



MANAGING RISK AND OPPORTUNITY

TRENDS AND CHALLENGES IN DEFINED BENEFIT PLANS

...“Throughout corporate America, companies have been taking long, hard looks at their DB plans. In many cases, there has been increasing concern from the financial department. Under the scrutiny of senior financial executives, assessments of DB plan risks have evolved. The asset-centric approach that many companies had relied on to manage and mitigate risks has been replaced by a more complex and sophisticated assessment that considers both assets and liabilities.”⁴

New approaches to risk assessment have led to the identification of innovative ways to reduce and manage risks. These include: changes to plan design, liability-driven investment (LDI) strategies, lump sum offerings, and annuity buy-outs and buy-ins. Although many sponsors have scripted the actions that they intend to take, low interest rates and inadequate plan funding levels have delayed implementation—until now.”...

SUMMARY OF CONCLUSIONS

A BRIEF HISTORY OF DEFINED BENEFIT PLANS

- The heyday for DB plans was in 1983 when slightly more than 175,000 plans were sponsored by private sector employers across the U.S.
- Today, DB plans play a smaller roll than they once did in terms of how individuals will receive future retirement benefits.

A NEW PARADIGM FOR DB PLAN RISK MANAGEMENT

- Mindset of DB plan management is shifting from a total return approach to the practice of managing assets and liabilities.
- Plan sponsors have begun to assess the value and risks of the pension obligations within the context of their core business.
- Risk management strategies appear to encompass three distinct categories: plan design, fund and investment, and settlement activities.

STRATEGIES FOR MANAGING, MITIGATING, AND TRANSFERRING DB PLAN RISKS

- Strategies employed will vary in structure and execution but may include:
 - Liability Driven Investment (LDI) Strategies
 - Lump Sum Distributions
 - Annuities: Buy-ins and Buy-outs

OPPORTUNITIES ARE NEVER WITHOUT CHALLENGES

- Appropriate strategies will depend on the financial environment and discount rates, as well as the plan's objectives, funding status, and the size of the obligations.
- Having accurate participant census data is critical especially if a plan sponsor has decided to pursue settlement activities.
- Many companies using lump sum distributions are turning to automatic IRA rollovers to transfer participants who can't be located or are non-responsive.

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MANAGING RISK AND OPPORTUNITY

TRENDS AND CHALLENGES IN DEFINED BENEFIT PLANS

The changes taking place in the retirement plan industry are not unlike the Wi-Fi revolution. Similar to landlines and desktop computers, defined benefit (DB) plans once were state-of-the-art for employers wanting to attract and retain talented workers. When defined contribution (DC) plans were introduced, the new option quickly gained popularity, eclipsing DB plans in much the way that mobile communications have overtaken hard-wired alternatives.

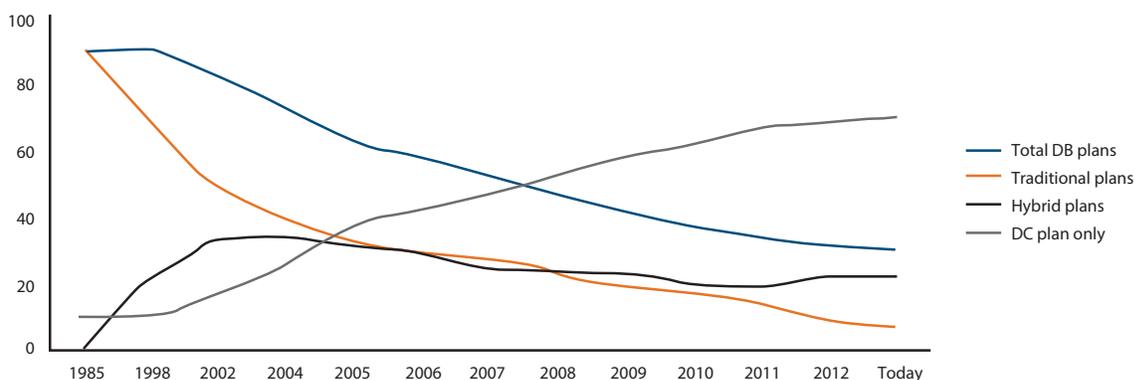
The attraction to DC plans was largely inspired by changes in workforce tenure and demographics, the shift to a global economy, and market volatility, all of which made managing DB plans more challenging and unwieldy for plan sponsors. As DB plans grew in size, complexity and cost, the strategic value of offering such plans diminished. Consequently, a number of plan sponsors embraced hybrid DB plans and DC plans, while freezing or terminating their traditional DB plans.

