USI CONSULTING GROUP

RETIREMENT PLAN
SPOTLIGHT

DEFINED BENEFIT | YEAR-END PENSION PLAN UPDATE

A New Year, A New Opportunity

After a challenging 2021, now is a great time to welcome the new year by reviewing the trends and updates that will impact pension plans in 2022. As funded status has risen, many plan sponsors chose to take de-risking steps for their plans this year, and we see that trend continuing. To set your organization up for success, we have recapped the trends and updates below.

Discount Rates: High quality corporate bond yields as of this writing have risen about 25 points since December 31, 2020. Higher rates result in lower pension liability on the balance sheet and, in general, lower pension expense.

Asset Returns: With the equity markets near all-time highs, most pension portfolios have increased substantially year-to-date, improving the funded status of many plans. Assets dedicated to LDI strategies have declined slightly in value, matching the change in liabilities, as designed. Expected Return on Assets assumptions are trending lower however, and sponsors may wish to revisit this assumption for their accounting valuations in 2022.

The improvement in funded status may represent an opportunity for selective de-risking (more below).

Mortality: The most recently published Society of Actuaries projection scales ("MP-2021") showed small increases in life expectancy, which result in a minor increase in pension liabilities as well. Thus far, published tables have not reflected any impact of COVID. Many plan sponsors have seen increases in mortality experience over the last two years. While the CDC recently indicated a drop in life expectancy due to COVID, the long-term impact will not be known for some time.

PBGC Premiums: 2022 PBGC premium rates are the highest in history with the Flat Rate premium at $88 per participant and the Variable Rate premium at 4.8% of unfunded vested liability. The cap on the Variable Rate premium increases to $598. Again, selective de-risking can help reduce these premiums. There may also be opportunities for savings by electing a change in the discount rate basis.

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, offsetting interest rate increase savings. Plans that have cost-of-living adjustments will have added costs as well. On the asset side, rising interest rates could have a negative impact on both fixed income and equity portfolios.

ARPA: The American Rescue Plan Act of 2021 included a number of pension relief provisions, including reductions to Minimum Required Contributions (See our August 2021 bulletin). Further, the Infrastructure Investment and Jobs Act extended certain relief provisions by retaining the 95%/105% interest rate corridor through 2030.

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 two years, 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 USI Consulting Group (USICG) Actuary to discuss these important topics and to learn more about how USICG can help you better predict and manage your pension plan costs and expenses, while optimizing plan design, financial impact and employee appreciation.

For additional information, email us at information@usicg.com or visit our website at www.usicg.com

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