

HEALTH WEALTH CAREER

# FINANCIAL SECURITY: MEND THE GAP

PRIVATE PENSIONS PERSPECTIVE

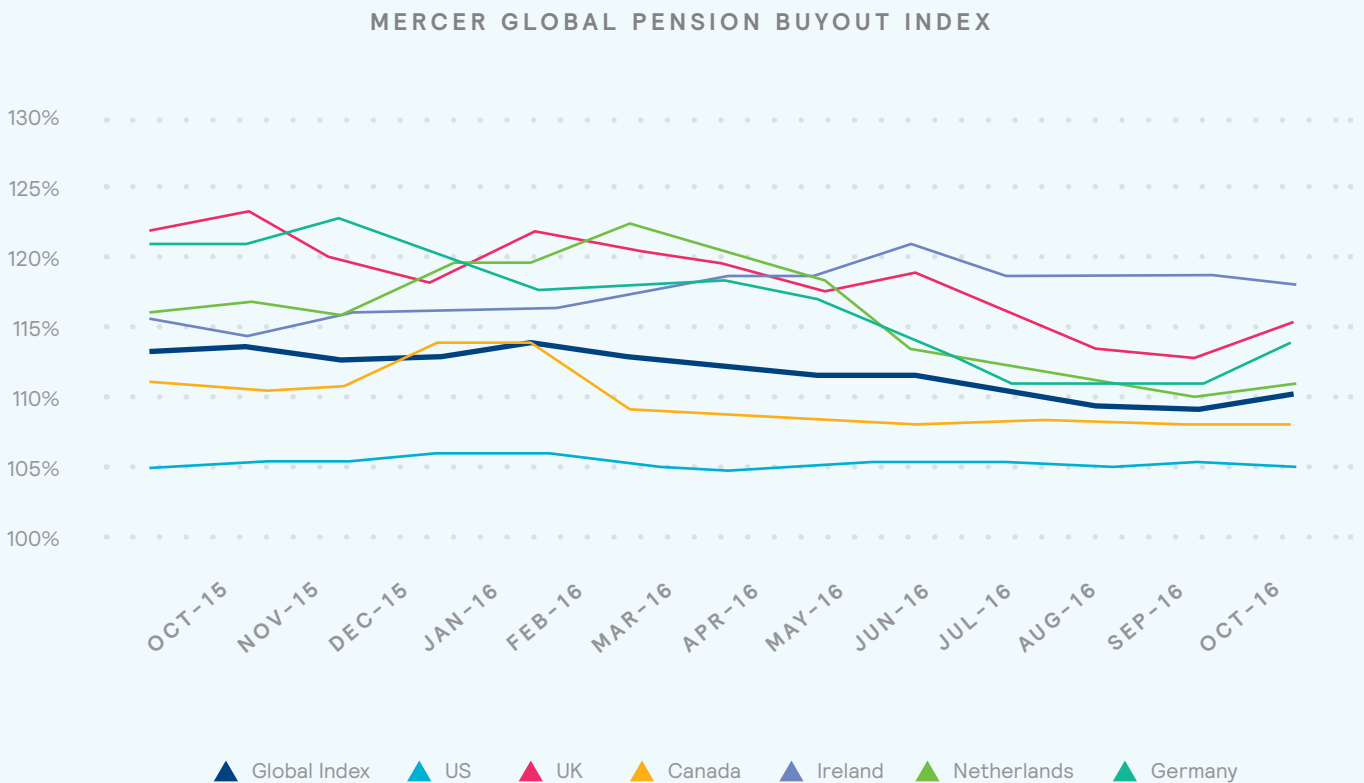


Defined benefit (DB) plan sponsors have seen their challenges grow steadily over the past several years as interest rates have declined, equity market volatility has increased and the cost of plan management has increased. Falling interest rates, low expected returns and lengthening lifespans have converged to create steady erosion of funded status for many plans. Although the majority of DB plans are now closed to new employees, these plans still present significant obligations for companies to manage, and the future costs of running legacy defined benefit pension plans can be an impediment to executing business strategy.

The Mercer Pension Buyout Index tracks the relationship between the pension obligation held for its retirees in its financial statements and the cost of transferring such obligation to a third party (that is, an insurer.)

Published monthly, the Index allows plan sponsors to see, at a glance, the relative cost of a buyout by an insurer of retiree liabilities of a defined benefit plan and how that cost changes over time. In addition, the Index shows the approximate long-term economic cost of retaining the retiree liabilities on a plan sponsor's balance sheet.

