The Vanishing Defined Benefit Pension in Aerospace

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• Nothing in this presentation should be viewed as investment advice. Please seek qualified tax, legal and financial advice from the professionals of your choice.

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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 trusteed 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

* (Source: www.pbgc.gov)
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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

Retirement Income

- Pension
- Social Security
- Savings
The Traditional View

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

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

Retirement Income
- Pension
- Social Security
- Savings

401k
IRA
Bonds
Stocks
Real Estate
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
At current loss rates in 12 years, no defined benefit pensions will remain.

*Source: www.pbgc.gov

~28,900 plans in 2007*
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