Impact of COVID-19 on Retirement Plans

March 31, 2020

Defined Benefit (DB) plan sponsors will want to understand impacts and opportunities

As employers see funded status erosion from recent market volatility, it's important to understand the impact on short and long-term costs – cash funding, financial statement expense, and PBGC premiums. Assumptions should be reviewed to make sure they're still appropriate. Quickly changing market conditions require more focus on investments. Companies will want to rebalance to policy asset allocation range, while also looking for opportunities. One of our highest conviction investment ideas is "hedge paths," which work in tandem with glide paths to reduce the duration of the fixed income when interest rates are low and the risk/return profile for long duration bonds is unattractive. Changing conditions may also present attractive settlement opportunities, allowing plan sponsors to offload at least a portion of the liability.

S&P 500 PBO Funded Ratio

~$120B

Value lost of S&P 500 pension plans in Q1 2020[1]

[1] *Aon's S&P 500 Pension Risk Tracker as of 3/31/2020*

Actions

- Review Cost Projections
- Confirm Methods and Assumptions
- Follow Investment Policy (while seeking opportunities)
- Consider Settlement Opportunities

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Defined Contribution (DC) plan sponsors and participants may be faced with tough decisions

Employees are likely seeing big losses in their retirement savings, which may delay plans for those close to retirement, and create anxiety in others who are watching years of savings erode. Looking back to the 2008 financial crisis, we saw a spike in DC plan complaints leading to litigation, and a number of plan sponsors who chose to suspend employer matching contributions temporarily. Plan fiduciaries should review their governance structure and follow processes carefully to mitigate risks. Sponsors in financial distress will want to understand the rules and implications of taking actions to reduce or suspend employer contributions.

Looking ahead, we expect to see more plan sponsors including lifetime income options in their DC plans which will provide more retirement income security in the future. Companies with robust financial wellbeing programs will have a workforce better equipped to manage these uncertain times.

Actions

- Ensure Strong Governance
- Review Plan Design
- Consider Lifetime Income Options
- Address Broader Financial Wellbeing

We are in unchartered territory, but Aon consultants are here to help answer your questions during this uncertain time. Do not hesitate to reach out to your Retirement consultant or any of our leaders listed below.

1 year
delay in retirement reduces amount of savings needed by 1x pay[1]

1 in 3
employees prepared for a comfortable retirement at age 67[1]

6x
Increase in 401k complaints filed from 2006/07 to 2008/09[2]

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[1] *The Real Deal: 2018 Retirement Income Adequacy at U.S. Plan Sponsors*

[2] *Center for Retirement Research at Boston College, May 2018, 401(k) Lawsuits: What are the Causes and Consequences?*