

Survey Says...

Trends in Retirement Programs

**2007 Joint Meeting of the
Actuaries Club of Hartford/Springfield and the
Actuaries Club of Boston**

November 29, 2007

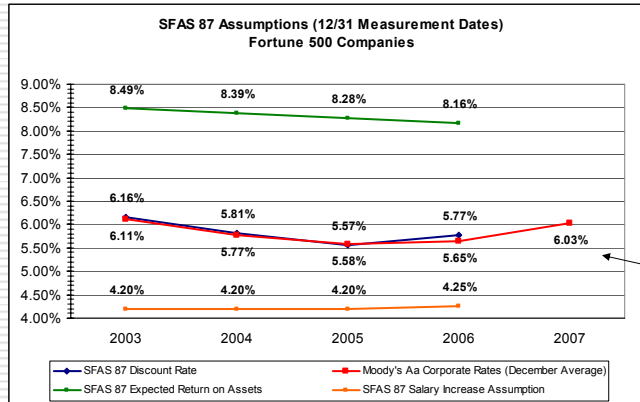
Tom Sablak, JPMorgan Compensation and Benefit Strategies

Survey says...

- Assumptions and funded levels**
- Asset allocation and risk
- Statistics on DB plans
- The shift to DC and hybrid plans
- Pension plan freezes
- Looking ahead
- Recap



Economic assumptions - pension



Source: Deloitte (except for Moody's rates)

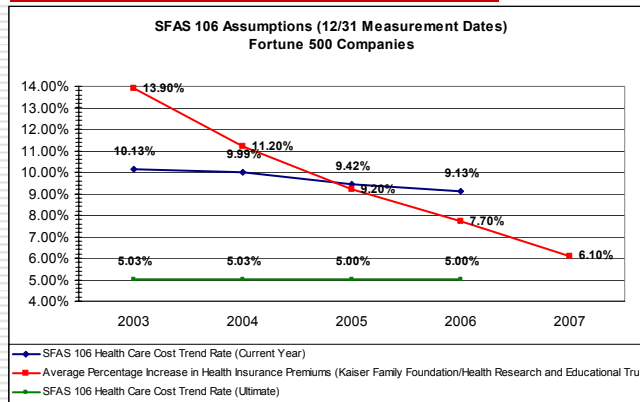
When: 2007

Data: Fortune 500

The average discount rate is expected to increase for the second straight year

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Economic assumptions - OPEB



Source: Deloitte and Kaiser Family Foundation/Health Research Educational Trust

When: September 2007

Data: Fortune 500 (SFAS 106) and survey of 1,997 employers (Kaiser/HRET)

The average current year health care cost trend rate will likely decrease again

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Future surveys on assumptions?

□ Funding

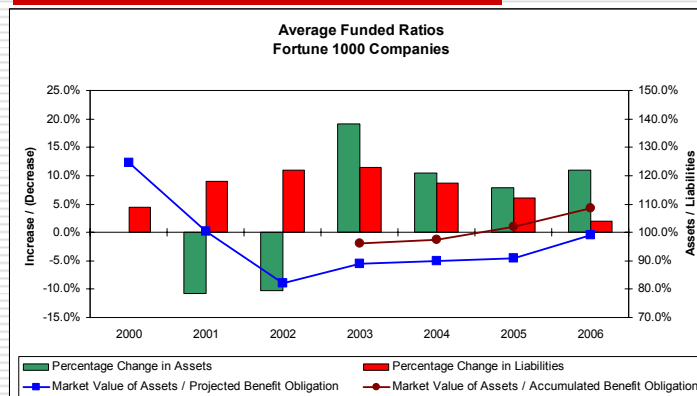
- Yield curve vs. segment rates?
- Lookback month?
- Plan specific mortality vs. prescribed?
- Market vs. smoothed assets?

□ Accounting

- Mortality table?

