

Good example of essay on what drove the rapid development of the traditional pens...

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- What is meant by traditional pension?

Since pension is defined as a fixed sum of money given to an ex-employee, usually after their retirement from service, a traditional pension plan can then be described as a retirement plan in which the employer does all the work, including the calculation and collation of the money and deciding where and how the money is invested. This type of pension plan promises an employee a certain payout once they retire, based on their salary, and the number of years they worked for.

The rapid development of the traditional pension plan was as a result of the fact that people loved the fact that they would be receiving a guaranteed amount of money after their years of service, and this money are usually hundreds/thousands of multiples of their monthly salary. These plans used to be seen as a sweet deal. Since all that is needed is to show up for work regularly and, after a couple of months or after a year, get enrolled in the pension plan. The employees get fully vested in the plan usually after five years; he will most likely forfeit his benefit if he leaves before the fifth year.

What have been the factors behind the decline of the traditional pension over the last ten to fifteen years?

- Changes in the demand for the Defined Benefit Pensions

The changes in the characteristics of the workers have changed the rate of demand for traditional pensions. These changes include the decline in unionism and the rise in the rate of job mobility. These can be seen in countries like the United States, United Kingdom, Canada, and Ireland. In the past, the high rate of unionism favored the traditional benefit plans

compared to the defined contribution plans.

- Traditional pension plans do not favor mobile workers.

In our world today, the number of mobile workers has increased tremendously. These mobile workers generally fare more in defined contribution plans that they do in the traditional pension plans. This is likely to be because, unlike the traditional pension plans, workers account balances are fully portable in defined contribution plans, once vested appropriately. In the traditional pension plan, the benefit accrued lacks portability and becomes smaller in value as workers switch jobs.

- An Increase in the number of women in the workforce does not favor traditional pension plans.

This is arguably one of the factors that may have led to the decline in traditional pension plans. No one will deny the fact that women generally have less attachment to one particular organization than men. This might have been due to the fact that women have a greater responsibility for caregiving, and also that they tend to be influenced by change of job locations by their spouse since they are mostly the lower income earner among the two spouses. Also, according to Aaronson and Coronado, the increase in the number of dual earner families in the workforce is one of the reasons for the reduction in job attachment to a particular company for both women and men (2005). What this mean is that, the increase in the proportion of workers favors the pension option that do not penalize changes.

- The decline in manufacturing and the growth in the service industry do not favor the traditional pension plans.

These two reasons have resulted in changes in the characteristics of the

employers which is having an effect on the demand for the traditional pension benefit plans. This is because manufacturing encourages the traditional pension plans while the service industry does not. This is mainly because the manufacturing industry will most likely want to retain their experienced staffs compared to the service industry where skills can be easily transferred across staffs.

- Changes in the cost of providing pensions

The factor that affects the cost of providing traditional pension benefit when compared with the defined contribution plans include: variations in the regulations, variation in asset markets, and the increase in longevity. The decline in the stock market and the rise in the value of the pension liabilities during the 2000s have made employers conscious of the macroeconomic risk they face in deploying the traditional pension plans. (Selody 2007).

Answer to Question 2

The Key risks to anyone planning to save for retirement

These risks can be classified into 2, namely; the pre-retirement risks, the near and in-retirement risks. The key pre-retirement risks are the asset/market allocation risk, the savings risks (whether they will be able to save enough to maintain), the interest risks (whether they face low bond), and the behavioral risks (whether the human nature will prevent them).

The key near and in-retirement risks include the behavioral risk (whether the human nature can jeopardize their retirement), the health risk (whether there would be any health complications), interest rate risk (whether they will face high annuity prices and low bond returns), longevity risk (will they

live long or not), inflation risk (whether the quality of their lifestyle would erode), and the sequential risk (what impact the retirement into a bear market would have on their outlook)

The obstacles to be overcome in order to ensure a satisfactory retirement “ nest egg”.

Both institutional and behavioral factors play a crucial role in ensuring a satisfactory retirement “ nest egg”. These obstacles include a lack of financial sophistication, inertia and self-control problem. These obstacles can be overcome by employing automatic escalation and automatic enrollment of savings as time passes and wage rises.

- The employee's savings practices often undermine their best interest this is due to the fact that if these employees follow the right saving practices they will reap the best reward at the time of their retirement. One of the right saving practices is to save enough money needed to maintain the pension plan. A good saving and investment might also make these employees able to keep up with inflation. This is because, even if an average rate of inflation that is as low as 2 percent is maintained over a span of 20 years, the purchasing power of would be eroded by nothing less than forty percent over a twenty five years retirement. Also, results from fidelity researches has shown that, if the employees practice a conservative withdrawal rate after retirement, they will have a lesser risk of running out of money as a result of the increased volatility of the market.

- Many advantages of employer-provided championing plan

One of the advantages of the many championing employer provided plans is that it qualifies the employer for tax deduction. The amount of deduction

that this employees would be given is dependent on the equivalence of amount contributed to the regular employee compensation. This contribution is referred to as pre-tax contributions, and the variation in the allowed amounts to be contributed is dependent on the plan types.

Another advantage is that the assets, in this type of plan, is given the opportunity to grow via investing. This investment is allowed to keep growing without being taxed on the yearly growth rate. The money is only taxed once withdrawn, and at that time it would only be taxed as income for the year at which it is being withdrawn.

A third advantage is that in this type of pension plan, restrictions exist on contributions. These restrictions are placed in order to ensure that the highly paid employees do not enjoy a huge tax advantage at the expense of the lesser compensated employees.

Answer to Question 3

The Considerations which the pension plan committees should take into account to ensure the solvency of their plans, over the long term.

The pension plan committee should first consider and ensure that each of its members has a clear understanding of the role and responsibility of the committee. This is crucial in ensuring the solvency of their plans, over a long term. For the plans to be well administered, the committee needs to consider the importance of the adoption of governance and operation based on sound principles of management.

The pension committee must consider the implementation of adequate means to secure the benefits of the plan's members while also enhancing

and conserving the fund assets.

The pension plan committee should be involved in the review of the plans that has been laid down for the pension sustainability. They must always take the financial statements into account and must be responsible for approving it. They must consider, always, the risk tolerance and return target for the plan assets' investment, its allocation, and the strategy of investment. The committee must always consider the funding strategy of the pension plan.

The pension committee must consider holding an annual meeting with the plan members where issues or challenges would be duly discussed and information about the present situation of things will be passed across to the plan's member.

They must consider, appropriately, all the investment categories available to them and must select the investments that are in conformity with the investment rules, policies, and all the laws applicable to them.

They must consider putting together a diversified portfolio of investment in order to limit the risk of large losses.

They must consider whether or not it is best for each member to manage the investment of the contributions that would be credited to his/her account.

They must always consider consulting experts whenever the need arise and should only entrust tasks to competent ones.