

The Vanishing Defined Benefit Pension in Aerospace

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Career Enhancement Committee

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- This presentation is my personal view, and the opinions expressed in this presentation are not necessarily the view or opinion of LMC.

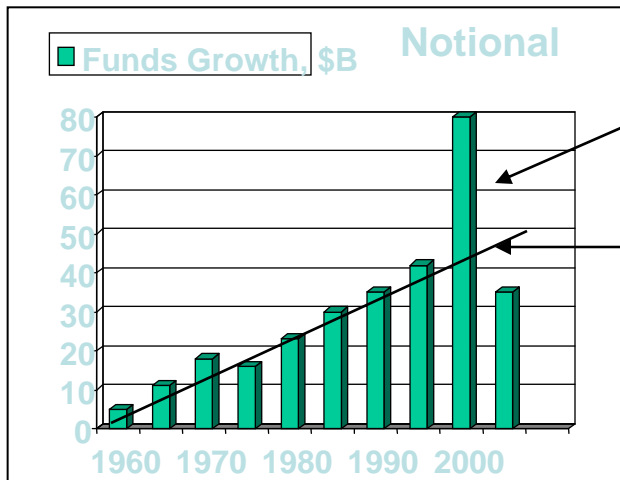
Agenda

- The Defined Benefit Pension Attributes
- The Pension Benefit Guarantee Corp
- The Traditional View
- The Perfect Storm
- The Big Picture
- Sources of Funds for Corporate Pension Payout
- Final Observations

The Defined Benefit Pension Attributes

- A defined benefit plan provides a specified monthly benefit at retirement, often based on a combination of salary and years of service, protected by Pension Benefit Guarantee Corp
- Not funded by employee contributions
- Company pools contributions which grow over time
- At retirement, annuity can be purchased to make lifetime usually fixed payments
- Company may freeze or eliminate plan

The Defined Benefit Pension Attributes



Over funding “available” for corporate use or payment holiday

100% funded line

\$100K converted to ~\$650/month annuity payments for each retiree

*Source: :www.pbgc.gov

Pensions Benefit Guarantee Corp (PBGC)

- PBGC is a federal corporation created by the Employee Retirement Income Security Act of 1974.
 - Protects the pensions of 44 million American worker and retirees in 29,000 plans*
- PBGC receives no funds from general tax revenues.
- Operations are financed by:
 - Insurance premiums set by Congress and paid by sponsors of defined benefit plans
 - \$33 per person /year in 2009*
 - investment income assets from pension plans trusted by PBGC
 - and recoveries from the companies formerly responsible for the plans
- Maximum pension benefits payable in 2009 is ~\$54,000 @ 65 years old*
 - Less for earlier retirement

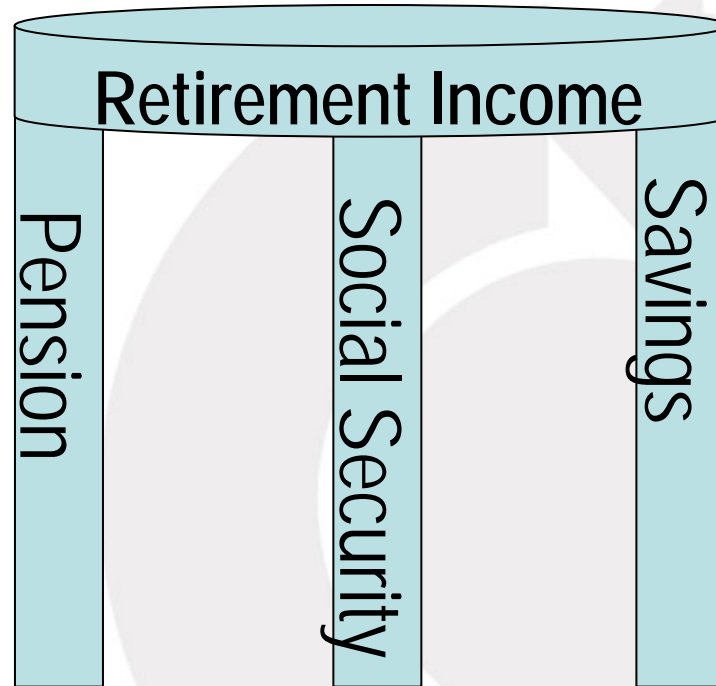
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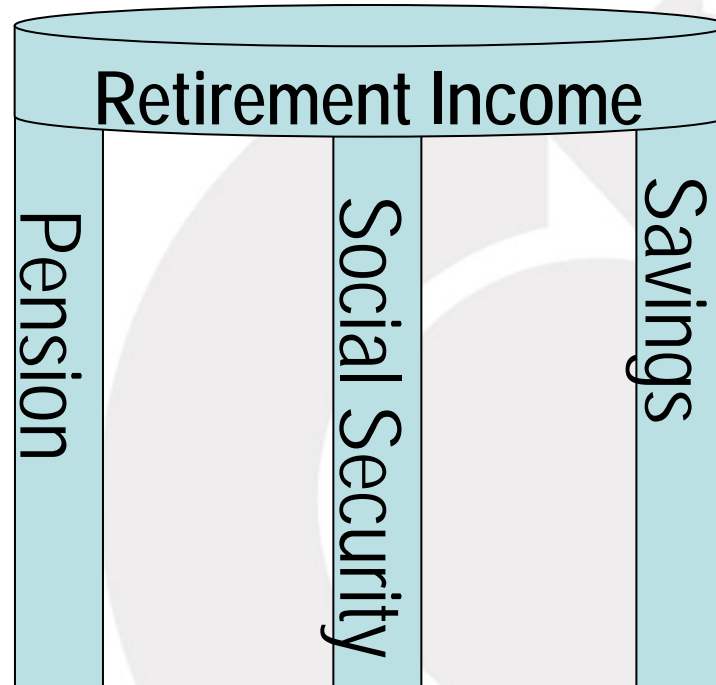
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- Maximum pension benefits paid in 2009 is ~\$ 54,000 @ 65 years old*
 - Less for earlier retirement
- \$18.9 B under-funded as of 9/30/2006*
- \$14.1 B under-funded as of 9/30/2007*
- \$11.1 B under-funded as of 9/30/2008*

