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Restructuring Legacy Pension Liabilities in the Age of Historically Low Interest Rates

Making real progress toward the goal of sunsetting and de-risking frozen defined benefit pension plans...

The enclosed information provides an illustration of the company's pension plan under a hypothetical set of assumptions using publicly available information and any data provided to us. Further analysis is required, and all numbers can be expected to change. We hope it provides a useful starting point for discussion leading to action steps if warranted.

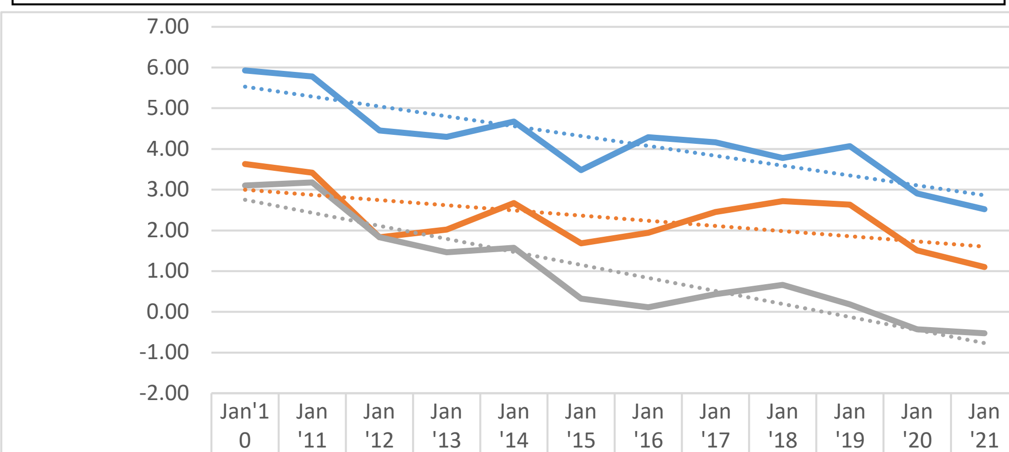
Waiting for rates to rise?

The efficacy and timing of de-risking moves often comes down to where you think interest rates are going.

The conventional wisdom for years now is that rates are heading up, and most think that pulling the trigger on buying annuities and/or offering lump sums is just not a good idea. Why? Because as rates go up the price of Single Premium Group Annuities (SPGAs) go down. Likewise, the cost of lump sums.

This conventional wisdom has largely proven wrong over the past decade as rates have continued a long trend downward.

Interest rates have continued trending downwards for years.



	Jan'10	Jan '11	Jan '12	Jan '13	Jan '14	Jan '15	Jan '16	Jan '17	Jan '18	Jan '19	Jan '20	Jan '21
FTSE Index	5.93	5.78	4.46	4.30	4.68	3.48	4.29	4.16	3.78	4.07	2.91	2.52
10-year T's	3.63	3.42	1.83	2.02	2.67	1.68	1.94	2.45	2.72	2.63	1.51	1.1
10 Yr Bund	3.1	3.178	1.834	1.46	1.57	0.324	0.11	0.437	0.659	0.186	-0.428	-0.527

Waiting for rates to "normalize"? Apparently we should stop thinking they will anytime soon. Negative real yields are apparently the norm. In fact, every so often you hear a smart fixed income guy talking about how even U.S. Treasuries could be at zero in five years like the German Bund today.

Historically low rates offer challenges and opportunities.

Companies with high levels of retiree pension exposure should consider a series of partial buyouts over several years.

1. Lower rates have expanded pension liabilities on plan sponsor balance sheets and increased PBCG costs.
2. Many plan sponsors have access to cash to retire portions of their liabilities.
3. Negative Real Yields are increasing risk in DB plans as investment managers chase yields.
4. Risks are more apparent than ever as black swan events are ever-present, though rarely accounted for in advance.
5. March 2020 and its aftermath of massive fiscal injections and Federal Reserve actions mean an economy and markets built on mountains of debt with unknown consequences, e.g., risk.
6. With rates so low, it is a great time to “Re Fi” portions of pension debt.
7. Retirees can have options while reducing the costs of de-disking by offering lump sum elections.
8. Often overlooked, but easily dealt with, companies can remove legacy pension obligations once and for all.
9. Legacy liabilities offer little but risk. They are frozen and no one is accruing additional benefits.
10. A hungry carrier environment means tightly priced annuities when compared to retiree GAAP liabilities.

By doing a series of partial buyouts a plan can steadily reach striking distance of a full termination.

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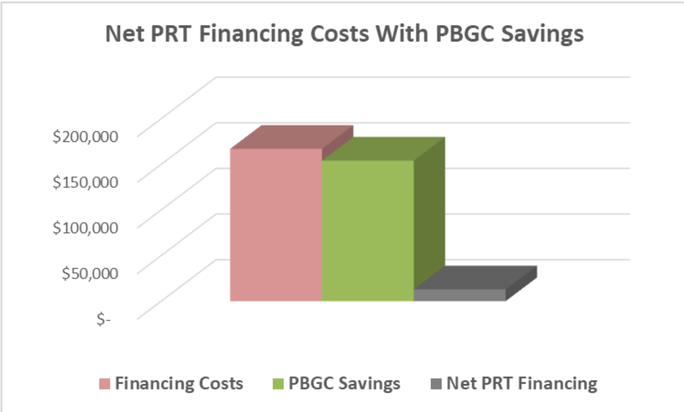
Pennies on the dollar can reduce pension risk transfer costs after PBGC cost savings are taken into account.

