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DB still a better deal vs. DC on cost, says report

By Rob Kozlowski, P&I, January 6, 2022

Defined benefit plans continue to provide greater cost advantages to plan sponsors than defined contribution plans, according to a report from the National Institute on Retirement Security. The report, "A Better Bang for the Buck 3.0: Post-Retirement Experience Drives Pension Cost Advantage," says a typical DB plan has a 49% cost advantage compared to a typical DC plan account, due to higher investment returns, optimally balanced investment portfolios and longevity risk pooling. The report is an updated version of reports previously issued by NIRS in 2008 and 2014 comparing DB plans and DC plans, and analyzes the costs of the two different types of retirement plans as a percentage of payroll. According to the latest analysis, the cost of an individually directed DC plan equals 32.3% of payroll, while the typical cost of a DB plan equals only 16.5% of payroll. In the 2014 report, a typical DB plan had a 48% cost advantage over DC for an identical level of benefit.

Bonds are the key to reining in runaway municipal pension plans

By Eric J. Mason, The Hill, January 6, 2022

In what is the product of the sustained low-rate environment, many municipalities are considering addressing their pension position through bonds. This should be encouraged by policymakers and explored by pension systems. Bond markets are offering municipalities the opportunity to exchange discount rates of 6, 7 and sometimes even 8 percent for bonds with yields below 3 percent. The spread between the discount rate and the bond yield is the root of the appeal of pension obligation bonds. A natural question is "How do pension systems become underfunded?" The answer is a combination of issues. The two largest are underperforming investments and insufficient employee contributions. The former is usually the result of overly optimistic assumed rates of returns. The latter issue, insufficient employee contributions, has largely been addressed nationwide and most pension funds receive annual employee contributions that satisfy projected future payouts for those employees. Pension obligation bonds stabilize budgets because funding schedules for addressing unfunded pension liabilities escalate year over year. When bonded, this annual escalation ceases and is replaced by a fixed annual payment. This inhibits growing pension costs from taking municipal funds away from spending on education, public safety and infrastructure. ***Editor's Note:*** Eric J. Mason is the Chief Financial Officer for the City of Quincy, Massachusetts. Quincy recently issued $475 million in bonds to address its unfunded pension liability.

US Corporate Pensions' Funded Status Surges in 2021

By Michael Katz, Chief Investment Officer, January 5, 2022

The average funded status of the largest US corporate defined benefit (DB) pension plans surged in 2021 to its highest level in 14 years thanks to strong investment returns and rising interest rates, according to a report from Willis Towers Watson. The aggregate pension funded status of the plans was an estimated 96% as of the end of 2021, up from 88% at the end of 2020, according to pension plan data for 361 Fortune 1000 US companies that sponsor DB plans with a December fiscal year-end date. Willis Tower Watson said it was the highest funded level

since 2007, which was also the last year DB plans of the Fortune 1000 were fully funded. The report also said the aggregate funding deficit for the plans fell sharply during the year to an estimated $63 billion, from $232 billion as of the end of 2020. Meanwhile, pension obligations decreased 8% to an estimated $1.74 trillion at the end of 2021 from $1.89 trillion the previous year.
Editor's Note: This is an interesting article, given the one above is so positive. [Pensions Improved in 2021. Companies May Abandon Them in 2022]

[The Pension Is Dead — Is the 401(k) Next?]
By John Csiszar, AOL, January 3, 2022

If you're younger than 40 years old, you may not even know what a pension is. Also called defined benefit plans, pensions used to be the primary source of retirement funding for American workers. Employers were completely in control of and responsible for pensions, which would guarantee specific payments to retired workers. Starting in the 1980s, pensions rapidly began disappearing, as the defined contribution 401(k) plan dominated. Unlike with pensions, 401(k) plans don't offer guaranteed retirement payouts, which are instead determined by the performance of the 401(k) investments. New rumblings in 2021 from the Biden administration, however, threaten to change the 401(k) plan as we now know it. Although the 401(k) plan isn't likely to go the way of the pension plan, there may be significant changes ahead.

[Keith Brainard: Hybrid pension plans had little impact on funding conditions]
VTDigger, January 12, 2022

David Flemming's commentary ("Stoppingthe bleeding with pension reform," Jan. 3) erroneously credits the creation of hybrid retirement plans for improving the funding condition of pension plans in other states. Although hybrid plans may be conducive to accomplishing important policy objectives, in the states Mr. Flemming cites, the factors that improved pension funding conditions were unrelated to the creation of a hybrid plan. West Virginia has experienced dramatic improvements in the pension funding level while retaining its traditional pension plan for teachers, without switching to a hybrid plan. That state has accomplished this by aggressively paying off its unfunded pension liabilities combined with fairly modest benefit reductions and higher employee contributions. Many states have established new hybrid retirement plans in recent years, and such a plan design may be helpful for Vermont. But neither a hybrid plan nor a defined contribution plan is a panacea and will not, by itself, lead to an improved funding level in the Green Mountain State.
Editor's Note: This commentary is by Keith Brainard, research director for the National Association of State Retirement Administrators. Keith has spoken a several FPPTA conferences.

