Managing pension liabilities

Challenge
Market volatility and unpredictable pension expense

Solution
Lump sum payout

$1B
in pension liability savings and significant PBGC savings

Lump sum window

Challenge: Through normal growth and acquisitions, this manufacturing company employed 200,000 workers and provided a retirement program consisting of a defined benefit (DB) pension plan with $31 billion in assets, and a defined contribution plan with $20 billion in assets.

The company made some changes to the retirement program 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 they still faced volatility and unpredictability in pension expense. Looking at the numbers, the company had 211,000 plan participants (including retirees) and $27 billion in liabilities.

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

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.

Results: 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 saved over $100 million a year over three years in PBGC premiums.

Challenge
Reduce financial risk of DB plan with goal of termination

Solution
Implemented a liability-driven investment policy along with ongoing monitoring, and 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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