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Nixon on Aug. 8, 1974, newly installed President Gerald Ford appealed to Congress to present him with legislation that would bring the Congress and the new president together in an act of national unity. Congress complied by voting 402 to 2 in the House and 85 to 0 in the Senate to approve the ERISA conference report.

These are but a few of the events leading to the Rose Garden signing ceremony on Sept. 2, 1974, that I recall as I glance at President Ford's letter and signing pen in my office. For the remainder, you can reach me at *erisa1@erols.com*.

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SOA study reviews cash balance, traditional plans

by Anna M. Rappaport

Many organizations have been moving to cash balance plans as part of a business transformation, which has produced many winners, but also some losers. A study sponsored by the Society of Actuaries demonstrates the different accrual patterns between cash balance and traditional pension plans.

The study, "A Benefit Value Comparison of a Cash Balance Plan With a Traditional Final Average Pay Plan," used the demographic data from a major study of pension plan turnover. Researchers Steve J. Kopp and Lawrence J. Sher constructed two plans with equivalent cost and typical formulas — one traditional and one cash balance — and then calculated the benefit on termination under both formulas for each of the 259,000 vested terminations in the database. Total benefits were $8.4 billion under either plan. The average value of the termination benefits are shown in the accompanying table.

The results showed:

- More employees (two-thirds of the total) got higher benefits under the cash balance plan. These employees terminated employment earlier than their counterparts. The average cash balance benefit was 260% of the traditional plan benefit.
- For females, the cash balance plan was better 75% of the time because of the tendency to terminate earlier.
- Employees terminating with longer service at later ages (one-third of the total vested terminations) did better under the traditional plan and received 150% of the benefit under cash balance. Only one-fourth of the women were included in the one-third of the terminations who did better under cash balance.
- Employees changing jobs several times benefit from the cash balance approach, but for those with long service in a single organization, traditional plans work better.

The study results are based on hypothetical calculations. In actual shifts from traditional to cash balance plans, most employers substantially reduce the number of losers at time of transition by adding special transition benefits, at least for employees near retirement.

Copies available

The study was reported in the October 1998 issue of The Pension Forum, published by the SOA's Pension Section. Copies are available for $10 from the SOA Books Department (phone: 847/706-3526; fax: 847/706-3599; e-mail: *bhaynes@soa.org*).

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Average Value of Termination Benefits

	Average lump sum value under cash balance plan	Average lump sum value under traditional plan
Employees with vested benefits	$22,100	$8,300
Retirees (age 56 and above)	$54,300	$83,200