[Defined contribution plans underfund workers' retirements]
Letter to the Editor, VTDigger, January 17, 2022

David Flemming's "Stopping the bleeding with pension reform" (VTDigger, Jan. 3) is an exercise in semantic misdirection and strategic omission. He tells you that defined contribution pension plans — typified by 401(k)s — solve the problem of traditional "defined benefit" pension plans being underfunded. He avoids telling you why that is: Defined contribution plans are, by definition, always "fully funded" no matter how paltry the amount they contain. A defined contribution plan containing $50 is still "fully funded" because that's all the retiree is due. Employers contribute far less money to defined contribution plans than they do to defined benefit plans, meaning more retirees will struggle after (if?) they retire. Fewer employees will ever be able to retire as defined contribution plans replace traditional defined benefit plans. The grave will end up being their retirement plan. **The best that can be said of defined contribution pensions is that they are better than having no retirement account at all.**
Editor's Note: The letter to the editor refers to the article cited above.

[6 Big Changes Lawmakers Are Targeting for Retirement Accounts in 2022]

By Christy Bieber, The Motley Fool, January 16, 2022

Lawmakers are currently working on a new law called the Securing a Strong Retirement Act of 2021. The goal is to encourage and simplify retirement savings. Workers should know about the potential changes to the rules for retirement accounts. These include: Enroll more workers in retirement accounts automatically, Raise the catch-up contribution limit, Index the annual catch-up contribution limit to inflation for all workers, Provide extra help for workers with student loans, Change the age when RMDs begin, and Reduce the penalty for not taking RMDs.

Has COVID Affected Pensions for Workers without Social Security?

By Jean-Pierre Aubry and Kevin Wandrei, Center for Retirement Research at Boston College, January 2022

In the study conducted by the Center, their key findings are as follows. The brief's key findings are: At the outset of the pandemic recession, many feared it would undermine workers' employer-sponsored retirement plans. State and local employees who are not covered by Social Security would have been particularly vulnerable, as they lack the buffer this program offers. Their employer defined benefit plans would have been hurt by a long recession with poor investment returns and reduced contributions due to tax shortfalls. Instead, these plans exceeded their return targets; tax revenues held up; and government sponsors got stimulus aid, so plan funded ratios actually improved. And long-term structural headwinds such as negative cash flows and aggressive return targets still pose little risk to their ability to pay future benefits.

Sagging Stocks Aren't the Only Threat to Pension Plans

By Alan Greenblatt, Governing, January 25, 2022

Last year was a great time to manage a pension fund. Thanks to strong stock market gains, plans around the country pulled in returns that exceeded 30 percent in many places, bringing their overall funding levels almost back where they'd been before the Great Recession of 2007 to 2009. Even if the market were to quickly regain its footing, it's highly unlikely it will match the great gains of 2021, with economists predicting multiple interest rate hikes this year. And even if the market weren't swooning, one big year's worth of gains isn't enough to solve decades' worth of underfunding. Even if stock market returns end up being disappointing this year, however, pension plans potentially have one other thing going for them. States, and to a lesser extent localities, are flush right now, thanks to billions in aid from Washington and strong revenue collections. Many are choosing to use some of their extra cash to pay down longstanding pension debt. Altogether, state pension plans ended the last fiscal year with funding levels above 80 percent for the first time in more than a decade, according to the Pew Charitable Trusts. That still left their unfunded liabilities hovering around the $1 trillion range. It was great for states to enjoy big returns last year, but it was just one pearl in a long strand of good news their pension plans will ultimately need.

The SEC Is Bearing Down on Private Equity. Blame Public Pensions.

By Jessica Hamlin, Institutional Investor, January 25, 2022

Public pension plans, which supply over 35 percent of the capital to private equity firms, have shaped the operations of the industry — and how it's regulated. In a new paper, William Clayton, argues that public pension plans' presence in PE has opened the door for the Securities and Exchange Commission to regulate the industry, complicated contracts, and changed the balance of power in negotiations. The paper, titled "How Public Pension Plans Have Shaped Private Equity," is set to be published in the forthcoming issue of the Maryland Law Review. Indeed, just last October, SEC Chair Gary Gensler testified before the House Financial Services Committee, arguing that private companies should be required to disclose more information, in part because public pension funds would be able to make more informed investment decisions. In the paper, Clayton uses the SEC's three-part mission — "to protect investors, promote capital formation, and maintain fair, orderly, and efficient capital markets" — as an analytical framework. He added that public pension plans have "dramatically" affected how federal policymakers should consider the application of these elements to the PE industry.

The Coming 401(k) Transformation

By Alex Assaley, National Association of Plan Advisors, January 27, 2022

"The 401(k) is a savings plan!"

Red, Blue and BlackRock: Larry Fink Navigates a Divided America

By Silla Brush, Bloomberg News, January 28, 2022

From West Virginia coal country down to Trump-friendly Florida and out to the Texas energy patch, billionaire Larry Fink has a new headache: a red-state uprising. More and more, BlackRock Inc., Fink's $10-trillion asset-management giant, is confronting a Wall Street version of the clangorous divides in American politics. In oil-rich Texas, BlackRock is being castigated by the Republican establishment for even talking about reducing greenhouse gases. In West Virginia, where King Coal casts its shadow, it's been cut out of a state treasury fund. And in Florida, redoubt of Donald Trump, Governor Ron DeSantis, a presidential hopeful, is targeting investments in China managed by BlackRock and others. The money at stake -- if it's really at stake at all -- is a pittance given BlackRock's size. But together, the developments underscore how politics keeps seeping into the nation's business life and risks snowballing for BlackRock so that its brand becomes a pariah among the GOP establishment. Several major banks have faced similar blowback in the normally ho-hum world of municipal-bond underwriting.