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Funded levels



Sources:

- Watson Wyatt (funded ratios)

- Milliman (changes in assets and liabilities)

When:

- October 2007 (Watson Wyatt)

- April 2007 (Milliman)

Data:

- Fortune 500 (Watson Wyatt)

- Survey of 100 large sponsors (Milliman)

The increase in liabilities has diminished primarily due to higher discount rates, while asset levels have improved due to double-digit returns and higher contribution levels

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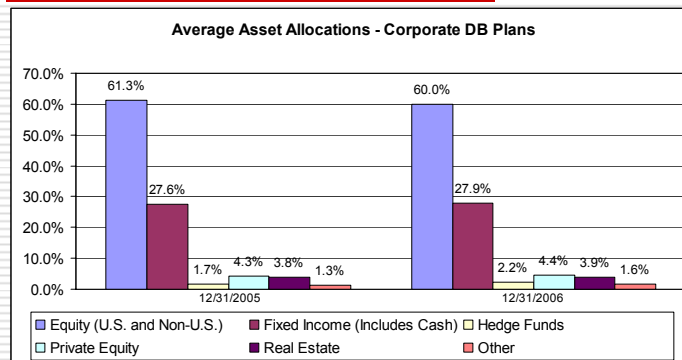
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Average asset allocations



Source: JPMorgan
When: October 2007
Data: S&P 500

Overall, equity allocations are still substantial, and allocations to "alternative" investments have edged up slightly

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Future changes in asset allocation?

Asset Class	Percentage of Sponsors Planning to Increase Allocation	Percentage of Sponsors Planning to Decrease Allocation
U.S. Equity	6%	29%
Non-U.S. Equity	28%	10%
Fixed Income	26%	8%
Real Estate	28%	5%
Private Equity	32%	2%
Hedge Funds	22%	1%

Source:
PLANSPONSOR and
Pyramis Global Advisors

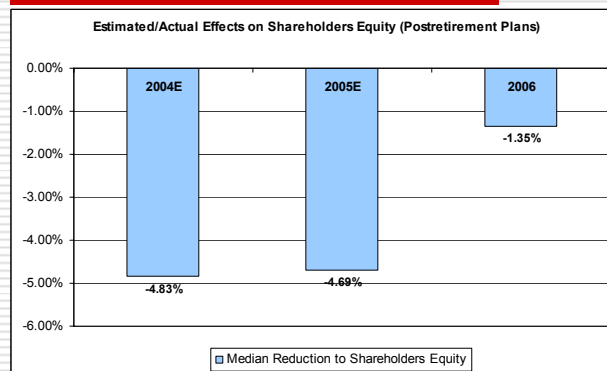
When: Oct/Nov 2006

Data: Survey of 124 large
corporate plans

Allocations to "alternative" investments and non-U.S. equities are expected to increase (diversification), while shifts to fixed income investments are also expected (LDI)

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Risk – impact on shareholders equity



Source: Watson Wyatt

When: October 2007

Data: Fortune 1000

The initial impact on putting the financial position of postretirement plans on the balance sheet has been less severe than originally estimated, thanks to recent strong asset returns (in pension plans) and higher contributions; however, future balance sheet volatility is still likely

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Risk – future actions?

Possible action (in 2007)	"Somewhat likely" or "very likely"	"Somewhat unlikely" or "very unlikely"	Source: Hewitt When: 2007 Data: Survey of approx. 100 employers
Perform funding and accounting projections	81%	19%	
Review funding strategy	73%	27%	
Adjust equity exposure and/or overall asset allocation	46%	54%	
Purchase annuities for retirees	7%	93%	
Transfer the plan (assets and liabilities) to an outside party	3%	97%	

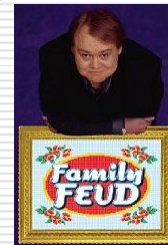
Approximately one year ago, most employers were planning to review financial projections and funding policies; will asset allocation become a bigger priority?

- Shareholders equity
- Earnings
- Cash Flow

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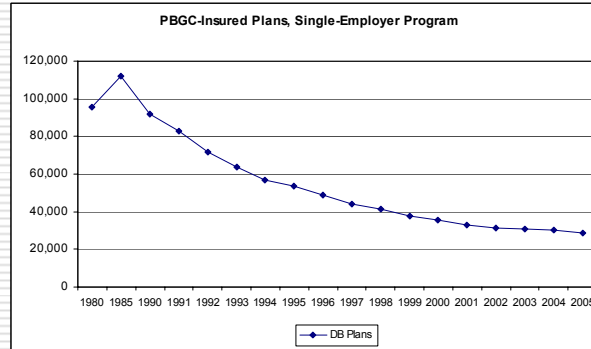
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Statistics on single-employer DB plans



