TT Actuarial

THINKING OUTSIDE THE BOX

GEARING UP FOR YEAR-END?

We are here to help you prepare:

- Year-end accounting budget estimates
- 2025 indexing pension calculations
- Determination of permissible plan contributions
- Plan text housekeeping amendments

Please don't hesitate to reach out for any questions/concerns. We're here to help!

Contact Us

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WE WANT YOUR INPUT!

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Newsletter – Fall 2024

GOT PENSION SURPLUS? MAKE A SUNNY DAY PLAN.

Congratulations, the defined benefit (DB) pension plan you sponsor may have a surplus! Finally, no more large monthly special payments. Time to focus on other things, right? Not quite! Riding the economic wave is certainly an option, but if you want to maintain that surplus or, better yet, take advantage of it, it's time to make a sunny day plan.

The possibilities to take advantage of a DB pension plan surplus range from holding it as a cushion for future economic downturns to withdrawing it as cash, the latter of which is possible only in specific circumstances.

Surplus withdrawal is the dream. You, as the plan sponsor, have been contributing during times of deficit, so why can't you withdraw in times of surplus? However, pension plan assets are protected for the interests of the plan members, and thus surplus can rarely be withdrawn from an ongoing plan. Typically, only on a plan wind up, after all benefits owed have properly been paid out, is there a possibility of the plan sponsor taking ownership of any remaining surplus.

The simplest way to take advantage of a surplus in an ongoing plan is a contribution holiday for the plan sponsor, that is, draw down the surplus to pay plan sponsor normal cost contributions. This requires annual valuations and notices to members, but the complexity is low.

Another low complexity option is to perform an asset liability management (ALM) study. In this case, the pension asset mix is adjusted to best match the nature of the plan liabilities. The idea being that asset movements capture changes in the liability values and the two move in tandem, preserving existing surplus as best as possible.

For plan sponsors who are not focused on reducing DB obligations, the surplus could be used to improve member benefits, for example, providing CPI adjustments. Alternatively, a closed plan could be reopened to new members for future DB or DC service, creating new normal cost to which the surplus can be applied.

For plan sponsors who are focused on reducing DB obligations, annuities could be purchased for existing retirees, which would lock in surplus gains. Alternatively, the plan could be wound up entirely. Winding up the plan opens up the possibility of the plan sponsor receiving what surplus remains after all benefits are paid out. Whether some of that surplus is first shared with the members depends on the nature of the plan text and the member/sponsor relationship.

Given the complexity of these surplus options, plan sponsors should have a sunny day plan in place that aligns with their values and long-term pension goals. **Make your sunny day plan for pension surplus today!**