

Innovation Strategies to Reduce Your Pension Plan Liabilities and Transfer Risk



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Diocesan Pension Plan

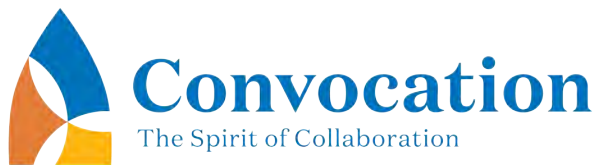
Retirement Goals

Provide meaningful retirement benefits to Lay employees and Priests

Manage the funded status of pension plans

Reduce ongoing risk of the pension plans

Provide all earned benefits to all participants (those in pay, deferred and active)

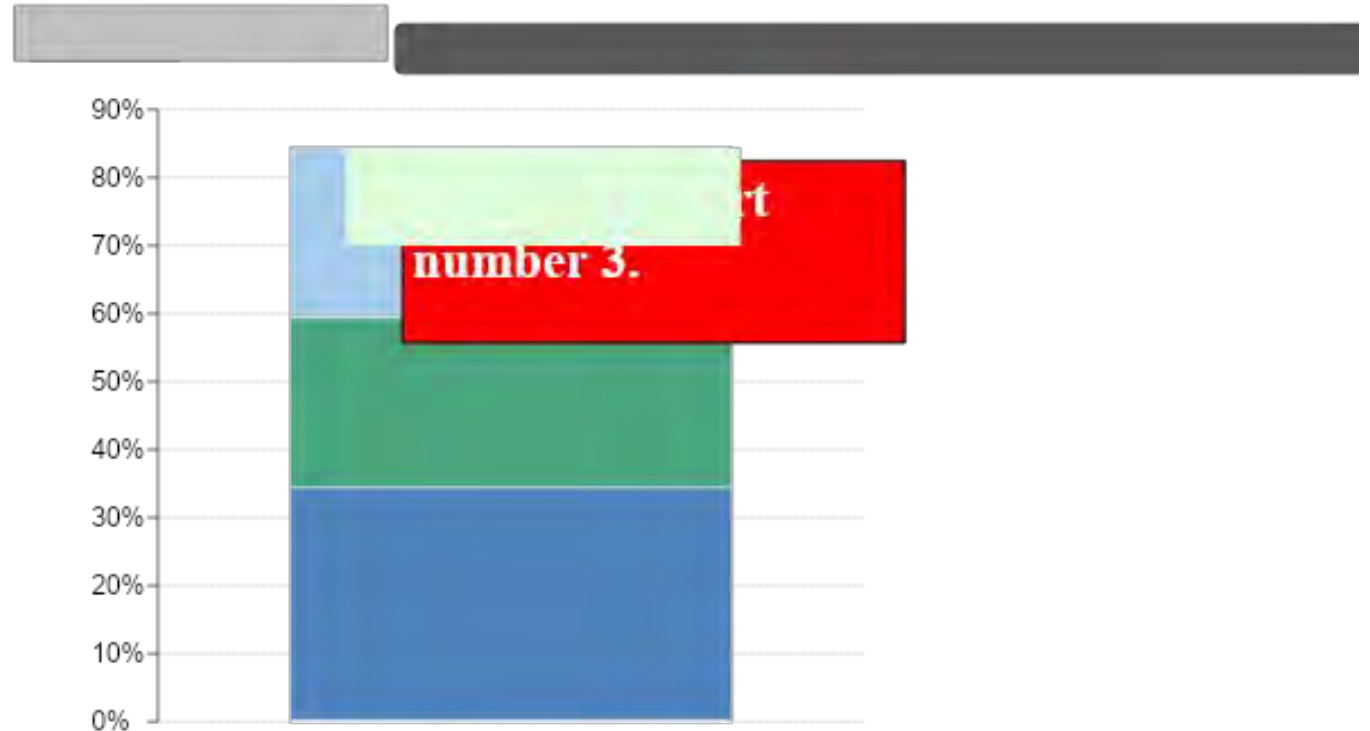


Meaningful Retirement Benefit

How much is enough?

