Retirement Income
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What’s good for General Motors…

By Editor Test *Thu, Feb 14, 2013*

More than one-third (39%) of 230 U.S. DB plan sponsors representing almost five million employees told Aon Hewitt they are “somewhat” or “very likely” to offer lump-sum payouts to terminated vested participants and/or retirees in 2013.

Unlike the famously premature reports of Mark Twain’s death, reports of the demise of the defined benefit plan are apparently not exaggerated.

Following the example of General Motors in 2012, more defined benefit (DB) plan sponsors intend to offer participants a one-time lump-sum buyout plan in 2013, according to a new survey by Aon Hewitt, the HR unit of Aon plc.

More than one-third (39%) of 230 U.S. DB plan sponsors representing almost five million employees told Aon Hewitt they are “somewhat” or “very likely” to offer lump-sum payouts to terminated vested participants and/or retirees during a specified period, also known as a “window approach,” in 2013. Just 7% of DB plan sponsors added a lump-sum window in 2012.

Plan sponsors will have an added incentive to move pension liabilities off their balance sheets in 2013 and 2014, as anticipated increases in Pension Benefit Guarantee Corporation (PBGC) premiums raise the cost of pension liabilities, according to Aon Hewitt.

Most employers (84%) won’t change their benefit accruals, the survey showed. Only 16% said they are somewhat or very likely to reduce DB pension benefits, while 17% are somewhat or very likely to close plans to new entrants in 2013. Just 10% are somewhat or very likely to freeze benefit accruals for all or some participants.

Half of employers surveyed are likely or somewhat likely “to conduct an asset-liability study” in 2013, and 60% are somewhat or very likely to institute liability-driven investing.

“Plans that are over funded will likely take measures to lock in this position [by] offering lump-sum windows. An underfunded plan will need to [implement] a glide path investment strategy that will de-risk the plan as the funded position improves,” the Aon Hewitt release said.

While just 18% use this glide path strategy today, the percentage is expected to exceed 30% by the end of 2013, the survey showed, as more plan sponsors abandon the traditional approach of investing a majority of plan assets in equities. Aon Hewitt’s survey found that while 52% of plan sponsors favor this majority equity strategy today, just 31% would use this approach by the end of the year.