An Open Letter to *The Wall Street Journal*

October 21, 2004

Dear Editors of *The Wall Street Journal*:

In an October 5, 2004 article entitled "Cash-Balance Conversions Spread," Ellen Schultz frequently crossed the line between reporting and editorializing. The article was full of factual inaccuracies, unfair characterizations and mere expressions of opinion.

Below, we respond in turn to the many inaccuracies contained in the article.

- The article repeatedly asserts that cash balance plans are worse for employees than traditional pension plans. Ms. Schultz states that this new plan design "means less money for many workers" and that "[f]or many employees, these pensions are far less attractive than the plans they replaced." These statements are misleading at best. Research demonstrates that two-thirds of employees (and three-quarters of women) build higher retirement benefits under cash balance plans than under traditional plans of equal cost (Kopp and Sher, The Pension Forum, 1998). This is because benefits build up more quickly in cash balance plans than in traditional pensions and employees can roll over their benefits when they change jobs. For those longer-service employees who might not fare as well going forward under the new cash balance plan (benefits already earned have iron-clad protection under current law), recent research shows that -- in nine out of ten cases -- employers adopt specialized transition programs that often permit older workers to remain in the traditional pension plan (Mellon Financial, 2004; Watson Wyatt, 2004).

- The article states that companies convert to cash balance plans for "guaranteed financial reward". Recent data shows that, since 1999, retirement plan costs have increased an average of 2.2% following a conversion to a cash balance plan. When companies that were in severe financial distress at the time of the conversion were removed from the pool, this figure increased to 5.9% (Watson Wyatt, 2004). This finding has been confirmed by two Federal Reserve economists, who concluded ""[T]he majority of firms increased their liabilities as a result of their conversion. . . It appears that many firms may have allowed longer tenure employees to remain under the old plan, or provided them with an initial cash balance of equivalent value, while moving employees with fewer years of service to the new plan" (Coronado and Copeland, Federal Reserve Board of Governors, 2003).

- The article repeatedly asserts that cash balance plans are "frozen" pensions that "won't grow with additional years on the job or salary increases." This is incorrect. In the context of retirement plans, the term "frozen" typically means that employees earn no new benefit accruals. That is clearly not the case with cash balance plan conversions where benefits continue to accrue to employee accounts. The real threat to employees' retirement security in our voluntary pension system is not cash balance conversions but the true pension freezes that have resulted from the challenging financial, policy and litigation environment faced by employer sponsors of defined benefit pension plans. More than 20% of these employers have either already frozen their pension plans or are actively considering doing so (Aon Consulting, Alert, 2003). Employees who have had their benefit accruals frozen are clearly in a far worse position than those who are covered by a cash balance plan.

- The article includes the statement that "many employers lowball the opening account balances" in cash balance plans by setting this balance below the value of the benefit earned to date in the traditional pension. Yet over 90% of employers set the opening account balance in cash balance plans equal to the value of the normal retirement benefit earned under the prior pension formula (Mellon Financial, Survey of Cash Balance Plans, 2004). For the vast bulk of workers, the "wearaway" that the article discusses does not occur. Transition benefits for longer-service workers and opening account balances equal to the prior benefit are typically designed to avoid wearaway.

- The article suggests that the typical pay credit to an employee's cash balance account is 2% to 4% of employee pay. In fact, research demonstrates that the median credit is 5% of pay in a cash balance plan (and 6% of pay in the other variety of hybrid pension plan, pension equity) (Watson Wyatt 2004). Moreover, many employers pay even higher pay credits to their older employees. Indeed, in 74% of cash balance plans, pay credits increase with employee age and service (Mellon Financial, Survey of Cash Balance Plans, 2004), belying the notion that these pension plans do not address the needs of longer-service workers.

- The article cites statistics from two different federal agencies (PBGC, IRS) for the proposition that cash balance conversions are dramatically on the rise. The data cited is from 2000 and 2002 and lags behind actual experience in the marketplace. Additionally, these agencies and their statistics measure different populations of employers. Thus, the article's data comparison is one of apples to oranges. In fact, research demonstrates that the number of cash balance conversions has declined notably in recent years after peaking in the late 1990's (Mellon Financial, Survey of Cash Balance Plans, 2004). While many employers would like to adopt these plans in order to provide more meaningful and portable benefits to employees, today's environment of legal uncertainty has deterred them from doing so.

- The article concludes by asserting that companies are "lobbying to get Congress to exempt cash-balance plans from age discrimination rules." While one would not know this from the article, every federal court to address the issue -- other than the one in the *Cooper v. IBM* litigation -- has held that cash balance plans are not age discriminatory. Only the *Cooper* judge has adopted the truly incredible legal theory that compound interest in defined benefit plans– and thus cash balance plans – is illegal. Our Coalition and other business groups are not asking Congress for an exemption from the age discrimination laws but rather merely for a clarification that equal cash balance allocations for older and younger workers satisfy age discrimination rules (as the vast weight of legal authority holds).

Our Coalition appreciates your consideration of these facts and hopes you will see fit to correct the record. At a time when American families are struggling so hard to achieve retirement security, it does a disservice to the nation for a publication of *The Wall Street Journal's* reputation to address these critically important pension issues in such an unbalanced way.

Sincerely,

The Coalition to Preserve the Defined Benefit System

The Coalition to Preserve the Defined Benefit System has more than 72 members ranging in size from small businesses to some of the largest corporations in the U.S. Together, members provide retirement benefits for more than 1 million American workers.