- 80% of pre-retirement income is a common rule of thumb for retiree. Aim to replace 80% of pre-retirement income to maintain a similar lifestyle in retirement
- Three-legged stool
 - Social Security
 - Employer pensions
 - 403(b) program (employee only, non-elective, match)
 - Personal savings
- Recommend saving 15% of pre-tax income year to be ready for retirement

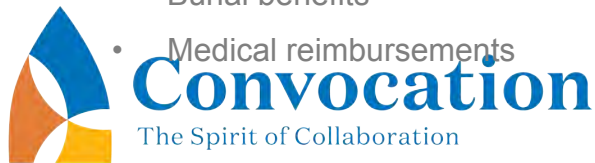
Retirement program for a newly hired employee



Pension Plan Design – cost savings

Levers to pull when cost is an issue

- Reduce the benefit formula for service after a certain date
- Change age for the normal retirement date
- Change the definition of compensation
- Move to a cash balance formula benefit
- Remove early retirement subsidies – like unreduced early benefit for age/service combinations
- Freeze participation in the plan – no new employees
- Freeze all accruals – permanently or temporarily
- Eliminate ancillary benefits
 - Disability
 - Death benefits for non-spouse beneficiary
 - Burial benefits
 - Medical reimbursements



Diocesan Pension Plans

Plan Status

Open

New employees enter the plan and earn benefits

Priests often have **open** pension plans, and new priests enter the plan and are provided pension benefit accruals

Closed

Employees in the plan continue to earn benefits, new employees have alternate retirement benefits (typically 403(b))

Lay employees are mixed; many Diocese have **closed** or **frozen** the pension plan and pivoted to a 403(b) program (either non-elective or match or both)

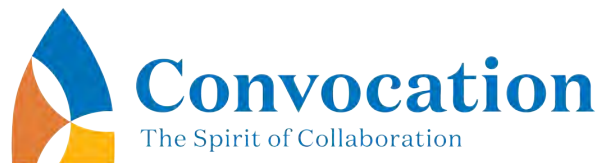
Frozen

All benefits are frozen; retirement benefits are provided through alternate program (typically 403(b))

Once a plan is **frozen**, typically the ultimate goal is **termination** (completely remove the pension plan from the books)

Terminated

Pension plan no longer exists; all benefits have been paid out (either via a lump sum or annuity transfer)



Derisking Diocese Pension Plans

Lump Sum Windows

Optional lump sums offered to some or all plan participants

- Participants typically view as favorable
- Allows no longer accruing access to pension those with benefits money now to ideally invest in other retirement benefits (403(b), IRA)
- Lump sum can be calculated as “full” benefit, or a reduced amount tied to overall plan funded status
- Post-lump sum, the plan is in a better funding position with a reduced unfunded liability (if it had one)

Annuity Purchases

Transfer annuity liability to an insurer

- **Buy-Out** purchases annuities through an annuity provider, and the provider takes on the full obligation and administration removing this population and its liability from the plan
- **Buy-In** purchases annuities through an annuity provider, but the liability and population remains with the plan, yet the liability is fully immunized from future market conditions
- Pricing for annuity transactions is currently very favorable and something to explore, even with an underfunded pension plan
- Partial buy-ins are an option to secure a portion of the liability yet retain enough assets to invest

Lump Sum Windows



Designing a lump sum window

Key considerations

- Define objectives for the window
 - Reduction in unfunded liability?
 - Reduction in plan size?
 - Participant options
- How will lump sum be calculated?
 - Full value of annuity
 - Reduced value based on overall plan funded status
- Who will get the lump sum window offer?
 - Can offer to all participants if frozen; if not limit to retirees, beneficiaries and terminated

Communication
is key – simple,
easy to
understand
elections

Set a
reasonable
window
period

Inform
participants
through
meetings and
outreach

Can set limits
on lump sums
to achieve
objectives

Lump Sum Window

Participant take rate

Gallagher's experience with take rates is shown in the table below
(note: actives are only offered a lump sum in a frozen pension plan)

Status	By Head Count	By Liability (Dollars)
Active	88%	84%
Terminated	72%	65%
Retired (in pay)	50%	46%
Total	67%	61%

