Transferring risk

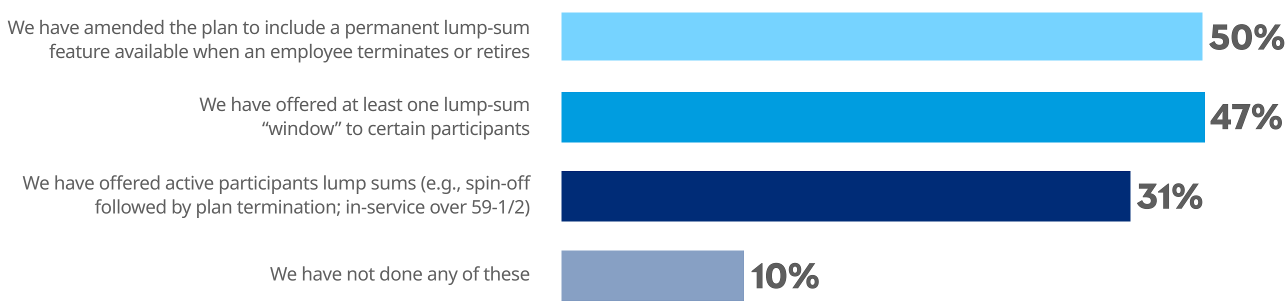
Plan sponsors continue to reduce their contribution and funded status volatility risk by transferring liability to an insurer or another party. How are companies transferring risk? The vast majority of the surveyed executives—90%--said they had offered lump-sum features to DB plan participants to transfer risk within the last 10 years.

The lump-sum risk-based transfer option is popular as a future option as well, with 77% of the respondents likely to offer additional lump-sum options within the next two years. Purchasing annuities from insurers to transfer retiree obligations from the DB plans is also popular, with 66% of the survey respondents saying they've performed or are considering the option in the next two years.

As for future plan terminations, 28% foresee their organization terminating their DB plan in the next three to five years, while nearly as many--26%--say they won't terminate their plan. Plan sponsor long-term objectives are spread amongst those who plan to retain their plan over the longer term, versus those who are moving towards termination, with others in the middle who may not be focused on full termination but are actively de-risking and downsizing.

Has your organization undertaken any of the following lump-sum-based risk-transfer activities in the last 10 years?

(Respondents were allowed to choose ***multiple*** *responses)*



The company has done three annuity risk transfers for a limited number of plan participants to gradually reduce the DB plans. Interestingly, the "premium" of the annuity purchase price over the balance sheet obligation has dropped each time, from 5% of five years ago to about 2.5% for the second purchase to 0% for the most recent purchase, last year.

For Balestriere, the CFO at Red Wing, his company exited its first DB plan two years ago with an annuity buyout with an insurance company. Red Wing paid 108% of the plan's liabilities on the deal, which covered the roughly 2,000 participants still in the plan at that point. Prior to that, Red Wing had offered a lump-sum buyout that was accepted by about 100 plan participants. The company has another DB plan currently well-funded that it plans to exit within the year.

Bruce Swain, CFO of Crawford & Company, a publicly traded insurance claims adjusting company, says his company has offered one-time lump-sum payments every other year for the last six years to DB plan participants with smaller benefit values: those who weren't receiving pension payments yet but who had vested benefits in the plan. Similarly, the company has done three annuity risk transfers for a limited number of plan participants to gradually reduce the DB plans. Interestingly, the "premium" of the annuity purchase price over the balance sheet obligation has dropped each time, from 5% of five years ago to about 2.5% for the second purchase to 0% for the most recent purchase, last year.

In one area, the survey respondents were probably overly optimistic in their self-assessment: How they rated the quality of their pensions plan participant data. If conditions should turn favorable for a plan termination, 93% described their data as "pristine" or "in good shape." However, finance executives may be unfamiliar with the niceties of finalizing benefits and tracking down former employees with speed and finding out where they live, whether they're still alive, whether divorce or other court judgements have changed their beneficiaries' status, and whom to pay if they've died. Pension risk transfer accelerates the time horizon for these activities, forcing most companies to admit that the "pristine" pension date may be a fairy tale.

Has your organization completed (or is considering) a project to transfer some or all of the retiree obligation from its DB plan to an insurer, through the purchase of an annuity?