



SOCIETY OF ACTUARIES

Article from:

Pension Section News

August 1998 – Issue 37

Study Note Corner

A Technical Analysis of Pension Equity Plans (Course P-362U Study Note)

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This presentation is an analysis of the pension equity plan, an innovative defined-benefit plan first adopted by RJR Nabisco. The original design has been modified in several ways and adopted by other plan sponsors. We now estimate that by 1997, perhaps 30 or more major employers had adopted pension-equity plans.

This analysis is intended to provide practitioners with a technical understanding of the issues relating to the pension-equity plan in order to facilitate a knowledgeable discussion of the plan with potential plan sponsors.

The pension-equity plan may be summarized in a very cursory fashion as a

final average pay plan with the normal retirement benefit expressed in terms of lump sums. While pension-equity plans have often been compared with cash-balance plans, several key features are quite different. However, to the extent that both plans define the participant's benefit in terms of a lump sum, some of the technical analysis is similar. Accordingly, this analysis considers most issues from a traditional cash-balance-plan approach in addition to the pension-equity-plan approach. While there are some issues for which there are no definite answers regarding traditional cash-balance plans, this analysis is not intended to be critical of cash-balance plans. Many plan

sponsors have adopted cash-balance plans and many pension consultants believe such plans comply with the various qualification requirements. However, one of the key aspects of the pension-equity plan is that some of the unanswered issues that exist for cash-balance plans do not exist for the pension-equity plan.

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News is published quarterly as follows:

Publication Date	Submission Deadline
October	September 10
December	November 10
March	February 10
June	May 10

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Thank you for your help.

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