Source: PBGC

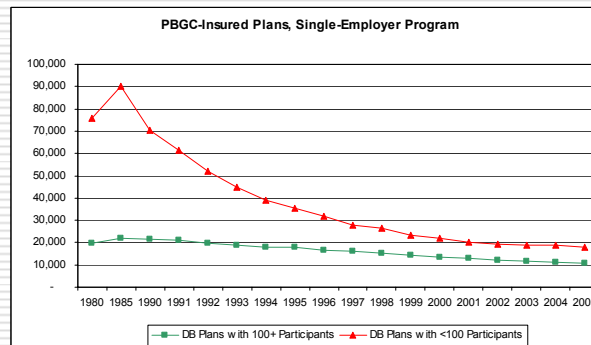
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

The number of PBGC-insured, single-employer DB plans has decreased from over 100,000 in the early 1980s to under 30,000 as of 2005

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Statistics on single-employer DB plans (continued)



Source: PBGC

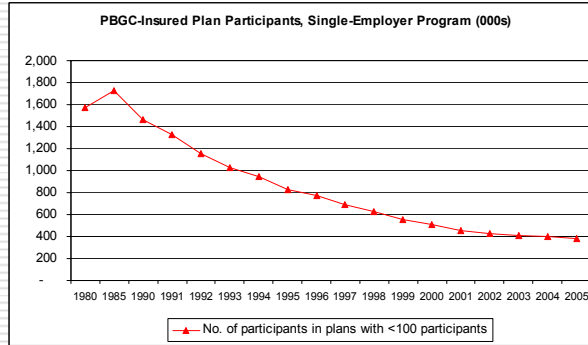
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

Most of the decline in the number of DB plans can be attributed to small plans

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Statistics on single-employer DB participants



Source: PBGC

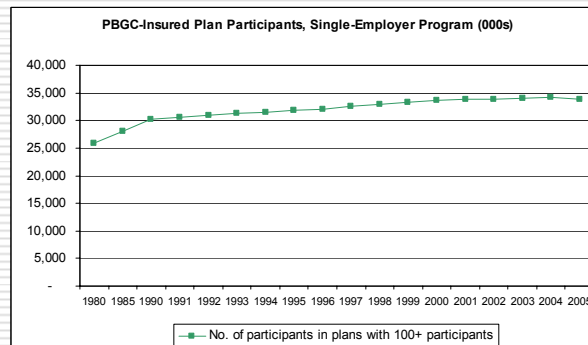
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

Not surprisingly, the number of participants covered by small plans has dropped significantly

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Statistics on single-employer DB participants (continued)



Source: PBGC

When: Summer 2006

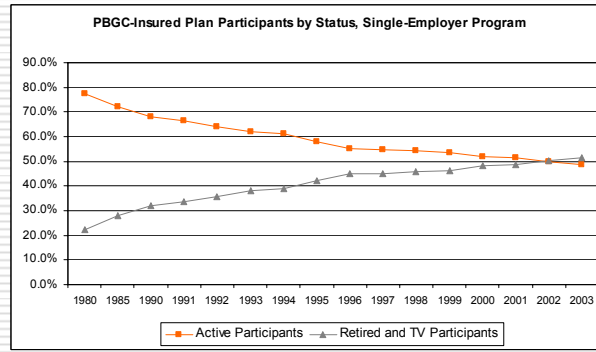
Data: PBGC Pension Insurance Data Book 2005

While the number of participants covered by large plans has grown?



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Statistics on single-employer DB participants (continued)



Source: PBGC

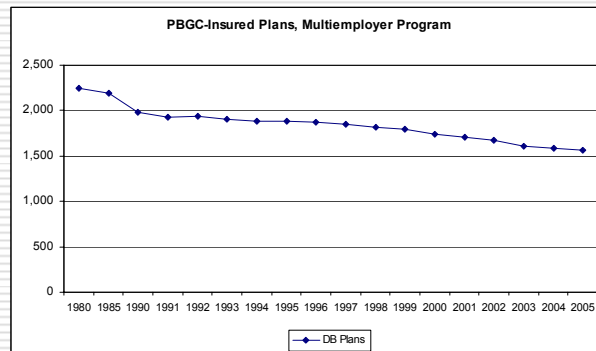
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

The percentage of active participants covered by DB plans has dropped significantly

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Statistics on multiemployer DB plans



