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**THE UNDERFUNDING OF THE US CORPORATIONS
DEFINED-BENEFIT PENSION PLANS**

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ref.

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The underfunding of the US corporations
defined-benefit pension plans^{*}

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Abstract

Since 2001, a huge underfunding problem has emerged in the US defined-benefit private pension system, as well as in other countries, like the UK and the NL, that also rely heavily on such type of provision. The US Pension Benefit Guarantee Corporation (PBGC) estimates that underfunding of single-employer defined-benefit pension plans reached \$450 billion in 2003-2005 (it was never higher than \$110 billion until 2001); funds of the multi-employer schemes are short of further \$200 billion, which means that total underfunding reached a record level of \$650 billion in 2005.

We review the causes and consequences of such crisis and examines the answers the regulator is trying to give. Firstly, we discuss the main differences in funding between defined-benefit and defined-contribution plans and discuss the current trends in workers' coverage. Then, we define the financial and legal dimensions of "underfunding" and examine the causes of the crisis, which exploded with the burst of the financial bubble at the beginning of the decade and has since been exacerbated by the low level of interest rates which, however, highlighted other structural problems, such as the ageing of the American labor forces and the shift toward defined-contribution schemes. We continue showing how the crisis is impacting on both the PBGC, which guarantees part of the benefits, and workers, who are seeing the "un-guaranteed" part at risk; furthermore, it is also affecting companies' balance sheets, although more are in the "old economy" (manufacturing sector and air companies) than in the "new" economy. Finally, we discuss how such situation has triggered legislative intervention which brought to the 2006 Pension Protection Act finalized in August 2006.

Keywords: defined benefit pension schemes, underfunding of private pension schemes

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