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next steps in pension risk management

Introduction

When it comes to managing pension risk, companies and their executives seem to have ravenously consumed the expanding menu of options at their disposal...and they seem hungry for more.

Against an ever-evolving and, over recent years, challenging market and regulatory landscape, defined benefit plan sponsors are considering and acting on nearly all forms of pension risk management. In a new survey of 201 senior executives by CFO Research in collaboration with Mercer, over 90% of respondents report following a deliberate, multi-year strategy to manage their plans, thinking holistically about both asset and liability management.

But even the best laid plans need to be adaptable to incorporate both market conditions and changes in policy that impact one or both sides of the asset-liability equation. The tools available to plan sponsors fall into three categories: funding policy, risk transfer activity, and investment strategy.

2020 proved to be a perfect test case across all three categories as the fallout from COVID caused disruption in financial markets, weakened corporate balance sheets, and ultimately, funding relief. According to the survey, over 75% of sponsors' businesses were at least moderately impacted by the events of the past year, and most of them are looking for what's next.

The survey and related in-depth interviews with individual CFOs also revealed some interesting findings about how executives are thinking about and acting on the funding, risk transfer, and investment tools available as they look to effectively manage both their businesses and their DB plans.

Key points

- Reported DB pension funded ratios in the survey as a whole skewed lower than previous years. On the bright side, the 2021 market conditions have been favorable to funded statuses, creating new opportunities.
- Plan sponsors are open to many investment and funding options to satisfy their fiduciary opportunities.
- Most companies plan to take advantage of expanded DB pension plan funding options offered by new legislation.
- DB pension plan sponsors need to know whether their asset managers are taking advantage of the tools available for reducing risk and meeting funding benchmarks.
- Most companies are dynamically managing risk in their DB plans, and have access to timely asset and liability information, but do not have the confidence those actions can be implemented in a timely or efficient manner.
- Nine out of 10 companies have offered lump-sum payments to transfer risk to DB plan participants, and the vast majority of them are likely to offer additional lump-sum payments in the next two years.
- Seven out of 10 companies have (or are considering) purchasing an annuity for a portion of participants including retirees.

Important notices