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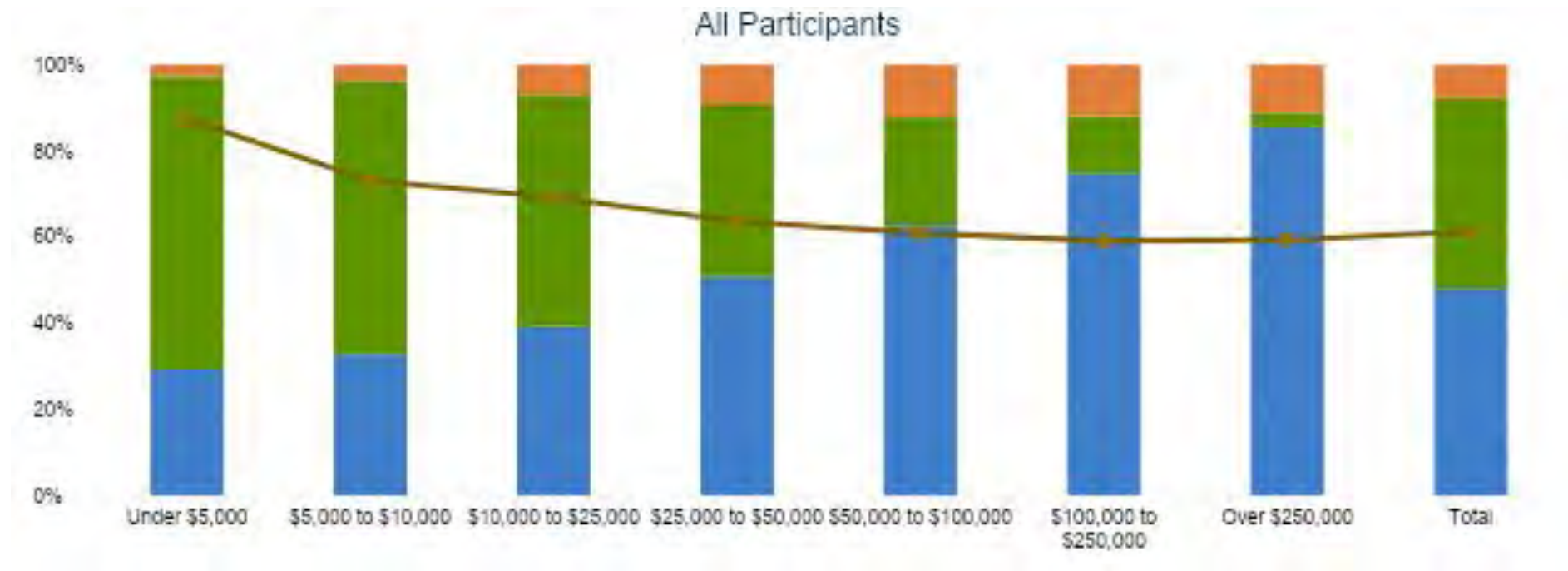
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Lump Sum Window

Participant with lump sums

Gallagher's experience with where participants put the lump sum (cash, rollover, split) is shown in the table below:



Annuity Purchases



Annuity Purchases

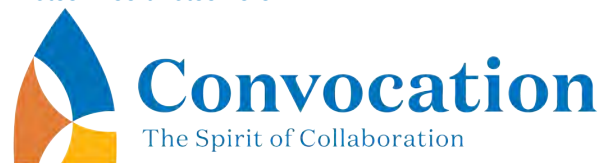
Two options for Diocesan Plans

Annuity Buy-Out

Plan purchases annuities for a portion (or all) of the retirees under “buy out”

- Annuities transfer to the annuity provider and removed from the Diocesan pension plan
- Administration is handled by the annuity provider (monthly payments, call center, outreach)
- Effectively the group that is purchased is removed completely from the Diocesan plan
- Can purchase annuities for terminated and active participants, but pricing tends not to be as good

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Annuity Buy-In

Plan purchases annuities for a portion (or all) of the retirees under “buy in”

- Annuity values are secured under an insurance (annuity) agreement, fully immunizing the value
- Liability remains on the books
- Diocese continues to retain administration (monthly payments, call center, outreach)

Other considerations

- Can purchase annuities for a portion of the benefit if cost for full benefit is too high
- Consider this option for Priest Plans where administration is best left with the Diocese to immunize risk