The recent financial crisis and subsequent recession exacerbated the situation. Significant declines in the value of many equity portfolios, a persistent low interest rate environment, rising Pension Benefit Guaranty Corporation (PBGC) premiums, and new government funding regulations combined to create a pension crisis that many thought required action beyond cost-containment measures.

Fortune 100 retirement plan sponsorship, 1985-2013

	1985	1998	2002	2004	2005	2006	2007	2008	2009	2010	2011	2012	Today
Total DB plans	90	90	83	73	62	57	53	47	43	37	33	32	30
Traditional plans	89	67	48	38	32	28	27	23	19	17	14	9	7
Hybrid plans	1	23	35	35	30	29	26	24	24	20	19	23	23
DC plan only	10	10	17	27	38	43	47	53	57	63	67	68	70

Fortune 100 retirement plan sponsorship, 1985-2013



Note: Sponsorship shown as plan type offered to salaried new hire at year-end is based on the following year's Fortune 100 list. For example, 2012 data are based on the 2013 Fortune 100 and include plans offered at year-end 2012. The 2011 data are based on the 2012 list and so on. The "Today" column reflects plan changes that took effect between January 1, 2013, and June 30, 2013.

Source: Towers Watson

Today, the number of DB plans open to new employees is smaller than ever before. In 1985, 90 percent of Fortune 100 companies offered DB plans to new employees. By late 2013, that number had dwindled significantly. Just 30 percent offered DB plans or a combination of DC and DB plans (hybrid plans) to newly-hired individuals, while seventy percent offered only DC plans.^{1,2}

TRADITIONAL AND HYBRID DB PLANS

Traditional DB plans offer retirees monthly income that is determined using a formula that typically includes income and years of service. Benefit accruals accumulate faster as participants near retirement. Originally, these plans were intended to help employers attract and maintain talented and productive employees. They also were intended to help provide a basis for financial security in retirement. In recent decades, as the costs and volatility of traditional plans grew, employers looked for ways to deliver a more consistent “level of retirement-directed capital accumulation for all workers.”³

A popular alternative to traditional plans, hybrid plans (such as cash balance, pension equity, floor-offset, age-weighted profit-sharing, new comparability profit-sharing, and target benefit plans) combine features of both defined benefit and defined contribution plans. Often, hybrid plans offer benefits that deliver an account balance (a lump sum) rather than an annuity. In these plans, benefits tend to accrue more evenly over time. Hybrid plans can be portable, and participants may have the opportunity to convert account balances into life annuities. In many cases, employers implement a hybrid plan and still offer a defined benefit and/or defined contribution plans.

DE-RISKING DEFINED BENEFIT PLANS

Throughout corporate America, companies have been taking long, hard looks at their DB plans. In many cases, there has been an increasing concern from the financial department. Under the scrutiny of senior financial executives, assessments of DB plan risks have evolved. The asset-centric approach that many companies had relied on to manage and mitigate risks has been replaced by a more complex and sophisticated assessment that considers both assets and liabilities.⁴

New approaches to risk assessment have led to the identification of innovative ways to reduce and manage risks. These include: changes to plan design, liability-driven investment (LDI) strategies, lump sum offerings, and annuity buy-outs and buy-ins. Although many sponsors have scripted the actions that they intend to take, low interest rates and inadequate plan funding levels have delayed implementation—until now.

During 2013, many DB plans benefited from rising interest rates and improved stock market performance. An 87 basis point increase in the discount rate and an 11.2 percent investment gain pushed the funding ratio of the Milliman 100 Pension Funding Index (PFI)—which projects the funding status of the 100 largest DB plans—to 95.2 percent. It was the best year for pension plans in the 13-year history of the Milliman 100 PFI.⁵ Improved funding status gives plans the flexibility to pursue de-risking activities.

In this paper, we'll offer our insight to the trends and challenges facing DB plan sponsors. We'll begin with a brief look at the history of DB plans, discuss the role of DB plans in the retirement industry today, examine more closely the solutions that companies are employing to manage risk, and describe the challenges that companies are encountering, as well as the help that is available to them.

A BRIEF HISTORY OF DEFINED BENEFIT PLANS

IT ALL STARTED WITH THE AMERICAN EXPRESS COMPANY

The American Express Company was an express mail service when it introduced the first private pension plan back in 1875. The company had been formed through the merger of smaller firms owned by Henry Wells, John Fargo and William Butterfield.⁶ Each of these men played a key role in the westward expansion of the United States. They also may have been pioneers in understanding pension plan risk.

