

HEALTH WEALTH CAREER

# MERCER WEBCAST

## UNLOCKING THE BUYOUT MARKET

June 24, 2015

**Malcolm Hodge, Retirement**  
**Jay Love, Investments**  
**Richard McEvoy, Investments**

MAKE TOMORROW, TODAY  **MERCER**

# TODAY'S SPEAKERS



**MALCOLM HODGE**  
Senior Partner

Senior consultant based in Boston, delivers risk strategy and risk management solutions to help client manage pension programs globally.



**JAY LOVE**  
Partner

Jay Love is a partner and senior consultant in the Atlanta office of Mercer Investments and is Mercer's US National Segment Leader for Defined Benefit consulting. He serves on a number of research and policy groups for Mercer.



**RICHARD MCEVOY**  
Partner

Richard McEvoy leads Mercer's Financial Strategy Group in the US and focuses on pension risk management and investments for defined benefit pension plans.

# AGENDA

## WHAT WE'LL COVER TODAY



BUYOUT  
MARKET UPDATE



CHALLENGES  
FOR PLAN  
SPONSORS

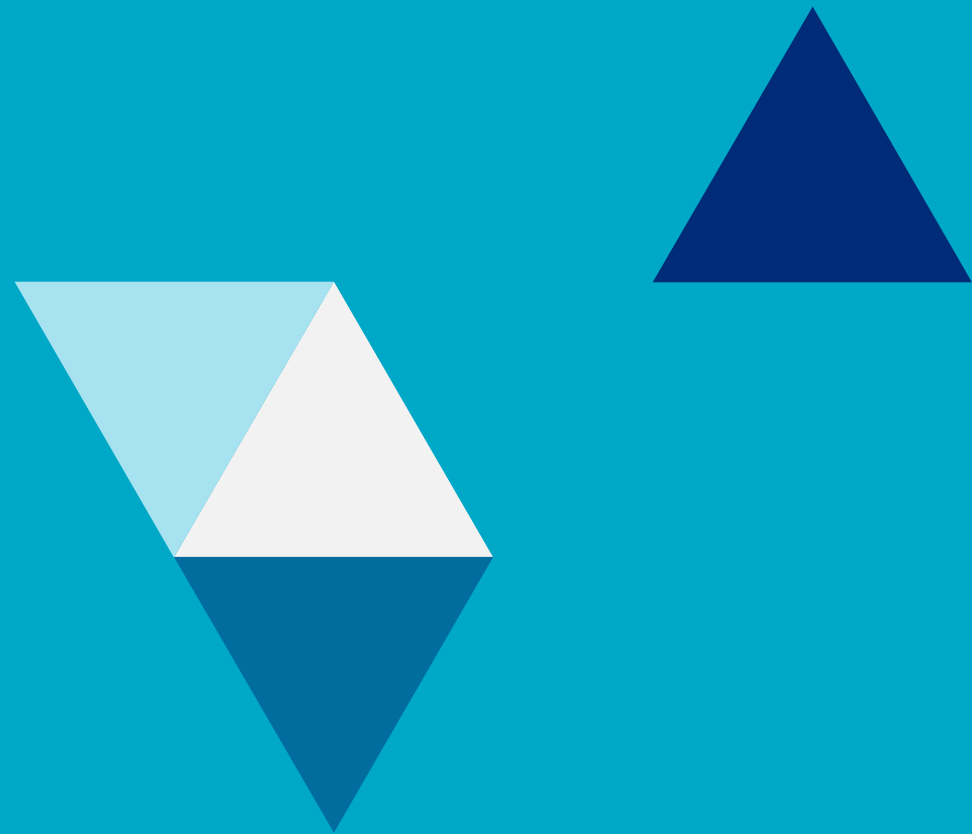


MERCER  
PENSION RISK  
EXCHANGE



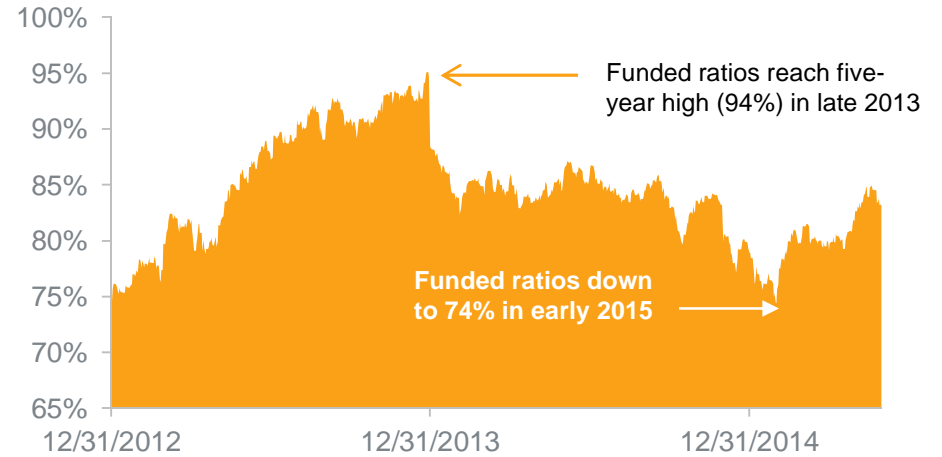
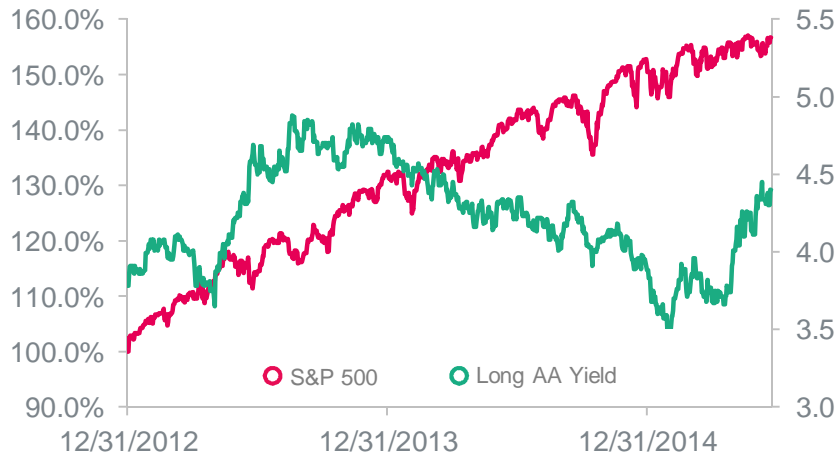
SUMMARY &  
QUESTIONS