Most companies are aware of the increasing costs of PBGC premiums. Add to these the ongoing costs of plan administration, actuarial and legal, and it becomes apparent that the costs of servicing pension plan debt can be reduced with a restructuring. Especially when termination and de-risking moves can remove these costs once and for all.

The table and graph below shows how savings from reduced PBGC premiums can offset the financing costs of de-risking moves dramatically:

Net PRT Financing Costs with PBGC Savings

Yr	A/T PBGC Var Prem	A/T Cost of Financing 3.2%	Net PRT Financing Costs	**Financing Costs Covered By PBGC**
1	40,883	(47,670)	(6,788)	**86%**
2	35,042	(39,725)	(4,683)	**88%**
3	28,267	(31,780)	(3,513)	**89%**
4	23,321	(23,835)	(514)	**98%**
5	17,102	(15,890)	1,212	**108%**
6	9,406	(7,945)	1,461	**118%**
7	0	-	0	**-**
8	0	-	0	**-**
9	0	-	0	**-**
10	0	-	0	**-**
Total	154,020	(166,845)	(12,825)	**92%**



Key Assumptions (Data source: 5500 filings)

- Average of eight mid-sized FL plans with 6M-98M in assets: (Illustrated typical plan: 89% funded $19M single employer plan; 401 lives with more than 50% retired)
- Net 3.2% interest on financed portion of plan term
- Variable premium: 4.6% with $582 cap

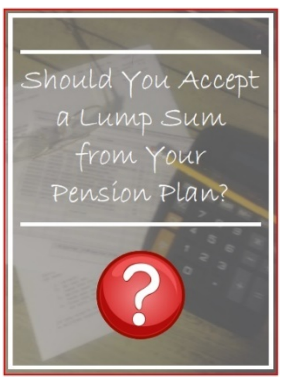
Our services, systems, and consultants enhance sponsor results and the Participant Experience.

We start working with plan sponsors long before election letters go out and provide the following Participant Services in addition to our consulting.

Events

We set up events/webinars in various locations so that all those who receive election offers have the chance to get information and ask questions about their election, their retirement, and what's happening with their pension plan.

CESCrews Website and App



The ***Retirement GPS Lump Sum Analyzer*** ***TM*** (rGPS-LSA) App and webpage is customized for each plan sponsor (for a look go to **CESCrews.com/sample-company)**.

Together they provide in-depth information regarding the impact of a participant's potential election decision. Participants can get a written retirement analysis under both scenarios: 1) take the lump sum, or 2) keep the pension albeit in the form of an annuity.

The company can also track user activity and focus follow-up efforts while assuring the confidentiality of personal information.

Participant Consultants

The personal, human touch. Working with specially trained advisers all participants can access unbiased advice regarding their election and retirement planning during the election period. Consultations are available online, over the phone, and in person where practicable.

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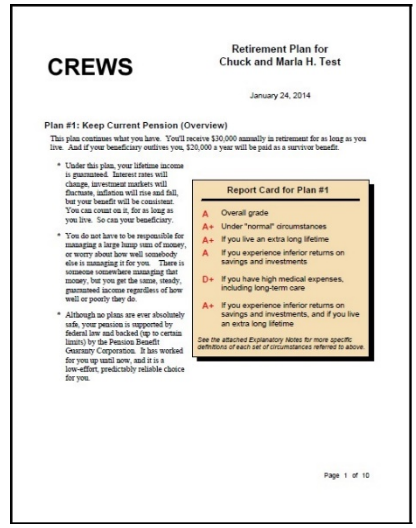
We provide a unique combination of services and systems.

Our technology and services allow users to get comfortable with the impact of their decision and use the election process as an opportunity to really get ready for, or at least get a good read on, their retirement.

In the end, participants and plan sponsors gain from a better communication and opinion of the lump sum offer, while reducing potential downsides. Fiduciary concerns are also potentially reduced.

Working with the company's team, we help examine the options and implement recommendations. We work with existing advisers and can employ additional resources as needed.



CREWS

Retirement Plan for
Chuck and Marla H. Test

January 24, 2014

Plan #1: Keep Current Pension (Overview)

This plan continues what you have. You'll receive $30,000 annually in retirement for as long as you live. And if your beneficiary outlives you, $20,000 a year will be paid as a survivor benefit.

* Under this plan, your lifetime income is guaranteed. Interest rates will change, investment markets will fluctuate, inflation will rise and fall, but your benefit will be consistent. You can count on it, for as long as you live. So can your beneficiary.
* You do not have to be responsible for managing a large lump sum of money, or worry about how well somebody else is managing it for you. There is someone somewhere managing that money, but you get the same, steady, guaranteed income regardless of how well or poorly they do.
* Although no plans are ever absolutely safe, your pension is supported by federal law and backed (up to certain limits) by the Pension Benefit Guaranty Corporation. It has worked for you up until now, and it is a low-effort, predictably reliable choice for you.

Report Card for Plan #1

A	Overall grade
A+	Under "normal" circumstances
A+	If you live an extra long lifetime
A	If you experience inferior returns on savings and investments
D+	If you have high medical expenses, including long-term care
A+	If you experience inferior returns on savings and investments, and if you live an extra long lifetime

See the attached Explanatory Notes for more specific definitions of each set of circumstances referred to above.

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For more information, please contact:

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