Take a more active role in pension de-risking

April 15, 2019

Major corporations have been reducing their pension liabilities with new strategies that greatly affect plan participants. Be prepared.

Abram Claude
Vice President, Value-Add Programs

In 2012, General Motors, Ford and Verizon kicked off a new dimension in reducing corporate pension liability. Under the term *pension de-risking*, they used two new strategies to reduce the number of participants and lessen pension liability: **lump sum windows** and **pension risk transfers.** Thousands of employees either accepted a lump sum offer or were transferred to an insurance carrier through a pension risk transfer (sometimes referred to as a buyout).

Since then, there's been a steady stream of pension de-risking actions by mid- to large-size corporations, and it's no longer a question of if, but when will pension de-risking affect you. Financial advisors and investors who participate in private sector plans should prepare ahead of a possible event and be aware of three recent corporate actions that could provide insights into what lies ahead in 2019.

Advisor Resources:

White paper: Understand pension funding funding challenges. Master the solutions

Workplace Insider: Read about the latest changes to retirement plans at companies across the U.S. Subscribe to our Business-Building Ideas list to recieve timely notifications of changes to major retirement plans

How to read an annual funding notice: Learn what to look for in a defined benefit funding notice.

Weyerhaeuser: In 2018, the timber company announced its intention to reduce pension plan liabilities by 30% and the number of participants by 50%. The first step was a lump sum window offer in 2018 to about 20,000 participants not yet receiving lifetime income distributions.

Under this offer, participants who would not otherwise be eligible were given a window of time to take a lump sum distribution. But the company made clear that the lump sum window offer alone would not meet its objective and further action would be taken.

In its 8-K SEC filing in late January, Weyerhaeuser announced that it had entered into an agreement with Athene Annuity and Life Co. to transfer $1.5 billion in U.S. pension liabilities in a buyout, affecting 28,500 retirees and beneficiaries. Both the assets and the participants will be transferred to Athene and will no longer be under the scope of the Weyerhaeuser pension plan.

Lockheed Martin: The defense industry giant has followed a steady track to reduce its pension liabilities. In 2006, it instituted a soft freeze, which meant new employees were no longer eligible to participate. In 2016, it began the first step in a two-part hard freeze that will be fully implemented by 2020 — fully ending the accrual of benefits for plan participants. After the passage of the *Tax Cuts and Job Act of 2017*, it took further action. The company made a $5 billion contribution ahead of the September 15, 2018 deadline in order to take a higher federal tax deduction (up to 35% compared with 21% going forward).

The contribution provided room for them to maneuver. In 2019, a $1.8 billion pension risk transfer will go to Prudential Insurance in a group annuity buyout, and a second group annuity "buy in" of a little over $800 million will cover the monthly lifetime payments to 9,000 currently retired plan participants.[1] Lockheed Martin then spun the 9,000 into a new pension plan before December 31, 2018 to begin a termination filing of the new plan in 2019. The company expects to terminate the plan in 2020. The new twist of applying the seldom-used buy-in strategy, combined with a plan spinoff and termination will no doubt get on the radar of other CFOs looking to reduce pension liability.

Bristol-Myers Squibb: The pharma company is taking advantage of a well-funded plan to fully eliminate its pension liabilities. It terminated its plan this year and is transferring the assets in two steps. It began sending lump-sum offer packets in February to 24,000 participants and beneficiaries and will open an election window in April that will run through May 2019.[2] When this process is complete, there will be a pension risk transfer of the remaining participants and assets to Athene. By the end of 2019, BMS will no longer face any pension liability.

Where are CFOs headed?

A 2018 survey of defined benefit (DB) plan sponsors by Metropolitan Life Insurance found that of the plan sponsors who have de-risking goals, 76% of them plan to completely divest their company's DB plan liabilities in the future. But the three company examples above show that while private sector companies may have the same objective, each company must follow a strategy based on the current funding level of the pension and the contribution that a company can afford to make. BMS is more the exception than the rule since it has a more than fully funded plan. Most companies are less than fully funded and will have to take incremental steps over a longer period of time.

There are telltale signs that indicate pension de-risking is on the horizon. Does the CFO use the terms pension de-risking or reducing pension liability in public statements? Has the company taken de-risking actions before, such as a soft or hard freeze, a lump sum window offer or a pension risk transfer? Is the company making large, well above the minimum required contribution amount? Is the funding level of the plan above 80% but below 100%? Every year a plan provides participants with an annual funding notice that shows the plan's funding target attainment percentage. This is a good starting point for financial advisors and clients to begin addressing pension de-risking.

UPS is an instructive case on how de-risking steps can play out over time. In 2016, it offered a lump sum window to 50,000 plan participants.[3] In 2017, it made a massive $7.3 billion contribution to its pension plans and announced its intention to freeze the plan covering non-union employees in 2023. It was a small contribution year in 2018 at

1 Source: Lockheed Martin Press Release and 10-k filings http://www.lockheedmartin.com/us/news/ press-releases/2014/july/0701hq-pension-freeze.html
2 Source: https://news.bms.com/press-release/corporatefinancial-news/bristol-myers-squibb- transfer-38-billion-us-pension-liabilitie

3 Source: http://www.investors.ups.com/static-files/2e3cb3a5-e4a5-4248-8700-741a17baf59e

$19 million, but the company announced a $2 billion contribution for 2019. Logic would indicate further pension de-risking actions are on the horizon.

Bottom line

For private sector pension participants who are not yet receiving lifetime income payments, a critical decision point is likely to take place sometime in the future. And the decision window is often short — usually a matter of weeks, which makes advanced preparation crucial.

To find out more, call 800.426.3750
or visit columbiathreadneedle.com

COLUMBIA THREADNEEDLE INVESTMENTS

Not FDIC insured • No bank guarantee • May lose value

CTBPFPRH (04/19) 2483169