , which refers to the dollar amount of the pension assets that are owned by the worker; vesting is based on the number of years of service and other factors. Vesting Enrollment in a defined-benefit plan is usually automatic within one year of employment, although vesting can either be immediate or spread out over seven years. But if your employer matches those contributions or gives you company stock as part of your benefits package, it may set up a schedule under which a certain percentage is handed over to you each year until you are "fully vested. That gives them their tax-advantaged status. Employers get a tax break on the contributions they make to the plan for their employees. Contributions they make to the plan come "off the top" of their paychecks â€” that is, are taken out of their gross income. That effectively reduces their taxable income , and, in turn, the amount they owe the IRS come April Funds placed in a retirement account then grow at a tax-deferred rate, meaning no tax is due on them as long as they remain in the account. Upon retirement, when you start receiving funds from a qualified pension plan, you may have to pay federal and state income taxes. If you have no investment in the plan because you have not contributed anything or are considered to not have contributed anything, your employer did not withhold contributions from your salary or you have received all of your contributions investments in the contract tax free in previous years, your pension is fully taxable. If you contributed money after tax was paid, your pension or annuity is only partially taxable. Partially taxable qualified pensions are taxed under the Simplified Method. Some companies are keeping their traditional defined-benefit plans, but are freezing their benefits, meaning that after a certain point, workers will no longer accrue greater payments, no matter how long they work for the company or how large their salary grows. When a pension plan provider decides to implement or modify the plan, the covered employees almost always receive a credit for any qualifying work performed prior to the change. The extent to which past work is covered varies from plan to plan. When applied in this way, the plan provider must cover this cost retroactively for each employee in a fair and equal way over the course of his or her remaining service years. Pension Funds When a defined-benefit plan is made up of pooled contributions from employers, unions or other organizations, it is commonly referred to as a pension fund. Run by a financial intermediary and managed by professional fund managers on behalf of a company and its employees, pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations; their actions can dominate the stock markets in which they are invested. Pension funds are typically exempt from capital gains tax. Earnings on their investment portfolios are tax deferred or tax exempt. Advantages and Disadvantages A pension fund provides a fixed, preset benefit for employees upon retirement, helping workers plan their future spending. The employer makes the most contributions and cannot retroactively decrease pension fund benefits. Voluntary employee contributions may be allowed as well. Since benefits do not depend on asset returns, benefits remain stable in a changing economic climate. Businesses can contribute more money to a pension fund and deduct more from their taxes than with a defined-contribution plan. A pension fund helps subsidize early retirement for promoting specific business strategies. However, a pension plan is more complex and costly to establish and maintain than other retirement plans. Employees have no control over investment decisions. In addition, an excise tax applies if the minimum contribution requirement is not satisfied or if excess contributions are made to the plan. No loans or early withdrawals are available from a pension fund. In-service distributions are not allowed to a participant before age Taking early retirement generally results in a smaller monthly payout. Monthly Annuity or Lump Sum? With a defined-benefit plan, you usually have two choices when it comes to distribution: Some plans allow you to do both, i. In any case, there will likely be a deadline by which you have to decide, and your decision will be final. There are several things to consider when choosing between a monthly annuity and a lump sum. Some people decide to take the single life annuity, opting to purchase a whole life or other type of life insurance policy to provide income for the surviving spouse. When the employee dies, the pension payout stops; however, the spouse then receives a large death benefit payout tax-free which can be invested and uses to replace the taxable pension payout that has ceased. This strategy, which goes by the fancy-sounding name pension maximization , may not be a bad idea if the cost of the insurance is less than the difference between the single life and joint and survivor payouts. In many cases, however, the cost far outweighs the benefit. Can your pension fund ever run out of money? Of course, PBGC payments may not be as much as you would have received from your original pension plan. Annuities usually pay out at a fixed rate. They may or may not include inflation protection. If not, the amount you get is set from retirement on. This can reduce the real value of your payments each year, depending on how the cost of living is going. And