

From:

“Private Pensions: Information on Cash Balance Pension Plans”

United States Government Accountability Office, October 2005

The nation’s private defined benefit (DB) pension system, a key contributor to the financial security of millions of American workers and their families, is in long-term decline. The number of single employer DB plans has declined dramatically over the past several decades, from over 95,000 in 1980 to less than 35,000 in 2002, with the number of active participants in such plans dropping from 27.3 percent of all national private wage and salary workers in 1980, to about 15 percent in 2002.¹

Structural problems in industries like airlines, steel, and auto parts have led to large bankrupt firms terminating their DB plans, with thousands of workers losing some of their benefits and saddling the Pension Benefit Guaranty Corporation (PBGC) with billions of dollars in unfunded benefit guarantees.¹

In the late 1990s, many pension plan sponsors converted their traditional final average pay plans to CB plans. Conversions to CB plans have been controversial because of the effect they may have on pension benefits of workers of different ages and years of service.²

The legality of CB plans has recently been questioned in a court ruling regarding whether a CB plan is age discriminatory.²

Regardless of age at conversion, more workers who are converted from a final action pay (FAP) plan to a typical cash balance plan experience benefit reductions. A key factor is the lack of generosity of the typical cash balance plan.”³

At all conversion ages, those experiencing greater benefits from conversion are generally more highly educated and have higher incomes.³

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¹ [Private Pensions: Information on Cash Balance Pension Plans](#), page 5

² [Private Pensions: Information on Cash Balance Pension Plans](#), page 6

³ [Private Pensions: Information on Cash Balance Pension Plans](#), page 40