# BUYOUT MARKET UPDATE

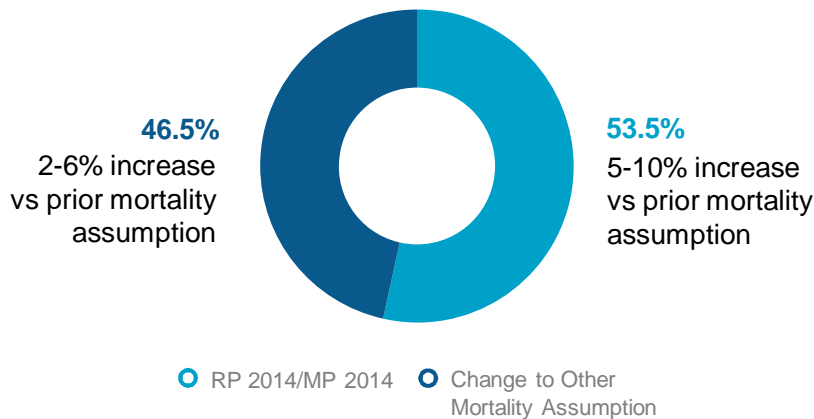


# BUYOUT MARKET UPDATE TRENDS

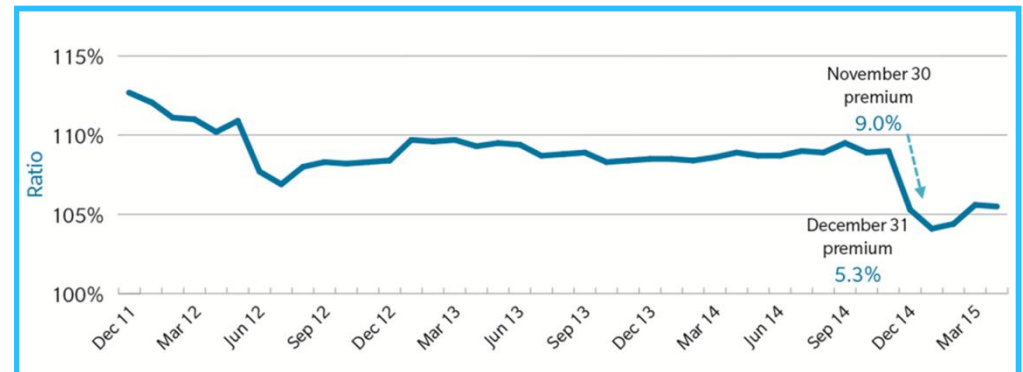
## INTEREST RATES & MARKET VOLATILITY



## IMPACT OF CHANGES TO MORTALITY TABLES



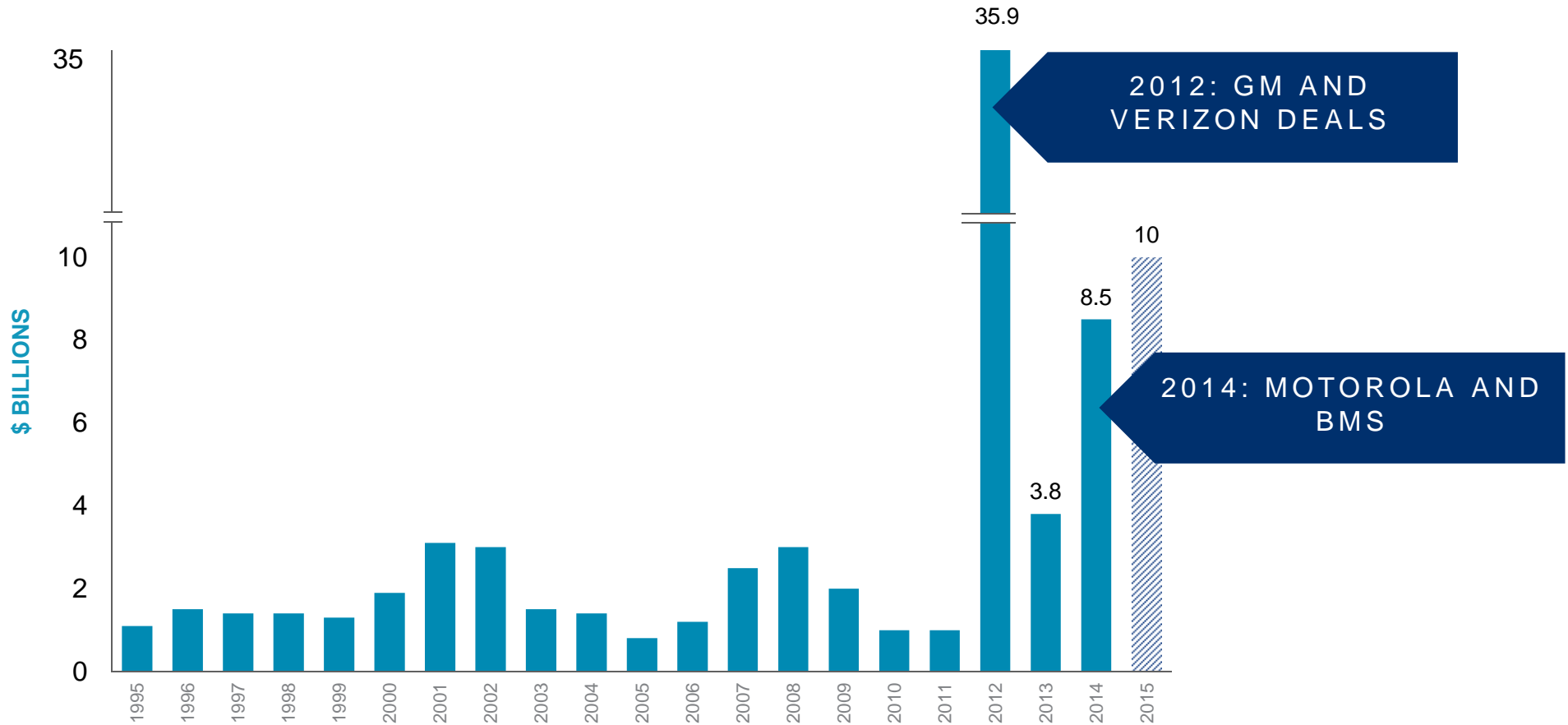
## BUYOUT INDEX TRENDS 2011-2015\*



\*Source: Mercer US Pension Buyout Index  
Full disclosure of method and assumptions on [mercer.com](http://mercer.com)

# SIGNIFICANT UPTICK IN ACTIVITY

PENSION RISK TRANSFER FLOW  
1995–2015 (2015 ESTIMATED)



# KEY COMPONENTS OF BUYOUT EXECUTION

## 1. MARKET ENVIRONMENT

- Insurer capacity and desire for specific types and sizes of liability (supply)
- Expected volume of pension buyouts and plan terminations (demand)
- Early insurer engagement

