

# Lightening the Load: De-risking and Administration Strategies for your Diocesan Pension Program

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**Convocation**  
The Spirit of Collaboration



## Today's Speakers



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## Wellness Activity

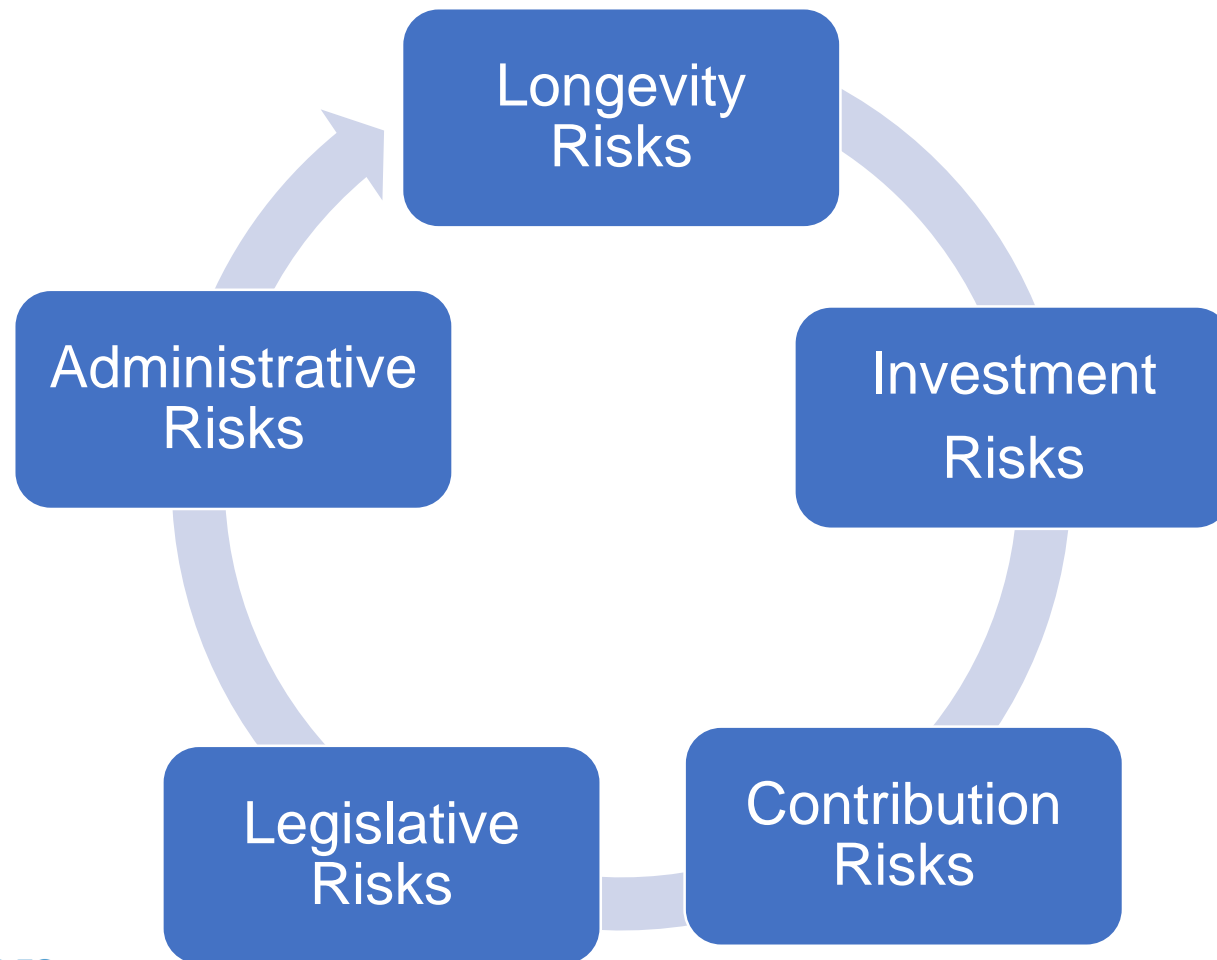


## Current Landscape

- Market volatility
- Economic and projected revenue uncertainty
- Continual funding challenges
- Aging population
- Mortality improvements / longevity
- Future composition of your workforce
- Internal demands on staff



## Significant Diocesan Pension Plan Risks



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# Risks Faced by Diocesan Pension Plans

## Investment Risk



Asset Mix Determines Assumption  
to Measure Liabilities

- Market Conditions
- Time Horizon

Return Needed to Reach Full  
Funding?

Effect of Poor Returns?

