

/IFP 2019

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Managing Pension Risk Prior to Merger/Termination

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Agenda

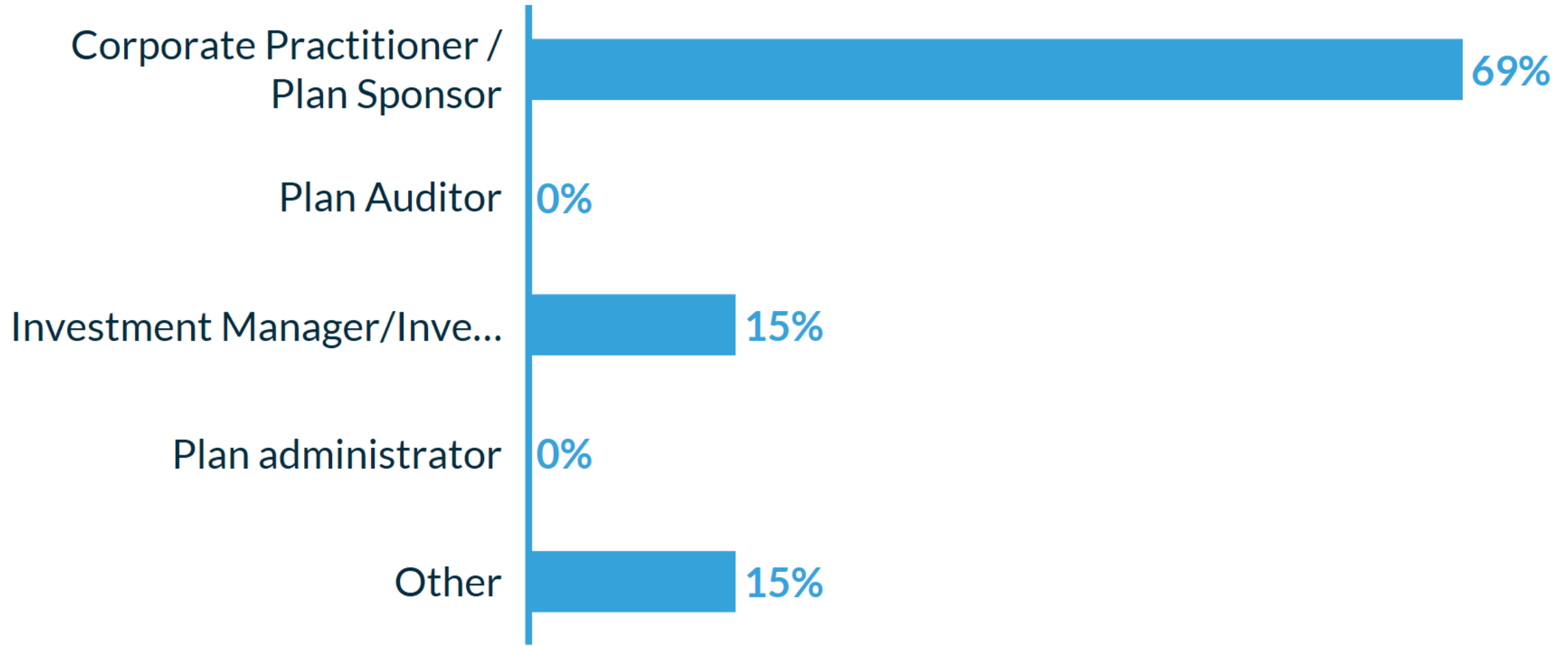
- **DB plan risks**
- **Innovative solutions**
- **Case studies**

Poll 1

What role do you play with respect to DB plans?

- A. Corporate Practitioner / Plan Sponsor**
- B. Plan Auditor**
- C. Investment Manager/Investment Consultant**
- D. Plan administrator**
- E. Other**

What role do you play with respect to DB plans?

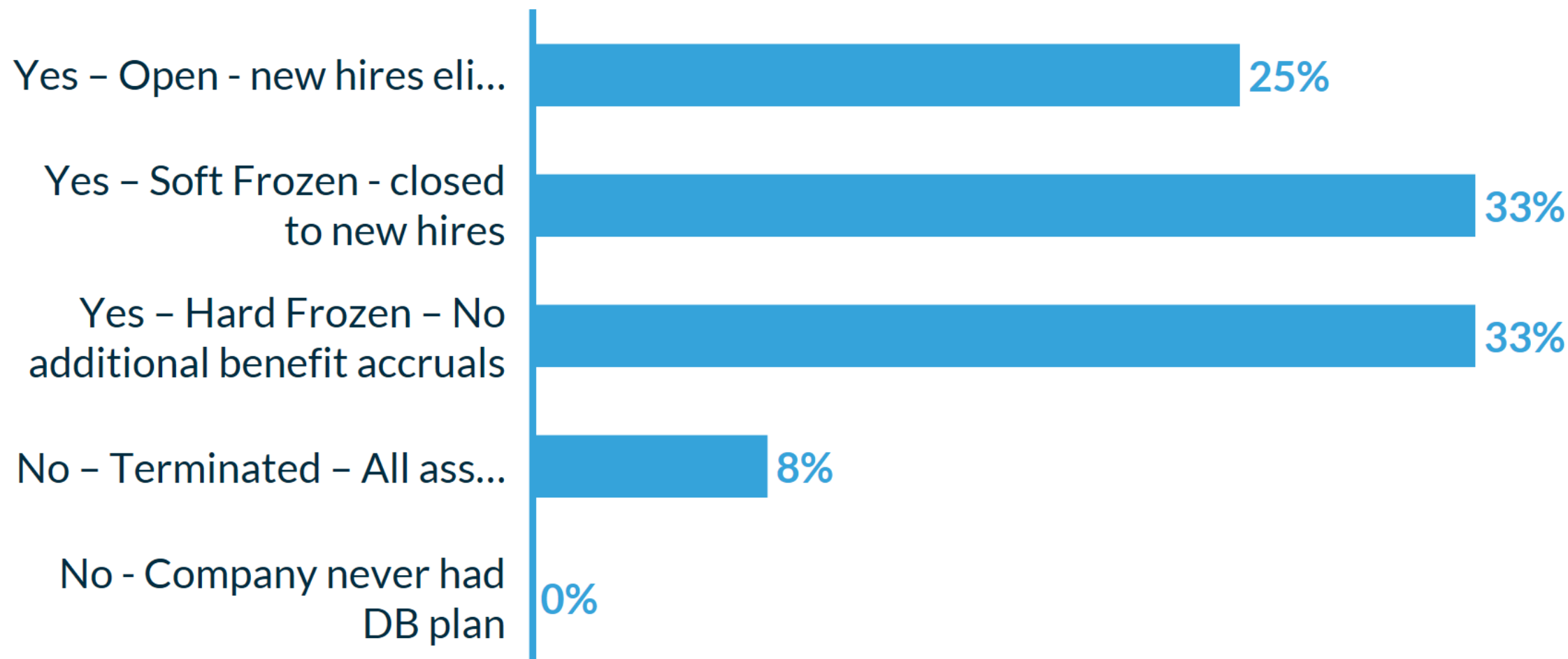


Poll 2

Does your company have a DB Plan?

- A.** Yes – Open - new hires eligible and accruing benefits
- B.** Yes – Soft Frozen - closed to new hires
- C.** Yes – Hard Frozen – No additional benefit accruals
- D.** No – Terminated – All assets have been distributed
- E.** No - Company never had DB plan