## 2. STRATEGIC DECISION MAKING

- Staggered execution or “big bang”
- Cash affordability

## 3. DATA & RESOURCE PLANNING

- ROI evaluation for participant segments
- Data prioritization, evaluation and clean-up

## 4. DEAL STRUCTURE/ PARTICIPANT SECURITY

- Separate or general account
- Spinoff and termination or lift out from the ongoing plan
- Single or multiple insurers

## 5. GOVERNANCE AND STAKEHOLDER EDUCATION

- Distinction between settlor and fiduciary responsibilities
- Stakeholder engagement on financial and fiduciary concerns

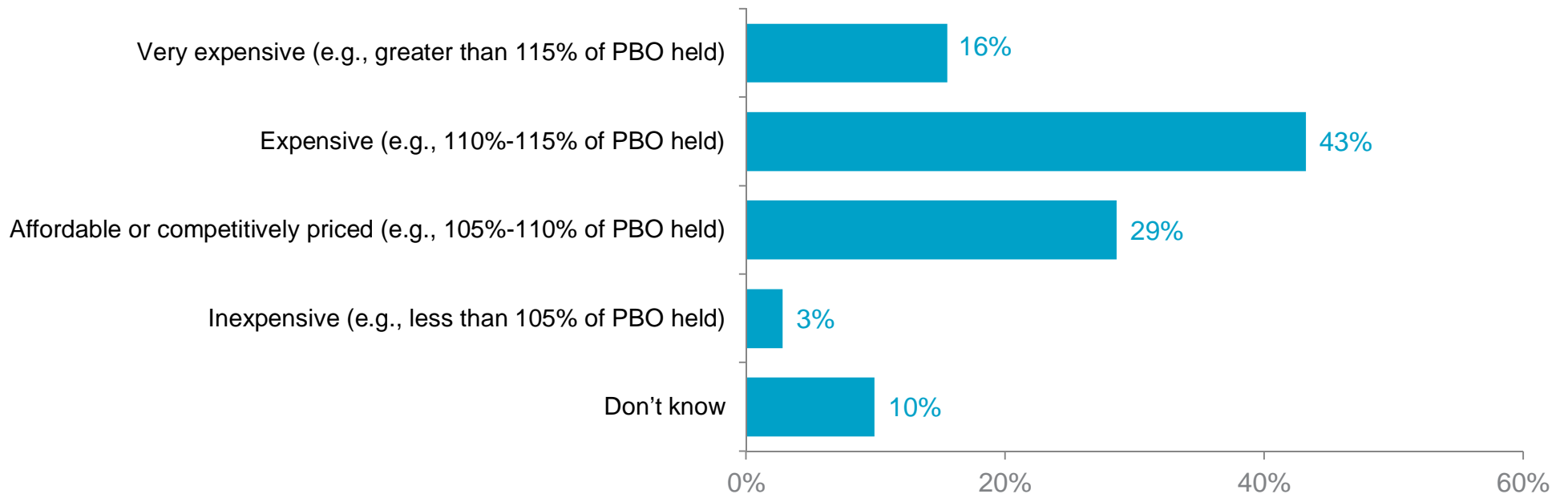
## 6. INVESTMENT CONCERNS

- Preparation of in-kind portfolio
- Execution planning



# MARKET PERCEPTION OF BUYOUT COST\*

Estimated percentage of buyout costs relative to the pension benefit obligation held on balance sheet



