TAKING STOCK: UPDATES TO CORPORATE PENSION PLAN RULES AND Q1 LIABILITY PERFORMANCE

Lynda Dennen Costello, ASA, EA Senior Research Consultant, Asset Allocation

BLOG POST

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It was an action-packed quarter for corporate pension plans amid rallying markets, surprise announcements from the Federal Reserve, and updates on rules and regulations.

Asset classes scored big in the first quarter as the Fed assumed a more dovish stance. In an about-turn, the central bank said not only would it not raise interest rates for the rest of 2019, but it would also cease to shrink its balance sheet starting September. On the back of this announcement, the Treasury yield curve inverted, although briefly—a first since 2007. Interest rates fell in parallel, resulting in the FTSE Pension Liability Index falling to 3.83%, as of March 31, down 39 basis points from 4.22% in the prior quarter. As a result, pension liabilities increased by an estimated 8.6% in the first quarter, resulting in flat or modestly negative returns for funded status during this period.

Meanwhile, the Internal Revenue Service, in a significant reversal, said it would now allow companies to offer lump-sum payment options to retirees currently receiving annuities. (In 2015, the IRS halted this practice on the back of Ford Motor Co. and General Motors Co.'s highly publicized payouts to retirees in 2012.) However, given the vague guidelines outlined by the IRS, we suggest that any plan considering a lump-sum payout to its retirees consult with counsel and their actuary to determine the possible implications. To this end, it is important to identify the costs to the plan and resulting possible implications, for instance, longer duration, lower funded status, and higher costs to terminate or transfer the remaining benefits in the future. We expect insurance companies to have large anti-selection premiums for retirees who have previously rejected a lump-sum offer. NEPC can partner with you and your actuary to determine the best approach for these transactions.

Elsewhere, the Society of Actuaries issued an Actuarial Standard of Practice (ASOP No. 51), which became effective in the fourth quarter. This ASOP requires actuaries to annually assess the various risks to their clients' plans, including risks related to investments, interest rates, and mismatched assets and liabilities; however, the actuary is not required to provide investment advice. We have begun to see the first of these analyses provided to clients. We want to take this opportunity to reassure our clients that we have been analyzing the risks to pension investments and funded status for many years. We are happy to provide additional insight if any questions arise from the actuaries' new statements.

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