Participation in the American Express pension plan was limited to disabled employees who had completed at least 20 years of service and were age 60 or older.⁷ In 1875, life expectancy for a 20-year-old was around forty years, and individuals who reached age 60 had a good chance of living into their early 70s.⁸ The annual benefits paid by the plan were equal to 50 percent of the worker's average yearly pay during the 10 years of employment preceding retirement, not to exceed \$500 a year.⁹

AND EXPANDED DURING THE 20TH CENTURY

Throughout the 1900s, changing demographic and economic circumstances resulted in the expansion of pension plans. In 1932, in the midst of the Great Depression, about 15 percent of American workers had employment-related pensions, which typically were granted at the discretion of the employer, and about 5 percent of older Americans actually received retirement income.¹⁰ By 1950, 25 percent of private sector workers were covered by pension plans. Two decades later, in 1970, that number had grown to 45 percent.¹¹

Employer-funded DB plans tended to offer guaranteed lifetime income at a specified retirement age. The amount of income was determined using a specific formula that included years of service and earnings.¹² Pension wealth—the discounted present value of projected future benefits—grows slowly in DB plans.

The present value of benefits for younger workers tends to be low because their wages are relatively small and they have few years of service. As retirement age nears, the present value of pension benefits increases significantly although, if employees continue to work beyond a certain age or seniority level, their benefits may level off or even decline as wage growth slows or the plan limits years of credited service.

THE EMPLOYEE RETIREMENT INCOME SECURITY ACT

The Employee Retirement Income Security Act (ERISA) became law in 1974. The legislation was intended to protect the retirement assets of Americans by implementing rules to protect the interests of qualified plan participants and their beneficiaries. Among other things, ERISA requires that plan sponsors provide participants and beneficiaries with adequate information about their plans. It also established that plan sponsors and fiduciaries must meet certain standards of conduct.

INTEREST IN DC PLANS GROWS

In the 1980s, the Internal Revenue Service gave its approval to salary reduction retirement plan contributions, legislation was passed defining rules for defined contribution plans, and Congress replaced the defined benefit plan for federal civilian workers with a less generous plan that was supplemented by a 401(k) type of plan. According to the Employee Benefits Research Institute:

“This amounted to an explicit “endorsement” by the government of “shifting” from a stand-alone defined benefit plan to a combination of a defined benefit plan and a defined contribution plan to which employees can contribute an amount of their choice. It encouraged private-sector employers to be confident about the long-term survivability of 401(k)-type plans, which had been the subject of regulatory disputes for years. Since that time, 401(k) plans have become the fastest-growing type of retirement plan in the United States.”¹³