Source: PBGC

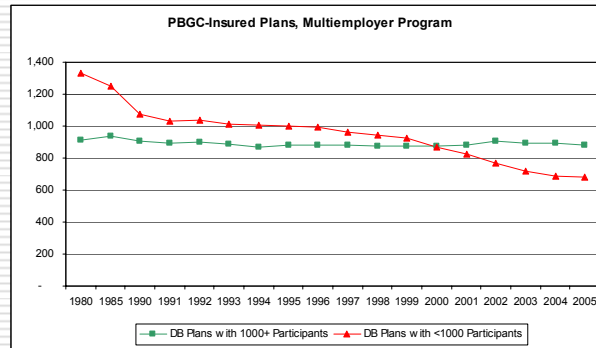
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

The number of PBGC-insured, multiemployer plans has decreased since the early 1980s, but the decline has been somewhat slower

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Statistics on multiemployer DB plans (continued)



Source: PBGC

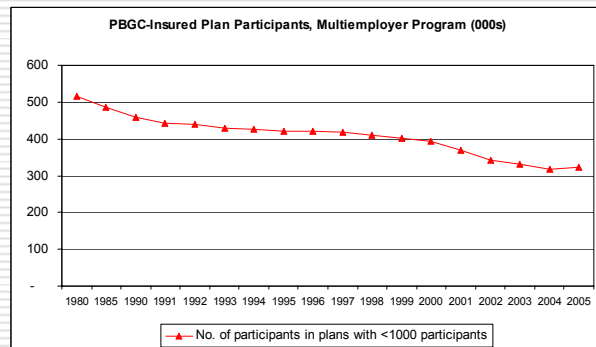
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

As with single-employer plans, most of the decline is attributable to the smaller programs

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Statistics on multiemployer DB participants



Source: PBGC

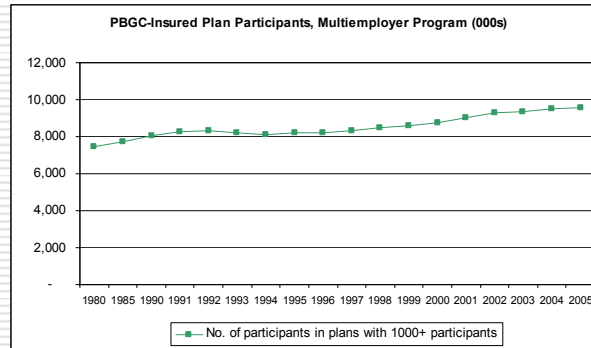
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

The number of participants covered by smaller programs has decreased significantly

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Statistics on multiemployer DB participants (continued)



Source: PBGC

When: Summer 2006

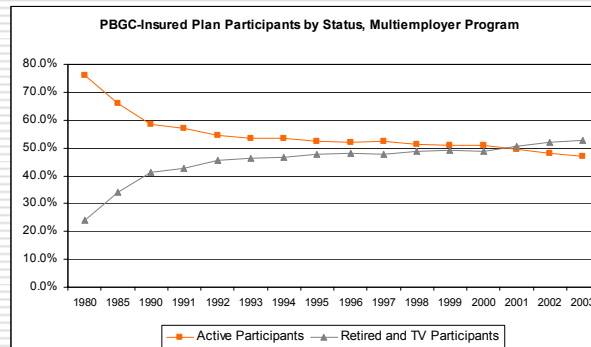
Data: PBGC Pension Insurance Data Book 2005

While the number of participants covered by large plans has grown?



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Statistics on multiemployer DB participants (continued)



Source: PBGC

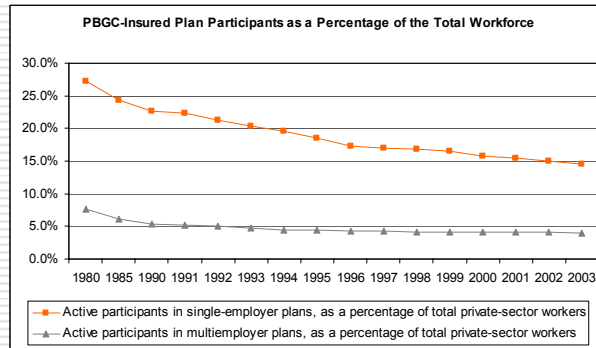
When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

As is the case with single-employer plans, the percentage of active participants covered by multiemployer plans has dropped significantly

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Statistics on DB participants (single-employer and multiemployer)



Source: PBGC

When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

The percentage of the workforce covered by single-employer DB plans has decreased significantly, while the percentage covered by multiemployer plans has been relatively steady

