Article from:

Pension Section News

June 1999 – Issue No. 40

Academy of Actuary Release

May 6, 1999

Give Employees Meaningful Information When Pensions Are Changed to Cash Balance Plans, Says Actuary

WASHINGTON, D.C.—Employees should be given meaningful information about their pension plans when employers switch from one type of plan to another, Ron Gebhardtsbauer of the American Academy of Actuaries stated today.

Some employers are converting traditional defined benefit plans to cash balance plans, which typically allow younger workers to take a larger benefit with them when changing jobs. However, some older employees could see reduced future benefits, often without understanding the significance of the reduction. Congress is considering legislation to require disclosure of the financial impact whenever a traditional pension plan is converted to a cash balance plan.

Certain basic principles should underlie disclosure rules, according to Gebhardtsbauer. "Information for employees should be clear and understandable," he said. "The financial impact of pension changes should be explained, and employees should know if a change is expected to reduce their future benefits."

Finding the right method for disclosure is key. "Two methods could be describing the changes to affected employees or calculating benefits for a hypothetical group of affected employees," said Gebhardtsbauer. "In either case, employees could ask for more examples or be provided relevant information about their specific situation."

Disclosure rules should protect all employees, not just those in cash balance plans. "Future benefit reductions can also result from conversion to defined contribution and 401(k) plans, so it is unfair to single out cash balance plans for disclosure rules," said Gebhardtsbauer. "If disclosure is required only for cash balance conversions, employers will have incentive to switch to defined contribution plans or 401(k) arrangements."

"In addition, employers may avoid disclosure by terminating all pension plans and starting up a new arrangement several months later," Gebhardtsbauer continued. "Thus, comparisons may need to be required for all future reductions, no matter the type of plan or if the start-up of the new plan is delayed." Gebhardtsbauer made his comments in testimony to the Department of Labor ERISA Advisory Council.

The American Academy of Actuaries is the nonpartisan public policy organization for the U.S. actuarial profession. The Academy provides independent analysis to elected officials and regulators, maintains professional standards for all actuaries, and communicates the value of actuarial work to the media and public.