since it rarely is going down, many retirees prefer to take their money in a lump sum. If you take a lump sum, you avoid the potential if unlikely problem of your pension plan going broke, or losing some or all of your pension if the company files for bankruptcy. If there is money left when you die, you can pass it along as part of your estate. No guaranteed lifetime income, as with an annuity. And, unless you roll the lump sum into an IRA or other tax-sheltered account, the whole amount will be immediately taxed and could push you into a higher tax bracket. If your defined-benefit plan is with a public-sector employer, your lump sum distribution may only be equal to your contributions. Of course, you can always use a lump sum distribution to purchase an immediate annuity on your own, which could provide a monthly income stream, including inflation protection. As an individual purchaser, however, your income stream will probably not be as large as it would with an annuity from your original defined-benefit pension fund. Which Yields More Money? With just a few assumptions, and a small amount of math, you can determine which choice yields the largest cash payout. You know the present value of a lump-sum payment, of course. But in order to figure out which makes better financial sense, you need to estimate the present value of annuity payments. To figure out the discount or future expected interest rate for the annuity payments, think about how you might invest the lump sum payment and then use that interest rate to discount back the annuity payments. On the surface, the choice appears clear: Using the discount rate of 7. Other Deciding Factors There are other basic factors that must almost always be taken into consideration in any pension maximization analysis. One who accepts a lump sum at age 50 is obviously taking more of a risk than one who receives a similar offer at age Younger clients face a higher level of uncertainty than older ones, both financially and in other ways. Your current health and projected longevity: If your family history shows a pattern of predecessors dying of natural causes in their late 60s or early 70s, then a lump-sum payment may be the way to go. Conversely, someone who is projected to live to age 90 will quite often come out ahead by taking the pension. Remember that most lump sum payouts are calculated based on charted life expectancies , so those who live past their projected age are, at least mathematically, likely to beat the lump sum payout. You might also consider whether health insurance benefits are tied to the pension payouts in any way. Your current financial situation: If you are in dire straits financially, then the lump-sum payout may be necessary. Your tax bracket can also be an important consideration; if you are in one of the top marginal tax brackets, then the bill from Uncle Sam on a lump-sum payout can be murderous. And if you are burdened with a large amount of high-interest obligations, it may be wiser to simply take the lump sum to pay off all of your debts rather than continue to pay interest on all of those mortgages , car loans, credit cards , student loans and other consumer liabilities for years to come. A lump-sum payout may also be a good idea for those who intend to continue working at another company and can roll this amount into their new plan, or for those who have delayed their Social Security until a later age and can count on a higher level of guaranteed income from that. If you feel confident your portfolio will be able to generate investment returns that will approximate the total amount that could have been received from the pension, then the lump sum may be the way to go. Current market conditions and interest rates will also obviously play a role, and the portfolio that is used must fall within the parameters of your risk tolerance , time horizon and specific investment objectives. In case of a company plan going bankrupt, along with the protection of the PBGC, state reinsurance funds often step in to indemnify all customers of an insolvent carrier up to perhaps two or three hundred thousand dollars. The cost of life insurance: This type of policy can also carry accelerated benefit riders that can help to cover the costs for critical, terminal or chronic illness or nursing home care. However, if you are medically uninsurable, then the pension may be the safer route. A pension payout option that provides a cost-of-living increase each year is worth far more than one that does not. The purchasing power from pensions without this feature will steadily diminish over time, so those who opt for this path need to be prepared to either lower their standard of living in the future or else supplement their income from other sources. If you want to leave a legacy for children or other heirs , then an annuity is out. The payments from these plans always cease at the death of either the retiree or the spouse, if a spousal benefit option was elected. If the pension payout is clearly the better option, then a portion of that income should be diverted into a life insurance policy, or provide the body of a trust.

Chapter 9 : The Troubled Future of Private Pension Plans | The Journal of Portfolio Management

Private single-employer plans - The vast majority of private plans offered by companies fall in this category, with about 22, U.S. plans, according to the PBGC. Three layers of security support.