Pension de-risking

Let's talk

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Our client's defined benefit pension plan holds $31 billion in assets in a volatile financial climate. With skyrocketing PBGC premiums and unpredictable pension expenses, the firm needed to act.

We rose to the challenge, and through various steps removed over $1 billion in liabilities and saved the company over $300 million in PBGC premiums.

"We made these changes, but we still have this huge pension liability."

Through normal growth and acquisitions, this manufacturing company employed 200,000 workers and provided a retirement program consisting of a defined benefit pension plan with $31 billion in assets, and a defined contribution plan with $20 billion in assets. In addition to the pension fund's growing liability over the years, the company's mandated Pension Benefit Guaranty Corporation's premiums has, in the words of the company's Global Director of Retirement Strategy, "skyrocketed — with over $100 million just leaving our pension fund in premiums."

The company made some changes to the retirement program over the past few years to reduce the financial risk — design and formula changes, liability-driven investing, closing the DB plan to new entrants, changing the new accruals to a cash balance plan, and ending final average earnings accruals under the DB plan — but despite that, they still faced volatility and unpredictability in pension expense.

Rather than continuing to manage the risk, the company decided it was time to settle some of it.

"You rose to the challenge."

Looking at the numbers, the company had 211,000 plan participants (including retirees) and $27 billion in liabilities.

First, they partnered with us to offer lump sum cash outs to terminated vested members whose accrued pension present value was under $10,000. We created and staffed a special call center for the project as well as communications to guide and coach members (so that they could make informed decisions about taking the lump sum over a pension).

This went so well, the company expanded the idea to offer the same lump sum opportunity to those with higher pension values, and ultimately to everyone in the plan.

"I'm just amazed at how smoothly it went."

The project resulted in releasing over $1 billion in liability from the company's books. The take rate of terminated vested participants was over 50%, and as part of the project We undertook considerable data remediation and cleanup. In the end, the company will save over $100 million a year over the next three years in PBGC premiums.

PBGC Premiums

	Original Projection ($ millions)	New Projection($ millions)
2016	72	67
2017	123	95
2018	127	98
2019	131	101
2020	135	104