## When to Shift Investment Mix?

### Risk Tolerance

- Take on less risk if the downside hurts more than the upside helps

### Time Horizon of Plan

- Take on less risk when the time horizon is short

### Funded Status

- Take on less risk to “lock in” gains

### Contributions

- Take on less risk if contributions are fixed or shrinking



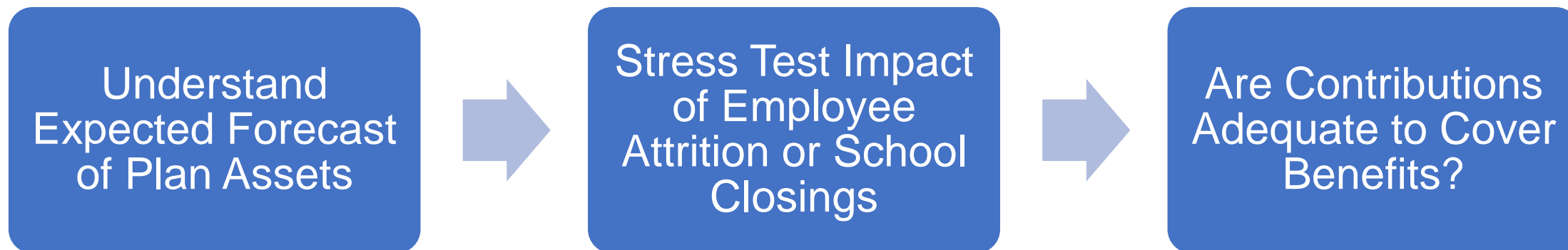
**Note:** a shift in the asset mix will cause a change in the liability measurement assumption and the funded status of the plan.





## Contribution Risk

Many Diocese plans are funded through a percentage of salary per active member

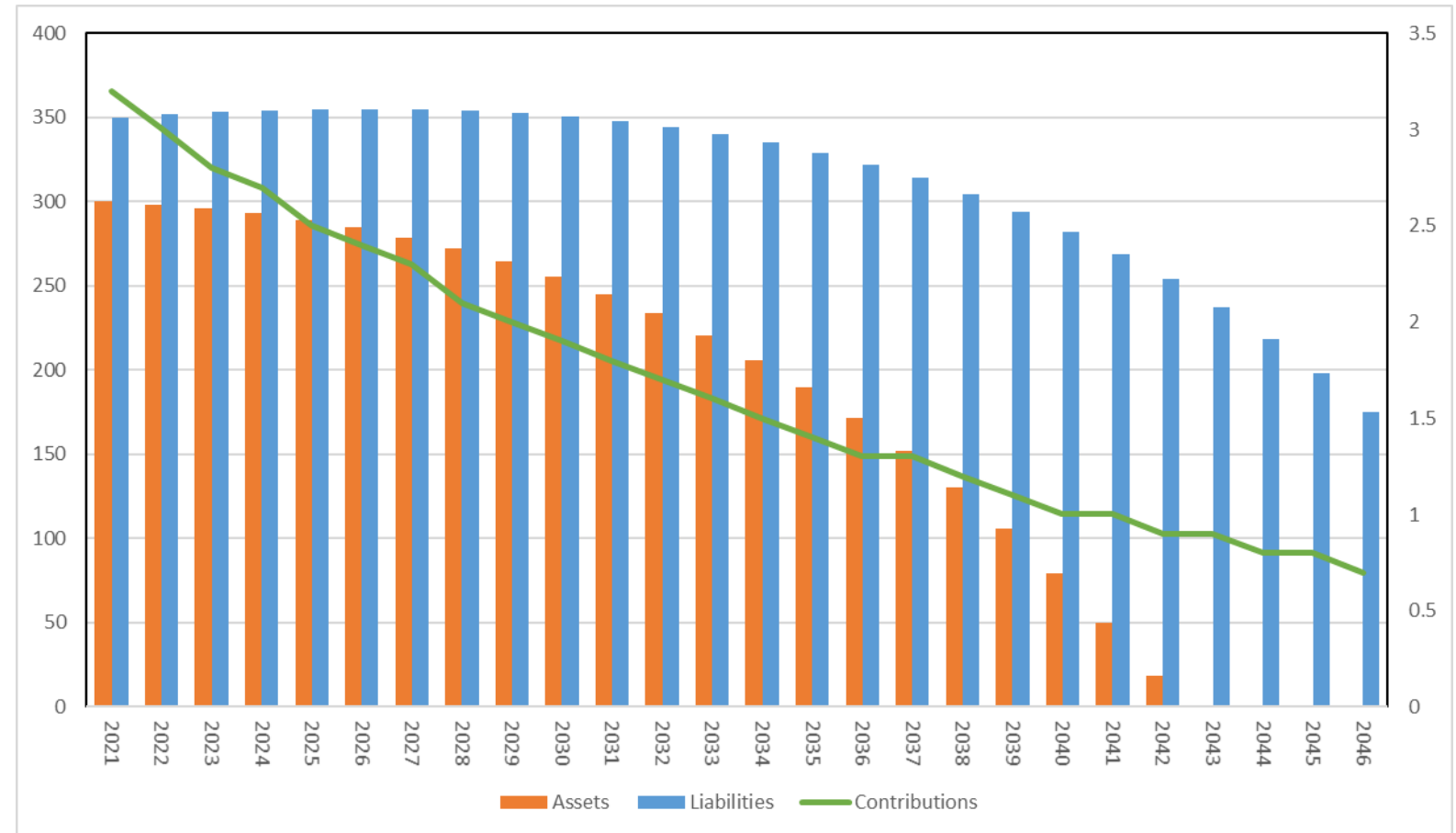


## Sample Case – 85% funded plan, baseline



### Plan Facts

- Plan is currently 85% funded
- Liabilities are measured at 7%
- Assets assumed to return 7%
- Contributions are 8% of employees payroll
- After ~20 years, the plan no longer has assets remaining to cover future benefit payments