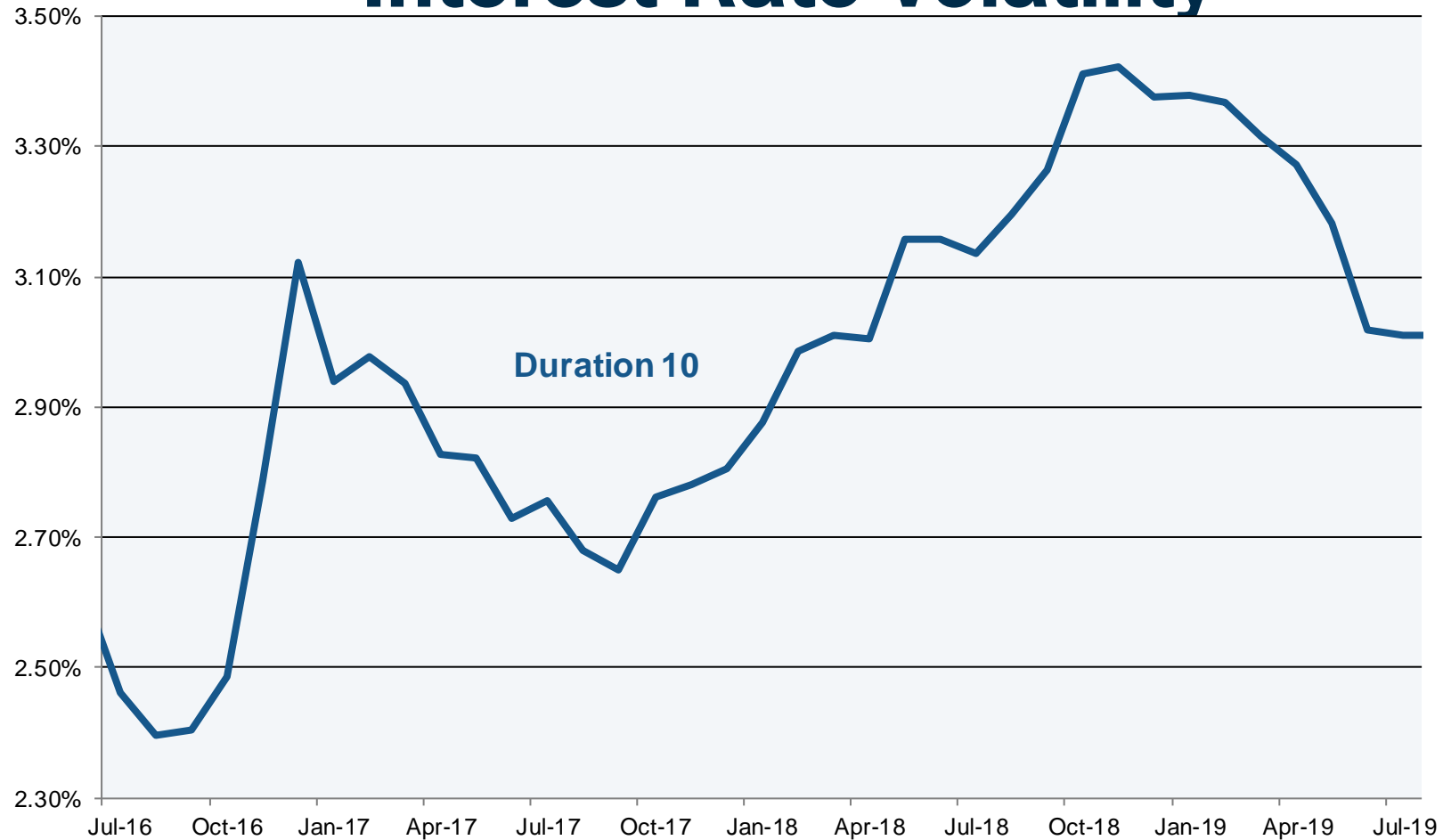
Does your company have a DB Plan?



DB Plan risks and Increased PRT Activity

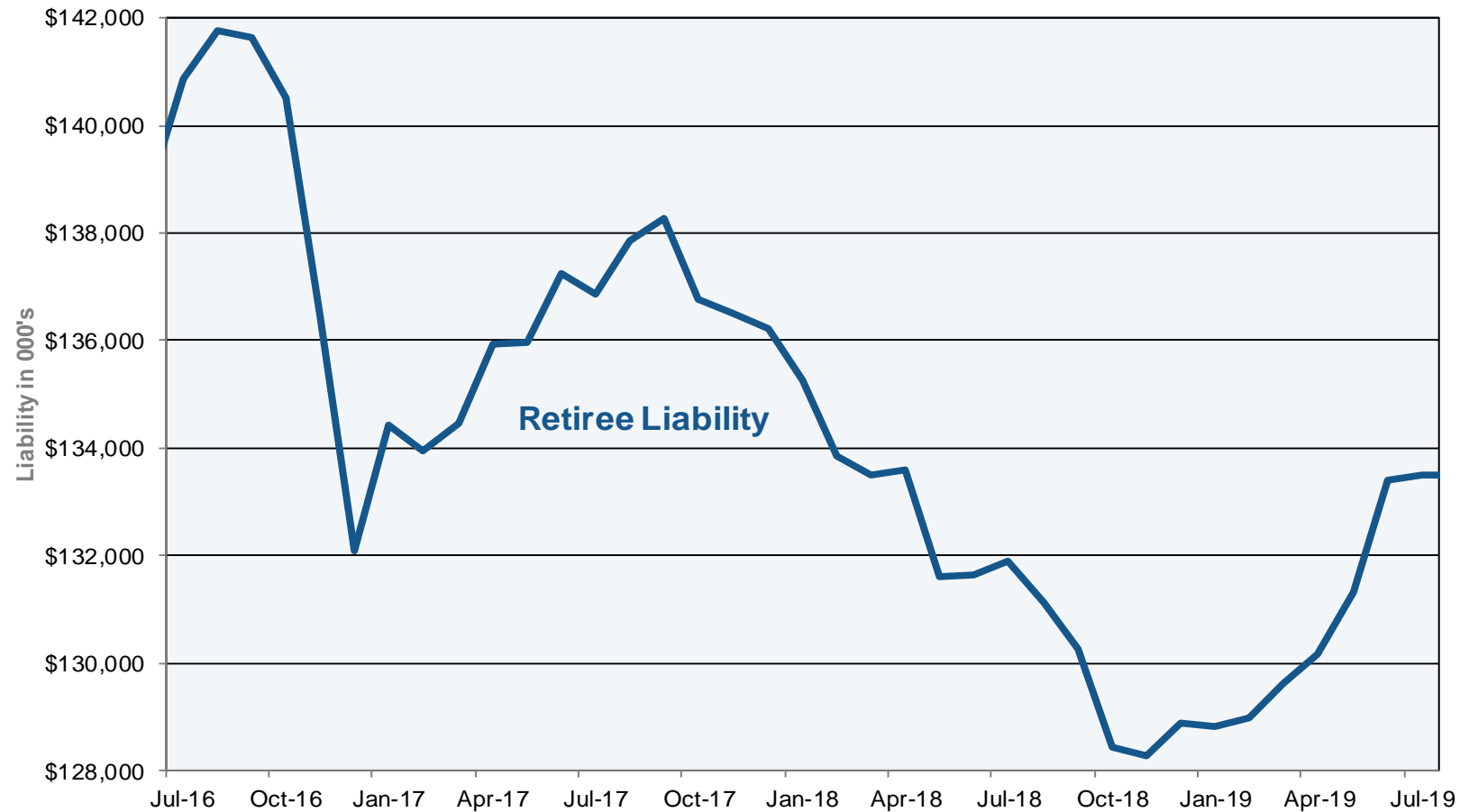
Pension Risk Transfer Analysis

Interest Rate Volatility



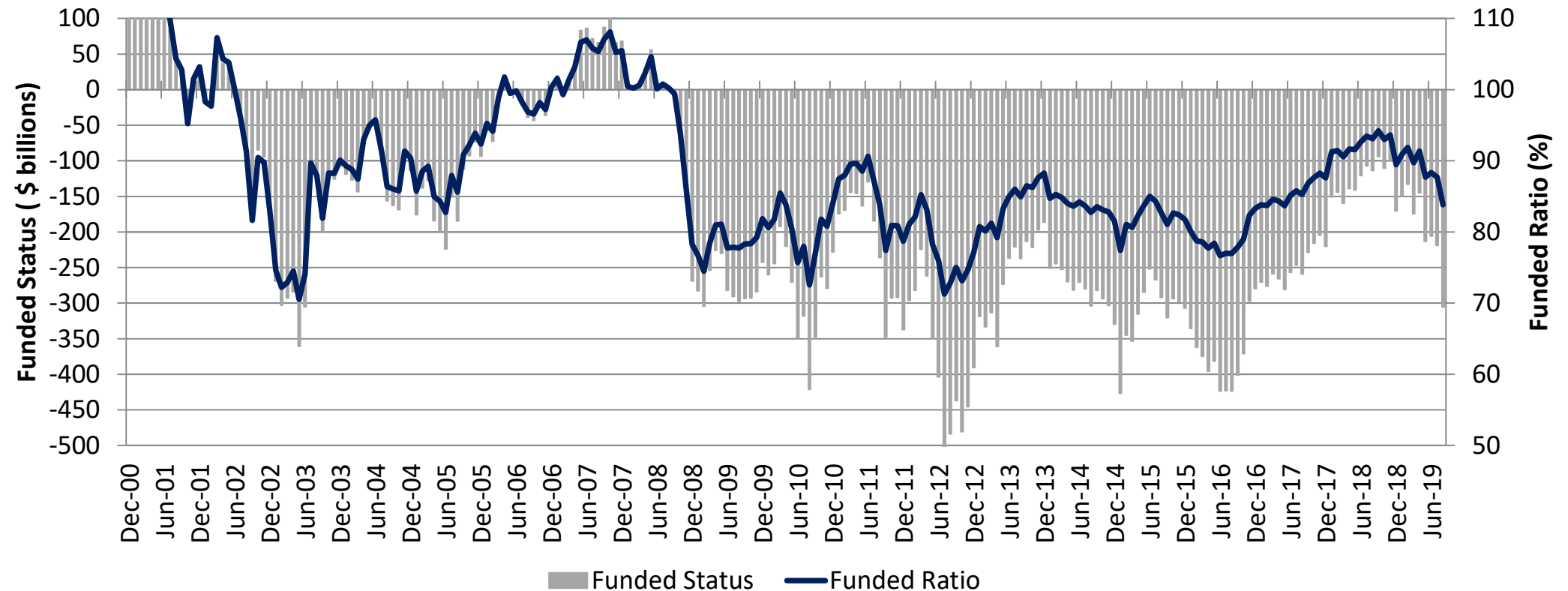
Pension Risk Transfer Analysis

What this means to you – Retiree Annuity Pricing



Funded Status Volatility

Milliman 100 Pension Funding Index Pension Surplus/Deficit
and Pension Funded Ratio



Source: Milliman 100 Pension Funding Index, September 2019

How Long Will You Live?