*(Source:www.pbgc.gov)

The Traditional View



The Traditional View



401k
IRA
Bonds
Stocks
Real Estate

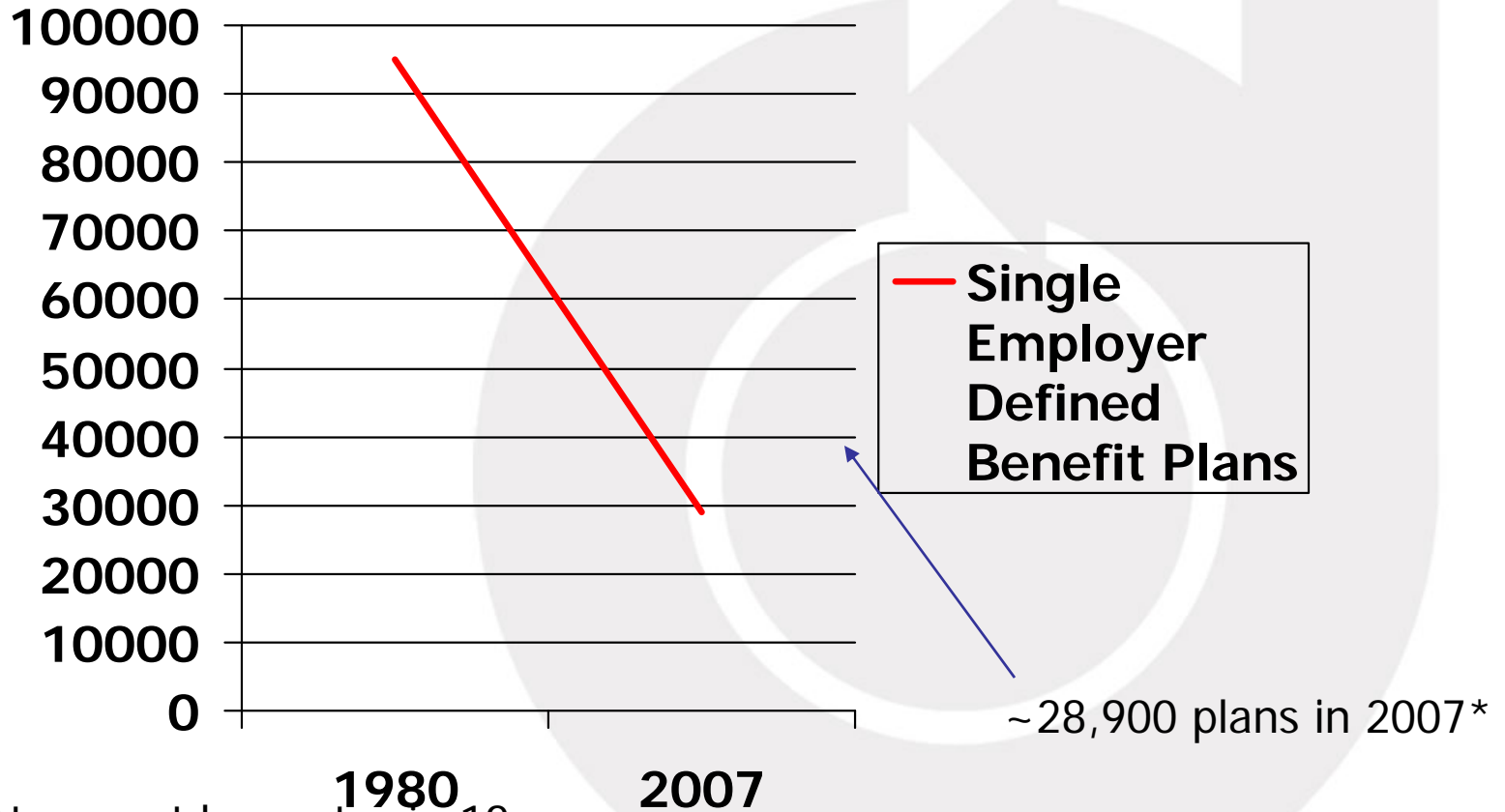
40 Yrs @ 65 ~50-60%
of final pay

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- Social Security maximum ~\$25K/yr
- Supplement Income from Savings \$10-20K/yr

