**The future of the defined benefit pension system:**
**An open letter to Congress**

October 21, 2003

TO: Members of the U.S. House of Representatives
Members of the U.S. Senate

We are writing about an issue of great concern to us as employee benefit consulting firms that are committed to helping achieve retirement security for all Americans. We are very concerned about the future of the defined benefit pension plan system. Collectively, our firms provide services to defined benefit pension plans that cover millions of Americans.

The defined benefit plan has been an integral component of retirement security for many decades. It provides guaranteed income for life to retirees and protects them from the uncertainties of market fluctuations. In the last few years, we have seen how important that protection can be.

Yet, today, the defined benefit plan system is in greater jeopardy than it has been at any other time. The problems are numerous: the economic environment and its impact on the value of plan assets, the requirement to use an obsolete interest rate for a variety of plan calculations, and a variety of plan funding challenges faced by companies. Never before have we seen such a combination of developments that threaten the viability of the pension system.

Today, we are writing about one specific element of that system — hybrid pension plans. In recent years, the one positive development w/thin the defined benefit plan system has been hybrid plans, such as cash balance and pension equity plans. These plans deliver meaningful benefits m employees of all ages and are of particular help to those with higher mobility and shorter job tenure, which often includes women, minorities and lower-wage workers. With career-long employment at a single firm an increasing rarity, most workers can earn greater and more portable benefits under hybrid plans than under traditional defined benefit plans, Moreover, in recent years most conversions from traditional defined benefit plans to hybrid plans have included very generous transition benefits for older, longer service workers.

Hybrid plans have helped preserve the defined benefit system and, therefore, should be a great success story today. Instead their existence is being challenged both legislatively and judicially. We are very concerned about the effect that these challenges are having on the participants of those plans, Unfortunately, we are witnessing far too many companies that either already have, or are considering, plan "freezes" whereby no employee — young or old — earns any additional pension benefits. Some companies that have contemplated converting to a hybrid plan design are instead freezing their plans. These are not necessarily temporary freezes but, rather, represent a possibly permanent decision that will result in these plans providing lesser benefits than the companies would ideally want them to provide.

Also very troubling is the impact on outright plan termination. Not so many years ago hybrid plans were heralded as the design that would help employers remain committed to the defined benefit system — and the corresponding retirement security that it offers. In the past few years, the unsettled environment for hybrid plans has contributed to the decline of the overall system as many companies understandably opt to abandon the defined benefit system altogether rather than convert to a hybrid design that they know would be in the best interests of their employees. Against the backdrop of a system in which the number of private defined benefit pension plans has declined from about 170,000 in 1985 to perhaps fewer than 50.000 today, the hostile environment for hybrid plans should be a source of concern for every Member of Congress. It has long been a tenet of our voluntary employee benefits system that in order to encourage employers to sponsor plans they must have the ability to change their plans on a prospective basis, while protecting all earned benefits. However, this fundamental concept is being challenged as it relates to hybrid plans. Even if the legislative initiatives that threaten this system are well-intentioned, the reality is that they are seriously harming the very people they are aimed at protecting: participants and beneficiaries of defined benefit plans.

In the coming weeks, more data will be released about the extent of plan freezes. If the legislative environment does not change, we will see many more defined benefit plan freezes in the next several months, and the trend toward outright termination will be exacerbated.

But it is not too late to solve this problem. We respectfully call upon Congress to avoid legislative initiatives that would further impair employers' ability and desire to establish hybrid plans. We also urge Congress to allow the U.S. Treasury Department to do its job and complete the regulatory projects addressing hybrid plans that it has started. The issue of hybrid plan regulatory guidance has been under consideration by the U.S. Treasury Department since at least 1901. Given the extensive public input into these projects from all stakeholders in the pension system, we should all have some faith in the issuance of regulations that fairly balance all interests and that help reverse the decline in the defined benefit plan system.

We are ready to help in any way that we can, including the provision of data to help you make informed decisions. Please join us in trying to preserve the defined benefit plan system and retirement security for today and tomorrow's retirees.

Sincerely,

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