More DB sponsors intend to off-load risk

By Kerry Pechter *Thu, Nov 14, 2013*

"Pension plan sponsors remain under tremendous pressure to reduce the financial liabilities of their DB plans," said Michael Archer, leader of the client solutions group for retirement, North America at Towers Watson.

More defined-benefit plan sponsors are "formalizing steps to de-risk" their plans, in part because interest rates and equity prices have been moving higher, according to a new survey by Towers Watson and Institutional Investor Forums.

Employers are interested in offering lump-sum buyouts to former employees. A majority of plan sponsors with DB plans still open to new hires said they intend to offer a pension to all employees five years from now.

The survey found that three-fourths (75%) of respondents either have implemented, are planning to, or are considering developing formal "journey" plans to de-risk their DB plan.

A journey plan details actions a plan sponsor will take to de-risk its pension plan once certain trigger points have been reached. Forty two percent of respondents had a journey plan in place before this year; 8% implemented a plan this year.

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"Many employers see [lump-sum payments and annuity purchases] as the most viable option to lower their DB burdens and a significant number are planning to take action in the next year or two."

The impact of the DB plan on financial statements (69%), the impact of the DB plan on company cash flow (58%) and the general cost of the plan (41%) were the most commonly cited factors that led to the development of a formal de-risking plan.

Lump-sum payments remain attractive. The survey found that 28% of respondents are either planning to offer lump-sum payments to former employees next year or are considering doing so in 2015.

That is in addition to the 39% of respondents who did so in 2012 or indicated they were doing so this year. Lump-sum offers are especially appealing to companies whose ultimate objective is to transfer all of their pension obligations.

"We continue to see interest in companies offering lump-sum buyouts to vested former employees who have not yet retired. The success of these programs in 2012 will help drive a significant amount of activity over the next several years," said Matt Herrmann, leader of retirement risk management at Towers Watson.

"The low interest rate environment coupled with moderate funded status levels limited the options for many plan sponsors over the past several years. However, if the recent improvements in funded status continue, de-risking activity could be strong for the foreseeable future."

DB plans still open to new hires are largely expected to still be open five years from now, the survey showed. Among the 30% of respondents with DB plans open to new hires, more than 70% expect to offer a DB plan five years from now. Three-fourths of companies with closed plans expect at least some current participants to still be accruing benefits five years from now.

Among other findings from the survey:

- DB Plan Funding policy:48% of respondents have not recently changed the amount they plan to contribute to their plan; 23% still contribute the minimum required; 21% have increased their planned contribution.
- Investment management:Respondents prefer to focus on risk reduction, not higher returns; 78% plan to increase their focus on risk in the next 2 to 3 years rather than seeking higher returns. Interest is growing in alternative investments and long-dated fixed income.

The Towers Watson/Institutional Investor Forums survey, *U.S. Pension Risk Management – What Comes Next*, was conducted in June and July of 2013, and includes responses from 180 U.S. companies that sponsor at least one non-bargaining defined benefit program.