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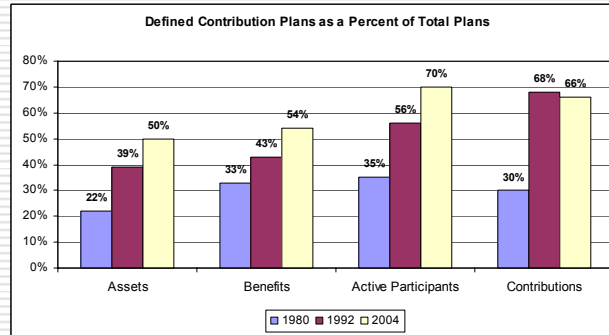
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The shift to defined contribution



Source: Center for Retirement Research at Boston College

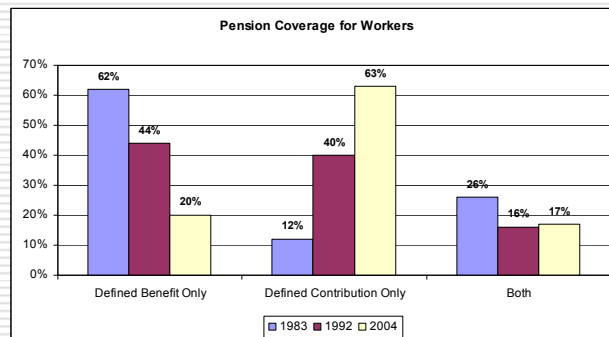
When: August 2006

Data: DOL, firms with >100 employees

Today, relative to all retirement plans, DC plans hold over half of the assets, pay over half of all benefit payments, contain almost three-quarters of all participants, and represent over two thirds of retirement contributions

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The shift to defined contribution (continued)



Source: Center for Retirement Research at Boston College

When: August 2006

Data: Data from the U.S. Board of Governors of the Federal Reserve System

What portion of retirement income is supplied by DC plans?

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Income replacement

	Expected Sources of Income by Workers	Actual Sources of Income per Retirees
Retirement savings plan (e.g., 401(k) plan)	28%	6%
Personal savings	22%	18%
Social Security	14%	40%
Traditional employer-provided pension	13%	21%
Post-retirement employment	11%	2%
Sale/refinancing of home	2%	2%
Other/unknown	8%	9%

Source: Employee Benefit Research Institute

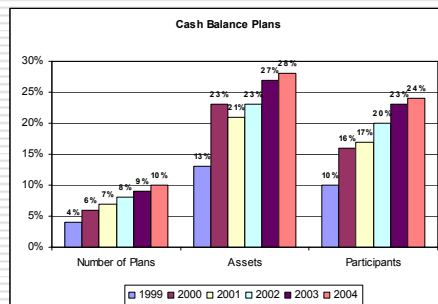
When: April 2007

Data: 2007 Retirement Confidence Survey

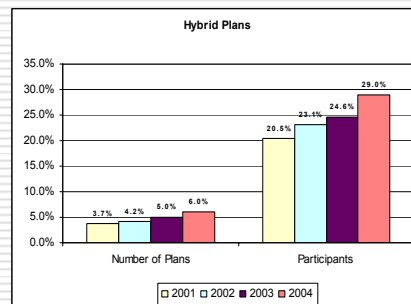
How much will expectations and reality converge in the future?

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Hybrid plan statistics



Source: Center for Retirement Research at Boston College
 When: August 2006
 Data: DOL, plans with 100+ participants

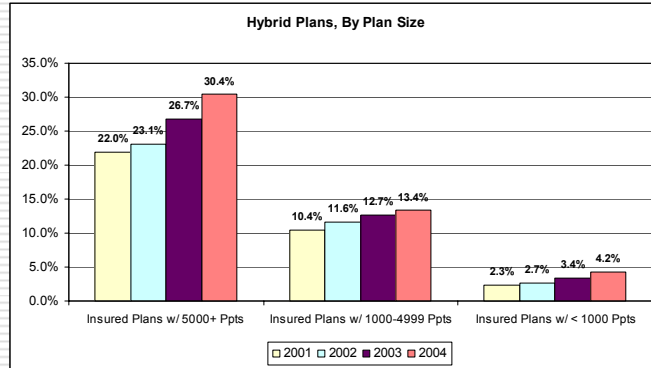


Source: PBGC
 When: Summer 2006
 Data: PBGC Pension Insurance Data Book 2005

Today, probably one-third of defined benefit plan participants are covered under a hybrid design

