Managing pension liabilities

Wealth

Challenge
Reconcile administrative data with actuarial valuation data

Solution
Review data and calculation aspects of all participants

$8M
in pension liability savings and significant PBGC savings

Data optimization

Challenge: In response to an auditor's question, our client needed to reconcile administrative data with actuarial valuation data as nearly 1,300 participant benefit amounts didn't match between the two systems.

Solution: We reviewed the data and calculation aspects of all 1,300 participants to determine the appropriate approach: Incomplete data, mis- or not calculated/certified benefit, and appropriate valuation perspective.

Results: 900 of the 1,300 participants required a recalculation of their benefit amount, including more than 100 participants who were not due a benefit and an additional 500 who had a benefit that was overstated. The review resulted in pension liability savings of $8 million and significant PBGC premium savings.

Retirement Plan Alive Audit

Challenge: Our client was under new management and needed fresh ideas on how to reduce plan costs.

Solution: We suggested a Retirement Plan Alive Audit, which involved a death-check on more than 4,000 plan participants, including former employees not yet in receipt and spouses of current retirees with joint and survivor forms of payment.

Results: When the Retirement Plan Alive Audit was completed, the client realized a reduction in pension liabilities, expense, required contributions, and PBGC premiums. The client was impressed by the first year and ongoing reductions in real plan costs.

Challenge
Reduce financial risk of DB plan with goal of termination

Solution
Implement a liability-driven investment policy along with monitoring, a contribution strategy, and lump sum payout program

Improved funded status from
75% to 90%

Increased hedge ratio from
15% to 100%

Pension investment outsourcing

Challenge: A client made a strategic acquisition, but in the process inherited an underfunded defined benefit (DB) pension plan with about 1,200 participants. Because DB plans were not part of the long-term rewards strategy, they were interested in ways to reduce the financial risk of plan with the ultimate goal of termination.

Solution: Due to illiquid investments locked up in the portfolio, a high number of former employees with deferred benefits, and the underfunded status of the plan, we recommended that our client maintain the plan through Buck's investment solution rather than move immediately to termination. We implemented a liability-driven investment policy, including a glide path and a transition to more efficient investments, along with ongoing monitoring. We combined that with an appropriate contribution strategy and a lump sum payout program.

Results: The illiquid investments were successfully unwound, including hedge fund and private equity arrangements, in favor of fee-efficient funds that were liquid and ready for pension risk transfer. The lump sum program had a high take rate, reducing pension liabilities by more than 50% and making the total liability profile much more attractive for a future plan termination. Overall, these actions improved the funded status of the plan from 75% to over 90%, and the hedge ratio has increased from 15% to 100%, dramatically reducing the risk to the client.

Let's talk

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