THE COMMITTEE ON INVESTMENT OF EMPLOYEE BENEFIT ASSETS

CIEBA PRINCIPLES FOR PENSION REFORM

As the largest organization of corporate pension chief investment officers, CIEBA believes that defined benefit plans continue to be a critical component of the nation's retirement security system. However, the continuation of the defined benefit system is dependent on the willingness of plan sponsors to support these plans. In a voluntary system, we must assure that the costs and burdens do not outweigh the value of plans to employers and participants.

Currently, there are number of proposals to reform the defined benefit system with respect to plan funding, Pension Benefit Guaranty Corporation (PBGC) premiums and disclosure. We urge policy makers to recognize the following principles when considering system-wide reforms.

I. Defined Benefit Plans are Desirable and Serve Beneficiaries Well

- Defined benefit plans are the financial cornerstone of retirement security for more than 35 million Americans and their families.
- Plans generally provide universal coverage to workgroups, whereas voluntary participation results in 25+% of eligible workers opting out of defined contribution plans.
- Defined benefit plans are designed to insulate participants from both investment and longevity risk.
- Professionally managed defined benefit plans can provide substantially more "benefits per dollar" than other retirement savings vehicles.
- Defined benefit plans are an important source of disciplined capital for the nation's economy.

II. Defined Benefit Plans are Long-Term in Nature

- Investment decisions should be made recognizing that plans have long time horizons.
- Regulations on funding should be based on long-term factors, not shorter-term market cycles. Specifically:
- Asset and liability measures that determine funding obligations should be based on longer-term assumptions.
- Plan sponsors should not be required to fund to *virtual* termination levels, as if they were shutting down tomorrow.
- Funding rules should not bias plan investment decisions away from diversified portfolios, potentially making plans far more expensive.

III. Funding Should be Predictable, Stable and Flexible.

- Plan sponsors should be accountable for the pension promises they make.
- The current *temporary* discount rate based on a weighted average of high-quality, long-term corporate bond rates should be made permanent as soon as possible.
- In order to maintain accurate measures of pension liabilities and to dampen volatility, "spot" measurements of assets or liabilities should be rejected.
- Limits on funding in good economic environments should not be overly restrictive and pre-funding of obligations should be encouraged.
- Forcing excessive contributions into plans during recessions counters sound economic and monetary policy.
- The credit ratings of plan sponsors should not be used to create significant differentials in funding requirements between groups of plans.
- The interest rate used to calculate lump sum payments should parallel the discount rate used for plan funding purposes.
- Plan sponsors should be able to transfer assets from well-funded pension plans to other benefit trusts covering substantially the same participants.

IV. Defined Benefit Disclosures Should be Transparent and Provide Investors and Participants With Relevant Information on a Timely Basis

V. PBGC Changes Should Not Undermine the Defined Benefit Pension System

- The focus of any pension reform must be improving the financial health of the defined benefit retirement system, not simply shoring up the PBGC.
- PBGC should re-emphasize its mission to "encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants."
- PBGC's financial status should be measured over a longer-term time horizon using more realistic assumptions.

VI. Policy-Making Should be More Integrated to Ensure Different Prescriptions Don't Kill the Patient

- Today, multiple groups (IRS, FASB, DOL, Congress, PBGC, etc.) set various policies affecting defined benefit plans based on a specific focus without considering their overall impacts on the system.

VII. The Complexity of Rules and Regulations Governing Defined Benefit Plans Should be Reduced and Unnecessarily Complex New Rules Should be Rejected

- Rules should be clarified to allow the establishment and/or maintenance of cash balance and other hybrid pension plan designs.