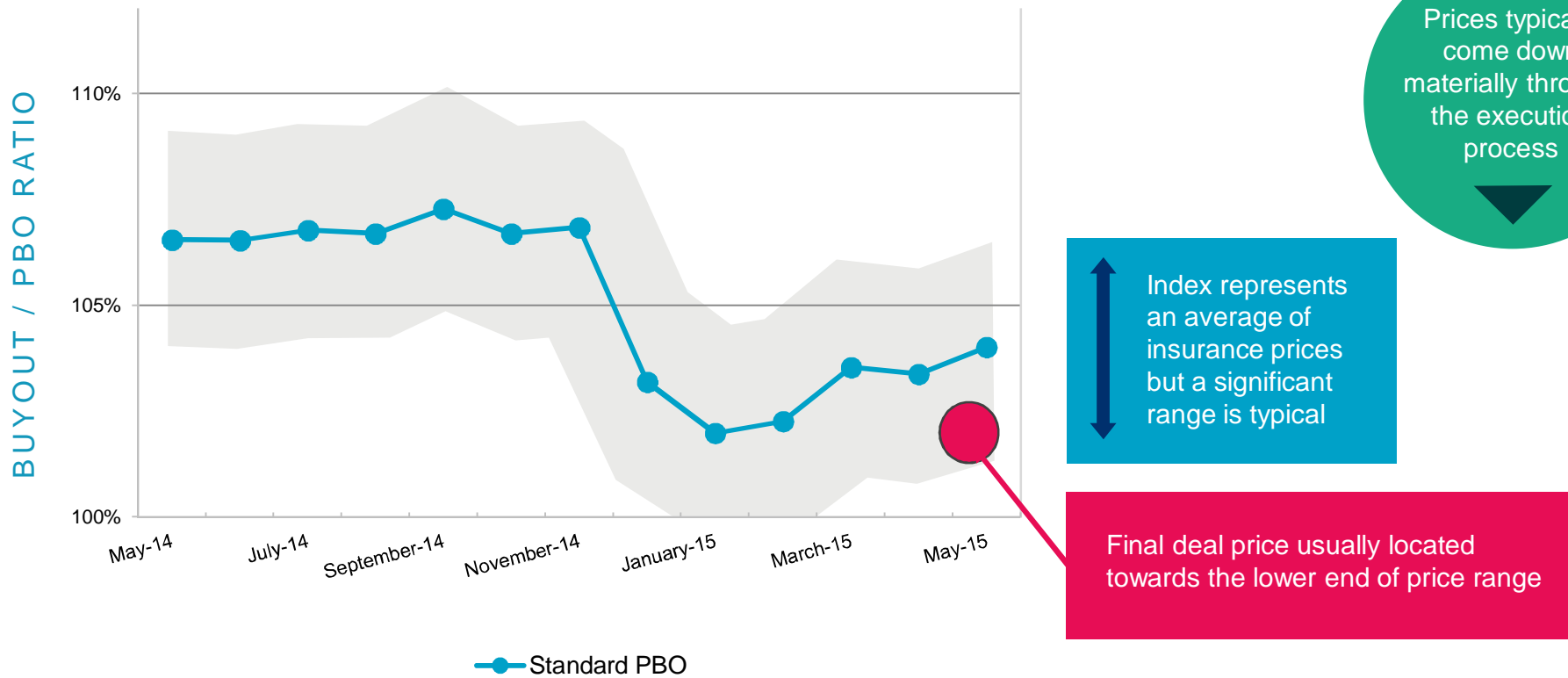
\*Source: Pension Risk Survey 2015 conducted by Mercer and CFO Research

Survey question: *What is your perception of the cost of an annuity buyout for retirees in your pension plan, relative to the pension benefit obligations held on your balance sheet?*

Note: Percentages may not total 100%, due to rounding.