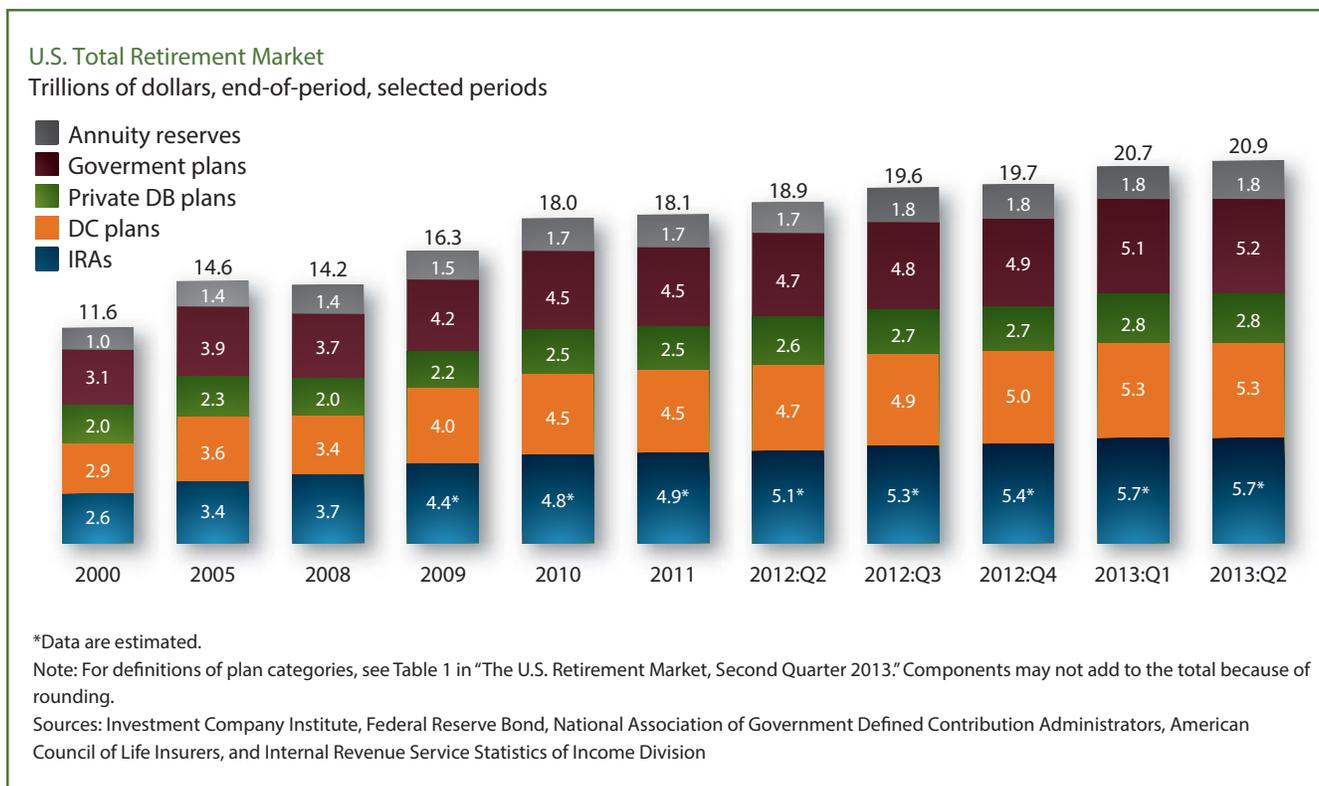
DB Plans: Then and Now

	DB Plans In total	DB Plans (Fewer than 100 participants)	Active participants (in thousands)	Total participants (in thousands)	Assets (in millions)
1983	175,143	149,164	29,878	40,025	\$642,359
2011	45,256	35,418	16,507	40,876	\$2,516,109

Source: U.S. Department of Labor

The heyday for DB plans was in 1983 when slightly more than 175,000 plans were sponsored by private sector employers across the United States. The plans covered 40 million participants and had about \$640 billion in assets. By 2011, the latest figures available, the number of DB plans had fallen to just over 45,000 with about 40 million participants and \$2.5 trillion in assets. During the same period the availability of DC plans grew significantly, increasing from about 427,000 plans with 29 million participants and about \$280 billion in assets to more than 638,000 plans covering almost 90 million participants with more than \$3.8 trillion in assets.¹⁴

In its 2013 annual report, the PBGC reported that it protected about 42 million participants and retirees in 24,400 single- and multi-employer plans.¹⁵ According to the PBGC, the steep decline in the number of DB plans was due primarily to plans with 100 or fewer participants closing plans to new participants or freezing benefit accruals under their plans.¹⁶



Source: Investment Company Institute

2013 ERISA ADVISORY COUNCIL RECOMMENDATIONS FOR PENSION RISK MANAGEMENT

In late 2013, the Department of Labor's (DOL) ERISA Advisory Council (Council), whose members represent diverse interests including employers, unions, retiree advocates, lawyers, and insurers, finalized its recommendations for the secretary of labor regarding retirement plan communications, locating missing and lost plan participants, and private sector pension de-risking and participant protections.

The Council decided not to recommend a formal rule-making process to guide regulatory oversight of lump sum payouts and annuitization. Instead, on November 5, 2013, the Council suggested that the DOL consider ways to develop more explicit guidance for plan executives, including offering more information to employees about the ways in which de-risking strategies are calculated and implemented, as well as the potential impact on the participant if they accept such a settlement. The Council also suggested that DOL officials:

- Clarify that Interpretive Bulletin 95-1, which establishes the rules for selecting annuities, applies to any annuity purchase and not just those for plan terminations
- Consider developing safe harbors for annuity purchases
- Provide at least 90 days of disclosure for lump sum offerings within a specific window so participants may compare their options
- Offer education and outreach to plan sponsors on their options and consider collecting transaction data
- Develop a formal process for dispute resolution

They also emphasized the need for immediate guidance on some issues and the importance of gaining public acceptance of others before major legal changes are made. Council members also agreed that any changes should be made prospectively. The Council's report was released in early 2014.