The Perfect Storm

- Longevity
- Low interest rates
- Low/Negative investment returns
- Global Competition
- Increased focus on short term earnings
 - Pension costs are just another (overhead) operating expense like heat, light, depreciation, property taxes

The Big Picture

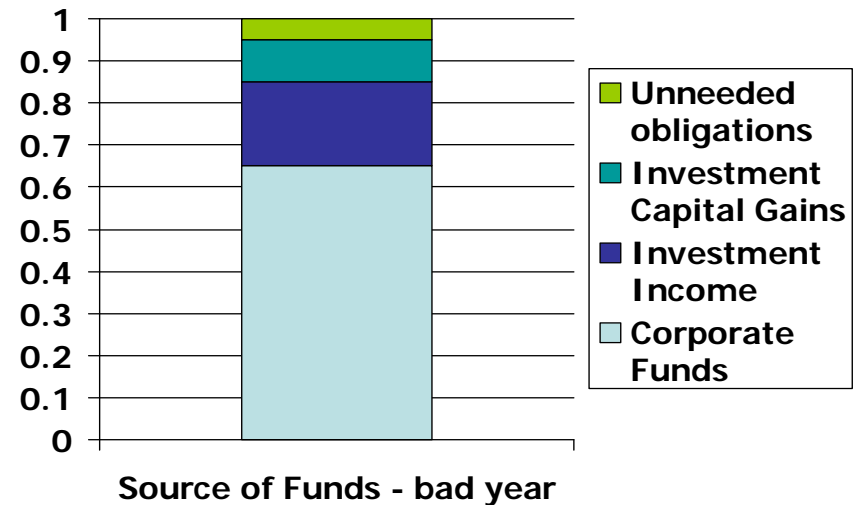
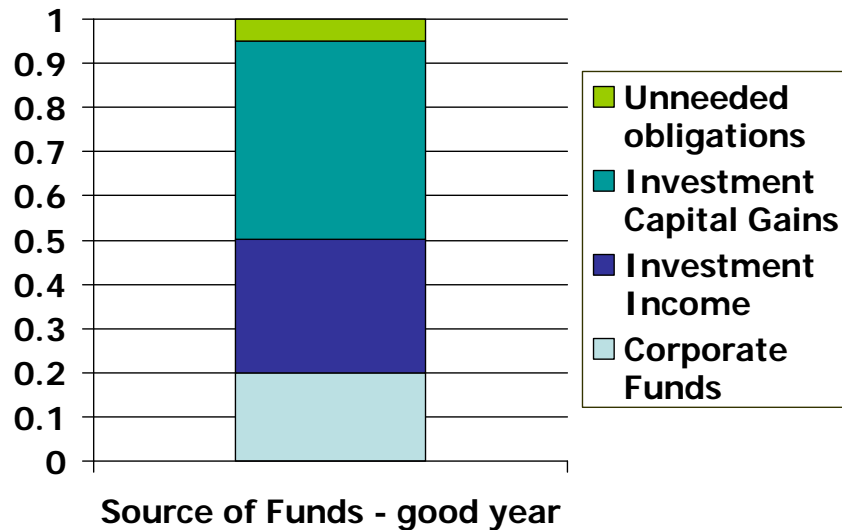


At current loss rates in 12 years
no defined benefit pensions will remain

*Source: :www.pbgc.gov

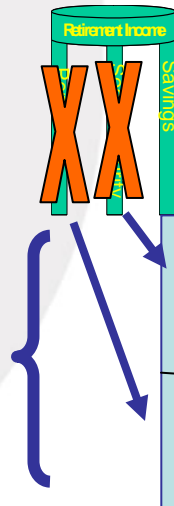
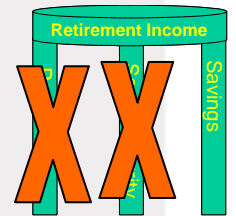
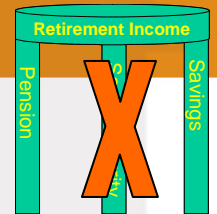
Typical Source of Funds for Corporate Pension Payout

- Corporate funds
- Investment income- Dividends, Interest
- Investment capital gains
- Unneeded obligations



Final Observations

- Social Security won't be what it used to be
- Corporations are moving rapidly away from Defined Benefit Plans increasingly using:
 - Defined contribution plans
 - Employees assume investment risk
 - Stable (predictable) and less expensive to corporation
 - 401k with or without matching
 - Employees assume investment risk
- You are in responsible for your financial future just like your technical / managerial career





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