

The New Wave of Pension Plans in America

September, 2013

For a copy of the full report, please contact:

Barry Gillman, Chairman,
Wealth Allocation Council
+1 212 232 5654
barry.gillman@globalwealthallocation.com
or info@globalwealthallocation.com

Global Wealth Allocation

17 Battery Place, 11th Floor,
New York, NY 10004

globalwealthallocation.com

The Evolution of Hybrid Plans

Plan sponsors and pension consultants have experienced the accelerating move from Defined Benefit plans (“DB”) to Defined Contribution (“DC”), a trend that could eventually consign DB plans to history.

Most plan sponsors and consultants concur that DB can provide superior benefits: they note that DC programs were designed as supplemental and cannot do the “heavy lifting” needed to provide adequate retirement income. They’re right. Even worse, low contribution rates and investment inexperience compound the problems for DC participants.

But many employers (mostly private sector) have seen little alternative to closing DB plans and shifting the burden to participants, generally through introduction of a DC plan. If this continues, over time the expertise and experience of the DB plan sponsor community could fade away.

But new hybrid pension structures are emerging that may ultimately displace DC as the future standard. These aim to provide adequate retirement income while reducing or eliminating the sponsor guarantee of a salary-linked lifetime pension. Hybrid plans offer the features that participants need, at a cost that sponsors can bear.

It’s not clear that hybrid plans are better than DB, especially for participants. But that’s not the choice, as more and more plan sponsors make it clear that they may no longer fund DB plans. So the real question is not whether hybrids are better than DB, but if DB is no longer offered, is a hybrid plan an acceptable alternative?

We assess the pros and cons of existing and proposed hybrid plan structures in both private and public sectors, focusing on the primary drivers of benefits: contributions, investments and costs. We also examine in detail two current national-level initiatives that will apply hybrid frameworks to provide retirement benefits for the large number of American workers with no workplace pension coverage.

As the move to hybrid plans gains traction, the expertise of the plan sponsor community needs to adapt, but may be in more demand than ever. We believe that the coming wave of hybrid plans will not only provide a better retirement for many of today’s workers, but will change the face of the pension industry.

This material was prepared for the Wealth Allocation Council, an entity affiliated with Global Wealth Allocation Ltd (“GWA”). GWA is an affiliate of Wall Street Access Asset Management LLC. Wall Street Access Asset Management LLC is a registered Investment Advisor. Wall Street Access Asset Management LLC will receive compensation from an investor’s participation in the GWA portfolios. The views expressed in this publication are those of the author, Barry Gillman, and are not necessarily representative of the views of GWA. Barry Gillman is Chairman of the Wealth Allocation Council. The author believes the information and sources used in this article to be reliable, but do not guarantee their accuracy or completeness. The information provided in this material is intended for informational purposes only and is for institutional investor use. It is not meant to be an offer, solicitation, or recommendation for any products or services nor is it a recommendation to purchase or sell any particular security.

Copyright © 2013 Global Wealth Allocation Ltd. ALL RIGHTS RESERVED. Users agree not to copy, reproduce, distribute, publish, or in any way exploit this material, except that users may make a print copy for their own personal, non-commercial use. Brief passages from any article may be quoted with appropriate credit to Global Wealth Allocation. Longer passages may be quoted only with prior written approval from GWA. For more information about the Wealth Allocation Council or GWA, visit the website at www.globalwealthallocation.com.