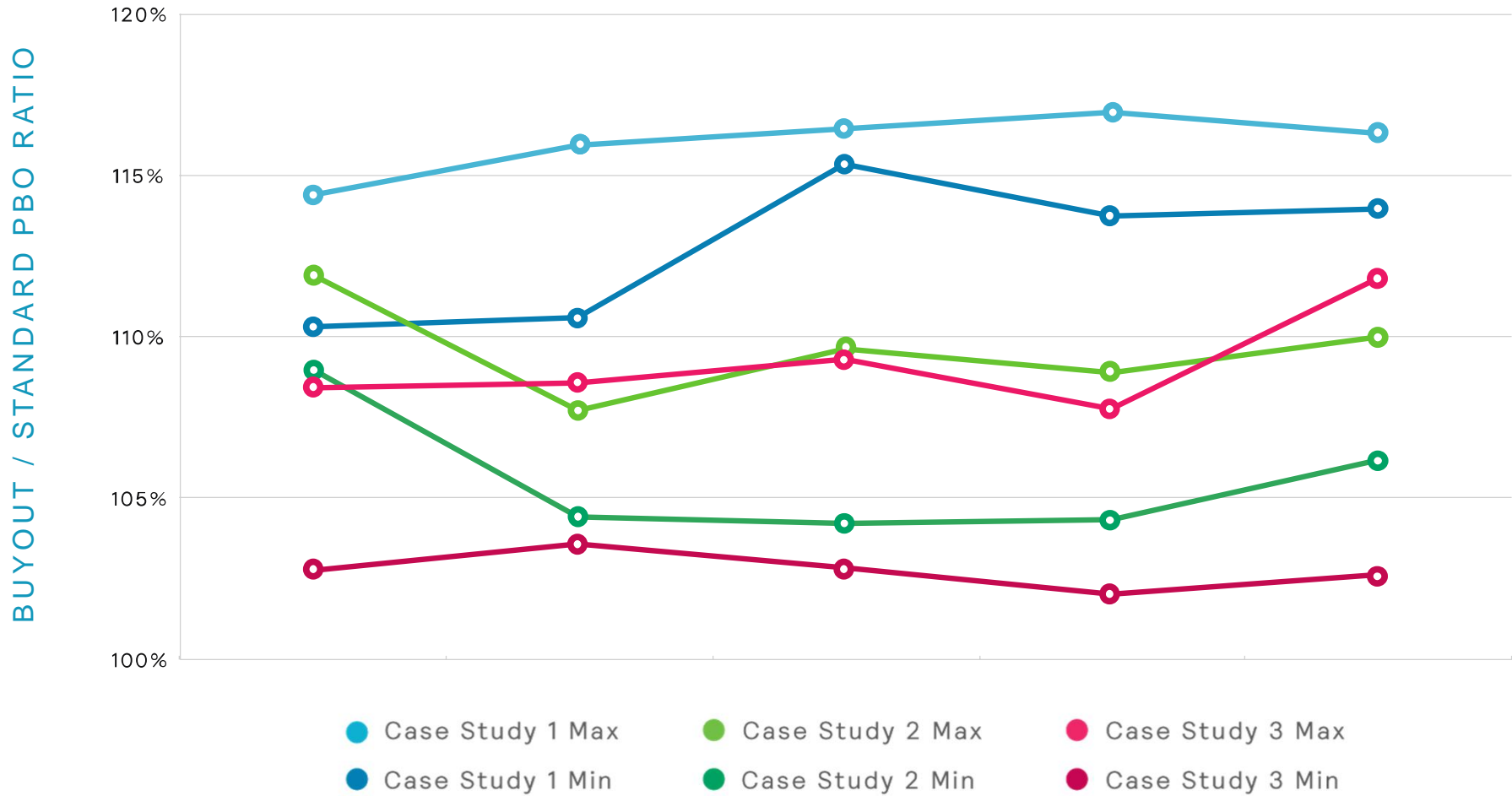


# A CLOSER LOOK AT THE BUYOUT INDEX



- Standard PBO reflects use of full AA yield curve and SOA mortality tables

# MATERIAL VARIATIONS ACROSS PROVIDERS



- Standard PBO reflects use of full AA yield curve and SOA mortality tables

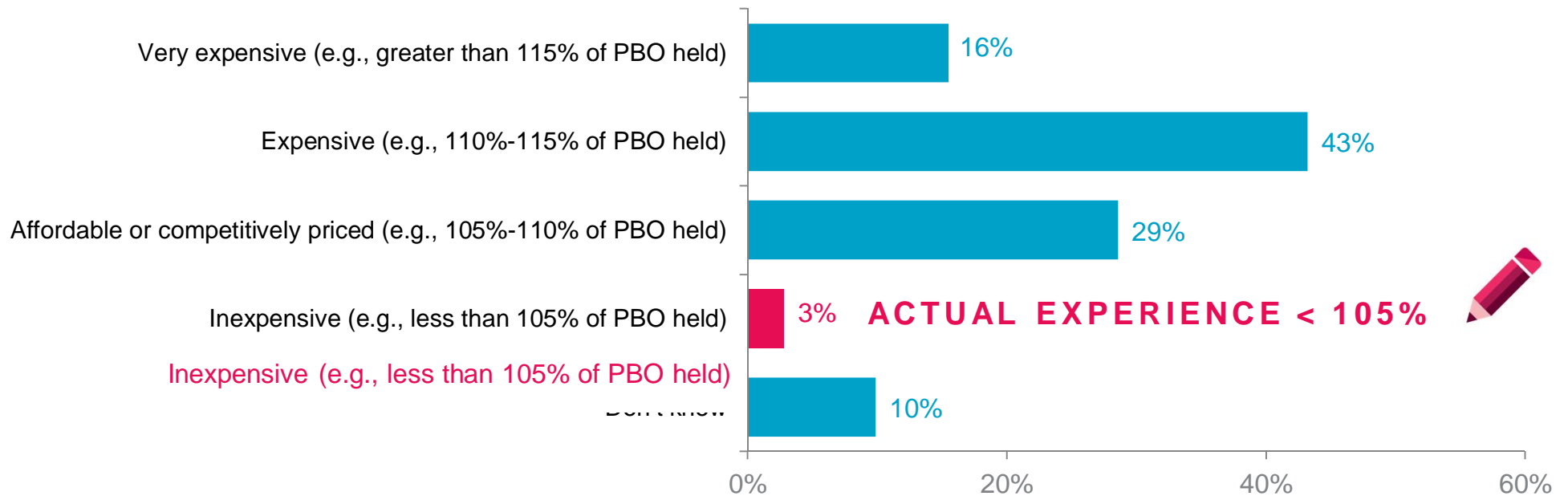
# REDUCTIONS THROUGH THE EXECUTION PHASE

