

Why you shouldn't count on a pension

In the old days, after you worked for 30 to 40 years for the same company, you retired and were given a gold watch and a pension.

The pension most often was a defined benefit plan that paid you a monthly income until you died. Under some circumstances, that income continued to be paid to a surviving spouse until that spouse died.

Even as employees began to move from employer to employer, they could retain ownership of their pensions if they were “vested,” or had worked for a required number of years. The pension amount was adjusted based on salary and length of employment.

Much has changed in the past 15 years. Very few employers now offer a pension. Instead, they may match employee contributions to an Individual Retirement Account. This works well in today's more mobile workforce, where workers move from employer to employer, taking their 401(k) Individual Retirement Accounts with them.

But what about those 40 million workers who still work for employers who promise pensions? If you are one of them, should you trust and depend on that pension income?

Experts warn against this—and for good reason. The federal agency that insures private pension plans, called the Pension Benefit Guaranty Corporation (PBGC), reported a \$22.8 billion deficit this past November and said total corporate pension underfunding exceeds \$450 billion. Even with government bailouts, this is not a good situation.

So it is no surprise that experts encourage workers to invest in their **own** retirement plans. Here's why:

- **Several large, stable employers who offer pensions are going bankrupt.** This has happened recently with airlines, and several years ago with energy traders such as Enron. Not only were employee pensions underfunded, but employees often had invested in company stock as part of their supplemental retirement plan, and the stock lost its value.
- **Pensions aren't necessarily protected by insurance.** The PBGC protects traditional defined-benefit retirement plans. But the rash of bankruptcies has placed financial stress on the PBGC's ability to honor pension obligations.

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FYF 0306

NASD Review Letter Reference # FX2006-0106-0007/E

- **Your pension insurance depends on the structure of your pension.** If your pension is a single-employer pension, and the company turns the pension obligation over to the PBGC, you will have a higher monthly guarantee, but it is still limited at the top end. If your employer was part of a multi-employer plan, the PBGC does not take on the full obligation, but rather takes over administration of the plan. Benefits can be reduced substantially from what was promised.
- **Your employer can terminate the pension program at any time.** If you are counting on the pension, it will only be honored for the time it was in force. If you've worked only a few years and are vested, your payout at retirement can be quite small, no matter how long you work.

What can you do? If you have a pension plan, Consumer Reports suggests that you monitor the health of your traditional defined-benefit plan by asking your company's benefits administrator to show you copies of the Summary Annual Report and the plan's latest tax return (Form 5500 or Form 5500/CR for small businesses).

Companies with pension plans underfunded by \$50 million or more have to notify the PBGC, and affected employees every year, as required by the Employee Retirement Income Security Act of 1974.

Information on how to evaluate your pension plan and on your rights can be found at www.pbgc.gov.

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