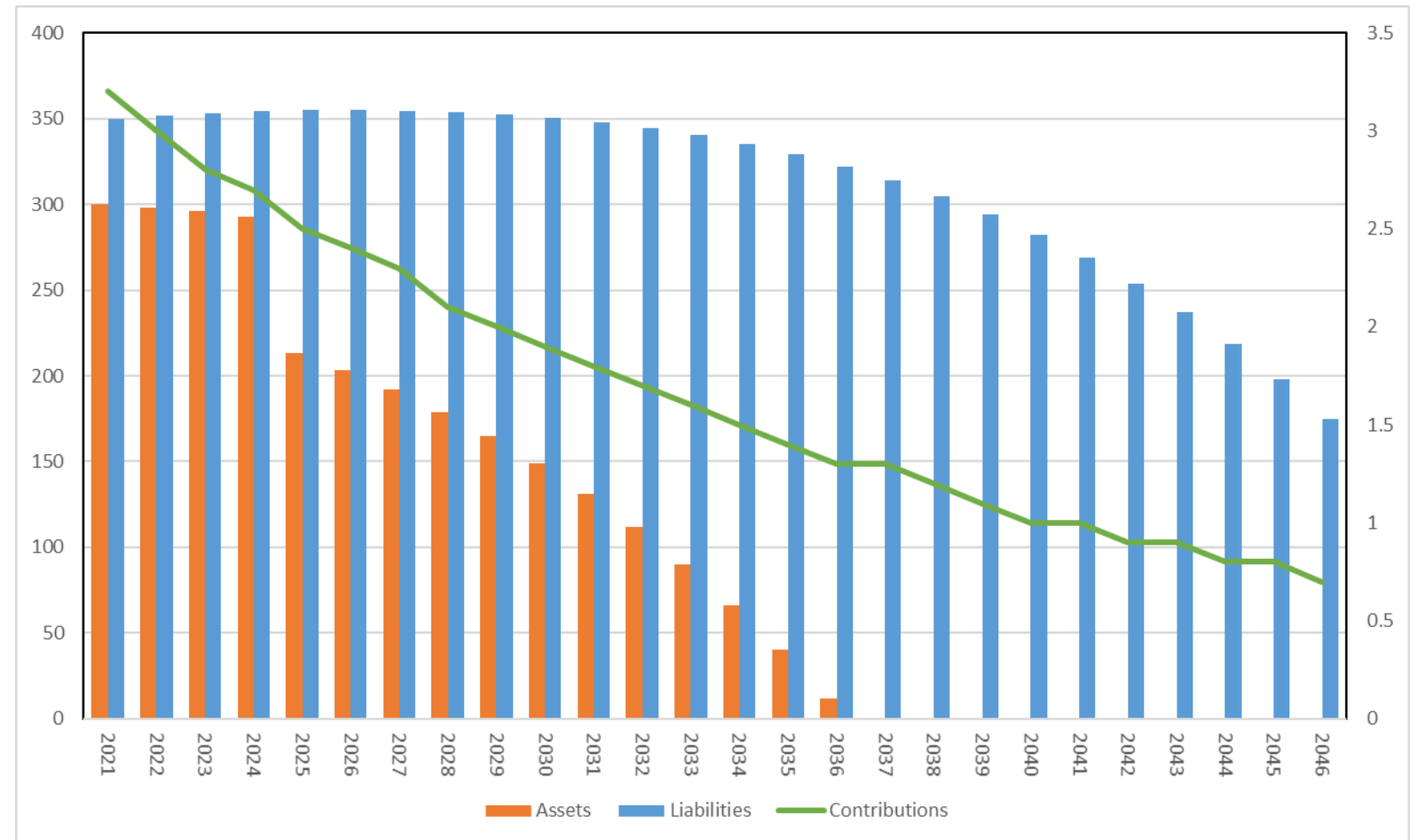


## Sample Case – 85% funded plan, financial crisis

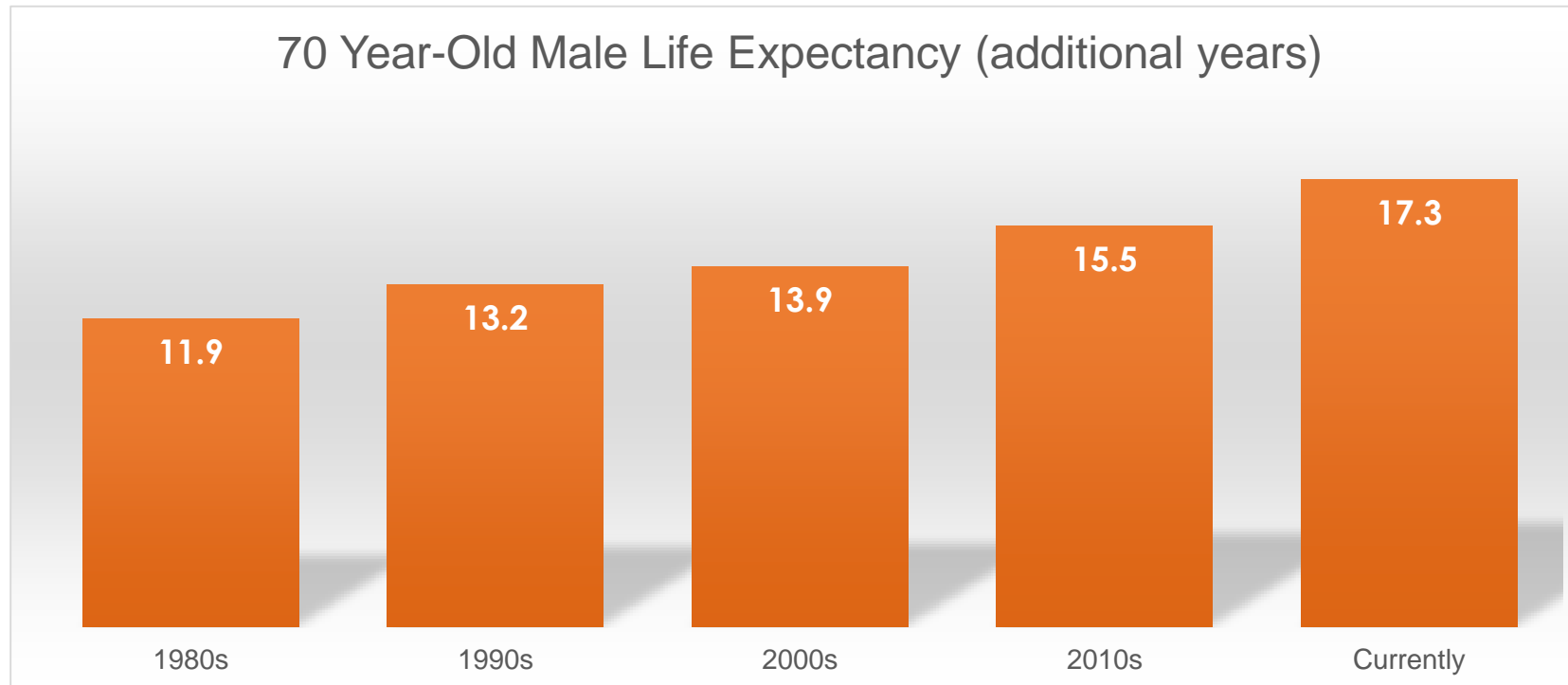


### Plan Facts

- Plan is currently 85% funded
- Liabilities are measured at 7%
- Assets assumed to return 7%, except in 2023 they return -20%
- Contributions are 8% of employees payroll
- After ~14 years, the plan no longer has assets remaining to cover future benefit payments



## The Cost of Increasing Longevity



Source: Gallagher Actuarial Consulting Experience Tables



# Legislative Risk

Legal Requirements if Government Reversed Church Plan Status

## In-Plan Benefit Protection

5-year vesting  
Anti-cutback rules  
Nondiscrimination

## Participant Notices Funding Notices Benefit Statements

Assumptions  
AA Bond Methodology  
Minimum Lump Sum  
Payments

Government Reporting  
Funding, Assets, etc.

Insurance Protection  
Per-participant Premiums  
Penalties for Underfunding

Required  
Funding  
Levels

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# De-Risking Strategies



# De-risking Your Pension Plan

## Plan Design Adjustments

Convert to Hybrid Plan

Close to New Entrants

Freeze Plan

Add Lump Sum Option

Reduce or Remove Benefits

## Asset Strategie

Fund

Liability Driven Investing

## Settlement Strategies

Offer Lump Sums

Purchase Retiree Annuities

Spin and Terminate

Wind Down Full Plan



## Lump Sum Window Example 1

Participants are paid the full value of their benefit. The unfunded liability is the same after distributions, and the plan is less than half the size, but the funded percent is less.

