

# The *Ambachtsheer* Letter

*Research and Commentary on Pension Governance, Finance and Investments*

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## DC PLAN PERFORMANCE:

### LEARNING FROM 1997 - 2000 EXPERIENCE

*“The 401(k) Plan, at only 20 years old, could be over the hill”.*

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#### **Over the Hill?**

Are DC plans a mistake after all? You would certainly think so by reading the newspapers. Last month's Enron 401(k) plan disaster is only the most recent in what is becoming a regular litany of DC plan-related woes. And those woes don't only relate to plans with heavy exposure to 'own company' stocks that have gone from riches to rags (eg., Enron, Lucent, Nortel).

Even without such 'own company' lottery ticket effects, DC plans are beginning to show their warts. The stock market as a whole has a lottery ticket aspect to it too, as it has been reminding us since March 2000. Then there is the mortality lottery ticket. How long do the accumulated retirement savings have to last? For most participants, probably longer than they are anticipating. If the money runs out prematurely, then who will pay the bills?

#### **The Employer's Role Reexamined**

Predictably, the 'own company riches to rags' class action lawsuits are already flying. This should trigger companies with DC participants having significant 'own company stock' exposure (i.e., over 10% of their account assets), to care-

fully think through their position. Are they breaching their fiduciary obligations by permitting unlimited 'own company stock' account exposure? The case can certainly be made (and is being made in the courts as you read this).

What about the other cited lottery ticket effects in DC pension plans? Are employers meeting their fiduciary obligations with regard to them? Are they properly offsetting macro investment risks with the 'right' set of investment options? With the 'right' participant education program? Are they alleviating mortality risk with the 'right' life annuity purchase option for retirees? All good questions, that will not be directly addressed in this *LETTER*.

Instead, this *LETTER* reports new results from a benchmarking program managed by *Cost Effectiveness Measurement Inc. (CEM)* since 1997 on behalf of over 60 major US employers sponsoring DC pension plans. While the courts will eventually decide what the full range of fiduciary obligations of these employers is, common sense tells us that it certainly includes monitoring whether the plan being offered is a 'value proposition' for participants. Here we uncover the lessons learned after 4 years of experience with evaluating DC plans as 'value propositions'.