Source: *Pension & Investments Online*
[<http://www.pionline.com/article/20131111/PRINT/311119972/corporate-pension-execs-wary-of-de-risking-fallout>]

DB PLANS ARE LESS PREVALENT TODAY

Today, DB plans play a smaller role than they once did in terms of how individuals earn future retirement benefits. According to Towers Watson's 2013 pension risk management survey, "Seventy-one percent of responding companies whose largest non-collective bargaining DB plan is open today still plan to offer a DB plan to all employees five years from now."¹⁷ Many of these plan sponsors may not have de-risking strategies in place because they are comfortable with the current level of risk in their plans. The survey also found that three out of eight plan sponsors with frozen plans are looking to terminate their plans by 2018.¹⁸

A NEW PARADIGM FOR RISK MANAGEMENT

DIFFERENTIATING RISK

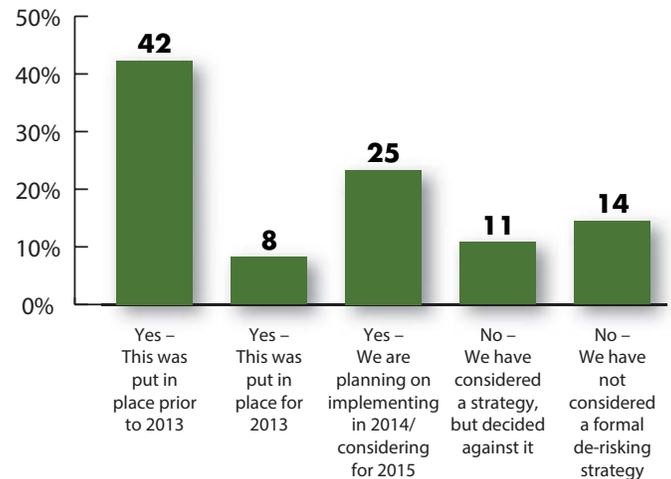
MetLife has been studying the risk management attitudes and aptitudes of large DB plan sponsors in the United States for the last five years. In late 2013, they reported that, "DB plan management has a new mindset. It appears that the days of an asset-centric, total return approach to mitigating risk are truly behind plan sponsors, and the practice of managing assets in the context of liabilities has firmly taken hold."¹⁹

This shift in risk assessment has had a profound effect on DB plan management. Plan sponsors that participated in the 2009 MetLife survey reported that the top risk factors for their plans were asset allocation and meeting return goals. The impact of differentiating risk factors and focusing on their effects was reflected in the 2013 survey. The risks that plan sponsors were most concerned about included underfunding of liabilities, asset and liability mismatch, and accounting impacts.²⁰

THE IMPORTANCE OF A JOURNEY PLAN

A growing number of U.S. employers have formalized their de-risking strategies by developing “journey plans.” These blueprints for managing risk simplify the implementation process by including pre-approved actions that may be taken when clearly defined triggers are reached. Journey plans are important because they eliminate the need to repeat the decision-making process over again in the future. The adoption of a journey plan and implementation of each action may require Board/Fiduciary approval and plan amendment(s).