The below chart shows the estimated annuity pricing from insurers as a percentage of accounting liability- in the six countries monitored- for existing retirees in a sample DB pension plan (for the period of October 2015 to October 2016).



## LOOKING BACK: 2016 YEAR IN REVIEW

The factor that most impacted pension buyouts in 2016 was the decline of interest rates and market uncertainty, which dampened overall activity in the early part of the year. Activity picked up across the globe in the second half of the year. In November, after the US election, interest rates and equity markets increased, which will likely set up 2017 for heightened activity in the pension risk transfer market. Competition and innovation in the market continue to drive overall activity.

In specific markets:

- In the US, buyout activity was expected to slow, but the absolute number of transactions remained high as plan sponsors sought to offload risk and lower future premiums to the Pension Benefit Guaranty Corporation (PBGC).
- Activity in the UK increased dramatically in the second half of 2016 as many awaited the Brexit results before taking action, with plan sponsors becoming more determined to remove risk and insurers becoming more proficient in the Solvency II regime.
- In Canada, the activity remained strong, with more than 100 transactions executed and an overall volume that hit a new record high for the fourth consecutive year. Canada also saw the second longevity insurance transaction to ever be executed outside the UK (and the smallest, showing that these solutions are becoming available to a wider range of plan sponsors.)

Although the demand for annuity buyouts continues to increase, the buyout marketplace continues to be hampered by long execution timelines and lack of price transparency. A plan sponsor requires robust information on the financial position of the company's pension plan, needs an understanding for how key financial metrics are developing over time and values custom buyout information. This information must be accurate, up-to-date and easily accessible.

## BULK ANNUITY MARKET CHALLENGES



### UNPREDICTABLE MARKET

Each deal is unique and attracts different insurers. Deal pricing can vary dramatically.



### PRICE VOLATILITY

Pricing fluctuates over time but is not visible to plan sponsors.



### LACK OF PRICING TRANSPARENCY

Obtaining a price can be difficult and time-consuming.

Plan sponsors often don't know the price at which they should execute an annuity transaction.

In order to protect their companies from financial risk and protect the pension promises they have made to their employees, many DB plan sponsors are seeking new, innovative ways to transfer the risk of these plans to insurance companies. One such innovation is the Mercer Pension Risk Exchange™, an online platform that matches supply and demand in the group annuity market by bringing together plan sponsors and insurers. In 2016, more than 120 clients and US\$15 billion in premiums were quoted on the Mercer Pension Risk Exchange.

## MERCER PENSION RISK EXCHANGE

### WHAT IS IT?



#### More Clarity

Provides access to regular pricing from insurers in order to assess the true market price of a deal.



#### Better Execution

Helps sponsors execute a deal in a more competitive price environment and in a shorter time frame than is currently possible.



#### Better Preparation

Allows plan sponsors to prepare data and documents in advance, enabling them to proceed quickly when the time is right.



#### Better Governance

Online and mobile-optimized solution gives sponsors and trustees access to valuable information anytime and anywhere.

### WHAT IS IT FOR?



BUYOUTS



PLAN  
TERMINATIONS



BUY-INS

## LOOKING AHEAD: TRANSITIONING FROM DB TO DC

As employers increasingly transition their retirement systems from DB to defined contribution (DC), employees are assuming greater individual responsibility for their financial wellness and are seeking support in understanding these new arrangements. In countries that have recently begun to change from DB to DC plans, employers are more focused on helping employees meet their long-term goals, particularly saving for retirement. In countries that are further along in their maturity from DB to DC, there's a growing recognition that employers need to help employees with their short-term as well as long-term financial concerns. In these countries, the idea of providing resources and tools that help employees achieve financial wellness is being embraced as an imperative, integral part of the employer value proposition.

For further information, please contact your local Mercer office or visit our website at

[www.mercer.ca](http://www.mercer.ca).

#### Important Notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2017 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity without Mercer's prior written permission.

Mercer does not provide tax or legal advice. You should contact your tax advisor, accountant and/or attorney before making any decisions with tax or legal implications.

This does not constitute an offer to purchase or sell any securities.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see [www.mercer.ca/en/terms.html](http://www.mercer.ca/en/terms.html).

This does not contain investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential, or incidental damages) for any error, omission or inaccuracy in the data supplied by any third party.

Investment management services in Canada provided by Mercer Global Investments Canada Limited. Investment advisory services provided by Mercer (Canada) Limited.

Copyright 2017 Mercer LLC. All rights reserved.  
221771-CE