

# Despite Concerns, Defined Benefit Plans Continue to **Help Many**



There is little doubt that the traditional defined benefit (DB) pension plan is struggling. The number of defined benefit plans in America has dropped by nearly 36.5 percent in the past nine years (*Source: Cerulli, 2004*). Large under-funded plans are being terminated, leaving the Pension Benefit Guaranty Corporation (PBGC) with the greatest liability in history. The volatility of funding and the impact of costs on an employer's bottom line are significant issues, as is the uncertainty of pension legislation.

Still, defined benefit plans remain an important part of a total retirement benefit program. In fact, there is \$4.7 trillion in defined benefit plans in the U.S., representing more than one-third of the total pension assets in the country. (*Source: The Society of Professional Administrators & Recordkeepers, 2004*)

In 2004, The Principal made 2.6 million retirement payments to more than 210,000 retirees. Most of these payments went to retirees from active and terminated defined benefit plans; some payments were made to retirees who elected an annuity under their employer's savings plan.

# Retirees



**In the past 20 years, the number of defined benefit plans in America has dropped by nearly 75%. Today, less than 17% of workers have access to a defined benefit plan.**

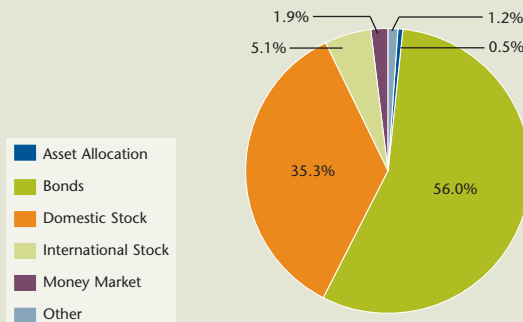
*(Source: Employee Benefits Research Institute, Policy Forum, May 2004)*

## DEFINED BENEFIT PLAN TRENDS

	1974	1978	2003
Number of Plans	103,346	128,401	26,000
Number of Participants	27.2m	29m	20m
Percent of Workforce	43.7%	40.9%	16.8%

**More than 50% of defined benefit assets are invested in traditionally conservative vehicles, namely bonds.**

## DB ASSETS BY ASSET CLASS Percent of Assets as of 12/31/2004



## Fast Facts

*The Principal provides pension and actuarial services for 1,059 plans.*

*While the majority of defined benefit plans with The Principal are for small to medium businesses, the 25 largest plan sponsors of The Principal average more than \$40 million in assets and 2,700 participants per plan.*

*The primary defined benefit funding vehicle being sold today by The Principal – the Flexible Pension Investment funding vehicle – offers more than 100 investment options and the flexibility to be used by traditional defined benefit plans as well as hybrid plans such as cash balance.*



### **View Point – Nippon Express Company**

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#### **Client Profile**

- International shipping/freight
- 2,100 participants

#### **Challenge: Forced Funding**

- Client wanted to avoid mandatory funding requirements as well as the potential for required notices to participants about the plan's funded status in future years

#### **Solution**

- Developed a contribution strategy to reduce short-term future funding levels

#### **Results**

- By accelerating contributions, the client was able to push the earliest participant notice date two years into the future, save \$867,000 in additional contributions that would otherwise have been required in 2005, and reduce their current year Pension Benefit Guaranty Corporation (PBGC) variable premiums by \$25,000

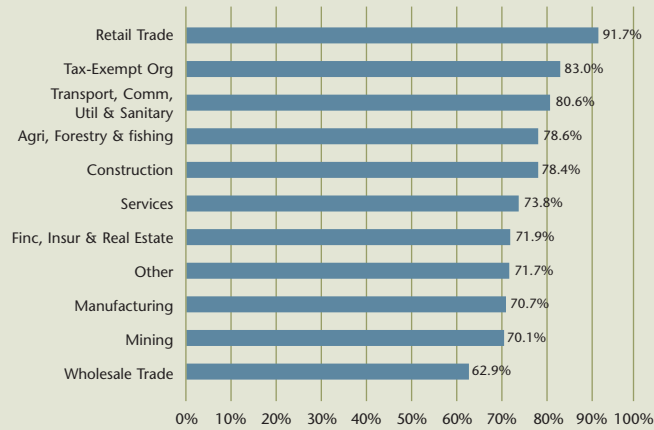
#### **Testimonial Comment**

*"Our team at The Principal has assisted us greatly in maintaining a steady course with regard to the funding of our plan."*

– James F. Larkin, Benefits Manager, Nippon Express

Over 60% of plan sponsors serviced by The Principal (using salary related formulas) replace more than 70% of final salary at retirement (including pension and Social Security). The recommended income replacement is 70-100% of salary.

**DB PLAN REPLACEMENT RATIOS BY INDUSTRY**  
Average Replacement Ratio 2004 (Including social Security)



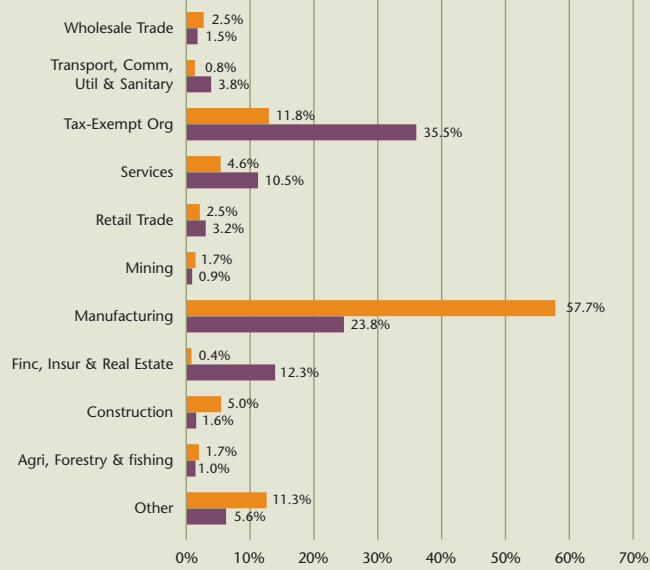
## Solutions

**Employee appreciation.** Hold periodic employee education meetings to educate employees about the defined benefit plan in their total retirement program. Regularly give them participant statements.

**Income replacement.** Periodically ask your service provider to prepare a defined benefit income replacement study so that you can determine whether the plan is meeting your goals and how those results may impact your benefit costs.

Roughly 80% of plans serviced by The Principal cover non-union employees.

**DB PLAN BY INDUSTRY BY UNION**  
Percent of Plans 2004



Nearly half of defined benefit plans serviced by The Principal use the unit benefit formula (percentage of average compensation multiplied by service) for calculating benefits.

**DB PLANS BY PLAN FORMULA TYPE**  
Percent of Plans 2004