Most sponsors use or plan to use a journey plan

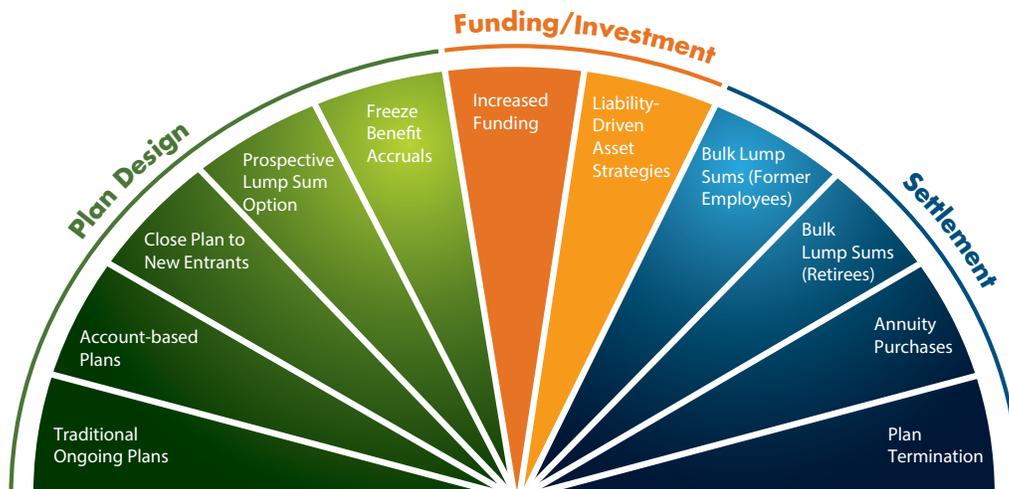


Source: Towers Watson

FORMULATING A PLAN

Plan sponsors have begun to assess the value and risks of their pension obligations within the context of their core businesses. Consequently, the strategies they are developing are as different as the companies themselves. In general, risk management strategies appear to encompass three distinct categories: plan design, funding and investment, and settlement activities. Almost 50 percent of companies with plan assets in excess of \$5 billion plan to manage risk only through investment practices, and none expect to transfer all of their obligations to a third party. In contrast, most plans with fewer than \$5 billion in assets are not planning to rely only on investment practices. They also plan to manage risk through settlement activities.²¹ Of course, every plan and company is different and several factors may drive any decisions.

Sponsors make pension risk decisions in three broad areas



Spectrum of Pension De-Risking Actions

Source: Towers Watson

INTEREST RATES CUE ACTION

While the perception of plan risk has broadened, minimizing plan volatility has proven to be a tall order in recent years even for highly sophisticated DB plan sponsors. For example, during 2012, reasonably strong market performance generally helped DB plans realize significant gains; however, plans' liabilities grew even faster. Many grew so quickly that even significant employer contributions could not counteract the effects of lower interest rates. In November 2012, the discount rate stood at 4.05 percent and the average funding ratio of the 100 largest corporate defined benefit pension plans was 73.4 percent.²²

During 2013, continued strong stock market performance and rising interest rates helped improve the funded status of many DB plans. According to Milliman, "The discount rate for the December 2013 funded status surged 87 basis points to 4.83% from 3.96% at the end of 2012."²³ If interest rates continue to trend higher, the outlook for DB pension funding is quite rosy; if they trend lower, it is less so.

We anticipate that DB plan sponsors will take advantage of improvements in funding status to manage, mitigate and transfer DB plan risk.

STRATEGIES FOR MANAGING, MITIGATING AND TRANSFERRING DB PLAN RISK

The reasons that DB plan sponsors take steps to remove risk from their plans are as varied as the companies that offer plans. A company's risk management motivation may be rooted in a desire to:

- Reduce volatility
 - In its pension plan
 - On its balance sheet, and/or
 - In its plan funding status
- Lower administrative costs
- Cut PBGC premiums

Risk management may be inspired by mortality and interest rate revisions, pension funding legislation, current interest rates, or other considerations that are specific to a plan sponsor or industry.²⁴ Regardless of the reason, maintaining or improving a plan's funded status while minimizing plan volatility is likely to remain a top priority far into the foreseeable future. No matter what types of strategies they are considering, plan sponsors should carefully review fiduciary considerations before taking action.

The strategies plan sponsors employ will vary in structure and execution, but may include:

LIABILITY DRIVEN INVESTMENT (LDI) STRATEGIES

Almost three-fourths of DB plan sponsors have implemented, are planning to implement, or are seriously considering implementing an LDI strategy by 2015.²⁵ LDI strategies are defined in a variety of ways. A recent global poll of 125 corporate pension plan sponsors that manage \$25 million to over \$1 billion in pension assets gathered seven different definitions of LDI investing, although a majority of survey participants defined LDI strategies as “matching duration of assets to duration of liabilities,” “a portfolio designed to be risk-managed with respect to liabilities,” or “consideration of liability pool and/or costs in setting asset allocations.”²⁶

LDI STRATEGIES ARE DESIGNED TO HELP DB SPONSORS MOVE TOWARD LONG-TERM GOALS

Survey participants said that LDI strategies help them achieve long-term plan objectives, as shown in the table below.²⁷

Goals of LDI	2012	2011	2010	2009	2008	2007
Control year-to-year volatility of funded status	80%	78%	46%	90%	79%	79%
Control contribution and/or pension expense	53%	46%	43%	51%	45%	46%
Minimize/maximize impact on corporate liquidity/cash flow	30%	41%	23%	35%	30%	31%
Improve funding levels	30%	26%	28%	24%	14%	19%
Progress plan towards termination or buy-out	26%	15%	20%	13%	8%	8%
Avoid the minimum funding liability	6%	5%	7%	9%	13%	14%

Source: SEI

Every DB plan is unique with regard to liabilities, goals, and finances, so implementation of an LDI strategy is often just one part of a highly customized risk management solution. Settlement options, such as lump sum distributions and annuities may also be included in the solution.

