



THE ERISA INDUSTRY COMMITTEE

Advocating the Employee Benefit and Compensation Interests of America's Major Employers



United Kingdom - United States Dialogue on Pensions

Washington, DC; Madison Hotel

July 19-21, 2005



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Advocating for 30 years the Employee
Benefit and Compensation Interests of
America's Major Employers



Issues Facing Employers

- **Changing lines of business**
- **Transition from manufacturing to service**
- **Increased worker mobility**
- **People living & working (maybe) longer**
- **Exponential increases in health care costs**
- **Domestic and global competition**
- **Talent shortage**
- **Increased regulation, year after year**
- **Litigation threats**



What Employees Need

- Integrating retirement & health “silos”
- Employees will choose what *they* value
- Mobility vs Job Lock
- Retreat from “paternalism”
- Risk aversion
- Ability to deal with skill deficit as workers mature



Challenge

- **Benefits are not a core concern, but . . .**
- **Benefits are still critical to attract, retain, and transition the workforce we want**
- **Need to find a winning strategy**
 - **Balance employee and employer needs**
 - **Control costs**
 - **Provide employees with options and the tools they need to take responsibility and make sound decisions**



Policy Makers

- **Tend to be biased toward short term horizon**
- **Driven by**
 - **Media and anecdotes**
 - **Corporate scandals – still major driver**
 - **“Circle the wagons” around the government:**
 - **“Save the PBGC”**
 - **Treasury**
 - **Tax deferrals for savings reduce Treasury revenue**
 - **Shift to bonds means lower borrowing cost to Treasury**



Politics

- Individual “ownership” and responsibility in individual market for health care coverage, retirement security.

versus

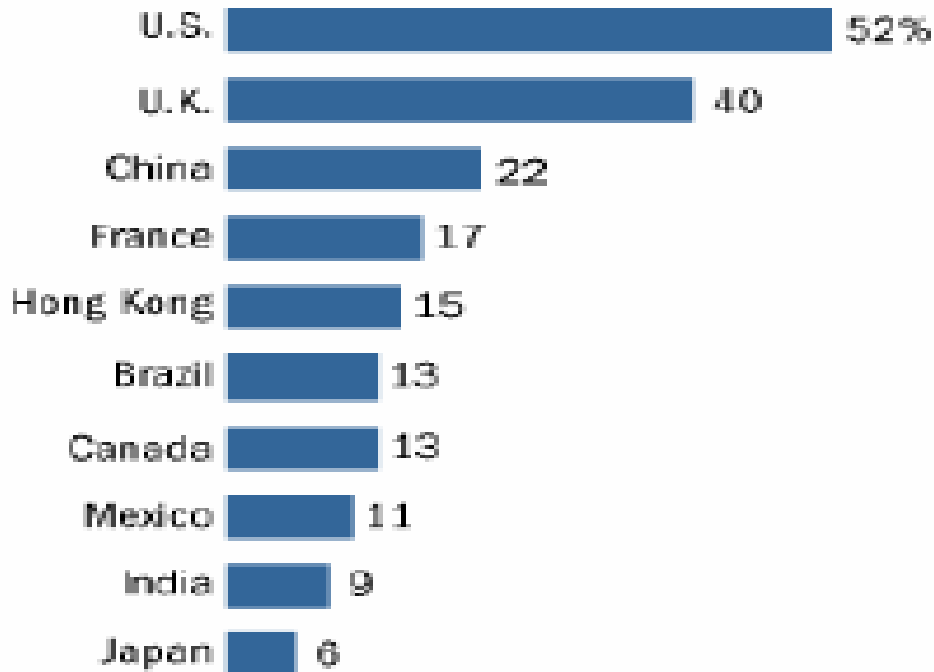
- Group based coverage either by the government or private sector under significant and increasing regulation.
- *Business*: Middle road, more control, better ROI.



US Savings: Better -- Not Good Enough

Retirement Plans

Percentage of workers in different regions who contribute to private pension plans.



Source: A survey of roughly 11,500 people in 10 regions of the world by HSBC Holdings in London and Age Wave in San Francisco.

Chart: Wall Street Journal



Change: 1978 to 2004

Defined Benefit Plans:

1978 – 128,000 plans covered 41% of the private workforce;

2004 – Approximately 26,000 plans cover only 17% of the private workforce

Washington Post Oct. 12, 2004; Greystone

Group

Intent in 1978 was just the opposite!



Defined Contribution Plans

1978 – 315,000 plans

Today – 840,000 plans

But, number of plans \neq security

**Overall Increase in value by 7% since
1999**

But for age-50+, down 9% since 1999



- **1/2 of households near retirement age have \$10,000 or less in 401(k) or IRA**
- **1/4 who can participate, don't**
- **Workers fail to diversify**
- **Job change = cash out**

Peter Orszag (Brookings, 2004);
Steve Gunderson (Greystone Group)

Why Offer Pensions?

Top 3 employer reasons

- Attraction
- Retention
- Transition out

(Hewitt: *Hot Topics in Retirement* 2005)

*The system today
“assumes” employers
will provide benefits*

EBRI; Mar. 2004





Attracting Valued Talent

- **Shortage of skilled workers**
 - **One out of 8 workers over 55**
 - **Number of workers aged 55+ will grow 4X faster than the rest of the workforce**
 - **By 2030:**
 - **76m “Baby Boomers” will be retired**
 - **46m replacement workers available**
 - **30m worker shortage**

(Steve Gunderson, Greystone Group; July 2005)



Attraction: Changing

- ***Needs***
 - **As the U.S. economy shifts from manufacturing to service/intellectual needs**
 - ***(“brawn to brains”)***
 - **Global competition for educated talent**
 - **Changing demands of recruits**
 - **Talented employees will demand benefits that fit their anticipated mobility**
 - **BLS: today’s graduates will have 10-14 various careers**



Retaining Valued Talent

- **Workers who consider the pension plan highly important are 2-1/2 to over 3 times more likely to stay with their employer**

Watson Wyatt Insider, April 2005



Retention = Productivity

- **Participants focus on work**
- **Avoid worrying about future financial needs or their next job that could provide for those needs**



Retention Contributes to ROI

“ . . . employees who consider their defined benefit plan very important tend to work for companies whose total returns to shareholders (TRS) averaged 26.7% from 1999 to 2003.”

“ . . . compares favorably with 21.8% TRS . . . at companies whose employees value the plan the least.”

Watson Wyatt Insider; April 2005



Transition Out

- **Soft place to land for aging workers**
- **Enterprise shifting to new line of business: yesterday's skills**
- **“Heavy lifting” jobs**
- **Tired, bored, or looking for a new career**
- **Opportunity to continue working at less demanding job**
 - **Increasingly important as life spans increase and health care costs make inroads on savings**



Advantage to Employer

- Added value
 - encourage service providers to reduce costs, increase services, group rates
- Reward behavior
 - Match in savings plans encourages savings
- Reward long service
 - Stabilizes turnover
- Reflects caring employer: local - national - global
- Differentiation from competitors



21st Century Issues

- US employers retreat from defined benefit plans
 - Little support from policy makers
 - Excessive regulation
 - Locked in to a plan that may not fit for the future of the enterprise
- Defined contribution plans may not provide adequate benefit – policy makers will react
- Many employers looking for a new paradigm



New Paradigm?

- Greater flexibility to meet future change
- Manage costs and reduce funding volatility
- Increased employee responsibility & choices
- Increased portability
- Employer “facilitates” rather than provides
- Greater attention to “spend down” period
- Flexibility to attract and retain valued talent
- Limit fiduciary liability litigation
- More to come: coming decade of major change



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