



Council of Institutional Investors
The Voice of Corporate Governance

Statement in Support of Defined Benefit Plans

The Council of Institutional Investors supports defined benefit plans as a critical component of the nation's retirement system and advocates the retention of defined benefit plans as the central element of retirement programs offered to workers.

Ensuring that workers have the ability to retire with dignity is one of the most complex issues facing public and private sector entities in the United States. The challenges in structuring retirement programs are considerable. One size does not fit all, and considerations such as an employer's size and resources, the size and structure of employee pay packages, employee preferences and demographics influence what type of retirement benefits are most appropriate for an employer and its employees.

Today a broad variety of retirement programs is available for consideration by private and public sector entities. Different plan structures offer unique pros and cons for employees and employers.

Only one structure—the defined benefit plan—offers retirees a secure and guaranteed benefit upon retirement.

The Council is concerned that eliminating defined benefit plans, which currently cover about 35 million Americans and their families,¹ could severely impact the ability of workers, particularly lower-income employees, to be financially secure at retirement. The end result could be even more pressure on already over-burdened federal, state and local government assistance programs.

The Council believes that defined benefit plans have played an important role in stabilizing the U.S. financial markets. Due to their extended benefit horizons, pension funds are long-term investors, particularly in the U.S. markets. Today pension funds, including private insured, private trustee and state and local plans, are estimated to hold more than \$4 trillion in U.S. publicly traded equities representing more than 26 percent of the U.S. public equity market.

Given their heavy reliance on passive investment strategies, pension funds are a critical source of stable, “patient capital” for the U.S. economy. In sharp contrast, mutual funds have become increasingly short-term oriented, as evidenced by the sharp increase in mutual fund turnover from 17 percent between 1945 and 1965 (an average holding period of six years) to more than 100 percent since 2000 (an average holding period of 11 months).²

Not only do pension funds provide patient capital to publicly traded companies, they also increasingly invest in alternative and private equity vehicles and private real estate investments that provide funding for start-ups, buy-outs, and other arrangements that are vitally important to the U.S. and local economies but unable to access other forms of capital.³

The Council believes the involvement of defined benefit plans, particularly state and local government and union pension systems, in corporate governance issues has benefited investors at large in the U.S. capital markets and contributed to the vitality of the U.S. economy and U.S. corporations. Pension fund advocacy has resulted in regulatory and legislative reforms to strengthen rights for shareowners, improved corporate governance standards for U.S. companies and boards, increased accountability of corporate directors and executives and enhanced transparency of governance activities and financial accounting. Weakening the voice of defined benefit plans in matters of corporate governance would be detrimental to U.S. investors and companies and the U.S. financial markets.

NOW THEREFORE BE IT RESOLVED, that the Council of Institutional Investors supports defined benefit plans as the central component of the nation's public and private retirement system and it opposes public and private efforts to limit employers' ability to provide these plans and employees' rights to participate in them."

¹ The Committee on Investment of Employee Benefit Assets, “The U.S. Pension Crisis: Evaluation and Analysis of Emerging Defined Benefit Pension Issues,” March 2004

² John C. Bogle, “The Mutual Fund Industry 60 Years Later: For Better or Worse,” *Financial Analysts Journal*, Vol. 61, Number 1, January/February 2005.

³ According to the National Venture Capital Association, companies receiving venture capital financing between 1970 and 2003 accounted for 10.1 million jobs and \$1.8 trillion in revenue in 2003, representing about 9.4 percent of total U.S. jobs and revenues, and states where venture capital has been the strongest—such as California, Texas and Massachusetts—have produced the most jobs and revenues for the U.S.

(Adopted April 12, 2005)