LUMP SUM DISTRIBUTIONS

In general, lump sum offerings can help DB plan sponsors reduce risk by decreasing the assets and liabilities of their plans. In many cases, a plan with risks reduced in this way may translate into lower operational costs and less financial risk. In general, lump sum offerings are available during specific windows of time, and may be mandatory (small sums) or voluntary.

PROS AND CONS FOR PARTICIPANTS

Lump sum payments are not often available through traditional DB plans, so the opportunity to receive one may be attractive to plan participants. When participants accept a lump sum offering, they gain control over their assets which may be: rolled over into Individual Retirement Accounts (IRAs) and invested, accessed, and ultimately distributed to heirs as they choose. If the participant does not effectively manage their pension money, the assets may not provide income throughout retirement. There also may be favorable or unfavorable tax implications to accepting lump sum offerings.

CONSIDERATIONS FOR PLAN SPONSORS

During 2012, there were an unprecedented number of lump sum offerings.²⁸ This may be attributed to regulatory changes, including the Pension Protection Act of 2006 which changed the basis for calculating lump sum offerings, often reducing the amounts of those lump sum payments when compared to prior calculation methods. The change was fully phased in during 2012. In addition, the Moving Ahead for Progress in the 21st Century Act (MAP-21) created a floor on the discount rate used to value plans' liabilities.

More than one-half of DB plan sponsors participating in a recent Towers Watson survey indicated that they have offered or will offer lump sum payments to former employees without terminating their plans before 2016. Smaller plan sponsors, those with less than \$1 billion in DB plan assets, appear to be more interested in lump sum offerings than their larger brethren.²⁹

Lump sum offerings offer clear advantages to some plan sponsors, and they can prove to be a less costly de-risking strategy than other risk management options. A senior retirement consultant with Towers Watson explained it like this:

"...Lump sums can also be viewed [by the plan sponsor] as a fixed income investment that's superior to anything the investment market offers. The lump sum investment strategy offers AA rates, with zero risk, and eliminates operating costs. In contrast, market bonds either pay Treasury yields or carry default/downgrade risk, without providing the additional benefit of lowering such operational costs as the ever-increasing Pension Benefit Guarantee Corporation (PBGC) premiums."³⁰

When deciding whether to offer a lump sum option, plan sponsors should carefully consider interest rates, potential changes in pension expenses, settlement accounting impacts, and other factors—including their fiduciary responsibility. Lump sums can be valuable tools if the objective is to reduce the size of a company's pension obligations, but the choice must also align with the firm's overall financial and human resources strategies. The implementation of the lump sum option will involve amending the plan and requesting a determination letter, on or off cycle.

Offering lump sum cash-outs to participants who would otherwise receive an annuity may turn out to be a political issue. It is possible that the US Treasury/IRS will continue to debate the permissibility of offering annuity cash-outs to retirees. Sponsors of annuity plans may wish to explore this situation prior to implementing de-risking via lump sum distributions.

ANNUITIES: BUY-INS AND BUY-OUTS

Another means of reducing liabilities, funded status volatility, contributions, pension expense, plan administration costs, and/or PBGC premiums is through annuities. There generally are two options for using annuities under a DB plan: buy-outs and buy-ins. A pension buy-out transfers plan liabilities to an insurance company through the purchase of a group annuity. A pension buy-in adds an annuity to plan investments in an effort to mitigate risk by providing a guaranteed cash flow that matches a segment of pension liabilities.

The recent and persistent low interest rate environment, which negatively affected the funded status of many plans, made annuities a less attractive option for many DB plan sponsors, in the recent past, according to Towers Watson. In fact, just 11 percent of participants in the pension risk management survey were "planning to pursue annuity purchases by 2015 to settle part of their pension obligation (buy-out), or as an investment option (buy-in) without terminating the plan."³¹

That may be changing. Late in 2013, the Mercer U.S. Pension Buyout Index, which measures the approximate long-term economic cost of retaining retiree liabilities on a sponsor's balance sheet relative to the cost of a buy-out, showed that rising interest rates have decreased the absolute buy-out cost of a buy-out and reduced the potential cash and funded status effects of such an action.³² According to Mercer, these changes mean that sponsors that plan to incorporate annuity buy-out options in their strategic planning, need to be prepared to act quickly.³³

There are many different ways for plan sponsors to manage, mitigate and transfer DB plan risk. There are no 'right' or 'wrong' answers; however, it is essential for plan sponsors to fully understand the financial impact of each decision made.