Before Window:  
7,000 Participants  
with 85% funded  
plan; \$350m Liability  
& \$300m Assets;  
\$50m Unfunded

Offer to Actives and  
Terminated Vested.  
Lump Sum based on  
100% of Actuarial  
Liability

Result: 85% of  
Actives and 75% of  
Terminated Vested  
Paid Offer

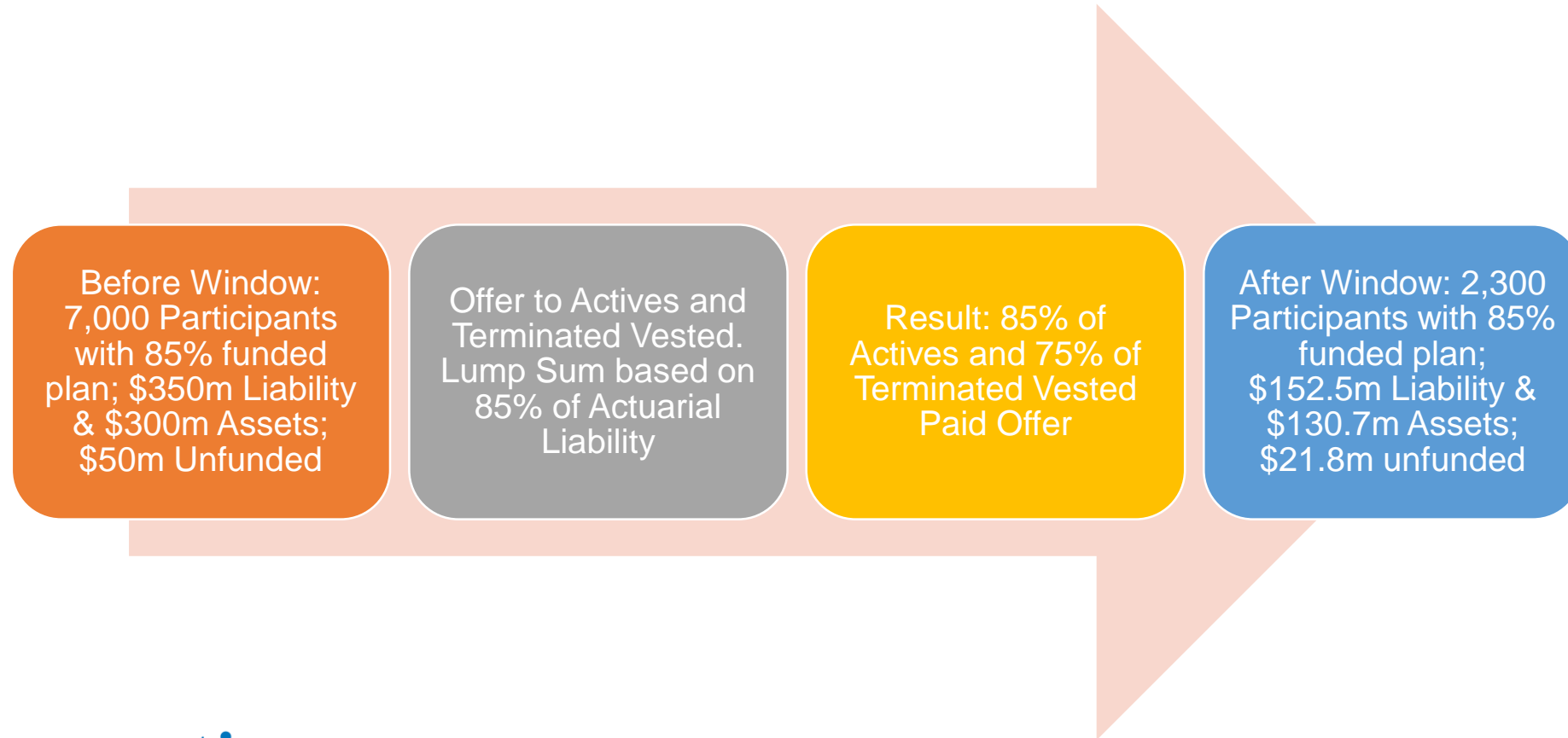
After Window: 2,300  
Participants with  
67% funded plan;  
\$152.5m Liability &  
\$102.5m Assets;  
\$50m unfunded





## Lump Sum Window Example 2

Participants are paid the funded value of their benefit. The funded status is the same after distributions, the unfunded liability shrinks and the plan is less than half the size.

