# Pension Plan Strategy Considerations: Illiquid Investments and Termination Exit Paths

As pension plans mature, sponsors increasingly need to balance return objectives with liquidity, risk and plan endgame goals. This is especially important when the plan holds **illiquid investments** such as private equity, private credit, real estate, infrastructure or other illiquid strategies. These assets may enhance diversification and expected returns, but they can also limit flexibility when the plan is trying to de-risk or prepare for termination.

## Drivers of illiquid investment allocations

Illiquid assets can work well in an ongoing pension plan if the sponsor has a long-term horizon and stable cash flow needs. However, if a plan sponsor desires to shorten the time horizon typically due to a plan termination or a material pension risk transfer, liquidity becomes much more important. The plan must be able to meet benefit payments, administrative expenses and settlement costs without being forced to sell assets at unfavorable times.

Key considerations include:

1. **Liquidity needs:** Can the plan meet near-term benefit and expense obligations, including a full plan termination?
2. **Cash flow forecasting:** Have benefit payments, lump sums, contributions and fees been modeled under stress scenarios?
3. **Valuation risk:** Are the assets marked infrequently or with significant judgment, making funded status harder to measure?
4. **Concentration risk:** Is the plan overly exposed to one asset class, manager or vintage year?
5. **Governance:** Does the sponsor have clear policies for monitoring, its private markets investments?

## Aligning investments with the endgame

Illiquid assets should be evaluated not only on expected return, but also on how they support the plan's **endgame strategy.** If the plan is moving toward **risk transfer, annuity buyout, lump sum settlement or full termination,** the portfolio should gradually shift toward assets that can be converted to needed cash efficiently.

For sponsors pursuing plan termination, the key question is not whether an investment is attractive in isolation, but whether it supports the timing and certainty required to settle liabilities.

A good practice is to establish a **liquidity glide path** that reduces illiquid exposure over time and aligns the portfolio with expected liability outflows. This helps avoid forced sales and improve flexibility as termination approaches.

Without this type of endgame strategy, plan sponsors may find themselves in a situation where they are forced to delay plan termination or are required to contribute more than expected to fully fund the termination liabilities (i.e., increased annuity purchase costs or secondary market discounts to deal with the illiquid investments).





## Exit strategies for plan termination

When a plan is terminating, illiquid assets can complicate the process. Common exit options include:

### Gradual liquidation

The plan sells assets over time and uses proceeds to fund benefit settlements and expenses. This is often the simplest approach, but it may take time and could require accepting a discount for harder-to-sell holdings if the timeline is accelerated.

### Secondary market sale

The plan may sell fund interests or commitments in the secondary market. This can improve liquidity, but it may involve transaction costs, legal review and pricing discounts.

### In-kind transfer

While rare, some marketable assets may be transferred directly to a terminating trust or insurer-related structure. Illiquid assets are often more difficult to transfer and may require additional approvals and valuation support. As a result, incremental premiums charged may offset savings from trading costs.

## Practical takeaway

The key is to plan early. Sponsors, in partnership with their investment consultants, should regularly assess liquidity, identify hard-to-sell assets and match the investment portfolio to the plan's termination timeline. Working closely with actuaries, investment managers, legal counsel, and custodians can help ensure the exit strategy is efficient, cost-effective, and consistent with fiduciary responsibilities. A well-funded pension plan can still face termination challenges if its assets can't be converted to cash efficiently.

**Bottom line: Illiquid investments can be a valuable asset class in a pension plan, but as termination approaches, liquidity becomes a strategy — not just an asset characteristic.**


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