

Will the Defined Benefit Plan Still Provide a Meaningful Benefit for Participants?

Most financial planners state that based on one's level of income, a retiree should aspire to replace at least 80% of his/her pre-retirement salary. This may seem like a daunting task, but it is attainable. Utilizing all of the sources of income below will help achieve this replacement level:

1. Social Security
2. An employer-sponsored plan like the Christian Brothers Employee Retirement Plan (CBERP)
3. Personal savings plans including defined contribution 403(b) plans, IRAs or other savings vehicles

None of the above vehicles alone are meant to be one's sole source of retirement income. For lower income employees, Social Security may be the biggest component of their retirement income. Therefore, Christian Brothers Services, along with the actuary for the Plan, developed benefit estimates showing the replacement of pre-retirement income using the Christian Brothers Employee Retirement Plan with estimated Social Security benefits.

The charts below provide three sample employees at various stages in their careers when each began participation in the CBERP; these examples show information across the different plan formulas offered. These examples demonstrate that by participating in the Christian Brothers Employee Retirement Plan at any level, the Plan plus Social Security provides employees almost 60% replacement income without any employee savings. With the prospective benefit changes, there is a slight drop in replacement income but, depending upon retirement age, employees can expect at least 50% income replacement. As mentioned, it is important for participants to save through other sources in order to have a secure retirement throughout retirement years. However, in the case of a "career" employee, the CBERP and Social Security can replace more than 70% of pre-retirement salary without any employee savings after these plan changes.

This is an important message for employees to understand. Often defined benefit pension plans are underappreciated by employees because they do not have as much transparency and may be more difficult to understand than defined contribution 401(k) or 403(b) plans where participants can see contributions added to account balances. Unfortunately, it is often in times of negative investment returns when employees begin to understand the inherent risks of a defined contribution plan meeting their retirement needs for the long term. Having the added security of a defined benefit pension plan, as well as Social Security, balances these risks. The recent availability of the CBERP participant website offers participants 24-7 access to plan information and the ability to run benefit estimates to guide them in retirement planning.

Chart 1 shows the estimated Replacement Ratio percentages of the CBERP and Social Security for 3 sample employees assuming each has always been covered under the formula percentage noted and assuming retirement at age 65. A 3.0% annual salary growth assumption is also included. The Replacement Ratio percentages highlighted in green indicate at least 80% replacement of pre-retirement income.

Chart 1

| Retirement at Age 65 Before Plan Changes | | | | | | | | | | |
|--|-----------------|----------------|-----------------------|--------------|-----------------------|------------------------|-------------------------|-----------------------------------|----------------------------|--|
| Year of Birth | Age at 7/1/2021 | Current Salary | Year of Participation | Plan Formula | Employer Contribution | Normal Retirement Date | CBERP Replacement Ratio | Social Security Replacement Ratio | Combined Replacement Ratio | |
| 1959 | 62 | 33,700 | 2001 | 1.10% | 3.50% | 2024 | 19% | 38% | 58% | |
| 1959 | 62 | 33,700 | 2001 | 1.32% | 4.20% | 2024 | 23% | 38% | 62% | |
| 1959 | 62 | 33,700 | 2001 | 1.57% | 5.00% | 2024 | 28% | 38% | 66% | |
| 1959 | 62 | 33,700 | 2001 | 1.89% | 6.00% | 2024 | 33% | 38% | 72% | |
| 1959 | 62 | 33,700 | 2001 | 2.04% | 6.50% | 2024 | 36% | 38% | 74% | |
| 1959 | 62 | 33,700 | 2001 | 2.64% | 8.40% | 2024 | 47% | 38% | 85% | |
| 1969 | 52 | 33,200 | 2001 | 1.10% | 3.50% | 2034 | 23% | 40% | 63% | |
| 1969 | 52 | 33,200 | 2001 | 1.32% | 4.20% | 2034 | 28% | 40% | 68% | |
| 1969 | 52 | 33,200 | 2001 | 1.57% | 5.00% | 2034 | 33% | 40% | 73% | |
| 1969 | 52 | 33,200 | 2001 | 1.89% | 6.00% | 2034 | 40% | 40% | 80% | |
| 1969 | 52 | 33,200 | 2001 | 2.04% | 6.50% | 2034 | 43% | 40% | 83% | |
| 1969 | 52 | 33,200 | 2001 | 2.64% | 8.40% | 2034 | 55% | 40% | 95% | |
| 1984 | 37 | 30,300 | 2006 | 1.10% | 3.50% | 2049 | 27% | 43% | 69% | |
| 1984 | 37 | 30,300 | 2006 | 1.32% | 4.20% | 2049 | 32% | 43% | 75% | |
| 1984 | 37 | 30,300 | 2006 | 1.57% | 5.00% | 2049 | 38% | 43% | 81% | |
| 1984 | 37 | 30,300 | 2006 | 1.89% | 6.00% | 2049 | 46% | 43% | 89% | |
| 1984 | 37 | 30,300 | 2006 | 2.04% | 6.50% | 2049 | 50% | 43% | 92% | |
| 1984 | 37 | 30,300 | 2006 | 2.64% | 8.40% | 2049 | 64% | 43% | 107% | |

