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October 01, 2003

Pension Underfunding Still Widespread, Yet...

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erfunding in corporate pension plans is widespread but perhaps not as troublesome as recent reports suggest, according to an analysis by HR consultant Watson Wyatt Worldwide.

The study found that while almost two-thirds of the nation's 1,000 largest companies have underfunded pension plans, the ratio of unfunded pension obligations to total corporate assets is less than 4 percent for the typical large plan.

"Relative to total corporate assets, the unfunded pension liabilities of most large companies are not excessive," says Sylvester Schieber, director of research at Watson Wyatt. "Unfunded liabilities should always be monitored. But the real problem with the pension system is a regulatory environment that actively discourages not only the full funding of future liabilities but the very idea of pension plan sponsorship at all."

Indeed, primarily due to terminations, the number of defined benefit pension plans has declined by about 20 percent in the past three years, according to government data.

Economic and regulatory forces batter pensions. Record low interest rates, declining stock markets and corporate operating losses have combined to create the worst environment for pension plan funding since the passage of the Employee Retirement Income Security Act in 1974, according to Watson Wyatt.

According to a Watson Wyatt survey of 472 plans with 1,000 or more participants, the percentage of fully funded pension plans declined from 84 percent in 1998 to 37 percent in 2002. Yet the situation was much worse after the passage of ERISA. In 1978, the number of fully funded plans was only 25 percent, but by 1985 that number soared to 78 percent.

"This suggests that today's underfunding can be resolved," says Schieber. "However, in the mid-1980s, Congress curtailed tax incentives for pensions, placed new limits on funding and set up other restrictions. As a result, a new round of underfunding began showing up in earnest in the 1990s, although it was masked by the economic boom of the period."

According to Schieber, these short-sighted regulations and historically low 30-year Treasury bond rates – which determine funding requirements – have already played a significant role in the demise of many pension plans. In an attempt to find a replacement for the 30-year Treasury rate, the Senate Finance Committee has recently approved a proposal to use a bond yield curve to calculate pension liabilities. However, the outlook for this proposal is unclear as competing proposals are being considered.

Cash call of about $80 billion this year and next. During 1999, Fortune 1000 companies contributed $11 billion to their defined benefit plans. By 2002, this number soared to $44 billion. Despite this infusion of dollars – more cash than had been contributed over the previous three years combined – plan funding continues to deteriorate.

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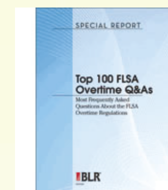

We've compiled a list of the 100 most commonly asked questions we have received on the federal Fair Labor Standards Act (FLSA) overtime regulations.
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At the end of the report, you will find a list of state resources on wage and hour issues. This report includes practical advice on topics such as:

- FLSA Coverage: How FLSA regulations apply to all employers and any specific exemptions from the overtime requirements
- Salary Level: Qualifying for exemptions and nonexempt employees
- Deductions from Pay: Deducting for violations, disciplinary reasons, sick leave, or personal leave

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