50% Probability of Living to future age from 65

Male **21 Years** **Age 86**

Female **22 Years** **Age 88**

Last Survivor of Couple **27 Years** **Age 92**

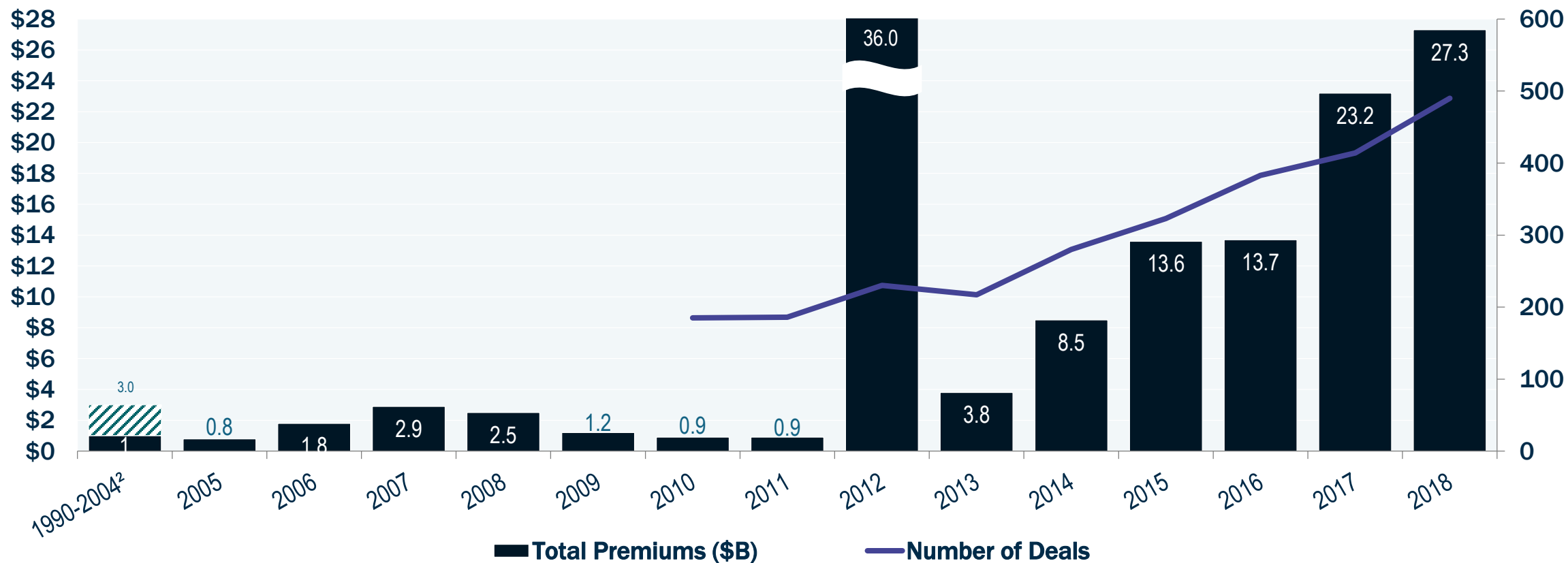
10% Probability of Living to Age 100 from 65

Last Survivor of Couple – 10% Chance of Living > 35 Years **Age 100**

Source: Society of Actuaries. "RP2014 and MP 2018," October 2018

Historical Group Annuity Sales Volume¹

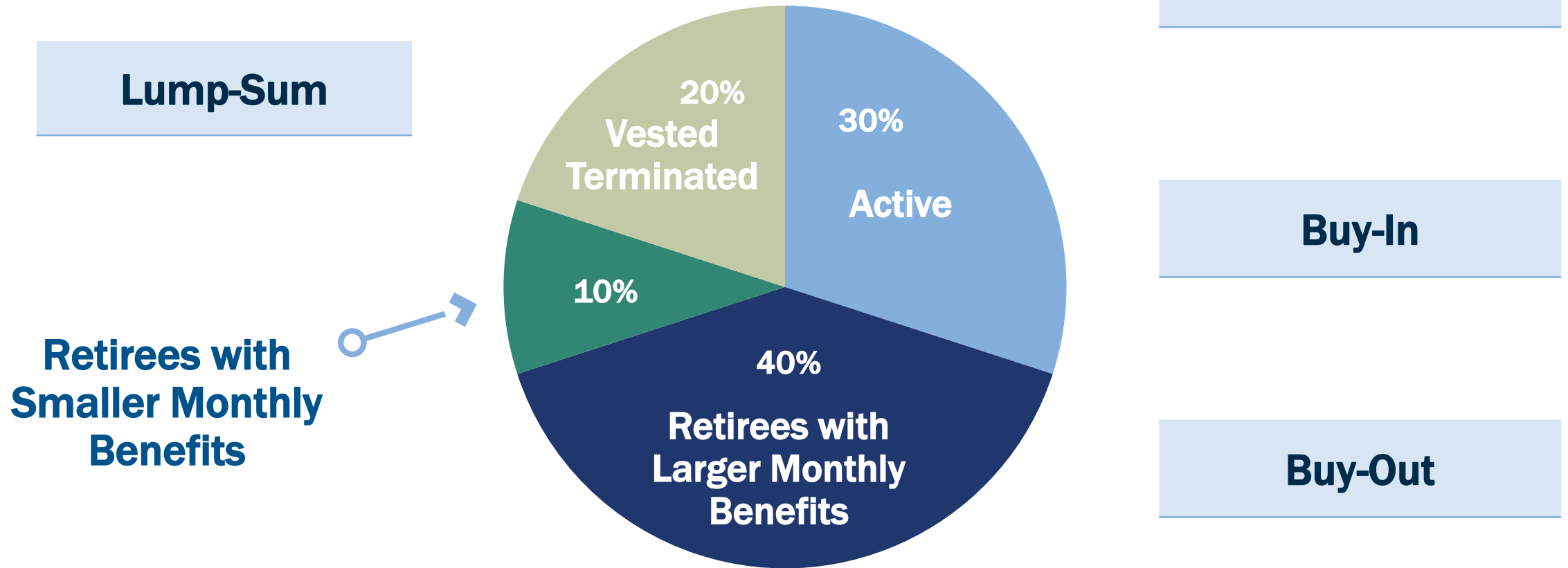
Insurer Sales – Single Premium Products (\$ Billions)



¹ LIMRA and BCG Penbridge. ² For 15 years between 1990 and 2004, sales were between \$1B and \$3B.

Managing Pension Risk

De-Risking Road Map



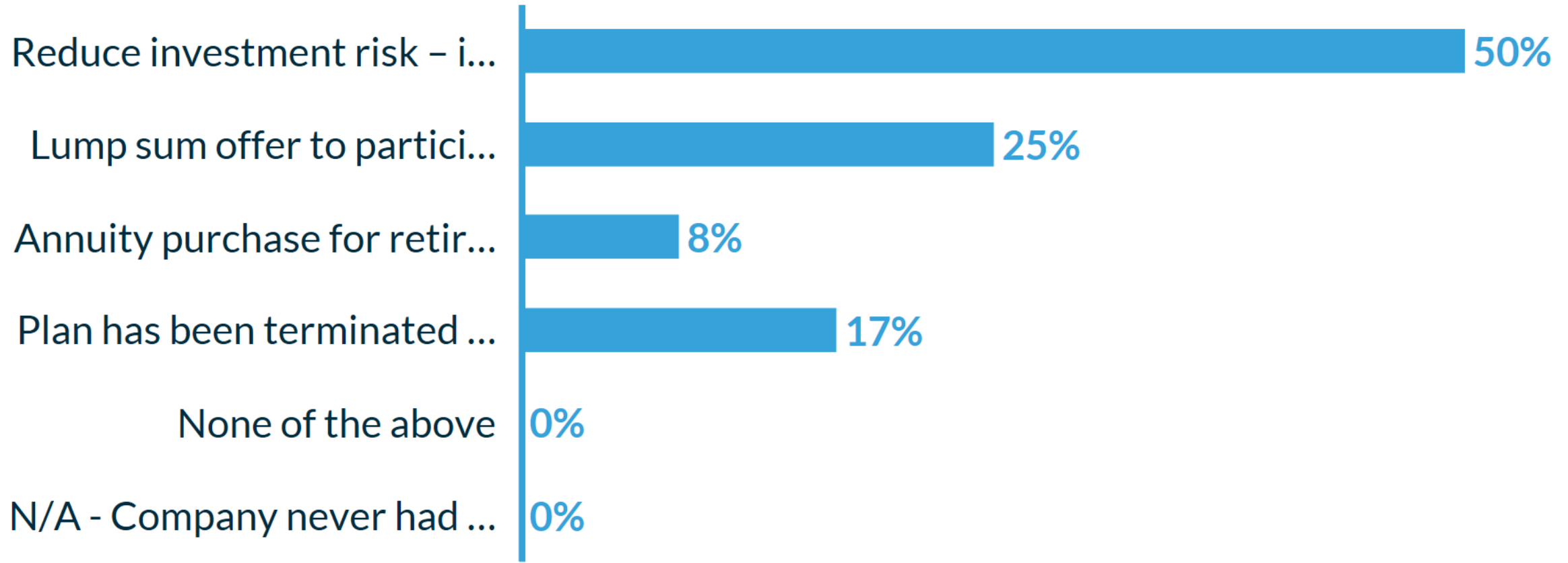
Source: Pacific Life Insurance Company

Poll 3



















Have you taken any de-risking steps related to your DB plan?