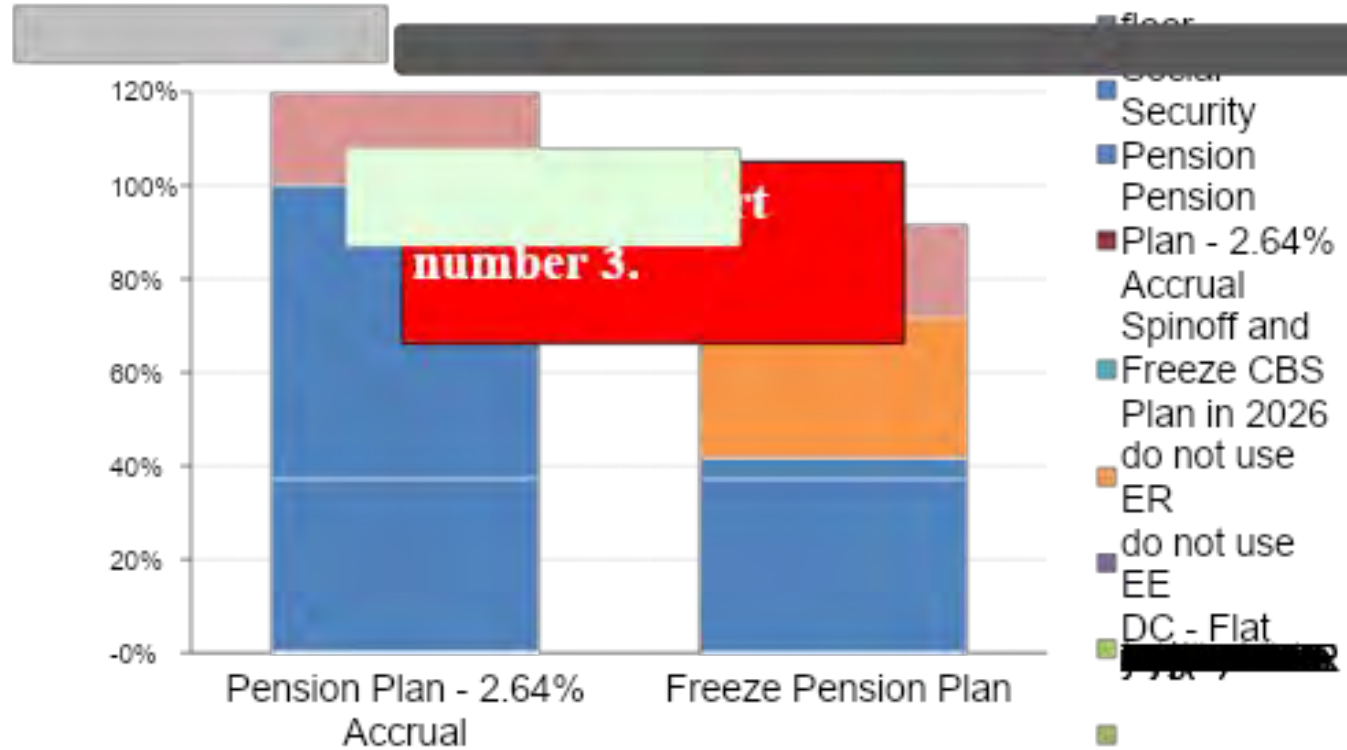
Case Studies



Diocesan Plan #1

Plan Design change

- Employer's annual cost for the pension plan with a 2.6% of compensation accrual cost 9% of compensation annually
- Plan design analysis revealed retirement income was more than pre-retirement income
- Decided to freeze the pension accrual and empower the 403(b) plan with a non-elective 5% contribution.
- New design produced savings of 4% of compensation annually



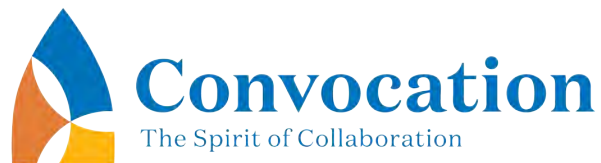
Diocesan Plan #2

Reduced Lump Sum Window

Lay Plan that was 64% with an unfunded liability of \$20,000,000

Steps take:

- Decided to freeze the pension plan but still had an annual payment of \$1.7M to eliminate the unfunded liability in 25 years
- Lump sum window offered to all participants
 - Lump sum value was 70% of the liability
 - Election rates for each group
 - Actives – 85%
 - Terminated Vested – 70%
 - Retirees – 30%
- Liability released was \$27M but \$19M in lump sums paid
- Unfunded liability after the lump sum window was \$12M
- Reduced the amortization payment to \$1M annually



Diocesan Plan #3

Path to Plan Termination

Frozen Lay Plan for more than 10 years

Steps take:

- Lump sum window 5+ years ago – high take rate; Diocese took loans to pay all requested lump sums (vs. limiting lump sums paid)
- Lump sum offered in 2024 reducing the plan size to about half of what it was pre-lump sum
- Remaining population largely in pay (some actives and terminated that didn't take the lump sum, but few)
 - Purchased an annuity buy-in for 90% of the value the remaining annuities for all remaining participants
 - On a 5-year path to secure funds for remaining 10% of the annuity value
 - At end of 5-year path, will terminate the Lay Plan
 - Providing a cashout (lump sum) of the value of the 10% non-annuity buy-in portion
 - Pivot the 90% annuity buy-in to a buy-out (participants thereafter will receive 90% of their annuity through the annuity provider)
 - Terminate the pension plan

Diocesan Plan #4

Full Plan Termination

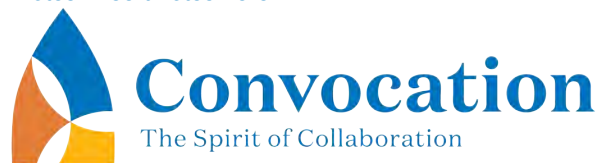
Frozen Lay Plan for more than 10 years

Steps take:

- Purchased an annuity buy-out for all retirees and beneficiaries in pay (full benefit) in the beginning of 2025
- At the same time the annuity transaction was occurring, a lump sum was offered to all actives and vested terminated participants with almost 90% taking the lump sum
- Remaining population was very small, and the Diocese could secure funding to purchase an annuity buy-out for this group (same provider)
- By the end of 2025, the Lay Plan was terminated

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Administration Considerations



Finding Lost or Missing Participants

Tools to use to find participants

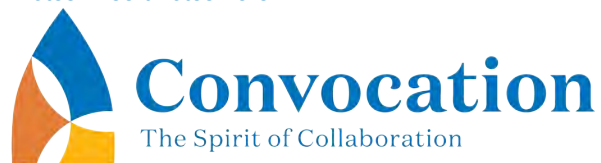
Often it can be challenging to locate former employees who have terminated, have a vested benefit, and are of age to commence their annuity.

Tools that can be used by the Diocese:

- **Certified Mail** is a way to confirm addresses for nonresponsive participants (requires signature) and allows for tracking and monitoring of mailings.
- **PeopleFinders** uses publicly available databases to provide current and historical addresses, associates/relatives and criminal record background. Could also search by address to find others who lived at same address as participant. Gives phone numbers for reaching out.
- **Ancestry** uses both historical government documents and user entries to provide relationship information, life status, prior address information, etc.
- **FindAGrave** shows pictures and captions of participant graves and can be used to determine life status or spousal/beneficiary information
- **Tributes** is an international database of obituaries that can be searched for participant or survivor information

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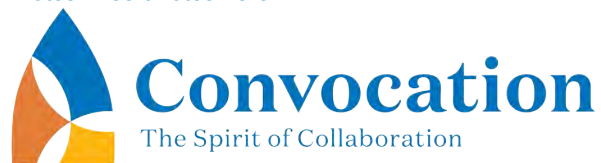
Derisking Preparation

Ensuring the pension plan is ready to take advantage of de-risking action once the time is right

- **Find and locate.** Having accurate information (address, email, phone) is key to finding participants when offering a lump sum or transferring liability to an annuity provider
- **Accrued Benefits.** Having accrued benefits calculated and certified (i.e., finalized) is key to being able to quickly pivot to derisking activities
 - Ensure accurate data is available and confirmed (compensation history, service, employee contributions (if applicable))
 - Calculate certified accrued benefits for all terminations, and continue to do so upon termination before information is lost or difficult to locate

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DISCUSSION



Thank you.

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