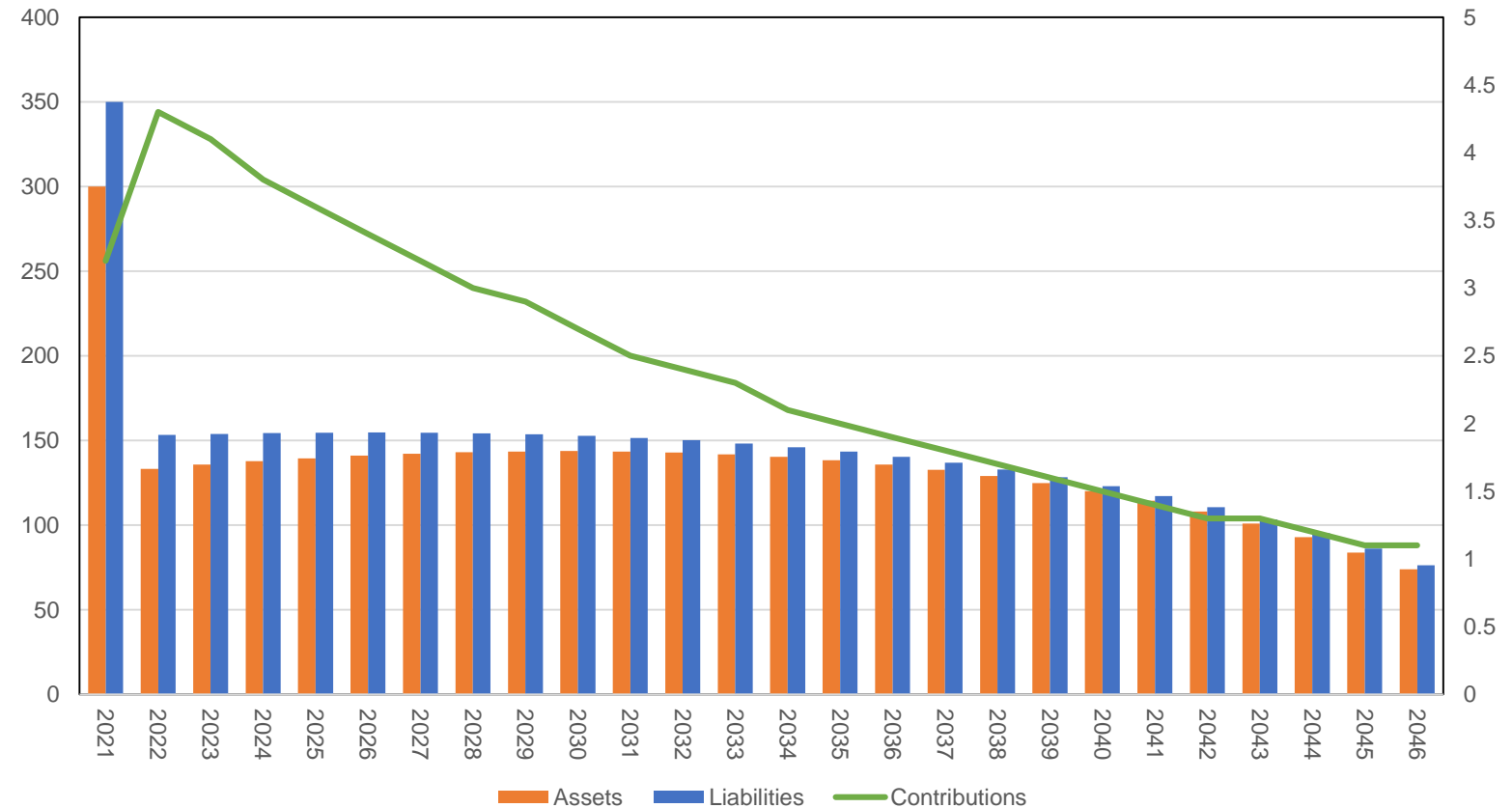




## Sample Case – 85% funded plan, baseline, post cashout, 11% of payroll contributions

### Plan Facts

- Same plan as before, except a lump sum was offered based on the plan's funded status (example #2 from prior page)
- Plan is still currently 85% funded, but the overall magnitude of the plan has decreased
- Liabilities are measured at 7%
- Assets assumed to return 7%
- Contributions are 11% of employees payroll
- After ~20 years, the plan no longer has assets remaining to cover future benefit payments





## Expected Take Rates By Group

Take rates vary by a number of measurable factors including size of lump sum, the level of education you provide during the process, the ease of the election process, how long ago they left the company, whether or not a participant currently has access to a lump sum, relative value of the lump sum, type of industry, and geography.

Group	Industry Average	Expected Gallagher Take Rate
Mandatory (Less than \$5,000)	100%	100%
Actives	80%	75% – 95%
Terminated Vested	50%	60% – 80%
Retirees (Participants in Payment)	35%	35% – 50%

