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Pension Plan Sponsor Alert

USI CONSULTING GROUP

Pension Planning, Opportunities and Concerns Heading into 2023

We will remember 2022 from a pension perspective as a year of significant change. Both equities and fixed income are poised to end the year down significantly from the start of the year. Most importantly for pension plan sponsors, the declining prices in fixed income brings increasing yields, which drive down liabilities. As we look to turn the page to a new year, there are plenty of things for sponsors to monitor.

MORTALITY: Depending on your viewpoint, is no news good news or bad news? Actuaries were waiting to see how incorporating 2020 mortality data was going to be handled by the committee that has released an annual update to future mortality projections every year since 2014. Of course, 2020 is the first year with COVID deaths in the statistics. In the end, the committee decided to punt on releasing a new scale for pension plan sponsors to use for 2023. Noting that the availability of vaccines as well as decreased virulence through mutations have significantly altered the rates of death due to COVID, the committee's approach was to essentially treat 2020 as an anomaly and moved on. It's certainly possible this could repeat itself next year when it comes to incorporating 2021 data into mortality models.

US GAAP: For pension plan sponsors that need to report under US GAAP, be prepared for a significant increase in 2023 expense over 2022, even more pronounced for frozen plans. In those cases, the two main components of pension expense are Interest Cost and Expected Return on Assets (EROA). With the dramatic movement upwards in bond yields, Interest Cost correspondingly will also be up significantly. EROA meanwhile is an offset against pension expense. However, with no sector of the market being spared from a sharp decline in 2022, plan sponsors are going to have a lot less assets to earn money on in 2023. If you are a plan sponsor who is sensitive to the movements of your accounting expense, please contact us to provide an estimate of what your circumstances might be.

PBGC PREMIUMS: We are at a point where PBGC premiums are only increasing for inflation. Unfortunately, inflation being what it is, we still have a big jump to report. The 2023 Per Participant rate is up to $96 from $88 and the Variable Rate Premium (VRP) is now at 5.2% of unfunded liability for ERISA single-employer plans from 4.8%. The overall VRP Cap (that is, the maximum a plan could pay for the VRP portion) is up to $652 per participant from $598. It takes an act of Congress to modify the PBGC's premium rate structure.
With the single-employer program overfunded by $37 billion (from 2022 PBGC annual report), there are calls from some to reduce the burden of these premiums.

DE-RISKING: Certainly, the punitive escalation of PBGC premiums has been the root cause of many de-risking efforts in the last few years. There is no reason to expect any change in behavior in 2023 despite the asset performance in 2022. We anticipate that lump sums windows will again be fashionable in 2023 due to the much higher interest rate environment significantly lowering the cost of such offerings. It's reasonable to expect a lump sum window in 2023 to be 25% less than what the cost would have been to complete the same task in 2022. Annuity placements, where a sponsor pays an insurance company to take pension liability away, are poised to have their 2nd biggest year ever in 2022. Despite the asset downturn, many plan sponsors overall funded percentages have actually improved in 2022 as the interest rate relief has been greater than the decline in asset value. As a result, we expect annuity placements to continue to be strong into 2023, especially if it looks like inflation is being tamed and the expectations become for interest rates to decline again. At time of this release, average annuity rates are up about 200 bps from the start of 2022 making pricing much more attractive.

How USI Consulting Group Assists

Please contact your USI Consulting Group (USICG) Actuary to discuss these important topics and to learn more about how USICG can help you better predict and manage your pension plan costs and expenses, while optimizing plan design, financial impact and employee appreciation.