CASE STUDY

Retirement Risk Transfer Utilizing Annuity Purchase

Issue

A not-for-profit's frozen, defined benefit plan still had over 100 participants 20 years after the plan freeze. Over 80% of the participants were inactive, and two-thirds of those were actively receiving pension payments. Additionally, HR received returned, undeliverable mail for some participants; the *unfunded pension liability* figured significantly on financial statements; and PBGC premiums were projected to rise in the future.

The non-profit understood that a risk transfer might mitigate some of these issues. They were concerned about the welfare of retirees included in a risk transfer and about the funded status of the plan for the remaining participants, afterwards.

A not-for-profit, Perplexed by Rising Costs and Liabilities of a Frozen Pension Plan, finds a Solution through an Annuity Purchase

Solution

Cowden Associates outlined the pros and cons of a lump sum offer vs. an annuity purchase. The organization, also, located an outside source of cash that they could use to fund the plan to the level that existed before any risk transfer, and chose to execute an annuity purchase.

Cowden estimated the cost of an annuity purchase for the whole group, educated the plan sponsor about the various funding measures, and projected the additional contribution needed to keep the plan funded to the same level. Since this exceeded organization resources, Cowden helped the organization choose a subgroup that met the financial and funding source restrictions. Additionally, Cowden prepared a database for annuity bids, educated the client about its fiduciary role and closing procedures, and provided guidance through the process of selecting an appropriate annuity provider. Cowden, then, assisted with the implementation, including calculation of the contribution necessary to keep the plan funded to the same level, and assisting with the transfer of benefit payments, from the trust to the carrier.

Result

The entire process took less than 6 months and attained significant financial advantages. It improved the plan's funded status by almost $300,000, keeping it at a funding percentage of 90%, and reduced the minimum required contribution by $75,000 over a two year period and the PBGC premium by 35%. Inactive participants declined by 60%. Reduced to under 100 lives, the plan was no longer classified as a large plan, with stiffer reporting requirements, and experienced administrative cost savings.

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