FINANCIAL PLANNING FOR PENSIONS

At PNC Institutional Asset Management® we provide our clients with a comprehensive approach to implement de-risking strategies to manage the volatility of their plan's financials. Our asset–liability framework takes into consideration your plan objectives, risk tolerance, pension plan design, investment guidelines and constraints. These are characteristics that are critical to the formulation of an effective investment strategy.

WHY NOW?

Corporate defined benefit plan sponsors could experience the impact of pension costs and risk that are being driven higher by an ever-changing market landscape. Sponsors may face increased contribution requirements, a decrease in funding status directly impacting the balance sheet, or increased Pension Benefit Guaranty Corporation (PBGC) premiums. At times like this, it is increasingly important to explore and implement best practices to manage your organization's defined benefit plan.

SO WHAT IS FINANCIAL PLANNING FOR PENSIONS?

Financial Planning for Pensions is a framework that takes into account the plan's current state and develops a path to reach the plan sponsor's desired future state. At a high level, this approach is designed to help create a smoother path to full funding by managing assets relative to liabilities. We follow a five-step process that starts with understanding the plan sponsor's goals and objectives and leads to implementing and monitoring a customized investment strategy.

1. Goals and Objectives
2. Optimized Glidepath
3. Asset–Liability Study
4. Custom Liability Hedging
5. Monitoring/Rebalancing

1 Goals and Objectives

We believe there is no one-size-fits-all solution to de-risking.

As such, our pension management process starts with a goal-setting discussion where we meet with key committee members to discuss the objectives for the pension plan that we ultimately incorporate into our recommendations. Guided by a questionnaire, this includes discussions around the ultimate endgame or longer-term goal for the plan, risk tolerance, contribution strategy, allowable asset classes and other key items that impact the optimal investment strategy.

2 Optimized Glidepath

For plans that are underfunded, we typically recommend implementing a glidepath investment strategy, which provides a structured way to help lock in funded status improvements as they occur. A glidepath strategy typically has a high allocation to return-seeking assets at lower-funded levels and then more allocated to liability hedge assets as the funded status improves. Over time and as the plan de-risks, the strategy reduces the likelihood of falling backwards when market conditions deteriorate. Our recommended glidepath strategies are fully customized to your objectives and the plan's liabilities through the asset–liability (AL) study.

3 Asset–Liability Study

We typically perform an AL study at the start of an engagement and recommend refreshing the analysis at least every 2–3 years (or sooner if major plan changes occur).

The AL study serves two major purposes. First, the study is used to develop an investment strategy that is tailored to your plan's liabilities and financial results. Second, we use the AL study to help you understand the financial impact of the recommended strategy.

The AL study illustrates how implementing our recommended strategy affects the future state of the plan, including the impact on projected contributions, funded status, pension expenses and other relevant financial metrics.

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4 Custom Liability Hedging

Due to the nature of pension liabilities, long duration bonds are highly correlated with the plan's liabilities. However, investing in the typical long duration bond fund may still result in large surprises due to the mismatch between those fund benchmarks and the plan's liabilities. With our custom approach, the plan's fixed income benchmarks become aligned with your plan's liability. The benefit of this custom approach is that as the funding status improves and more is invested in fixed income, surprises due to market movements are significantly reduced.

5 Monitoring/Rebalancing

As recommended glidepath strategies are based on funded status, we review the plan's funded position daily and report updates to committee members on a monthly basis. As a part of investment performance reviews, which are generally recommended quarterly, we review asset performance relative to liabilities so that your committee understands the drivers of changes in the plan's funding position. If a glidepath is implemented, we will establish the rebalancing guidelines based on the committee's input and typically formalize guidelines in the plan's Investment Policy Statement.

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In the face of today's growing financial complexities, the decisions you make impact your organization and its employees in ways that matter more than ever. That's why PNC combines large-scale resources with a personal commitment to make sure you're ready for today, and tomorrow.

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