- Figures below illustrate the changes in observed same-day annuity quotes from the first round to the final round
- Amounts are expressed as a percentage of the highest quoted price from the first round of quotes
- Pricing rank indicates ranking for that deal only (the same insurers did not bid on all deals or quote the highest/lowest prices for each deal they bid on)

	FIRST ROUND	FINAL ROUND	% CHANGE
Average Highest Quote	100.0%	95.6%	-4.4%
Average 2 <sup>nd</sup> Highest Quote	97.1%	92.3%	-4.8%
Average 3 <sup>rd</sup> Highest Quote	95.1%	91.3%	-3.8%
Average 4 <sup>th</sup> Highest Quote	96.5%	92.0%	-4.5%
Average Spread	5.4%	5.9%	0.5%

# MARKET PERCEPTION OF BUYOUT COST\*

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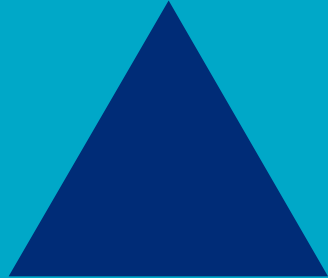


\*Source: Pension Risk Survey 2015 conducted by Mercer and CFO Research

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# CHALLENGES FOR PLAN SPONSORS



# CHALLENGES FOR PLAN SPONSORS

## KEY QUESTIONS

THE MERCER PENSION RISK EXCHANGE<sup>SM</sup> WILL HELP ANSWER:

What is a  
**REASONABLE  
PRICE** to pay to  
**TRANSFER** risk?

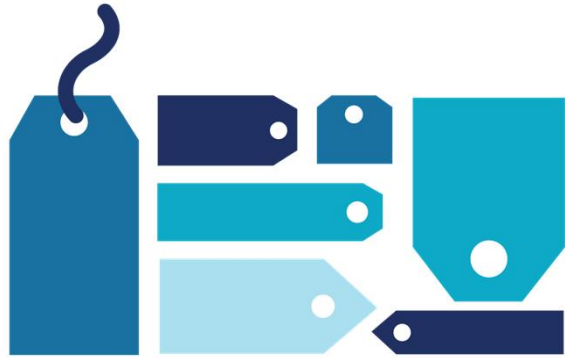
How can you  
**DISCOVER** reliable  
and custom buyout  
prices for your plan?

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How should you build a **CREDIBLE BUSINESS CASE** to  
pursue and execute a risk transfer transaction?

# CHALLENGES FOR PLAN SPONSORS

## KEY ISSUES



UNPREDICTABLE MARKET



VOLATILITY



COMPLEX PROCESS



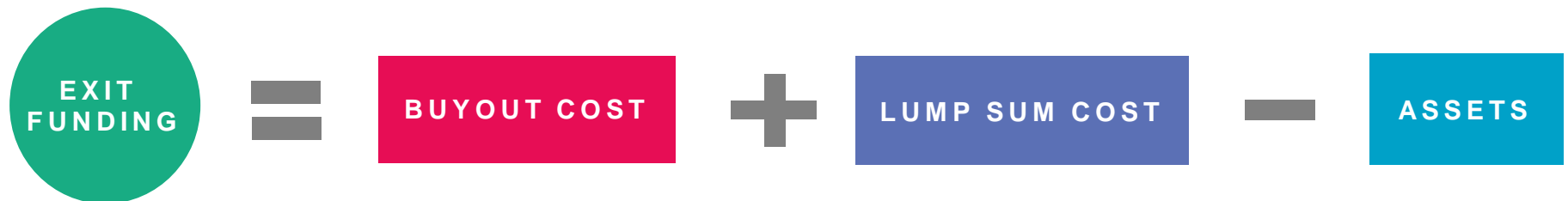
LACK OF PRICE TRANSPARENCY

# CHALLENGES FOR PLAN SPONSORS MAKING THE BUSINESS CASE – KEEPING THE COMMITMENT

## INTERNAL COMPETITION FOR CASH RESOURCES

- Transferring pension risk eliminates future obligation retention costs
- Obligation retention costs can exceed 10% of the PBO
- Pension risk is non-core
- Keeping the commitment best illustrated by example