- A. Reduce investment risk – increase fixed income or LDI strategies
- B. Lump sum offer to participants
- C. Annuity purchase for retirees with small benefits
- D. Plan has been terminated for all participants
- E. None of the above
- F. N/A - Company never had DB plan

Have you taken any de-risking steps related to your DB plan?



Options to manage volatile risk

	Fee Frequency	Credit Risk Protection	Reinvestment Risk Protection	Mortality and Other Actuarial Risk Protections	Liquidity Risk Protection	Not Subject to Settlement Accounting	Provides Funding Requirement Insulation
Buy-In	One-time Premium	 Separate Account Structure				 As a Plan Asset	 As a Plan Asset
Buy-Out	One-time Premium						
Current Portfolio	Annual Management Fee				 During Normal Markets		
LDI	Annual Management Fee						

Buy-Out

Buy-Out: Key Features



Source: Pacific Life Insurance Company

Buy-Out: Key Features

Can cover part or all of the plan participants

For Covered Participant Group:

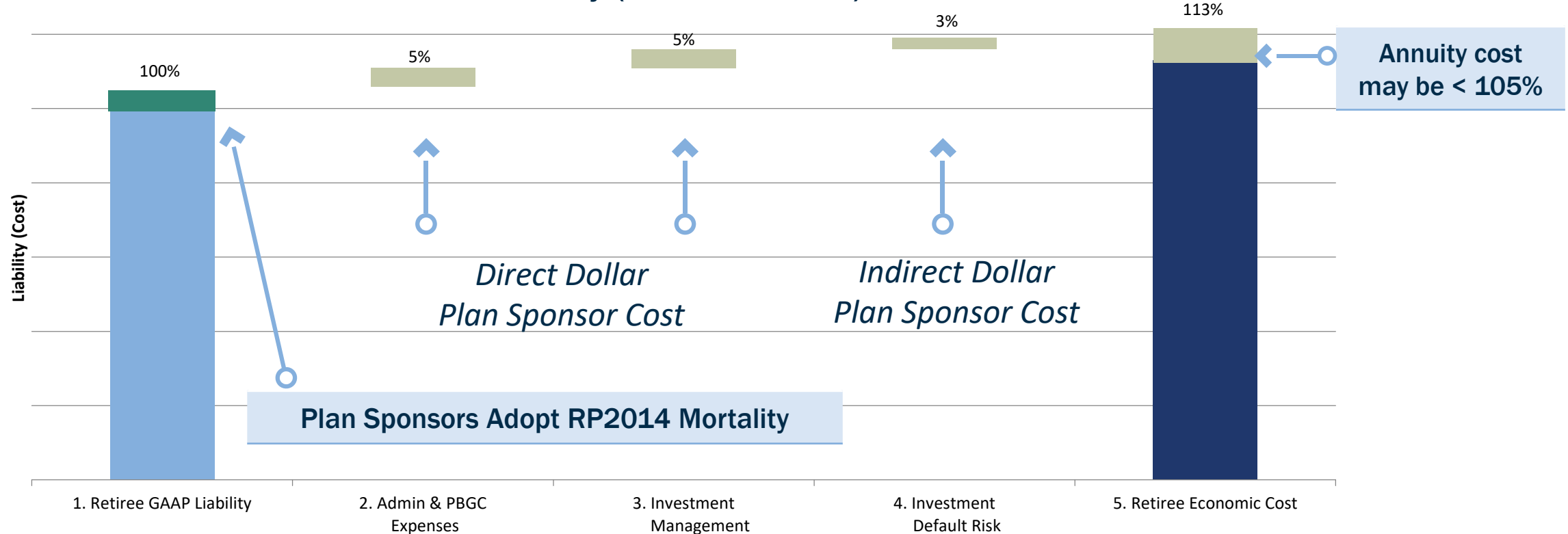
- Transfers all pension obligations and risks to insurer
- Removes the pension liability from plan sponsor's balance sheet
- Plan sponsor no longer subject to PBGC premiums and other expenses
- Insurer provides all annuitant servicing

Source: Pacific Life Insurance Company

Case Study: Reducing Expense With a Buy-Out

For illustrative purposes only.

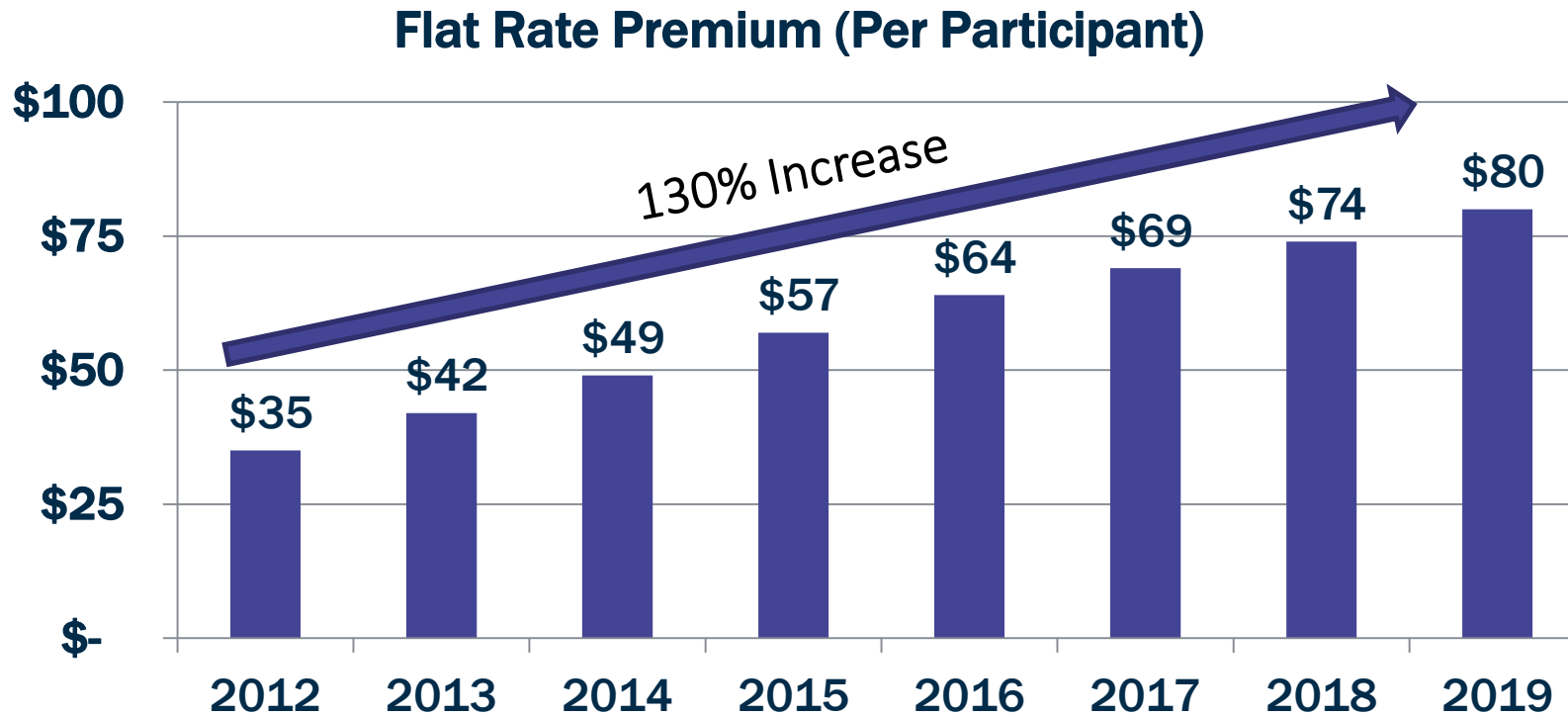
Economic Cost of Retiree Liability (Small Benefits) with RP2014



1. Liability for accounting based on current market discount rate for retiree liability
2. Estimated administrative expenses including actuarial fees and PBGC fixed-rate premium of \$80 per person
3. Estimated investment management fees (assumes 50 bps per year)
4. Estimated cost of defaults on high-quality bond portfolio (assumes 30 bps per year)
5. This is the true economic cost if the plan sponsor retained the liability

