

CONSIDERING CASHOUTS FOR VESTED TERMINATED (VT) PENSION PLAN PARTICIPANTS



Q&A WITH MATT MCDANIEL

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Q: WHAT ADVICE WOULD YOU GIVE A SPONSOR THAT IS THINKING SERIOUSLY ABOUT VT CASHOUTS?

Matt McDaniel: The advantages to the plan sponsor of a lump sum cashout can be numerous, and the economics of such an exercise are often very compelling. Furthermore, looming mortality changes coming as early as 2017 may make now an opportune time to execute a VT cashout. The trend for plan sponsors to execute cashout projects began in 2012 and has continued to intensify

each year since. The challenge we find is many are taking actions that are not holistically planned, such as asset management decisions made independently from liability management decisions. We strongly recommend considering all potential actions as part of a longer-term, well-coordinated strategy instead of reacting in piecemeal to markets and trends.

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Q: HOW DOES A FIRM LIKE MERCER HELP SPONSORS UNDERTAKE THESE ACTIVITIES?

MM: Mercer consultants are very well versed in all aspects of cashout and risk management projects, and we have a great deal of experience helping plan sponsors explore the business case and ultimately execute if the opportunity is compelling. We can do the financial analysis around whether it's a good time to pay lump sums to vested terminated participants, determine the ROI of and analyze the potential risks of doing it or not doing it. We can also quantify how much money is needed to fully terminate the plan and how much money the sponsor would need to put in each year if it wanted to terminate in, say, five years.

We also do a lot of work around implementing cashout projects. Human Resource functions are constantly being asked to do more with less, and executing a lump sum cashout is a major initiative. Beyond just the calculation of benefits, significant communications need to occur with former employees, and our experience has been that plan sponsors receive more phone calls than participants in the window. We can do all the calculations of the lump sum amounts, put together the communications campaign and packages to reach out to participants, set up a temporary call center to take participant

calls and questions, collect the mail, process elections, make sure all the paperwork is in order and send payment instructions for the trustee to actually cut the checks.

Q: ARE THERE PARTICULAR TYPES OF SPONSORS THAT VT CASH OUTS APPEAL TO MOST?

MM: With very few exceptions, VT cash outs look very compelling in today's environment for almost all plan sponsors. If you have a meaningful number of vested terminated participants – more than, say, 500 – going through a cash out exercise materially reduces plan costs and does not have many significant negative implications. Our experience has been that participants react very favorably to these programs. The offer is also completely voluntary providing more flexibility to participants in the management of their plans. Many participants use the opportunity to consolidate their retirement assets into a 401(k), individual retirement account (IRA), or other tax-advantaged vehicle, allowing them to take more control over their retirement planning. Additionally, the cash implications are usually manageable since you can pay the lump sums out of the assets you've already got set aside in the trust.

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