

Cash Balance Plans in the U.S.A.
(English Abstract)

Haruka Urata
Nippon Life Insurance Company

Cash balance (CB) plans were first adopted in the U.S. during the 1980's, and there were conversion booms from the traditional final-pay-based defined benefit (DB) plans to cash balance plans in the late 90's when the U.S. economy was in a good condition and when employers tried to obtain labor forces, especially younger employees, by adopting more attractive and visible pension plans, which were cash balance plans. This trend stumbled when IBM's CB conversion received negative public attentions and when IRS eventually stopped issuing determination letters in 1999. Opponents argued that CB conversions are against the Age Discrimination in Employment Act because employees with longer services receive relatively smaller benefits than the traditional DB plans. However, the passage of Economic Growth and Tax Relief Act in 2001 cleared the way for cash balance plans again.

Cash balance plans are allowed in Japan effective April 1, 2002 when Defined Benefit Corporate Pension Law took effect. Japanese companies want to introduce CB plans from the different perspectives than the U.S. counterparts. Japanese employers believe that fluctuations of PBOs resulting from interest rate changes can be stabilized since the changes of interest credit rates that determine the amount of benefits can be offset by the changes of discount rates. Many Japanese companies are struggling in a sluggish economy and are trying to eliminate burdens arising from maintaining traditional DB plans. Defined contribution plans have been introduced in Japan, but some employers hesitate about putting investment risks on employees. Those employers are interested in CB plans.

Japanese companies already have unique lump-sum retirement plans where employees receive lump-sum money the amount of which depends on the final pay and the length of services at termination. This plan is similar to cash balance plans for employees who receive lump-sum money when leaving the companies. But there are several different features between the two. The assets of lump-sum retirement plans are not separated from employer's assets. Employees do not obtain information about the benefit amount on a regular basis. Considering these facts, many Japanese employers are expected to adopt cash balance plans.