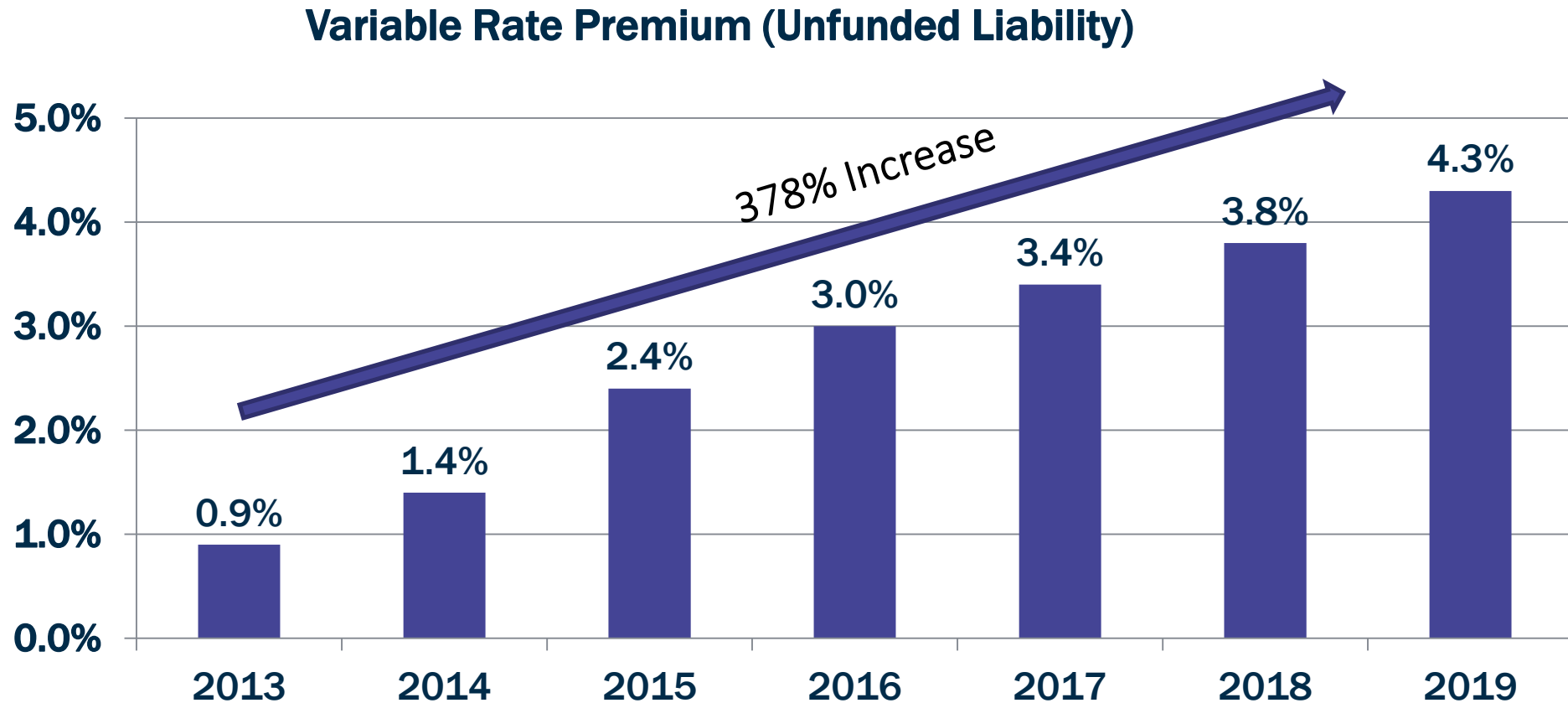
Source: Pacific Life Insurance Company

PBGC Premium Increases



Premium rates, Pension Benefit Guaranty **Corporation** website. December 31, 2018

PBGC Premium Increases

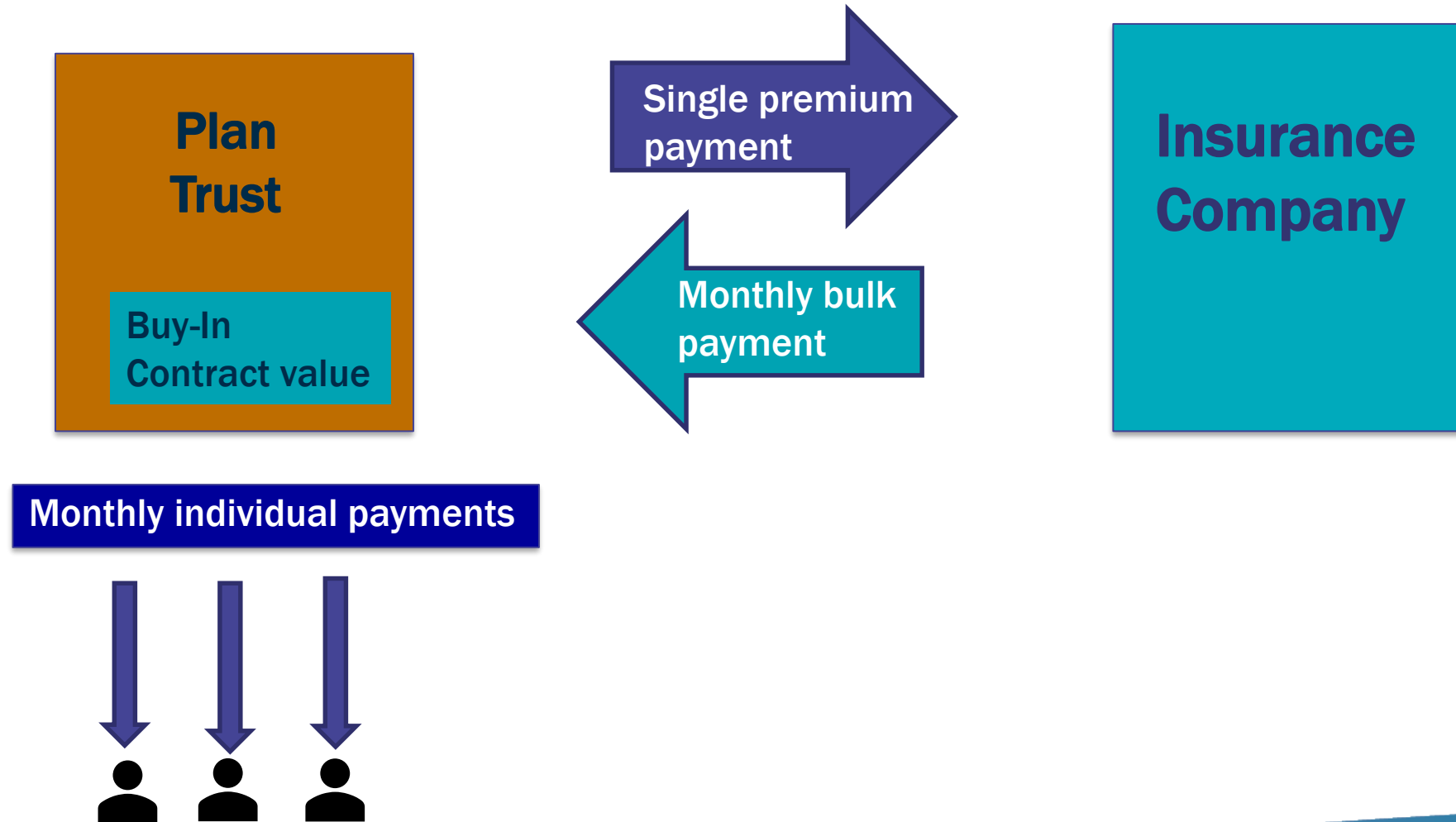


Premium rates, Pension Benefit Guaranty Corporation website. December, 2018

Rate after 2019 will be increased for inflation based on annual increase in National Average Wages

Buy-In

Buy-In: Key Features



Source: Pacific Life Insurance Company

Buy-In: Key Features

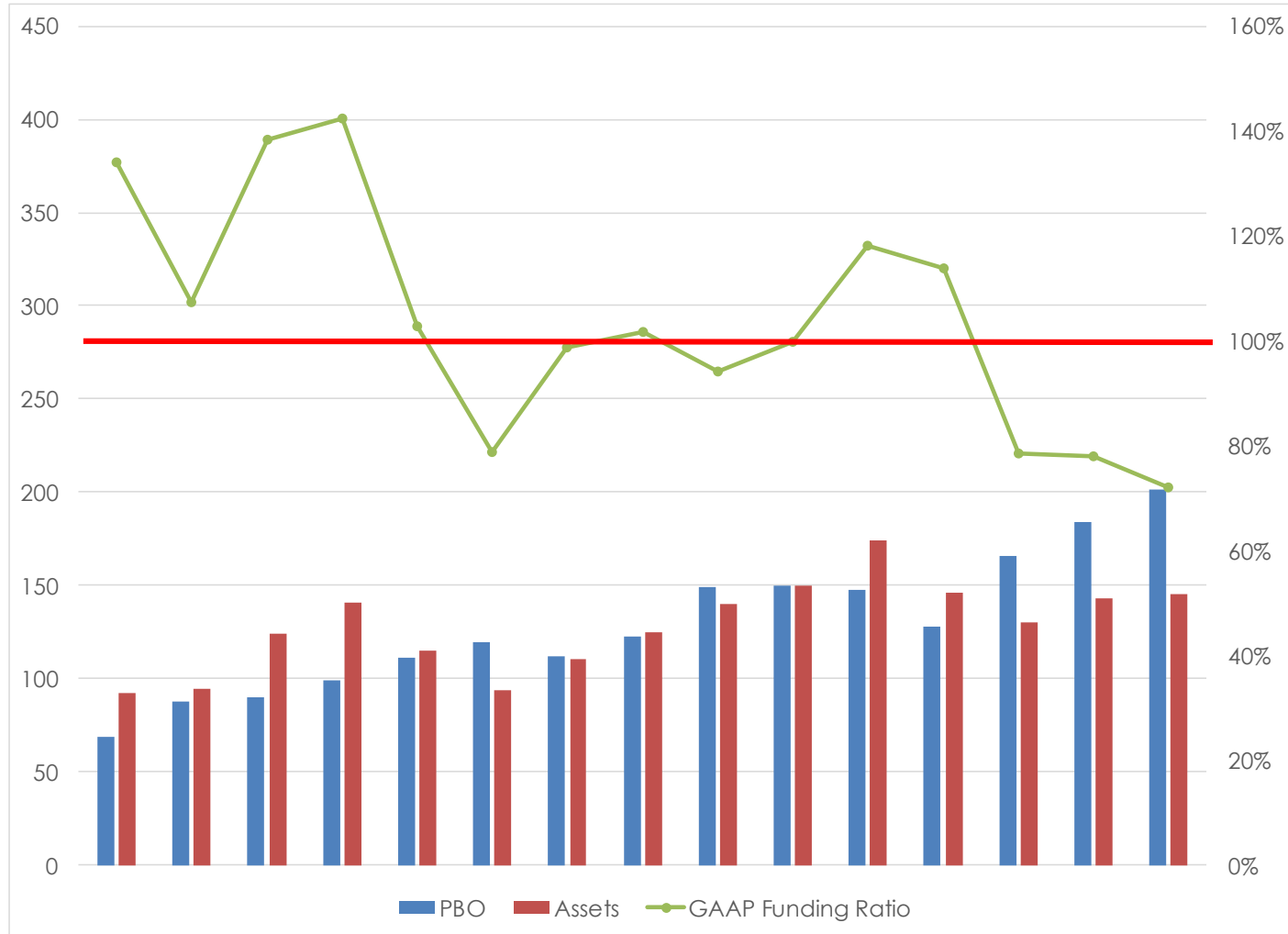
- **No communication required to participants**
- **Contract value remains an asset of the plan/trust**
- **Not trigger settlement accounting**
- **Asset always matches liability**
- **Usually can be surrendered with fee**
- **May be converted to buy-out**

