MERCER

Pension
De-Risking

welcome to brighter

Corporates face increasing pressure on their pension liabilities

Pressure on corporate balance sheet

Increasing corporate pension liabilities due to baby boomer generation going into retirement and generous pension conversion rates

Low interest environment

Continuing low/negative interest rate environment in Switzerland puts substantial pressure on investment returns and makes it very challenging to achieve required returns, particularly under commonly used asset allocations

Increasing longevity

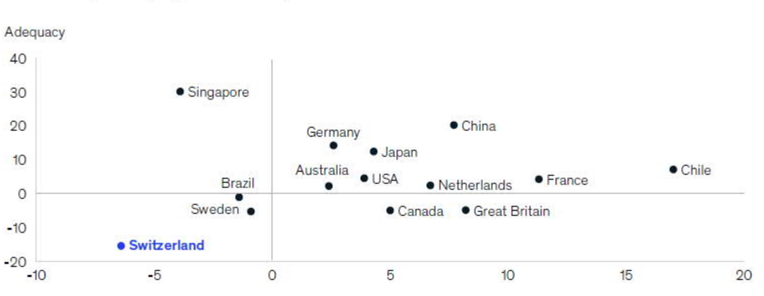
Increasing life expectancies lead to higher pension obligations – even in "Swiss DC" plans – due to fixed pension benefits at retirement until death

Overdue pension reform

Legally binding minimum pension benefits for low earners (mandatory savings) require investment returns that cannot be generated in a low interest environment, leading to substantial cross-subsidization from high-to-low earners and from current employees to pensioners

Changes in MMGPI adequacy and sustainability scores, 2010 vs. 2019

Absolute change in adequacy and sustainability index



Note: Countries shown are all countries included in both the 2010 and 2019 rankings

Source: Melbourne Mercer Global Pension Index 2010 and 2019

Major difficulties to achieve an appropriate replacement rate for mid-to-high income bands due to the cross-subsidization and inefficient investments that are not capturing pension funds' return potential

New regulation

Technical interest rates are under pressure due to new regulation since 2019, forcing pension funds to implement an appropriate discount rate reflecting their structural risk capacity

Changes in structural risk capacity

Strategic decisions like M&A activity and restructurings can lead to structural change in the pension fund population, which may lead to an adverse impact on pension liabilities due to lower structural risk capacity (e.g. negative cash flows, higher share of pensioners etc.)

A broad set of options is available to allow sustainable de-risking

Actives

Restructure benefits

- Reduce pension benefits by change of plan parameters, e.g. by lowering conversion rate, reducing contribution levels/insured salaries, etc.
- Introduce alternative pension models, e.g. capital model with lump sum payment at retirement, variable pension, pure DC/1e plan etc.
- Reduce/pause interest credit levels

Investment Strategy

Increase return-seeking asset allocation

- Review strategic asset allocation and seek more efficient investments to generate higher expected returns, e.g. by tapping into new risk premiums
- If needed, provide contingent assets to the pension fund to improve risk capacity allowing for a more return-seeking investment strategy
- Apply robust governance and risk management framework that helps reduce investment implementation costs to the benefit of higher returns - also considering hedging strategies

Pensioners

Pensioner buy-out

- Consider buy-out of pensioners to improve your plan's structural risk capacity, allowing for a return seeking investment strategy

Benefits

- Significant improvements of the pension fund's structural risk capacity
- More return-oriented investment strategy for active insured members which leads to higher interest-crediting capacity and reduction of further curtailing of pension benefits
- Considerable P&L balance sheet improvements

If a decision on pension de-risking can be made before 31.12.2020, the impact will already be accounted for in P&L for end of 2020.

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For more than 70 years, we've been providing trusted advice and solutions to build healthier and more sustainable futures for our clients, colleagues and communities.

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Learn more about how you can find a sustainable solution for your pension liabilities. We look forward to hearing from you :

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