RETIREMENT PLAN
SPOTLIGHT

August | 2021

DEFINED BENEFIT | MID-YEAR PENSION PLAN UPDATE

The last 16 months have been a very volatile period for pension plans, to say the least. Where do things stand now, in the middle of 2021?

DISCOUNT RATES AND ASSET RETURNS: High quality corporate bond yields through July 31st have risen about 20 points since December 31, 2020; having been up 70 points through the end of March, only to fall back down since then. Higher rates result in lower pension liability on the balance sheet and, in general, lower pension expense. With the equity markets near all-time highs, pension portfolios have increased substantially since year end, improving the funded status of many plans. Assets dedicated to LDI strategies have declined slightly in value, matching the change in liabilities, as designed.

ACTION ITEM: *(1)* Now is the time to estimate year-end balance sheet liabilities and next year's pension expense, *(2)* It is also a great time to re-assess plans that have been frozen for many years to determine if termination is within reach, and *(3)* If your plan has not moved to an LDI strategy, now may be a great opportunity for selective de-risking (more below).

MORTALITY: The most recently published studies by the Society of Actuaries for mortality tables ("Pri-2012 Private Retirement Plans Mortality Table") and projection scales ("MP-2020") showed small decreases in life expectancy, which resulted in minor decreased pension liabilities as well. Thus far, published tables have not reflected any impact of COVID; however, the experience during the past 16 months could impact year-end liabilities. While the CDC recently indicated a drop in life expectancy of up to 1.5 years, the long-term impact will not be known for some time.

ACTION ITEM: Nothing immediate to do now, but USICG is tracking this and will alert you if anything needs to be done.

PBGC PREMIUMS: 2021 PBGC premium rates are the highest in history with the Flat Rate premium at $86 per participant and the Variable Rate premium at 4.6% of unfunded vested liability. The premiums are subject to inflationary increases, so it remains to be seen what the 2022 levels will be.

ACTION ITEM: Now may be a great time for selective de-risking to help reduce these premiums. There may also be opportunities for savings by electing a change in the discount rate basis.

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INFLATION: The benign inflation of the past has come to an end. How will this impact pension plans? On the liability side, upward pressure on interest rates could lead to decreases in liabilities. However, for pay-related plans, higher pay would of course increase pension benefits and liabilities, overshadowing interest rate increase savings. On the asset side, rising interest rates could have a negative impact on both fixed income and equity portfolios.

ACTION ITEM: An analysis of the impact of higher inflation could help avoid unpleasant surprises at year end and into the future. It may also be a good time to recalibrate pension plan asset allocation.

ARPA: The American Rescue Plan Act of 2021 included a number of pension relief provisions, including reductions to Minimum Required Contributions.

ACTION ITEM: On Friday, July 30th, the IRS released guidance on ARPA. We will be in touch with you shortly about the details and any advantages we think the guidance will provide to your pension plan.

DE-RISKING: Plans may benefit from executing a lump sum window and/or an annuity purchase. Offering in-service withdrawals to employees over age 59.5 might be beneficial as well. For pension portfolios that have experienced significant gains over the last 16 months, locking in gains and executing any of these de-risking actions can be part of a strategy to help reduce adverse investment risk, administrative costs and PBGC premiums. Now may also be an opportune time to talk with your Investment Advisor about matching up your plan's asset allocation to liability matching asset classes.

Please contact your USICG Actuary to discuss these important topics.

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