

Pensions Face Deadline Today

Private pension plans face a funding deadline Thursday under the pension reform law enacted in 2006, adding further pressure to already cash-strapped plans.

"Pension plans normally have contributions so they won't default, but if a company, municipality or state ends up declaring bankrupt then the pension plan would default," Rick Keller, chairman of [First Foundation](#), told Markets Media.

Under the law, if the plan's assets are less than the present value of all benefit liabilities accrued to date, then the minimum required contribution for the year is equal to the present value of benefit liabilities expected to accrue during the plan year, plus the amortization of the excess of the plan's funding target over the plan's assets.

An enrolled actuary must certify the ratio of the value of plan assets for the year to the plan's funding target for the year by the first day of the fourth month of the plan year (e.g., by April 1 for a calendar plan year); otherwise, the percentage is immediately deemed to be 10 percent lower than the prior plan year's level. Any benefit restrictions resulting from this decrease would apply beginning on this date and would remain in effect until the actuarial certification is completed.

Defined benefit plans appear to be dying out as many employers have frozen their plans to new members. "The industries that have defined benefit plans tend to older, union-controlled, manufacturing-based industries rather than white collar," said Keller. "In the long run, all defined benefit plans will go away."

Fearful of eventual — if temporarily delayed — implementation of mark-to-market accounting rules that will ultimately transfer the full impact of pension investment volatility to the corporate balance sheet, companies are electing to take down risk levels in their DB portfolios. Chief among their tactics: lowering allocations to U.S. equities, which declined to an average 33.8% of total corporate assets in 2009 from 40.7% in 2008 and are expected to fall further in coming years.

"Corporate funds have traditionally invested much larger portions of their assets in equities, while public funds took a more conservative stance with bigger allocations to fixed income," said Dev Clifford, consultant at [Greenwich Associates](#). "As a result of their differing strategies in the wake of the crisis, public pension funds and corporate funds are approaching parity in their U.S. equity allocations, and public funds are making and planning meaningful investments in private equity, international stocks, hedge funds and real estate."

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