Retirement Income
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Prudential buys a chunk of JCPenney pension

By Editorial Staff *Thu, Oct 8, 2015*

A portion of plan assets and liabilities of some 43,000 retirees and beneficiaries will move to Prudential without a cash contribution from JCPenney, according to a release. The deal is expected to be completed by December 2015.

In another big pension buyout deal, Prudential Insurance has sold a group annuity to JCPenney that will settle 25 to 35% of the big retailer's $5 billion U.S. retiree pension benefit obligation. Prudential, which dominates the U.S. pension buyout market, has done similar deals with Verizon, Motorola, General Motors and Bristol-Myers Squibb, worth some $40 billion.

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After the expected closing of these transactions in December, the rest of the pension plan is expected to remain over-funded on accounting as well as ERISA bases, and JCPenney said it doesn't foresee needing to add more cash to the plan.

Up until September 18, 2015, JCPenney offered lump sums to retirees to settle its obligations to them. About 12,000 retirees and surviving beneficiaries took the voluntary buy-outs. Another 1,900 former employees of JCPenney who have deferred vested benefits took lump sums. Payments will be made in November.

Under JCPenney's group annuity contract, Prudential will pay and administer future benefit payments to select retirees. The agreement provides for the Plan to transfer a portion of its obligations and assets to Prudential, and the transfer would leave the remaining Plan over-funded on both accounting and ERISA bases.

The transaction's final size is subject to the condition that the Plan remains overfunded at closing. If market conditions warrant, closing may be extended to 2016. After closing, Prudential will assume financial responsibility for making the annuity payments as provided in the group annuity contract.

Retirees and beneficiaries whose benefit obligations are transferred to Prudential will receive individualized information packages with further details and answers to frequently asked questions.

Fiduciary Counselors Inc., represented the JCPenney pension plan and its participants and beneficiaries in the negotiation with Prudential. The group annuity contract segregates plan assets in a separate account dedicated to the payment of benefits to the JCPenney retirees and their beneficiaries.

“The actions announced today should reduce the pension obligation by 25-35% and the number of participants in the Plan by 25-35%. Although the Plan has been fully funded since 2009, owing to successful execution of the Company’s asset de-risking strategy, market conditions were favorable to reduce the obligation now,” a JCPenney release said.

“These transactions may result in a non-cash pension settlement charge with the impact to be determined at the closing of the transaction. This charge will be excluded from the Company’s 2015 adjusted results.

“These actions continue a series of steps taken to reduce pension volatility and further de-risk the pension while maintaining a competitive benefit for associates. Previous steps include changes to Plan design, past contributions to maintain a well-funded pension Plan status, matching the Plan’s asset allocation to the pension’s liability profile, and offering participants who separate from the Company the option of a lump-sum settlement payment,” the release said.