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December 2018 Wreaks Havoc on Pension Plan Termination Funding – Could It Have Been Avoided?

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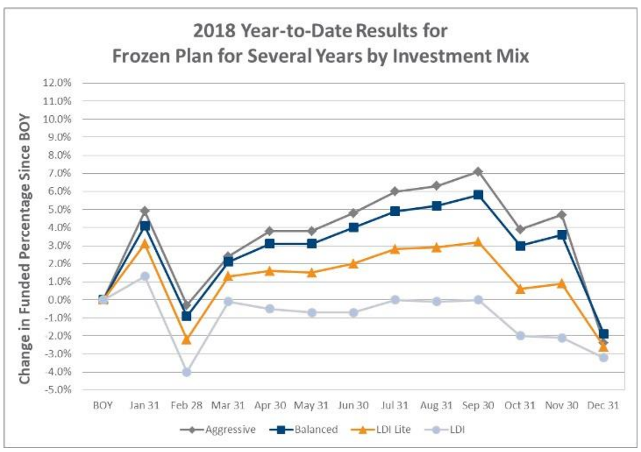
The last few months once again have shown how volatile pension plan funded status can be. In 2018, leading up to December, many thought that their pension plans were getting closer and closer to being financially ready for a plan termination. Equity markets were seeing high returns and interest rates were on the rise. As a result, most pension plans saw an improvement in funded status.

Then December happened. The markets went south and interest rates took a dive. Plan sponsors that measured the plan's funded status on December 31 saw a poor financial outcome for 2018. Based on Findley's *December 2018 Pension Indicator*, the funded status for a frozen pension plan with a typical equity/fixed income asset portfolio saw a reduction in its funded status of around 6% to 8% from November to December.



However, plan sponsors that started planning for a plan termination in early 2018, and monitored the improving funded status of the plan may have taken some steps to help mitigate the impact of a market downturn. In this case, a plan sponsor which hedged the assets to better match the liabilities prior to December experienced only about a 2% reduction in the plan's funded status in December.

The lesson is most plan sponsors probably didn't really know how close (or far) the plan was to being financially ready for a plan termination. And, as the adage goes, "failure to plan is a plan to fail."

Planning is Fundamental to Success

To help plan sponsors understand this volatility and know how to manage it, Findley has developed a process to help plan sponsors prepare for plan termination. (See Findley's article "*Mapping Your Route to Pension Plan Termination Readiness*"). The plan termination process itself requires many steps, but there are also steps that a plan sponsor can take prior to beginning a plan termination to be better prepared. Whether plan termination is only a couple, 5, or 10 years away, planning is critical.

Taking a closer look at plan's financial readiness, there are a few topics plan sponsors should explore:

- the plan's investment strategy,
- the benefits of de-risking strategies, and
- a formalized contribution policy.

Reviewing these financial topics early and monitoring them periodically can help plan sponsors achieve plan termination financial goals in a more orderly and predictable way.

Knowing the time horizon, identifying data issues, and reviewing the plan document are other areas to include in your readiness planning. Findley's *Rapid Map™* process helps plan sponsors take a project management approach to all of these aspects of getting ready for a plan termination.

In Perspective

As it turns out, most pension plans rebounded nicely in January and February of this year. So if you are contemplating plan termination, take advantage of this reprieve. Planning early for a plan termination can have a long-term effect on the point in time when your plan is ultimately ready to terminate. Take steps now to put a process in place to regularly monitor your plan's funded status. Spending time now can reap rewards and potentially mitigate the negative outcomes from future market downturns.

Questions? Contact the Findley consultant you normally work with, or Larry Scherer at *Larry.Scherer@findley.com*, or 216.875.1920.