# CREATING THE JOURNEY PLAN TO REACH YOUR DEFINED BENEFIT DESTINATION

## Q&A WITH RICHARD MCEVOY

Financial Strategy Group Leader, Mercer

### Q: CAN YOU TELL US WHAT "JOURNEY PLANNING" MEANS?

Richard McEvoy: There are many different ways plan sponsors can manage pension risk, from asset management to liability management and subsets within those. The concept of the journey plan is to plan out all of those different pieces in a holistic way — with well-articulated objectives and a clear destination — as opposed to coming at it piecemeal.

This holistic approach requires careful sequencing and coordination across the asset and liability management spectrum. It also requires careful consideration of employee impact, implementation, and resource planning to supplement the analysis of the strategic financial drivers of these actions. Finally, it works best as a continuous process — with proactive monitoring and oversight throughout — to ensure that decision-making is informed by market and price transparency, and that fleeting opportunities are captured in volatile investment and insurance markets.

### Q: IS JOURNEY PLANNING RELEVANT FOR ALL PLAN SPONSORS?

RM: Yes. Sponsors that have frozen or closed their plans sometimes think that they're done, but in many respects, they have only just begun the journey. While some sponsors may choose to let their plan wind down slowly, several shorter-term cost and risk management opportunities in the current environment have spurred accelerated actions. We are seeing an uptick in providing cashouts for former or even current employees as well as retiree buyouts, especially for small benefits that are becoming more costly to retain. Given burdensome PBGC deficit taxes and low borrowing costs, we are also seeing growing interest in voluntary prefunding, potentially to terminate frozen plans in the short term. While there are several different multiyear roadmaps emerging, we strongly recommend the first step to any journey be a deliberate and well-articulated strategy.

## Q: WHAT ABOUT OPEN PLANS? DOES JOURNEY PLANNING MAKE SENSE FOR THOSE SPONSORS?

RM: Although sponsors of open plans are not looking to exit their plans, most are interested in managing the growth of legacy obligations. We have implemented many hybrid approaches — downsizing some liabilities and risks in a cost-efficient way, while optimizing the longer-term investment strategy for retained obligations. Rather than a precursor to termination, partial risk transfer, when deployed in this way, better enables these sponsors to sustain the ongoing pension promise.

## Q: AND WHAT ABOUT THE INVESTMENT CONSIDERATIONS?

RM: Whether a plan is open, closed, or frozen, investment strategy and portfolio management are integral to the journey planning process. Given liability management actions are investment decisions in nature, sponsors should determine how their cost and risk budgets are affected by these actions and determine investment strategy implications for the obligations that are retained. For those implementing a glidepath, the next de-risking step should be considered holistically with liability management alternatives as sponsors decide whether to buy bonds within the plan or effectively outside the plan through risk transfer actions.

## Q: WHEN IS THE BEST TIME FOR A SPONSOR TO START A JOURNEY PLAN DISCUSSION?

RM: With increasing Pension Benefit Guaranty Corporation (PBGC) costs and changing mortality tables, we do see some very viable and time-sensitive cost and risk management actions for sponsors, so the time to start a journey plan discussion is now if you haven't already. The challenge we find is that many are taking actions that are not coordinated or are executed in silos, such as asset management decisions made independently from liability management actions. Some sponsors may be looking at voluntary cashout programs, but haven't thought about subsequent steps such as retiree buyouts, or adapting their investment policy to coordinate with these actions. No matter which path you take, we strongly advocate considering all actions as part of a longer-term, well-coordinated strategy.

## Q: WHAT SHOULD PLAN SPONSORS THINK ABOUT WHEN CHOOSING AN ADVISOR TO WORK WITH THEM ON JOURNEY PLANNING?

RM: I've mentioned many of the advantages of holistic plan management from assets to liabilities and from strategy through execution. It's really important that your advisor covers those bases well. But along with this, one of the most critical elements related to these projects is trust in the vendor relationships.. Journey planning is primarily not a transactional relationship, but a strategic partnership with high business impact involving significant changes for sponsors and their plan participants over several years. A strong, trusted advisory relationship is critical to the success any journey plan and I consider this to be of top priority.