## IN A PLAN TERMINATION



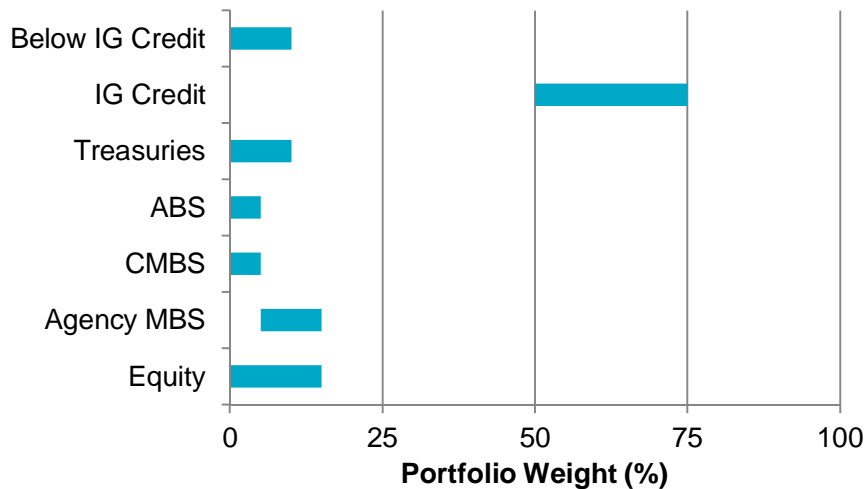


# CHALLENGES FOR PLAN SPONSORS

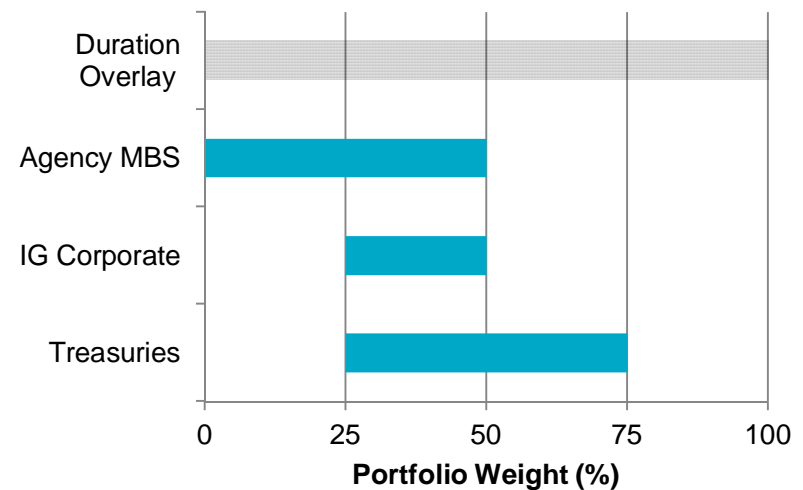
## PRIMARY INVESTMENT POSITIONING CONSIDERATIONS

- Determine whether cash or securities will be delivered for purchase
- Consider risk positioning of portfolio during pricing period
- Adjust portfolio consistent with delivery approach and risk target

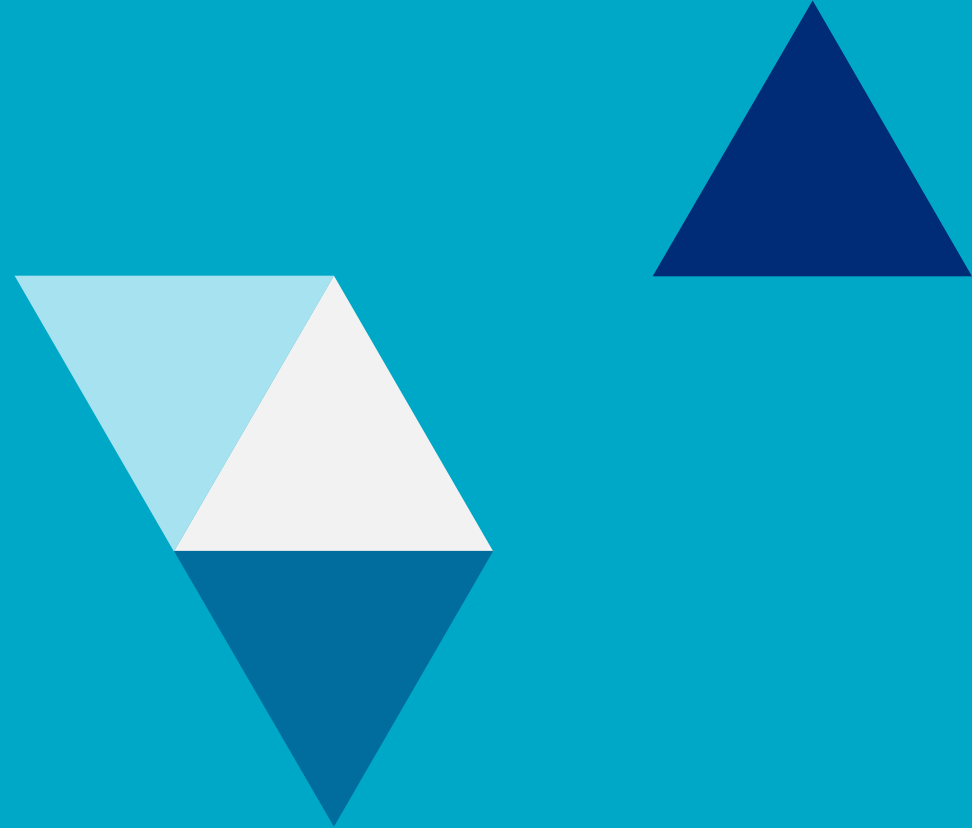
**Assets In Kind – Typical Insurer Structure**



