Pension Management: Creating a Roadmap to Success

Executive Summary

Pension management has seldom been more complex or more critical. As premiums paid to the Pension Benefit Guaranty Corporation (PBGC) have soared and U.S. lifespans have increased, the costs of maintaining a defined benefit (DB) plan, and the risks associated with it, have multiplied. Many plan sponsors are understandably reassessing their long-term goals for their plans and how they might reach them. As part of this process, they are developing roadmaps to guide them on their journey, exploring opportunities to de-risk along the way, and rethinking their investment governance structures.

CFO

MERCER
MAKE TOMORROW, TODAY

For a growing number of these sponsors, either hibernation or termination is an increasingly appealing destination for DB plans. In a new survey of 155 senior executives by CFO Research, conducted in collaboration with Mercer, 51% of the respondents say they're considering hibernation in the next two years, and 71% say their organizations are considering terminating their DB plan over the next 10 years.

Much must happen, of course, before hibernation or termination will make economic sense for many of these sponsors, including achieving a significant improvement in their plan's funded ratio. While 23% of the survey respondents say their plan's funded status is now 100% or higher, up from 13% in 2017, that still leaves them in a distinct minority.

As they work to improve their funded status, plan sponsors also will need to formulate and successfully execute strategies to manage all the risks associated with their plans while they remain in operation. This includes evaluating and implementing the many de-risking options that have become mainstream.

Against this backdrop, many plan sponsors appear to be struggling. Nearly two-thirds — 63% — say their organizations are having difficulty finding the time and expertise to fully meet their investment strategy oversight obligations. More than three-quarters — 77% — say they expect to change their investment governance structure in the next two years. Many have already turned to outside parties for help; 67% of the survey respondents say their organizations have outsourced some or all of their chief investment officer responsibilities, up from 52% two years ago.

Many plan sponsors are finding the cost to annuitize their retiree obligations is not prohibitive.

Among the survey's other key findings:

- Expected market returns remain the variable most likely to cause plan sponsors to modify their pension funding policies and practices over the next two years, cited by 35% of all survey respondents.

- Plan sponsors are increasingly using a dynamic de-risking strategy in which they establish a glidepath that specifies how a plan's asset allocation strategy will change as its funded status improves. Fifty percent of survey respondents say their plans already have a dynamic de-risking strategy in place, and 34% say they are considering one.

- Contrary to popular perception, many plan sponsors are finding the cost to annuitize their retiree obligations is not prohibitive. Seventy percent of survey respondents say they're likely to transfer some or all of their retiree obligation from their DB plan through the purchase of an annuity in 2019 or 2020, up from 56% who were planning to do that two years ago.

CFO Research and Mercer have been conducting this survey on a biennial basis since 2011. As in past years, this year's edition drew responses primarily from CFOs, CEOs, and finance directors, all based in the U.S. and representing a wide range of industries. Just over half the respondents represent organizations with annual revenue between $500 million and $5 billion.

The final report, divided into three sections, explores more of the survey's findings and what they say about the current state of pension management across three broad areas: the plan journey, de-risking, and investment governance.