Percent of participants in defined benefit plans by types and periods of earnings, full-time employees, 1997-2000

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Earnings based formula	1997	2000
Type of earnings		
Straight time earnings only	59	45
Straight time earnings plus other earnings	41	55
Overtime	31	42
Shift differentials	26	20
Commissions	22	31
Other	17	NA
Source: National Compensation Survey--Benefits.		
Note: Data represent all full-time industry employees; 1997 data limited to establishments with 100 or more workers.		
NA: Data are not available.		

Percent of participants in defined benefit plans by periods of terminal earnings, 1997-2000

Number of years	1997	2000
One	1	1
3 years	17	13
5 years	78	82
Source: National Compensation Survey--Benefits.		
Note: Data represent all full-time industry employees; 1997 data limited to establishments with 100 or more workers.		
NA = data not available.		

- Defined benefit plans guarantee a periodic payment to the recipient. The most prevalent means of determining plan benefits is through a terminal earnings formula.
- Terminal earnings formulas base benefits on a percentage of average earnings during a specified number of years at the end of the employee's career, when earnings are expected to be the highest. Each of these variables--percentage of earnings, definitions of earnings, and specified number of years--affects final benefit payout differently. Defined benefit plans with terminal earnings formulas design the terms and treatment of the variables according to individual company objectives. Changes in variable terms can alter the benefit payout to the employee.
- Generally, the percentage used in the terminal earnings formulas ranges from 1 to 2 percent of specified earnings multiplied by the number of years of service. There are minimal differences in the amounts used in private industry and government. In 1997, the BLS National Compensation Survey (NCS) reported that the average flat percent per year of service for all full-time employees in private industry was 1.5 percent. This is comparable to the percentage

used in the federal civil service retirement system (1.5 to 2 percent). As would be expected, any increase in the percent used in the terminal earnings formula would generate a gain in the employee benefit payout, if all other variables remained the same.

- Earnings compositions differ by company-specific defined benefit plans. Some plans define earnings as straight-time earnings only, while others refer to earnings as social security wages, which include straight-time earnings plus other earnings. Benefits data from the NCS show that in 2000 most of those covered by earnings-based formulas were in plans that included both straight-time earnings and other earnings. Since 1997, when the majority of the earnings-based formulas included only straight-time earnings, there has been a trend in the NCS toward including more types of income. Plans that included straight-time earnings and overtime accounted for 42 percent of all full-time private industry employees with defined benefit plans with earnings-based formulas in 2000. The percent of plans with earnings such as overtime, commissions, or shift differentials increased from 1997 to 2000. If earnings are not limited only to straight-time earnings, the potential for the benefit payout appears to be greater if the other variables remain constant.
- The specified years of service used in the terminal earnings formulas generally vary from 1 to 5 years. Some terminal earnings formulas use figures greater than 5 years. There are variations, such as the average of the highest earnings in consecutive 5 years out of the last 10 years. In both 1997 and 2000, according to the NCS benefits survey, 5 years was the most prevalent figure used in the terminal earnings formulas for all full-time private industry employees. If the specified number of years of service increases, and all other variables remain the same, the expected benefit payout would decrease.

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