Source: Pacific Life Insurance Company

The Problem: Pension Volatility

- **Volatility factors:**
 - Interest rates
 - Inflation
 - Participants living longer
 - Duration mismatch
- **Creates a roller coaster of funded status**

The Roller Coaster



The Process

- **Hired BCG**
 - Experience with defined benefit pension plan de-risking strategies
 - Knowledgeable about insurance solutions
- **Requested opinions from advisors**
 - Pension plan advisor firm
 - Actuary firm
 - Audit firm
 - Law firm

The Requirements

- **Keep pension plan**
- **Protect retirees in plan**
- **Keep relationship with retirees**
- **Match assets to liabilities**

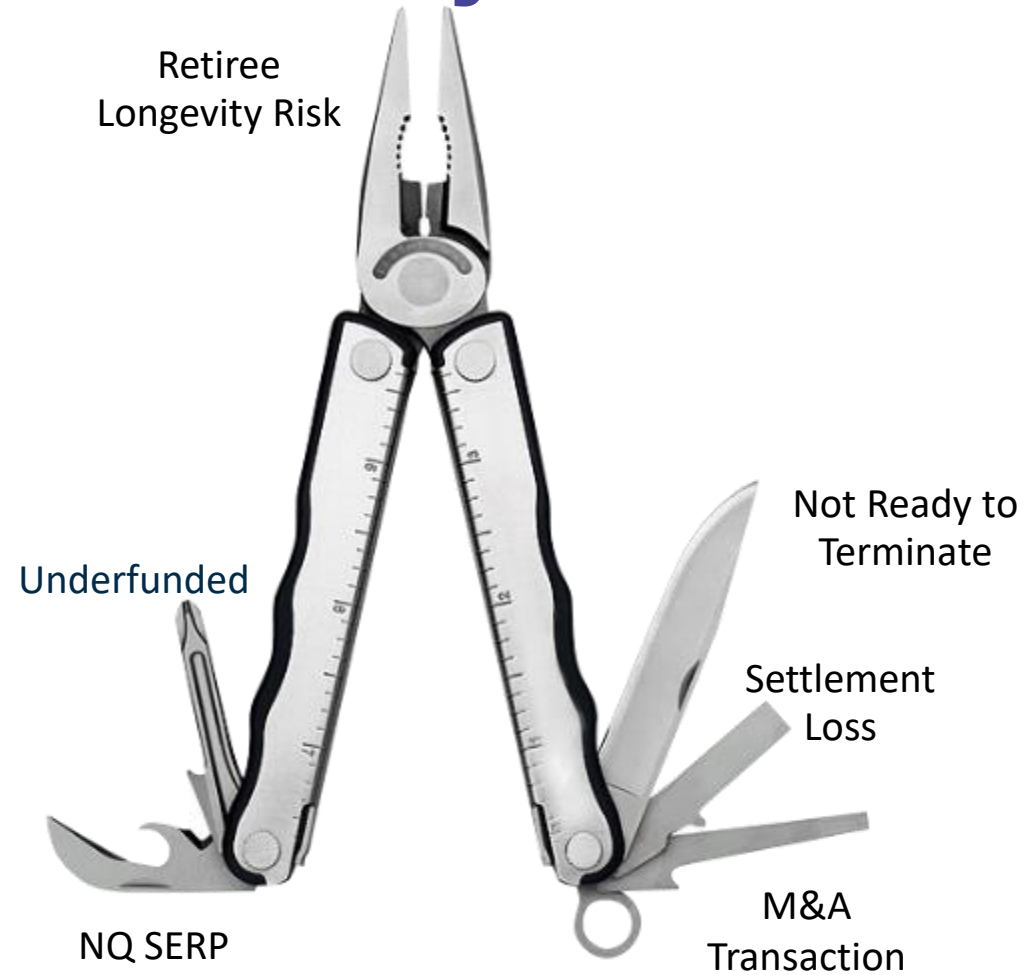
The Solution – Buy-In

- **Asset exactly matches liability, 100% funded for that portion**
- **It is an asset of the plan**
- **No volatility**
- **No settlement**

Post Transaction Analysis

- **Sold plan mutual funds to fund Buy-In**
- **Seven months later, at end of fiscal year, mutual fund value would have been \$10M lower**
- **Would have had funded status on retiree portion of liability of 84%**
- **Buy-In asset always is 100% of liability**

Multiple Uses for Buy-In

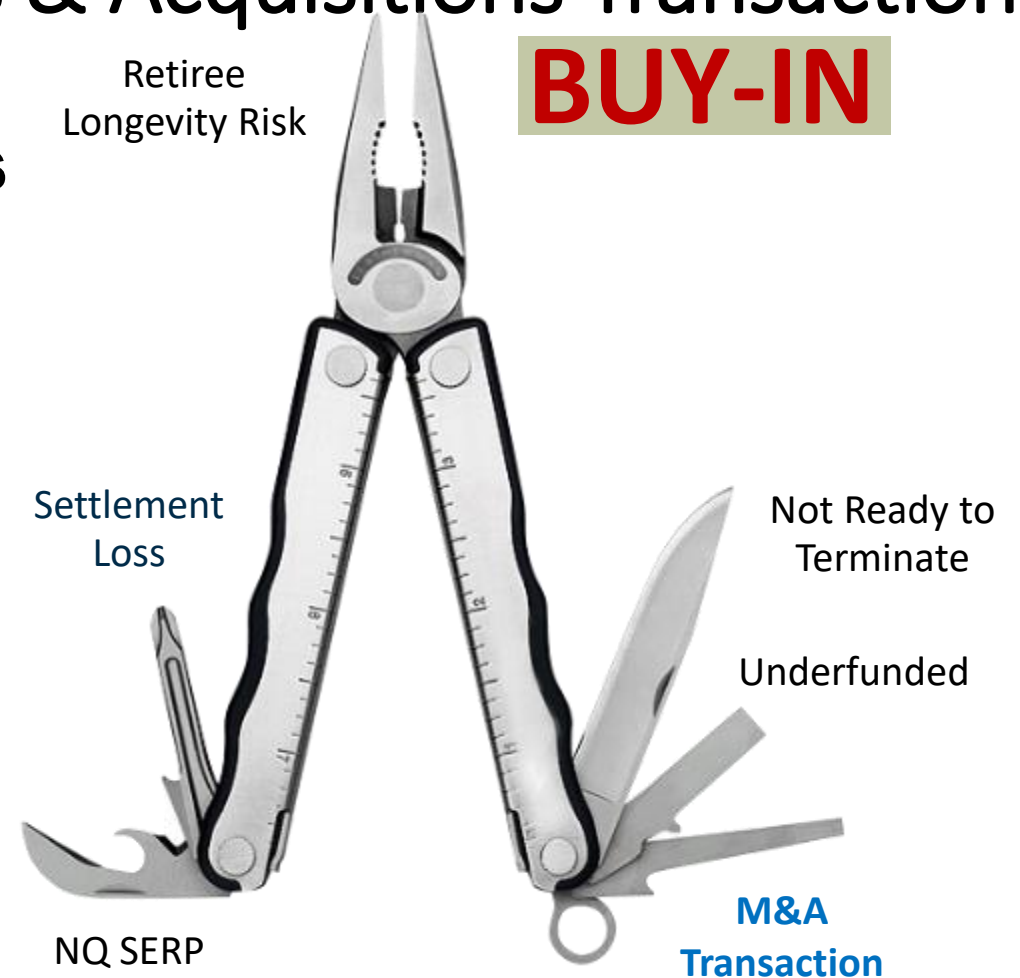


Source: Pacific Life Insurance Company

Buy-In Case Study #1: Mergers & Acquisitions Transaction

- **Quickly lock in DB plan funded status**
- **Confidential; participants not notified**
- **Independent, guaranteed valuation of plan liability**
- **Does not trigger settlement**
 - Pension loss not recognized in income now
- **Focus on merging organizations, not managing pension plan**
- **Convert to Buy-Out after M&A dust settles**

Example for illustrative purposes only



Source: Pacific Life Insurance Company

Questions?

