
Ford to offer pension buy-outs; Towers Watson calls it a 'first'

By Editor Test Tue, May 1, 2012

Ford's intended one-time voluntary lump sum offer to most of its salaried retirees by the end of 2013 "appears to be the first such program to specifically target retirees without being part of a broader plan termination," said Towers Watson.

Ford Motor Company made the following announcement about its defined benefit plan this week:

"As part of the company's long-term strategy to de-risk its global funded pension plans, Ford announced today that it will offer to about 90,000 eligible U.S. salaried retirees and U.S. salaried former employees the option to receive a voluntary lump-sum pension payment.

"If an individual elects to receive the lump-sum payment, the company's pension obligation to the individual will be settled. This is the first time a program of this type and magnitude has been offered by a U.S. company for ongoing pension plans.

"Payouts will start later this year and will be funded from existing pension plan assets. This is in addition to the lump-sum pension payout option available to U.S. salaried future retirees as of July 1, 2012."

Following Ford's announcement, Towers Watson released the following statement:

The announcement by Ford Motor Company's announcement "represents a significant development in the U.S. defined benefit pension marketplace," said experts at Towers Watson this week.

According to the Towers Watson release:

Ford intends to provide a one-time voluntary lump sum offer to substantially all of its salaried retirees by the end of 2013. It appears to be the first such program to specifically target retirees without being part of a broader plan termination.

Historically, lump sum distributions, which allow plan participants to exchange receiving periodic annuity payments for a single lump sum payout, have been offered to participants only upon separation from active employment.

The announcement follows a recent trend by plan sponsors to provide a one-time lump sum offer to former employees who have not yet commenced an annuity payment (so-called "terminated vested" participants).

Although some industry experts have historically questioned the ability of plan sponsors to offer lump sum payments to retirees, Ford Motor Company did not imply they felt there were any legal reservations for them in moving forward, Towers Watson said.

Mike Archer, leader of intellectual capital for the North American Retirement practice of Towers Watson,

commented, "There are many considerations, including potential regulatory issues, that plan sponsors contemplating a lump sum offer will need to examine closely. We believe some plan sponsors will conclude that the current regulatory framework will support a properly designed offer."

"This development could have far-reaching implications for both plan sponsors and plan participants. For plan sponsors, the ability to provide a retiree lump sum offer provides greater flexibility to manage their retirement plans, including the ability to better manage the size of the plan relative to ongoing operations, as well as the ability to more efficiently administer the plan on an ongoing basis," said Matt Herrmann, leader of the Retirement Risk Management group of Towers Watson.

"From a participant perspective, the decision to receive a lump sum distribution is completely voluntary. We believe that the option to select a lump sum provides plan participants with greater flexibility to plan for retirement income needs, including more control over the timing of retirement income, as well as more control over how retirement income assets are invested." Archer added, "Each retiree will need to evaluate the trade-offs between greater investment control and the security of a guaranteed lifetime income stream."

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