Chart 2 shows the estimated Replacement Ratio percentages of the CBERP and Social Security for the same 3 sample employees taking into account the formula changes effective July 1, 2021, with the retirement age of 67 and 3.0% annual salary growth. The Replacement Ratio percentages highlighted in green indicate at least 80% replacement of pre-retirement income.

Chart 2

| Retirement At Age 67 After Plan Changes | | | | | | | | | |
|---|-----------------|----------------|-----------------------|--------------|-----------------------|------------------------|-------------------------|-----------------------------------|----------------------------|
| Year of Birth | Age at 7/1/2021 | Current Salary | Year of Participation | Plan Formula | Employer Contribution | Normal Retirement Date | CBERP Replacement Ratio | Social Security Replacement Ratio | Combined Replacement Ratio |
| 1959 | 62 | 33,700 | 2001 | 1.00% | 3.82% | 2026 | 20% | 41% | 61% |
| 1959 | 62 | 33,700 | 2001 | 1.10% | 4.20% | 2026 | 23% | 41% | 65% |
| 1959 | 62 | 33,700 | 2001 | 1.32% | 5.04% | 2026 | 28% | 41% | 69% |
| 1959 | 62 | 33,700 | 2001 | 1.57% | 6.00% | 2026 | 33% | 41% | 75% |
| 1959 | 62 | 33,700 | 2001 | 1.70% | 6.50% | 2026 | 36% | 41% | 77% |
| 1959 | 62 | 33,700 | 2001 | 2.20% | 8.40% | 2026 | 47% | 41% | 88% |
| | | | | | | | | | |
| 1969 | 52 | 33,200 | 2001 | 1.00% | 3.82% | 2036 | 23% | 44% | 67% |
| 1969 | 52 | 33,200 | 2001 | 1.10% | 4.20% | 2036 | 26% | 44% | 70% |
| 1969 | 52 | 33,200 | 2001 | 1.32% | 5.04% | 2036 | 31% | 44% | 75% |
| 1969 | 52 | 33,200 | 2001 | 1.57% | 6.00% | 2036 | 37% | 44% | 81% |
| 1969 | 52 | 33,200 | 2001 | 1.70% | 6.50% | 2036 | 40% | 44% | 84% |
| 1969 | 52 | 33,200 | 2001 | 2.20% | 8.40% | 2036 | 52% | 44% | 96% |
| | | | | | | | | | |
| 1984 | 37 | 30,300 | 2006 | 1.00% | 3.82% | 2051 | 25% | 47% | 72% |
| 1984 | 37 | 30,300 | 2006 | 1.10% | 4.20% | 2051 | 29% | 47% | 75% |
| 1984 | 37 | 30,300 | 2006 | 1.32% | 5.04% | 2051 | 34% | 47% | 81% |
| 1984 | 37 | 30,300 | 2006 | 1.57% | 6.00% | 2051 | 41% | 47% | 87% |
| 1984 | 37 | 30,300 | 2006 | 1.70% | 6.50% | 2051 | 44% | 47% | 91% |
| 1984 | 37 | 30,300 | 2006 | 2.20% | 8.40% | 2051 | 57% | 47% | 104% |

The Board recognizes that waiting an additional two years for retirement can be a hardship for some employees. Therefore, **Chart 3** shows the estimated Replacement Ratio percentages of the CBERP and Social Security for the same 3 sample employees taking into account the formula changes effective July 1, 2021, but retirement at age 65 (early retirement) and 3.0% annual salary growth. The Replacement Ratio percentages highlighted in green indicate at least 80% replacement of pre-retirement income.