Key Takeaways

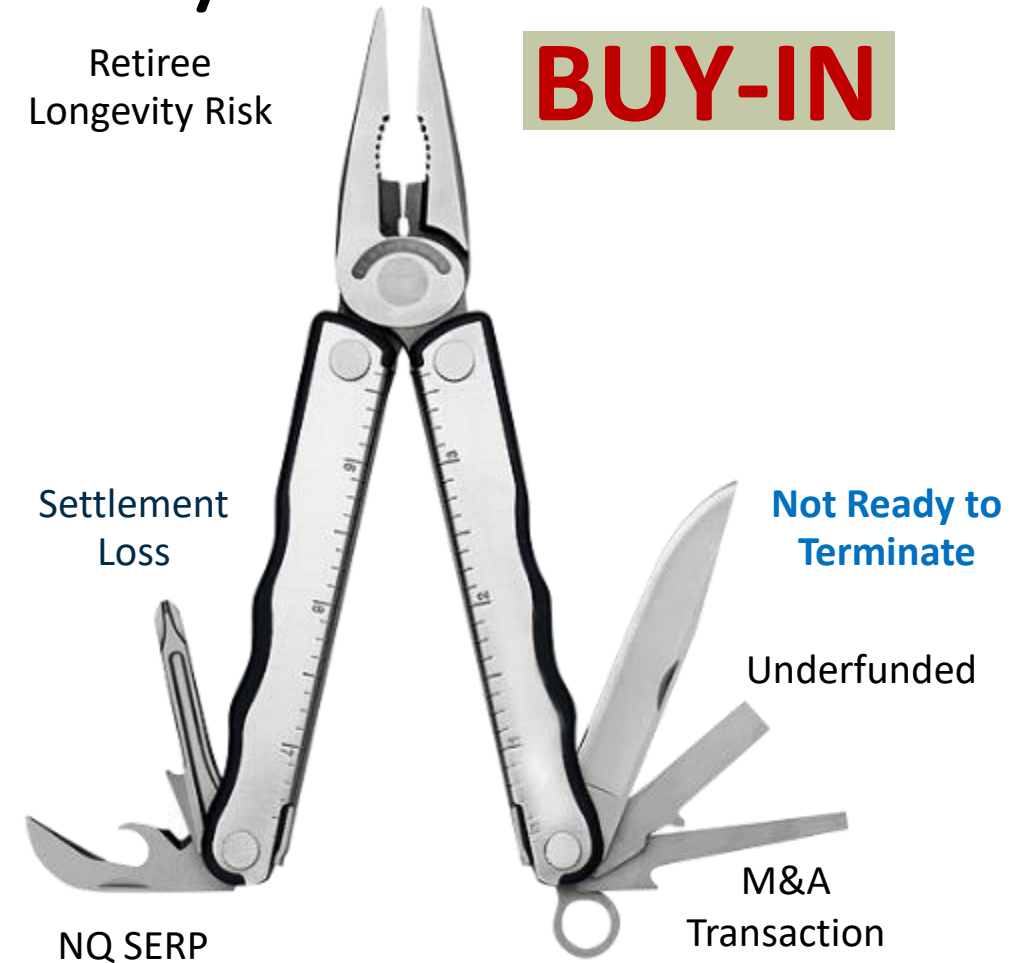
- **Engage experts to help understand risks and possible solutions**
- **Determine objectives for the pension plan**
- **Review current direct and indirect expenses of maintaining the plan**
- **Identify tolerance for volatility**
- **Select solution that best manages risk based on your objectives.**

Appendix

Buy-In Case Study #2: Not Ready to Terminate

- Plan is fully funded
- Not yet started termination process
- Use Buy-In to lock in termination cost.
- Time to develop communication material
- Convert to Buy-Out when company is ready.

Example for illustrative purposes only

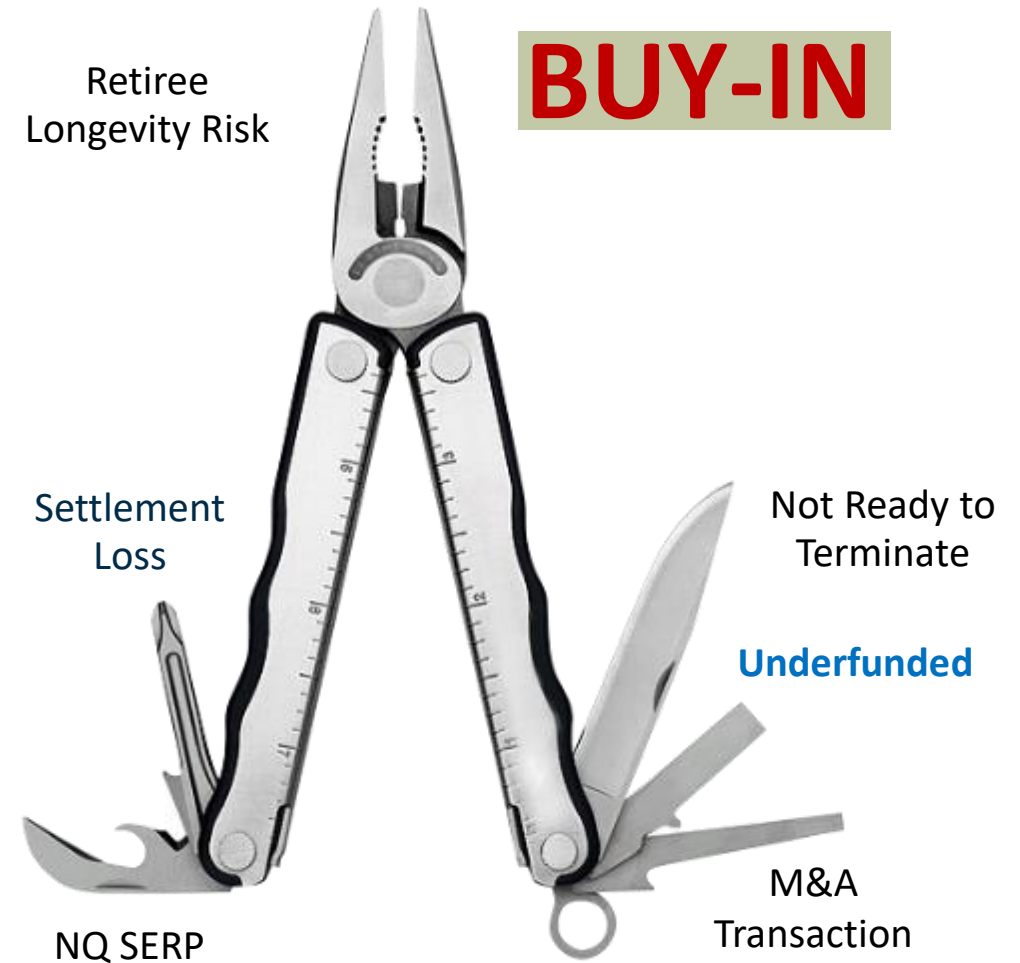


Source: Pacific Life Insurance Company

Buy-In Case Study #3: Underfunded Plan

- Multiple entities in frozen plan
- 80% funded
- Several entities wanted out
- Did not want reduction in funded status
- Buy-Out and Buy-In for several entities
- One time contribution to fully fund for these entities
- Convert Buy-In to Buy-Out at termination

