

CIEBA

The Committee on Investment
of Employee Benefit Assets

Presentation to the Pension Benefit
Guarantee Corp. (PBGC) Advisory Board

December 8, 2009

Overview of CIEBA

- CIEBA was established in 1985
- 110+ members represent most of the largest private-sector retirement plan sponsors in the USA
- Members manage over \$1 trillion in defined benefit and defined contribution plan assets
- CIEBA members are the chief investment officers responsible for overseeing investments in retirement and other benefit plans

- CIEBA member assets constitute 34% of all private sector DB assets in 2008 (Federal Reserve)
- CIEBA plan sponsors contributed \$14 billion to their DB plans in 2008
 - Almost $\frac{3}{4}$ (74%) of contributions came from large plan sponsors (over \$10 billion)

- Over the past five years, CIEBA members have contributed over \$100 billion to their plans
- More than half of which (\$64 billion) was in excess of their required minimums

CIEBA MEMBERS' CONTRIBUTIONS TO DB PLANS OVER MINIMUM FUNDING

YEAR	Total Contributions (in billions)	Excess Contributions (in billions)	# of Cos.
2008	13.6	7.8	76
2007	20.2	6.8	56
2006	27	15.7	64
2005	23	18.3	63
2004	21.7	15.7	59
Totals:	105.5	64.3	

CONFIDENTIAL: DISCLOSURE OF CONTENTS MUST HAVE PRIOR APPROVAL OF THE CIEBA EXECUTIVE COMMITTEE

Association for Financial Professionals Committee on Investment of Employee Benefit Assets

- CIEBA members paid \$330 million in PBGC premiums in 2008 - 18% of single-employer premiums collected by PBGC
- CIEBA conducts an annual 'profile survey' focused on investment performance, costs, and related issues

State of the DB System and the Economy

- Members' DB plans cover 10 million participants and beneficiaries
- The number of participants has remained relatively stable over the previous five years

- DB plans continue to represent the primary retirement plan type provided by CIEBA members
 - DB plans had 55% more assets , covered twice as many participants, and paid out 48% more in benefits, compared to DC plans

- DB plans are an important source of retirement income for the participants and beneficiaries of CIEBA plans
- Contrary to conventional wisdom, the vast majority of dollars paid out of CIEBA plans are in the form of recurring payments

**U.S. DEFINED BENEFIT PLANS
BENEFIT PAYMENTS (\$ MILLIONS)**

	2004		2005		2006		2007		2008	
Recurring	\$42,668	76.0%	\$46,601	82.6%	\$58,932	82.0%	\$60,877	83.9%	\$49,932	82.2%
Lump-Sum	\$13,496	24.0%	\$9,803	17.4%	\$12,935	18.0%	\$11,690	16.1%	\$10,843	17.8%
Total	\$56,164	100.0%	\$56,404	100.0%	\$71,867	100.0%	\$72,567	100.0%	\$60,775	100.0%
% Year End Assets		7.7%		6.6%		7.4%		7.3%		9.3%*

* Significantly affected by decrease in market value in 2008.

- The overall number of plans has declined; however the number of companies with no DB plan continues to be very low
- The number of frozen plans continues to increase
 - In 60% of frozen plans, participants continue to accrue benefits, but the plans are closed to new entrants

**U.S. DEFINED BENEFIT PLANS
UNIVERSE**

	<u>12/31/04</u>	<u>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</u>	<u>12/31/08</u>
CIEBA Members	96	108	108	97	97
DB Plans	424	427	446	358	361
Cash Balance/Hybrid Plans	64	69	82	76	77
Frozen Plans, closed to new entrants	54	57	53	65	131 *
Frozen Plans, closed to all			38	60	86
Participants (000)	9,383	10,567	11,521	11,110	10,247 ¹
Assets (\$ Billions)	\$726	\$852	\$966	\$991	\$652

Note:

Number of companies with no DB Plans -- 2004: 5, 2005: 4, 2006: 4, 2007: 3, 2008: 4.

Multiple employer plans counted as one plan.

