Can IBM's retirement benefit account revive the traditional DB pension plan?

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After closing its defined benefit pension plan nearly two decades ago and replacing it with a less riskier defined contribution plan, International Business Machines Corp. is launching a new retirement benefit account that allows its U.S. employees to have the best of both worlds.

Last week, the company ceased its 401(k) matching and one per cent automatic contribution in favour of a monthly credit toward the new retirement account, according to a report by *Fundfire.com*. While employees will still be able to contribute to their 401(k) plan, the new account requires no employee contribution.

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This latest development in retirement savings begs the question: Will other large employers follow suit, effectively bringing back the once-doomed DB pension plan?

Among DC plan sponsors and members, there's a degree of disappointment with the ability of these plans to accumulate sufficient funds for retirement, says Joe Nunes, executive chairman of Actuarial Solutions Inc.

The migration by employers away from DB plans began in the 1990s, he says, noting the rationale was driven partly by accounting rules, a recognition about investment risk and declining interest rates that made pension promises more expensive. The genesis of the DC plan was to give people more choice and control over their investment decisions; however, it's difficult for the average Canadian to understand the investment landscape and make sound investment choices.

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"Employers are recognizing as people reach retirement age that they're not quite prepared. If someone can't afford to retire, . . . without mandatory retirement laws . . . the employer shares in that problem. . . . So I think there is a growing demand for a more hands-off approach to earning a pension."

Although Nunes believes DC plans can work, he doesn't think they work very well when the employer and the employee are each putting in three per cent, noting the the Income Tax Act lets workers contribute up to 18 per cent. "Employees and employers need to be putting in at least five per cent."

While it's unlikely there will be a mass revival of DB plans, he says there's an emerging migration to jointly sponsored pension plans or target-benefit pension plans in which employers make fixed DC plan-like contributions, but the benefits are paid out similar to the DB formula. "They may not be the right answer for every company, but I think it's a big innovation that will be made available to more and more employers and their workforce."

Read: **[Are target-benefit pension plans the answer to a secure, sustainable retirement?]**