**Cash Transaction - High Liquidity Portfolio**



# MERCER PENSION RISK EXCHANGE<sup>SM</sup>



# MERCER PENSION RISK EXCHANGE<sup>SM</sup>

## MERCER'S PROPRIETARY SOLUTION TO BUYOUT CHALLENGES

ENHANCED  
PRICE  
TRANSPARENCY

RAPID BUYOUT  
EXECUTION

INVESTMENT  
PREPARATION

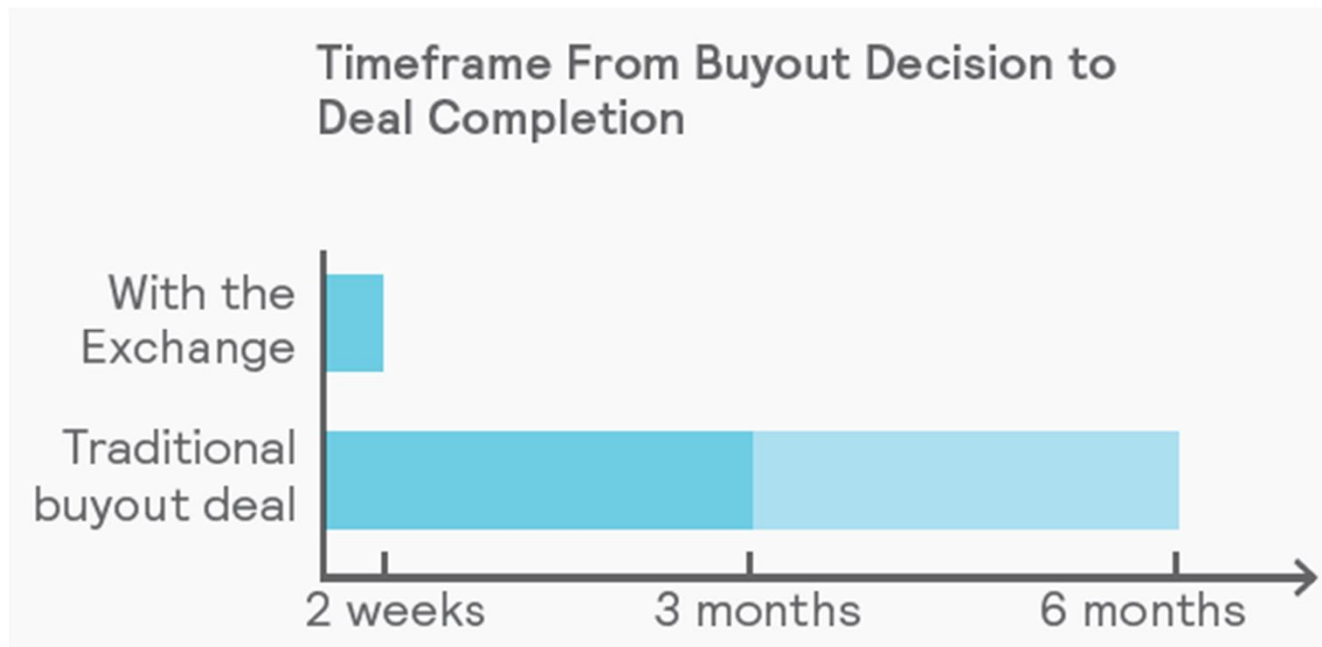
ENHANCED  
PARTICIPANT  
SECURITY

GENERATING EXCEPTIONAL OUTCOMES

- A secure on-line platform built by Mercer which guides and supports plan sponsors throughout the buyout process
- The Mercer Pension Risk Exchange<sup>SM</sup> allows you to be **Ready!** (Readiness), be **Set!** (Dynamic Monitoring) and **Go!** (Execution Support)

# MERCER PENSION RISK EXCHANGE<sup>SM</sup>

## READY! DEAL READINESS – THE ABILITY TO EXECUTE ON OPPORTUNITIES



A systematic and disciplined approach finalizes all data and documents well in advance of the transaction enabling swift execution of the optimal deal.

# MERCER PENSION RISK EXCHANGE<sup>SM</sup> SET! DYNAMIC MONITORING – REAL TIME PLAN METRICS AND INSURER PRICING



## Other Metrics

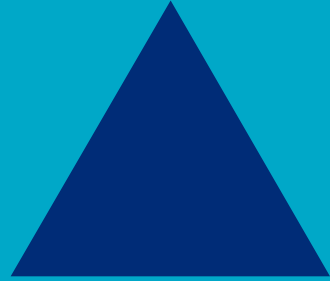


# MERCER PENSION RISK EXCHANGE<sup>SM</sup> GO! COMPREHENSIVE EXECUTION SUPPORT – GUIDING SPONSORS THROUGH THE PROCESS

An end-to-end solution: Mercer's expertise and advice at every step in the process



# SUMMARY & QUESTIONS





**MERCER / CFO RESEARCH  
PENSION RISK SURVEY 2015**

**WEBCAST JULY 16<sup>TH</sup> 2pm EST**



# QUESTIONS?



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## QUESTIONS

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

To submit a question while in full screen mode, use the Q&A button, on the floating panel, on the top of your screen.



**CLICK HERE TO ASK A QUESTION  
TO "ALL PANELISTS"**

## FEEDBACK

Please take the time to fill out the feedback form at the end of this webcast so we can continue to improve. The feedback form will pop-up in a new window when the session ends.

**MAKE**  **MERCER**  
**TOMORROW,**  
**TODAY**