* Includes 42 new frozen plans pertaining to new members, 26 newly frozen plans from existing members, and was reduced by 3 plans from exiting members.

¹ - Significantly affected by membership turnover in 2008.

- In 2004, CIEBA released a report indicating that if time horizons for funding and investing were shortened, and mark-to-market measurements were adopted, the trend away from DB plans would accelerate (*The U.S. Pension Crisis: Evaluation and Analysis of Emerging Defined Benefit Issues*)
 - Unfortunately, these predictions appear to be on target
 - Increased funding volatility and higher costs make future freezes all the more likely

- The funded status of CIEBA member plans deteriorated significantly from 2007 to 2008
- The sharp decline in asset values, combined with very low interest rates are responsible for the deterioration

CIEBA Member Funded Ratios 2007 - 2008

ABO		
	2007	2008
< 60%	0	5
60% to 70%	1	7
70% to 80%	0	15
80% to 90%	2	14
90% to 100%	7	12
> 100%	46	9
Total Reported	56	62

PBO		
	2007	2008
< 60%	0	8
60% to 70%	1	11
70% to 80%	1	15
80% to 90%	5	11
90% to 100%	13	10
> 100%	37	8
Total Reported	57	63

CONFIDENTIAL: DISCLOSURE OF CONTENTS MUST HAVE PRIOR APPROVAL OF THE CIEBA EXECUTIVE COMMITTEE

Association for Financial Professionals Committee on Investment of Employee Benefit Assets

- We expect that funding ratios will improve somewhat for 2009 because of recovering asset markets
- However, historically low interest rates will continue to negatively affect funded ratios
- A one percent increase in interest rates would improve plan funded status by 13%, on average

- A majority of CIEBA members will have to make significantly increased contributions to their plans over the next few years because of the decline in their funded status

- A September 2009 presentation indicated that, for S&P 500 companies sponsoring DB plans, funding requirements could rise to 23% of reported earnings (BNY Mellon presentation using Bloomberg and S&P data)

CIEBA Investment Policy

- CIEBA members continue to invest in a broad range of asset classes
- The goal of a diversified investment strategy is to enhance returns, while mitigating risk
- CIEBA members believe pension obligations should be satisfied through a *combination* of contributions & long-term asset returns

**U.S. DEFINED BENEFIT PLANS
ASSET HOLDINGS BY CATEGORY**

	<u>12/31/04</u>	<u>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</u>	<u>12/31/08</u>
Equity					
Employer Stock	2.2%	0.8%	0.7%	0.6%	0.4%
U.S.	39.6%	38.3%	35.0%	27.4%	22.7%
International	18.7%	20.6%	21.0%	20.1%	15.5%
Total	60.5%	59.7%	56.7%	48.1%	38.7%
Fixed Income					
U.S.	23.7%	23.6%	25.3%	28.0%	33.7%
International	2.1%	2.2%	2.5%	3.8%	3.4%
Cash	1.7%	1.5%	1.5%	1.9%	2.7%
Total	27.5%	27.3%	29.3%	33.7%	39.8%
Non-Traditional					
Real Estate	4.1%	4.2%	4.6%	5.6%	6.0%
Other	7.9%	8.8%	9.4%	12.6%	15.6%
Total	12.0%	13.0%	14.0%	18.2%	21.5%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Employer Stock represents holdings in a separate account only.
Other non-traditional assets include private equity, LBO, venture capital, hedge funds, natural resources and other.

- Over the past five years, CIEBA members have been reallocating some assets from public equities into fixed income and alternative investments
- However, the relatively large shift out of equities in 2008 is more a result of asset valuation than any major policy shift

Final Thoughts

- Defined benefit plans are still an important source of retirement income for millions of Americans
- While it may be difficult to reverse the decline in DB plans, we must try to sustain existing plans

- Plan sponsors have been responsible stewards of their plans, but if funding costs are too high or too volatile, they will have difficulty continuing their support
- DB constituencies need to recognize the clear advantages these plans provide and support their maintenance and continuation
- Plan sponsors and PBGC need to work as partners to achieve this goal