OPPORTUNITIES ARE NEVER WITHOUT CHALLENGES

There are many issues and possible pitfalls to be considered with de-risking. This whitepaper is not offering legal advice on the topic. Any plan sponsor considering a de-risking strategy should consult its legal and financial advisors before taking any steps.

Improvements in the funded status of many DB plans have created opportunities for sponsors to implement de-risking tactics that they previously had been unwilling or unable to pursue because of concerns about compromising their companies' ability to grow and meet shareholder expectations. Sponsors will encounter a variety of challenges as they move forward. One that we would like to discuss in more detail is plan participant data, and the importance of having accurate data when pursuing tactics like lump sum and annuity offerings.

Managing plan participant data has always been a challenging aspect of sponsoring retirement plans. When employees leave service, experience life changes, or change addresses, they rarely remember to communicate essential information to plan sponsors. As a result, locating missing participants, meeting everyday management reporting requirements, and creating a record for audits often becomes expensive and time intensive.

Regardless, fiduciary responsibility requires that plan sponsors maintain regular communications with participants by providing statements, funding notices, annual reports, and other critical news whether terminated participants communicate their current contact information or not. As a result, balances, including those from uncashed checks held for missing and/or non-responsive participants can significantly increase plan expenses. Establishing procedures for reviewing, updating, and maintaining plan data is critical to everyday operations, as well as to implementing risk management strategies.

If a company has decided to pursue settlement activities, having accurate data will be critical. The information will influence the design of lump sum offerings, including decisions about who is eligible for them, the amounts offered, and the accounting implications. Having precise data will determine how smoothly communications go, and help sponsors process acceptances quickly over a relatively short period of time.

LUMP SUM OFFERINGS AND AUTOMATIC IRA ROLLOVERS

Many companies are turning to automatic IRA rollovers as a way to efficiently clean up their DB plans when de-risking with lump sum distributions. Companies that choose lump sum distributions will discover their DB plans have participants who can't be located. If the plan is not terminating, account balances of \$5,000 or more cannot be distributed without participant consent. For those participants who have small balances (equal to or less than \$5,000), plan sponsors may opt for automatic IRA rollovers which were created under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). EGTRRA allows companies to roll over the retirement funds from missing and non-responsive participants to a custodian who will create and administer IRAs for these employees. IRS and DOL guidance following EGTRRA and subsequent regulations provide plan sponsors with a safe harbor for rolling over small plan balances to IRAs. Once the IRA rollover is established, the individual is no longer considered a participant in the original plan and the company is considered to have satisfied its fiduciary duties if it has met the safe harbor requirements.

There are a handful of IRA providers like Millennium Trust Company that have an IRA solution dedicated to supporting automatic rollovers. They have developed the requisite technology and infrastructure to help companies use automatic rollover programs as a solution for lump sum distributions to missing and non-responsive participants. These providers specialize in processing bulk transactions (opening and funding multiple accounts simultaneously), servicing substantial numbers of small balance accounts, and searching for former missing participants.

This allows a plan sponsor to effectively distribute their small participant accounts to a qualified IRA provider, thereby saving money, time and valuable personnel resources, and at the same time, preserving tax-deferred retirement savings for their former employees.

CONCLUSION

During the past few decades, changes in workforce tenure and demographics, the shift to a global economy, and market volatility have made DB plans less attractive to plan sponsors than they once were. The recent financial crisis, recession, stock market decline, and prolonged period of low interest rates exacerbated matters. Consequently, during the past few years, there has been significant interest in reducing DB pension plan risk.

DB plan sponsors have been developing de-risking strategies that may incorporate a variety of tactics such as LDI investment strategies, lump sum offerings, and annuity buy-ins and buy-outs. The tactics chosen will depend on the financial environment and discount rate, as well as the plan's objectives, funded status, fiduciary considerations and the size of the its obligations. Regardless, the overall risk reduction strategy must align with the company's overall financial and human resource strategies. The de-risking strategies adopted are likely to be as diverse as the companies themselves.

Successfully implementing a de-risking strategy requires careful planning and thoughtful execution. Plan sponsors should be certain they understand and can address the challenges that often accompany the implementation of a de-risking tactic, such as having accurate plan participant data. Firms like Millennium Trust Company offer solutions for missing and non-responsive participants that may make it easier for plan sponsors to reach their risk management goals.

Some plan sponsors have developed strategies and are waiting for the right time to implement them; others are in the early stages of strategy development. 2013's double-digit stock market returns and rising interest rates have helped many pension plans significantly improve their funded status. As a result, during 2014, we may see a number of plan sponsors aggressively pursue their de-risking strategies.

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