Retirement Income
JOURNAL

BNY Mellon study notes funding pressures on US retirement plans

By Editor Test *Wed, Jan 19, 2011*

A DC/DB hybrid plan may be the best solution for employers and employees if employer costs can be controlled, a study by the firm's Asset Servicing division found.

A new study by BNY Mellon Asset Servicing says U.S. retirement plan sponsors face "unprecedented cost pressures" and that many "are reducing the benefits they offer or looking to rebalance funding between employers and employees."

The study, *Redefining Retirement: What Changes to Defined Benefit and Defined Contribution Plans Mean for Plan Sponsors and Their Service Providers*, concludes that plan executives believe that they "will either pay now for their retirees' benefits or that they, or society, will pay later."

The study found that:

- 50% of private company executives surveyed said that their plans made them more competitive as an employer, whereas 73% of public plan executives felt that their plans were an asset.
- The attractiveness of defined contribution plans for employers lies in the reduction of funding volatility; in the long run, funding costs for defined contribution may be higher or lower than current costs, but the ability to control volatility is seen as an unparalleled advantage.
- Hybrid defined benefit/defined contribution plans offer the professional management of defined benefit with the portability of defined contribution; some type of hybrid plan may be the best solution for employers and employees if employer costs can be managed effectively.
- Executives are looking to their service providers for help in assessing performance for private equity and other illiquid assets, and defining new strategies for assuring a stable retirement for their employees.

The study was co-produced with research and consulting firm Finadium LLC.

"The most pressing question that sponsors of defined benefit and defined contribution plans have to answer today is how to provide retirement benefits that offer employees sufficient funding without causing further strain to employer balance sheets or government budgets," said Laurin Moore, head of the US Tax Exempt Business at BNY Mellon Asset Servicing.

As the study notes, 55% of plan sponsors surveyed expect to need greater assistance in respect of performance measurement, while 35% expect the same in respect of risk management, particularly for illiquid investments in their defined benefit programs.

The study is based on interviews with large US pension plans conducted during June 2010, accounting for US$749.9 billion in assets across 30 retirement systems (16 corporations and 14 public entities). Of the systems surveyed, 81% of assets were in DB plans with the remainder in DC and a handful of health care retirement accounts. Over two-thirds of the plans surveyed held assets in the US$5 billion to US$50 billion range. The study is available at bnymellon.com/foresight/pdf/redefiningretirement.pdf.