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Hybrid plan statistics (continued)



Source: PBGC

When: Summer 2006

Data: PBGC Pension Insurance Data Book 2005

And, hybrid designs are concentrated in larger plans

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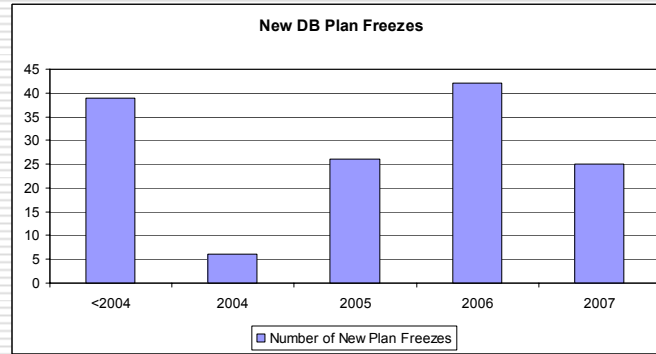
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Pension plan freezes – has the worst really passed?

Source: Watson Wyatt

When: September 2007

Data: Fortune 1000



	2004	2005	2006	2007
Number of New Plan Freezes	6	26	42	25
Number of DB Plan Sponsors	633	627	627	638
Percentage Freezing	1%	4%	7%	4%

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Pension plan freezes

- How many sponsors have frozen their pension plans? It depends on whom you ask...
 - Watson Wyatt: 21% (132 out of 638 Fortune 1000 companies surveyed)
 - Pyramis Global Advisors: 25% (survey of 124 corporate DB plans)
 - Hewitt: 35% (survey of 96 corporate DB plans)
 - Soft-freeze = 31%
 - Hard-freeze = 4%

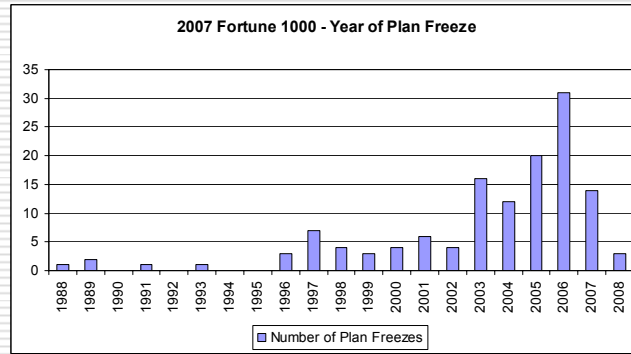
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Freeze activity – when?

Source: Watson Wyatt

When: September 2007

Data: Fortune 1000



Of the 132 companies in the Fortune 1000 that have frozen their pension plans, most made their move in 2006

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Pension plan freezes – outlook?

- ❑ McKinsey & Company (2007): "Freezings and terminations are set to increase dramatically over the next 3 to 5 years ... [a]s much as 75 percent of corporate DB assets will be in frozen or terminated status by 2012"
- ❑ Pyramis Global Advisors (2007): "[the] freezing phenomenon appears to have played itself out" and an estimated 85% of currently open plans will remain open in the next 3 years

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Pension plan freezes – outlook?

- Center for Retirement Research at Boston College (2006): The increase in freeze activity can be explained by “[the] desire to control compensation costs, the pressures of rising health care outlays, the confluence of economic, demographic, and regulatory risks, and the emergence of a two-tier pension system ... Given that the employer-sponsored pension system is a voluntary arrangement, nothing is likely to stop other healthy companies from following suit and closing down their defined benefit plans.”

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Outlook for DB plans

- Depends upon the combined impact of:
 - Pension Protection Act
 - Forthcoming accounting rules
 - Better design, investment policy, funding policy?
 - Demographic and economic trends
 - Who's on the hook for the risk?
- Retirement 20/20 (SOA)
 - Individuals
 - Employers
 - Society/government

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Plan changes ahead – two surveys

Plan Changes	Last 2 years	Next 2 years	Source: EBRI When: July 2007
Close plan to new hires (soft freeze)	25.3%	19.0%	Data: EBRI/Mercer survey of retirement plan sponsors
Freeze accruals for all participants (hard freeze)	12.9%	14.2%	
Reduce the level of benefits	9.2%	0.0%	
Convert to a hybrid plan	3.0%	2.8%	
Introduce/increase employee contributions	2.4%	0.9%	
Terminate plan	0.6%	1.9%	