Source: Gallagher Actuarial Consulting Experience Tables

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# Administration Strategies



## Pension Benefits – Administrative Challenges

Growing pool of retirees as population ages

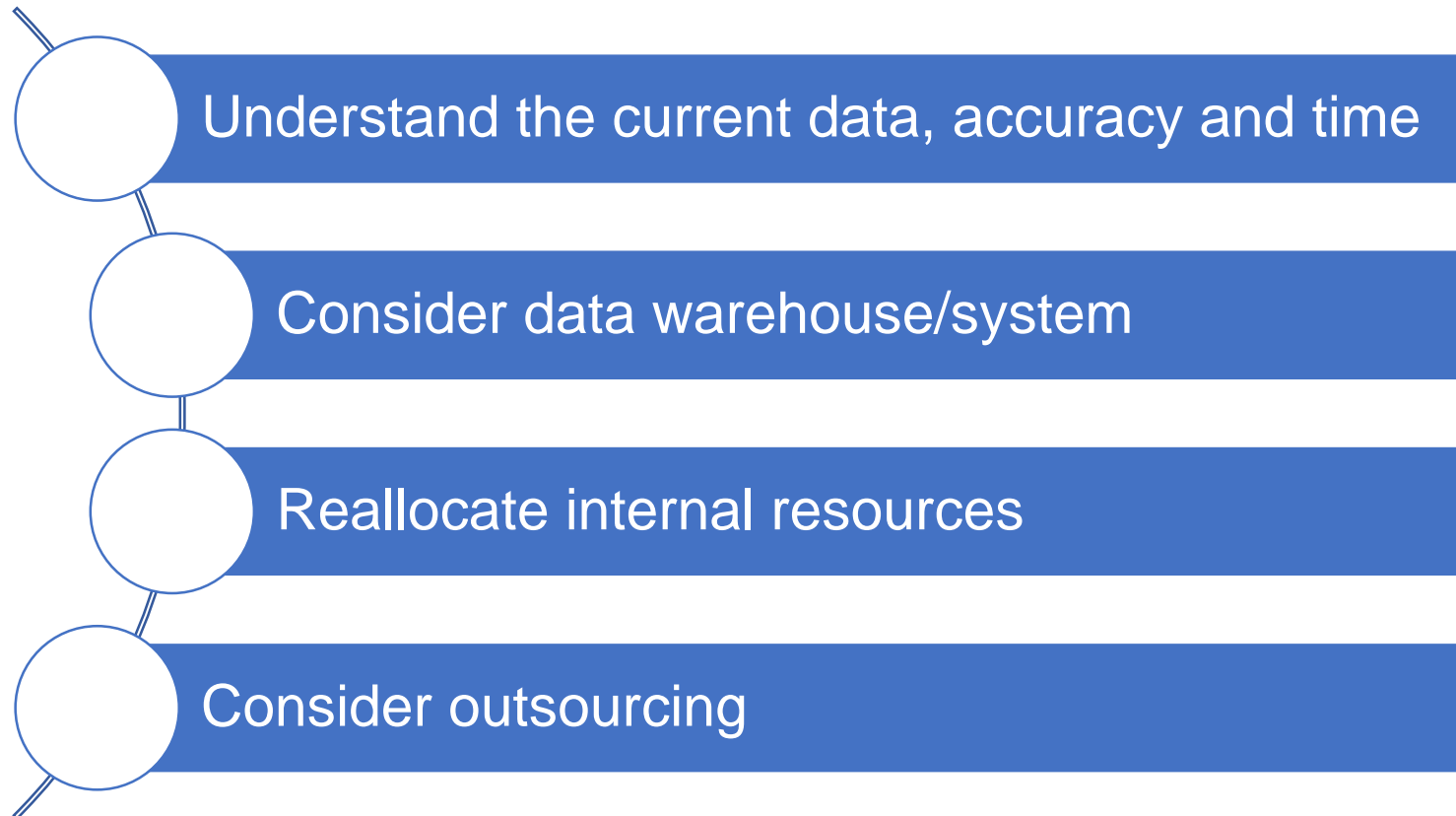
Incomplete, missing or inaccurate data

Decentralized recordkeeping

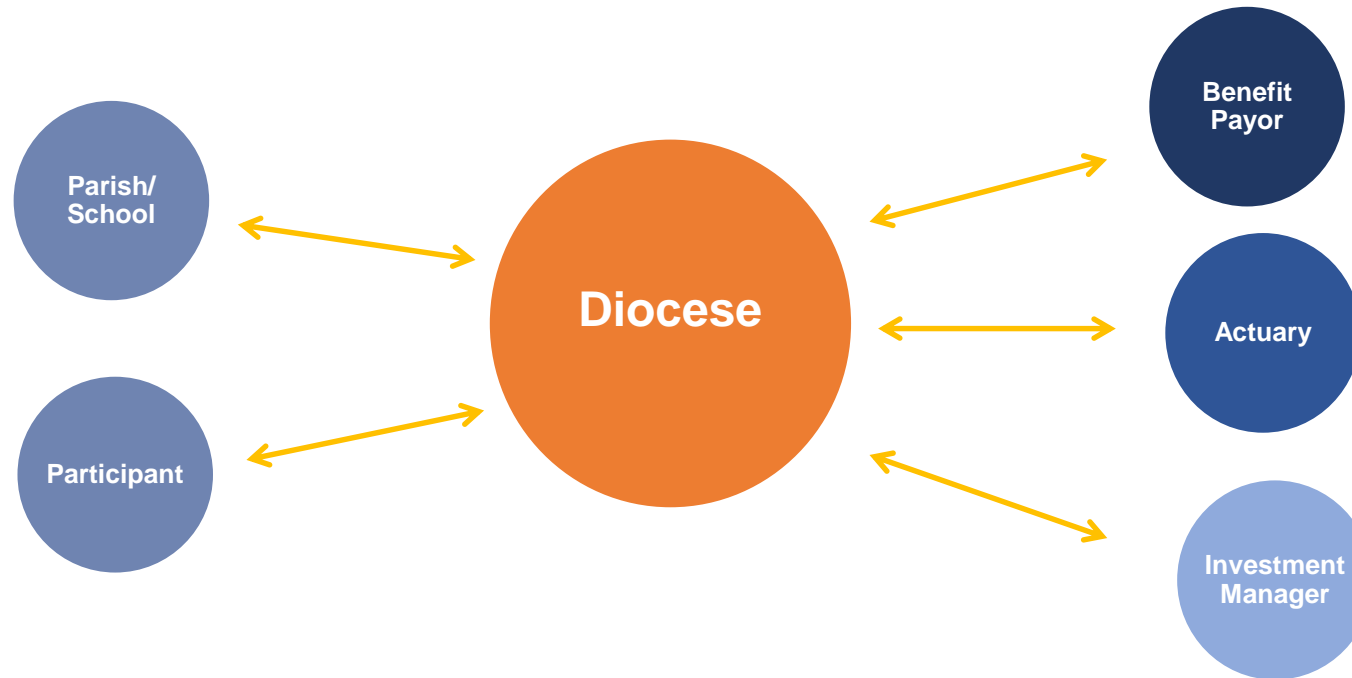
Emerging knowledge gaps in schools and parishes



