Improving Pension Funding: What's in It for Me?

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Abstract

For the private pension system in the United States to be successful, it must satisfy the WIFMs of the three primary stakeholders involved: plan sponsors, taxpayers (represented by the government), and the American workers who are the ultimate beneficiaries of the system.

For those who are not familiar with the acronym WIFM, it stands for “What’s in It for Me?” A good salesperson always knows his or her client’s WIFM before attempting to close a sale. You can have the best product or service in the world, but if your client doesn’t believe it will address his or her WIFM, you are not going to get the sale. A WIFM is what each of us expects to get in exchange for our time, our efforts, and our money.

This paper will explore the WIFMs of each of the three primary stakeholders with regard to pension funding and funding reform. It is not our intention to evaluate the WIFMs. They are what they are. The intent of this paper is to provide an important guidepost for the consideration of new pension funding reform ideas and concepts.

A private pension system that does not meet the fundamental WIFMs of

- The plan sponsors who finance the system
- The taxpayers who bear a portion of the financial burden through tax incentives or
- The workers who are seeking financial security

will surely fail. No matter how actuarially sound, no matter how logical or compelling an argument can be made for a pension funding reform idea, it will not work if it does not support the WIFMs of the parties involved.

For the American worker, the intended beneficiary of the private pension system, there is only one meaningful WIFM: the security of the benefit promise. The American worker wants to know that his or her pension benefit will be there when the day of retirement finally arrives.

For taxpayers, their fundamental WIFMs fall into two categories:

- Support for the WIFM of the American worker, that is, enhancement of the security of the benefit promise and
- Prevention of the transfer of funding risk from employers to taxpayers.

The first of these WIFMs is not new. It was around before enactment of the Employee Retirement Income Security Act of 1974 (ERISA) and was materially strengthened by ERISA. The second WIFM is an outgrowth of the funding crisis facing the Pension Benefit Guaranty Corporation (PBGC). The PBGC's recent acceptance of $5 billion of insured benefit liability from United Airlines and the concern that other airlines may follow have made this a headline issue.

Fundamental plan sponsor WIFMs are focused on the cost of a plan and the annual contributions needed to satisfy that cost. They include the following:

- *Predictability*—Knowing in advance with some degree of assurance what the financial and cash expense of a plan will be
- *Funding flexibility*—The ability to prefund pension obligations, and the ability to contribute more when financial conditions permit
- *Cost control*—As is true for any cost, business is not interested in paying any more for its obligation than is necessary.

This paper will present and discuss these and other WIFMs that came to light as a result of our research and analysis.