Example for illustrative purposes only

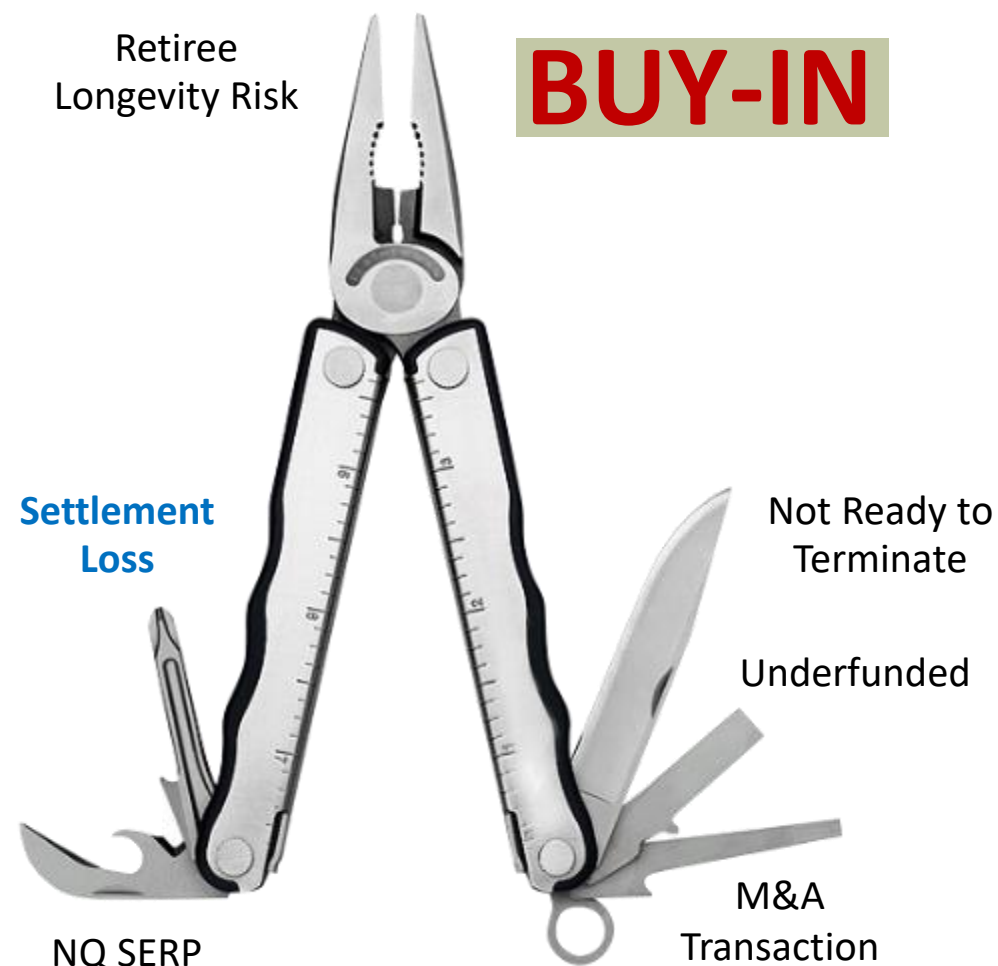


Source: Pacific Life Insurance Company

Buy-In Case Study #4: Delay Recognition of Settlement Loss

- Buy-In purchased in August 2015
- Converted to Buy-Out in April 2016
- Settlement accounting triggered in 2016 at conversion
- Loss recognized in 2016 instead of 2015
- Under IFRS (IAS 19) pension loss may never be recognized in income

Example for illustrative purposes only

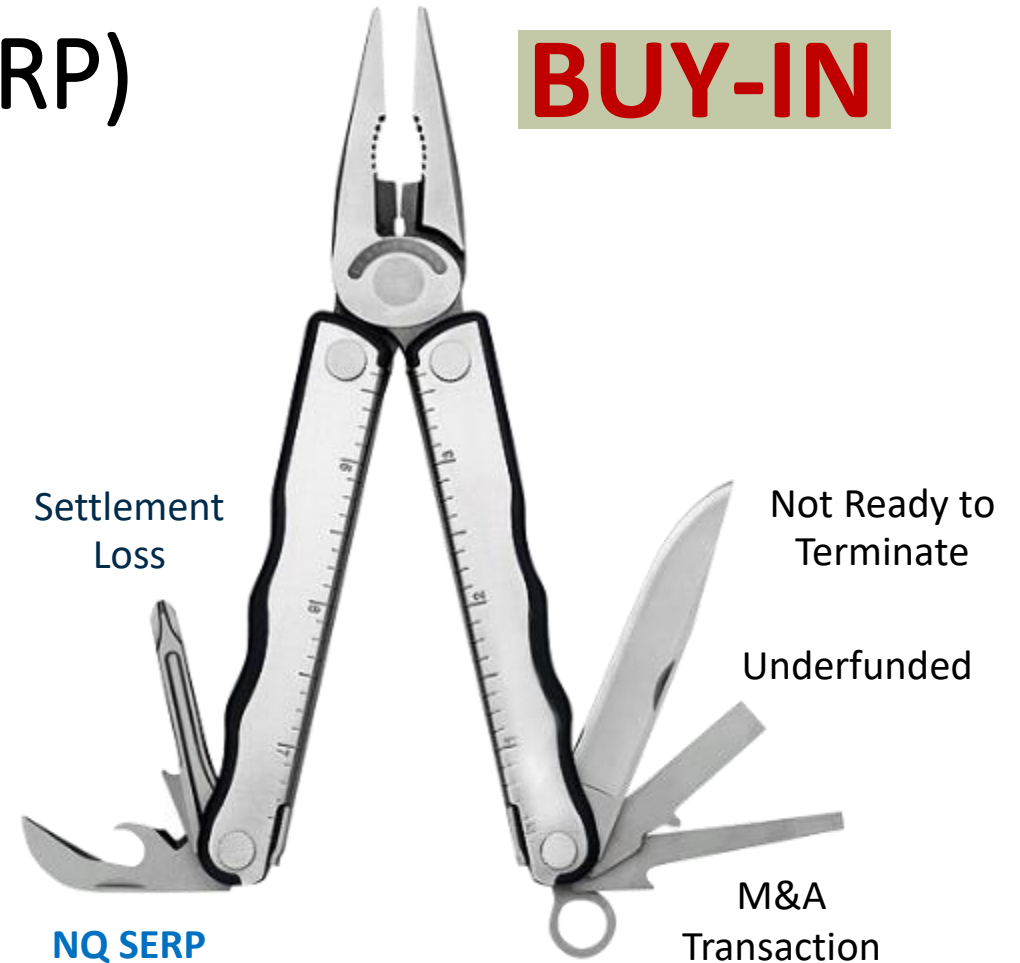


Source: Pacific Life Insurance Company

Buy-In Case Study #5: Non-Qualified Supplemental Executive Retirement Plan (SERP)

BUY-IN

- **Peace of mind for executives**
 - SERP is financed with guaranteed annuity contract
- **No constructive receipt**
 - Payment made to company or trust, not executive
- **Resolves monthly cash flow concerns**
 - Often large executive payments
- **Transfers longevity and investment risk to insurance company.**
- **Could also be part of M&A deal**



Source: Pacific Life Insurance Company

Example for illustrative purposes only

Biographies

Steve Ellis

Steve is Chief Financial Officer at Protect Plus Holdings, a private equity owned consumer goods manufacturing company located in the greater Charlotte area of North Carolina. The company is the largest manufacturer of residential air filters in the U.S. The company's products are sold into retailers across the country, including The Home Depot, Menards, Walmart, and Lowe's.

Steve joined Protect Plus Holdings in 2018 after over 25 years of progressively higher leadership positions in primarily international manufacturing corporations, including Hickory Springs, Tarkett, and Gate Gourmet. He was most recently CEO of a smaller multi-family owned manufacturing company of flexible protecting packaging products. Steve has lived in Europe and also toured the Mediterranean twice as a Naval Officer after graduation. He started his corporate career at PwC and also spent time with EY, both on the audit side.

Steve holds a Bachelor of Science degree in accounting from Louisiana State University and a Master of Business Administration from The University of Memphis. Steve is competitive in everything, including qualifying for and finishing the first Obstacle Course Racing World Championship.

Biographies

Mike Devlin

Mike is a Principal at BCG Pension Risk Consultants | BCG Penbridge (BCG). He is responsible for all marketing and sales efforts of the firm. He has more than 20 years' experience helping companies and organizations across a variety of industries achieve their defined benefit pension de-risking goals. His primary focus is helping clients develop a clear path to termination strategy that includes modeling, analyzing and implementing solutions across the de-risking spectrum, from liability driven investing approaches, purchasing annuities for retirees and/or pursuing full risk transfer through plan termination, as well as the strategic positioning of plan design & structure for optimal attractiveness to eventual annuity providers. He has successfully completed\managed over 500 annuity placements. Mike started his career with BTR based in London, England before moving on to KPMG and their retirement plan business. While at KPMG he consulted on the KPMG Pension Plan as well as other key clients who were looking for alternatives to managing their pension risk. He eventually moved on to The Hartford where he worked with plan sponsors, advisors and consultants in the DB market. Mike has over 20 years' experience in the DB marketplace and is a regular speaker at various national conferences on pension de-risking strategies. Mike holds his FINRA Series 6, 63 and 65 security licenses and his life and health insurance licenses. Mike graduated from The Pennsylvania State University with a degree in Business.

Biographies

Russ Proctor, FSA, CFA, EA, MAAA

Russ is a Sr. Director at Pacific Life in the Retirement Solutions Division. He is responsible for consulting with companies to reduce and remove financial risk inherent in their pension plans through the Pacific Life buy-out, buy-in, and insured LDI solutions. Russ also works with companies who have defined contribution plans, such as a 401(k) or 403(b) plan, to provide guaranteed lifetime income options for plan participants.

Prior to joining Pacific Life, Russ was a retirement consultant with more than 24 years of experience, most recently as a principal with Mercer Human Resource Consulting. He provided strategic retirement consulting on all aspects of pension, 401(k), and executive retirement plans. He also conducted asset-liability modeling studies for clients and co-authored several articles including one on Liability Driven Investing.

Russ holds a Bachelor of Science degree in actuarial science from Drake University. He is a Fellow of the Society of Actuaries (FSA), a Fellow of the Conference of Consulting Actuaries (FCA), an Enrolled Actuary (EA) and a Member of the American Academy of Actuaries (MAAA). He is also Chartered Financial Analyst Charterholder (CFA).

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