## Building a Better Administrative Process

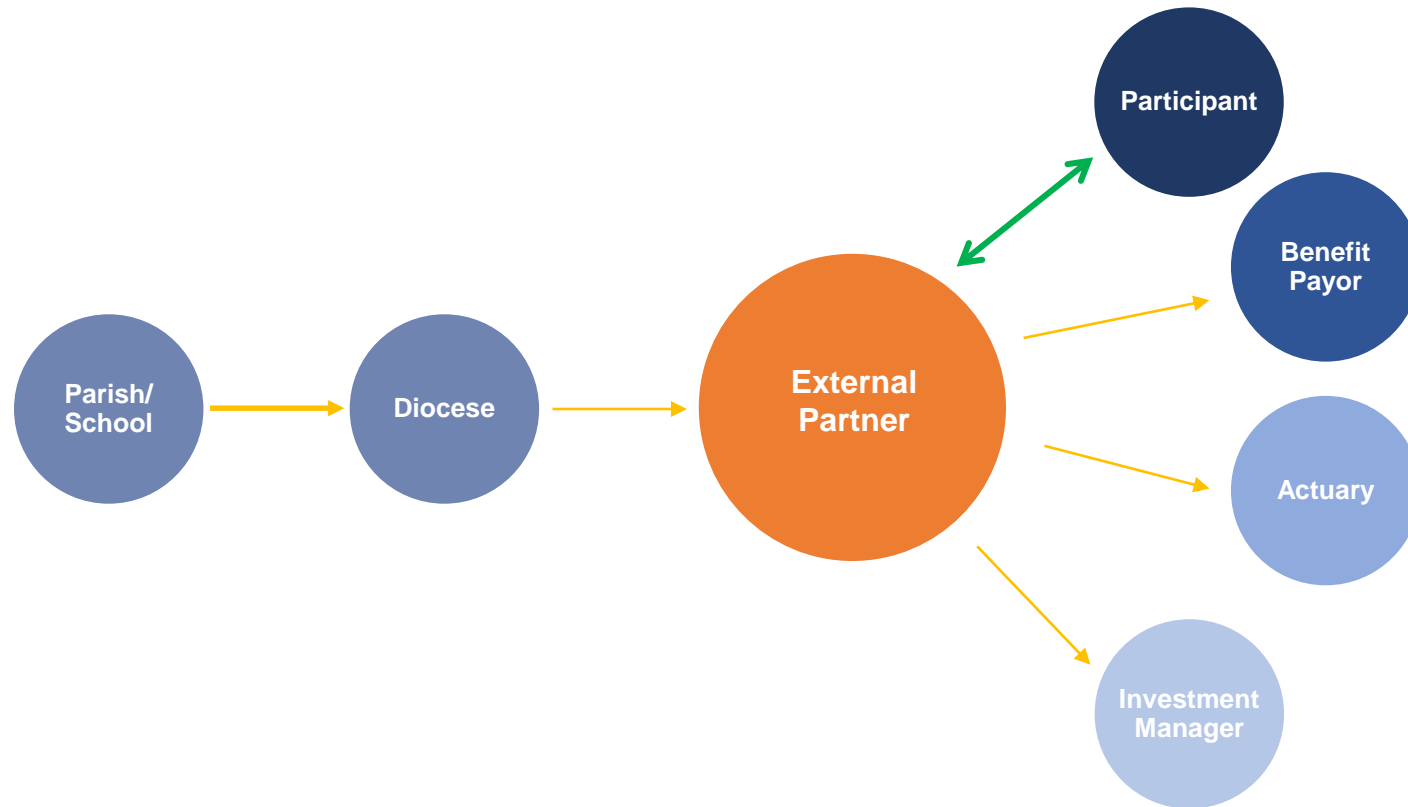


## Internal Administration Work Flow





# External Administration Work Flow







## Benefits of a Better Process





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## Discussion

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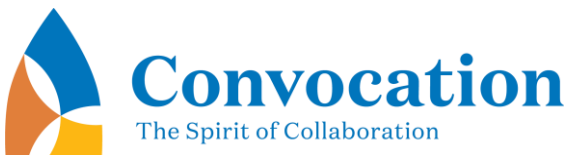
# Thank you.

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