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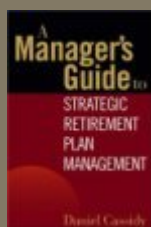
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Client Profile



Founded in 1978, Brooks Automation offers best-in-class hardware and services for the semi-conductor and other complex manufacturing industries. They help their customers increase productivity, lower costs, and improve return on investment.

For more information, please visit www.brooks.com.

Upcoming Presentation

Dan Cassidy will be speaking at an upcoming NEEBC Benefits Club Breakfast meeting on November 13th at Bentley College in Waltham, MA. He will be discussing "The Next Frontier in 401(k) Plan Management - Distribution Management". Topics to be discussed will include: inadequate savings, shortcomings of retirement date funds, investment and longevity risk, and withdrawal options.

For more information, please visit <http://www.neebc.org/programs/nov1307.php>.

Why Do Firms Offer Risky Defined Benefit Pension Plans?

This is the title of a recent Federal Reserve Board staff working paper published in their Finance and Economics Discussion Series - an unofficial forum used to stimulate discussion. To view the article in its entirety, [click here](#). The article does a great job exploring this question - and why the academic answer does not agree with the current practice. We'll quickly summarize their main points, and then expand upon the issue of the impact on employees.

Summary

The authors - an academic and two Fed staffers - present the mathematical arguments that clearly demonstrate why firms would MINIMIZE overall compensation by 1. fully funding their pension plans and 2. investing in fixed income securities to immunize the liabilities. In addition, they ask the question as to why this is at odds with the current practice in the DB world. Even with many firms moving more into fixed income, extending duration - the catch word today is "liability-driven investing", the gap between theory and practice is enormous. The authors point toward the frictions built into our current pension system in the US as the culprit in why practice does not follow theory.

They discuss the four classic stakeholders - employees, employers, shareholders and tax payers - and the informational barriers each one faces. We found the article very interesting both for DB plan sponsors, and viewing more broadly, for DC plan sponsors. We'd like to focus on the employee stakeholders.

Employee Stakeholders

The authors assume that employees fully understand the value and risks inherent in their pension plans, which is not reality. Clients have never heard "Give me \$10,000 more in salary because the DB plan's assets are invested in 70% equities". Reality is almost the opposite - employers use a DB plan as an incentive to attract and retain employees and even to argue that they could offer less direct pay since the DB plan costs so much. Never does the connection between the riskiness of the DB plan's assets and the value of a person's compensation package come into play.

Taking the author's discussions further, this friction, though hidden in a DB world, may become more transparent in the future world of DC-only retirement plans. With the investment risks transferred clearly to employees in 401(k) plans, we surmise that overall compensation will increase since employees will need to be compensated for this risk. Only time will tell if this actually happens. Plan sponsors will need to consider this possibility as they redesign their retirement programs - whether DB or DC.

Resources

For more information on Cassidy Retirement Group, please visit <http://www.cassidyretirement.com>.