Chart 3

| Retirement at Age 65 After Plan Changes | | | | | | | | | |
|---|-----------------|----------------|-----------------------|--------------|-----------------------|------------------------|-------------------------|-----------------------------------|----------------------------|
| Year of Birth | Age at 7/1/2021 | Current Salary | Year of Participation | Plan Formula | Employer Contribution | Normal Retirement Date | CBERP Replacement Ratio | Social Security Replacement Ratio | Combined Replacement Ratio |
| 1959 | 62 | 33,700 | 2001 | 1.00% | 3.82% | 2024 | 16% | 38% | 54% |
| 1959 | 62 | 33,700 | 2001 | 1.10% | 4.20% | 2024 | 19% | 38% | 57% |
| 1959 | 62 | 33,700 | 2001 | 1.32% | 5.04% | 2024 | 23% | 38% | 61% |
| 1959 | 62 | 33,700 | 2001 | 1.57% | 6.00% | 2024 | 27% | 38% | 66% |
| 1959 | 62 | 33,700 | 2001 | 1.70% | 6.50% | 2024 | 30% | 38% | 68% |
| 1959 | 62 | 33,700 | 2001 | 2.20% | 8.40% | 2024 | 38% | 38% | 77% |
| | | | | | | | | | |
| 1969 | 52 | 33,200 | 2001 | 1.00% | 3.82% | 2034 | 18% | 40% | 58% |
| 1969 | 52 | 33,200 | 2001 | 1.10% | 4.20% | 2034 | 21% | 40% | 61% |
| 1969 | 52 | 33,200 | 2001 | 1.32% | 5.04% | 2034 | 25% | 40% | 65% |
| 1969 | 52 | 33,200 | 2001 | 1.57% | 6.00% | 2034 | 30% | 40% | 70% |
| 1969 | 52 | 33,200 | 2001 | 1.70% | 6.50% | 2034 | 32% | 40% | 72% |
| 1969 | 52 | 33,200 | 2001 | 2.20% | 8.40% | 2034 | 42% | 40% | 82% |
| | | | | | | | | | |
| 1984 | 37 | 30,300 | 2006 | 1.00% | 3.82% | 2049 | 21% | 43% | 63% |
| 1984 | 37 | 30,300 | 2006 | 1.10% | 4.20% | 2049 | 23% | 43% | 66% |
| 1984 | 37 | 30,300 | 2006 | 1.32% | 5.04% | 2049 | 28% | 43% | 70% |
| 1984 | 37 | 30,300 | 2006 | 1.57% | 6.00% | 2049 | 33% | 43% | 76% |
| 1984 | 37 | 30,300 | 2006 | 1.70% | 6.50% | 2049 | 36% | 43% | 79% |
| 1984 | 37 | 30,300 | 2006 | 2.20% | 8.40% | 2049 | 47% | 43% | 89% |

The final chart, **Chart 4**, provides a comparison of the replacement ratios of all 3 charts side-by-side, showing that the key elements of a defined benefit plan provide a monthly source of income throughout the participant’s lifetime. As has been seen over the years, defined contribution plan values fluctuate over time based on market conditions. If a defined contribution plan is the only source of a participant’s retirement income, it can be problematic for a stable retirement in down markets. With increasing life expectancies, the assurance of a lifetime stream of income from a defined benefit plan becomes even more important.

Chart 4

| Year of Birth | Age at 7/1/2021 | Current Salary | Year of Participation | Before Plan Changes | After Plan Changes | After Plan Changes |
|---------------|-----------------|----------------|-----------------------|----------------------------|----------------------------|----------------------------|
| | | | | Age 65 | Age 67 | Age 65 |
| | | | | Combined Replacement Ratio | Combined Replacement Ratio | Combined Replacement Ratio |
| 1959 | 62 | 33,700 | 2001 | 58% | 61% | 54% |
| 1959 | 62 | 33,700 | 2001 | 62% | 65% | 57% |
| 1959 | 62 | 33,700 | 2001 | 66% | 69% | 61% |
| 1959 | 62 | 33,700 | 2001 | 72% | 75% | 66% |
| 1959 | 62 | 33,700 | 2001 | 74% | 77% | 68% |
| 1959 | 62 | 33,700 | 2001 | 85% | 88% | 77% |
| | | | | | | |
| 1969 | 52 | 33,200 | 2001 | 63% | 67% | 58% |
| 1969 | 52 | 33,200 | 2001 | 68% | 70% | 61% |
| 1969 | 52 | 33,200 | 2001 | 73% | 75% | 65% |
| 1969 | 52 | 33,200 | 2001 | 80% | 81% | 70% |
| 1969 | 52 | 33,200 | 2001 | 83% | 84% | 72% |
| 1969 | 52 | 33,200 | 2001 | 95% | 96% | 82% |
| | | | | | | |
| 1984 | 37 | 30,300 | 2006 | 69% | 72% | 63% |
| 1984 | 37 | 30,300 | 2006 | 75% | 75% | 66% |
| 1984 | 37 | 30,300 | 2006 | 81% | 81% | 70% |
| 1984 | 37 | 30,300 | 2006 | 89% | 87% | 76% |
| 1984 | 37 | 30,300 | 2006 | 92% | 91% | 79% |
| 1984 | 37 | 30,300 | 2006 | 107% | 104% | 89% |

All of the charts shown indicate the CBERP Plan is meeting its goal in helping provide participants with a secure retirement. The Pension Board will continue to make changes as necessitated to provide this protection.