Possible action (in 2007)	"Somewhat likely" or "very likely"	"Somewhat unlikely" or "very unlikely"	Source: Hewitt When: 2007
No changes to plan	67%	33%	Data: Survey of approx. 100 employers
Close plan to new hires (soft freeze)	17%	83%	
Freeze accruals for all participants (hard freeze)	10%	90%	
Change aspects of plan design	30%	70%	
Convert to a hybrid plan	12%	88%	
Terminate plan	0%	100%	

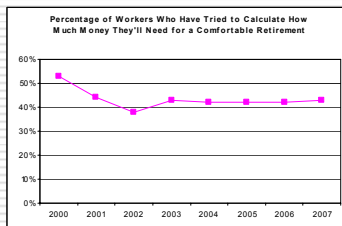
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Post-retirement risks

- SOA: "2005 Risks and Process of Retirement Survey Report"
 - Outliving assets
 - Loss of spouse
 - Decline in functional status
 - Health care and medical expenses
 - Inflation

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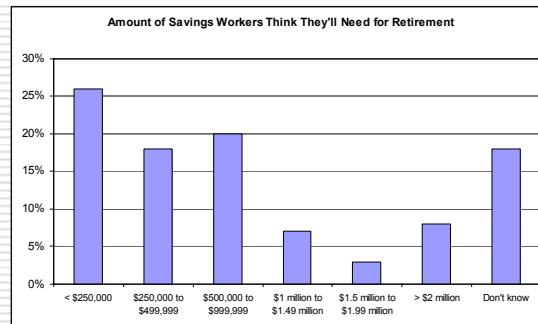
Outliving assets



Source: EBRI

When: April 2007

Data: 2007 Retirement Confidence Survey



According to the SOA, at age 65, the average life expectancy is 17 years for males and 20 years for females (U.S.); it is believed that over one-half of Americans underestimate their life expectancy

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Loss of spouse

How likely are you are your spouse:	Very Likely	Somewhat likely	Not Too Likely	Not at All Likely	Don't Know
To purchase a <i>financial product</i> or select a retirement plan <i>option</i> that will pay you guaranteed income each month for the rest of your life	11%	39%	25%	21%	4%
To purchase an income <i>annuity</i> or select an <i>annuity</i> option from a retirement plan	7%	32%	29%	27%	5%

Source: EBRI

When: April 2007

Data: 2007 Retirement Confidence Survey

Joint and survivor life annuities and joint and survivor payment options in DB plans guard against one spouse outliving the other, yet not all couples are likely to seek this protection

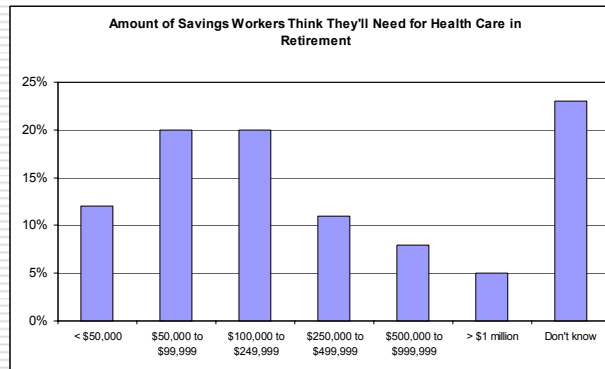
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Long-term care insurance

- ❑ SOA: "2005 Risks and Process of Retirement Survey Report"
 - About 20% of retirees have purchased long-term care insurance
 - Approximately 10-20% of pre-retirees have made this purchase

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Health care in retirement



Source: EBRI

When: April 2007

Data: 2007 Retirement Confidence Survey

Part of the confusion might be attributable to the fact that estimates of retirement health care expenditures are all over the map due to estimates about medical inflation, availability of employer-provided health insurance, Medicare coverage levels, and pricing of long-term care insurance

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Recap

- ❑ Convergence in assumptions will likely result in additional assumptions surveys; funded levels are likely to improve again in 2007
- ❑ Expect increased attention to asset allocation and investment strategies, as more companies focus on risk
- ❑ Statistics on DB plans not likely to reverse any time soon; will interest in hybrid plans increase?
- ❑ Freezes: has the worst passed? Maybe
- ❑ Keep an eye on SOA's Retirement 20/20

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JPMorgan Compensation and Benefit Strategies

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