

Deeper dive into retirement program implications of COVID-19

Willis Towers Watson Webcast

April 9, 2020



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Agenda for today's discussion



Current environment effect on pension funded status and participant savings



Legislative update



Suggested retirement plan actions



Role of retirement plans in workforce transitions



Questions and answers

Today's speakers



Beth Ashmore

US Defined Benefit
Plans



Mike Archer

Head of Retirement,
North America



Dave Amendola

US Defined
Contribution Plans



Janis Cooper

Canadian
Retirement Plans



Dave Suchsland

Workforce
Transitions

Prepare for the journey forward

Key stages of action

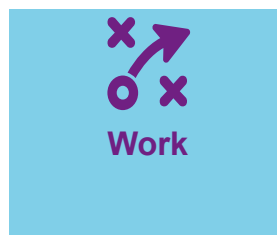
There are three distinct phases for organizations and their leaders:



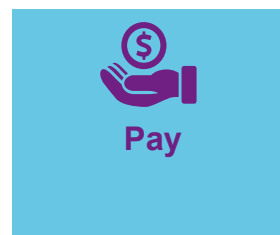
Health



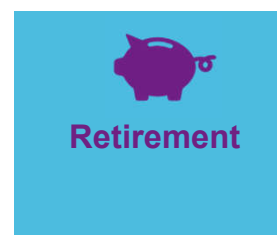
Wellbeing



Work



Pay



Retirement









Employee Experience and Communication



Culture

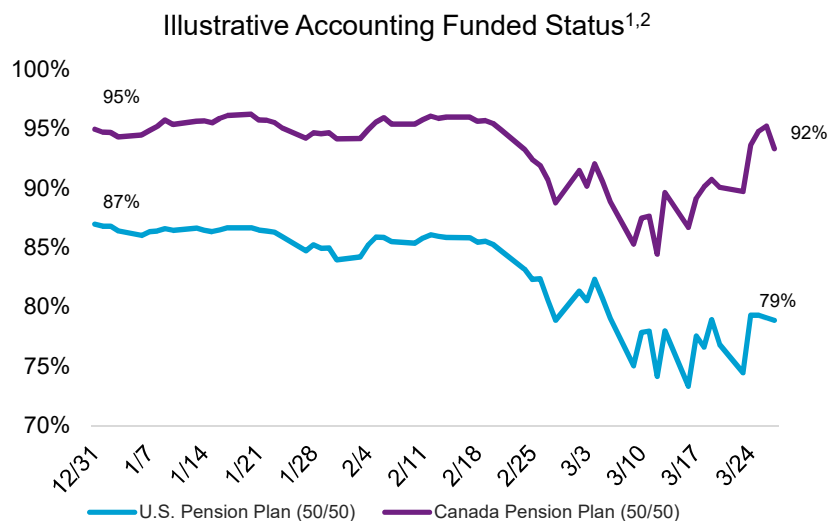
Today is a time unlike no other in our collective experience as people, communities and organizations

March 11	March 25	March 26	March 27	March 28	March 31
<p>Declared worldwide pandemic (WHO)</p>	<p>C\$107 billion emergency aid and economic stimulus bill</p>	<p>“This is not a typical downturn”</p> <p>Federal Reserve Chairman Jerome Powell, Today show</p>	<p>\$2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act passed</p>	<p>Nearly 10 million unemployment claims in U.S. for two week period ending 3/28</p> <p>2 million claims in Canada for month of March</p>	<p>S&P 500 down 19.6% during Q1 2020</p> <p>VIX up from 13.78 at 12/31 to 53.54 at 3/31</p>
					

Source: Bloomberg, Department of Labor

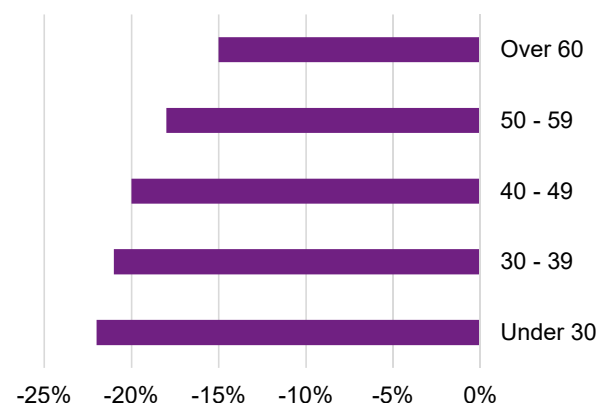
Market volatility effect on pension funded status and employee savings

Defined Benefit Funding Levels

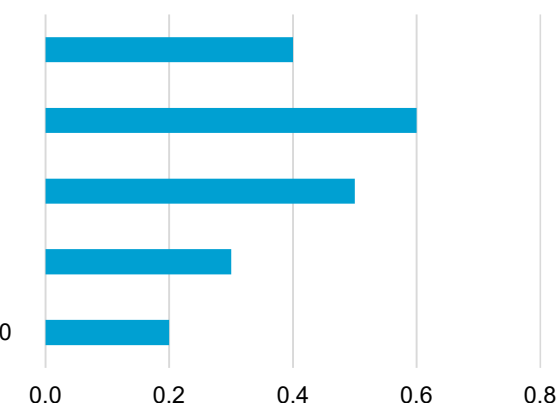


Effect on Employee Savings

Decline in Account Balances During Q1 2020 by Age Group



Increase in FIT Age³ (years)



YTD Market Movements

YTD Market Returns (3/31/2020)		Bond Yields	Dec 31	Mar 31	Change	Discount Rate	Dec 31	Mar 31	Change
S&P 500	(19.6%)	US AA	3.15%	3.06%	(0.09%)	US	3.50%	3.50%	0.00%
EAFE	(22.8%)	30 Year US Gov't	2.39%	1.35%	(1.04%)	Canada	3.00%	3.50%	+ 0.50%
TSX – CDN \$	(20.9%)	Canada AA/AAA Long	2.83%	3.17%	+ 0.34%				
		Long Canada Gov't	1.76%	1.18%	(0.58%)				

¹ Illustrative U.S. pension plan based on average 12/31/2019 funded status of largest 376 U.S. pension plans. Assumes 50% allocation to S&P 500 equities and 50% Long Gov't / Credit fixed income
² Illustrative Canadian pension plan based on typical 12/31/2019 funded status with 50/50 allocation. Assumes 17% S&P 500, 16% TSX, 16% EAFE, 25% Government and 25% Long Government.
³ FIT Age = Financial Independence Target Age; results based on illustrative population where most participants also have a frozen DB benefit.
 Source: Bloomberg

Legislative and regulatory activity to date

U.S. – CARES Act



Defined Benefit Plans

- Delay in 2020 required contributions
- Plan sponsors may use 2019 plan year funded status to determine whether benefit restrictions apply for 2020 plan year

Defined Contribution Plans

- COVID-19 impacted participants:
 - Increased maximum plan loan limit
 - Deferral of 2020 repayments
 - Tax favored distributions up to \$100,000
- Waiver of 2020 required minimum distributions

Canada



- Pension reform was introduced over the past couple years in most jurisdictions which provided significant funding relief
- Alberta is providing opportunity on a case-by-case basis for delayed contributions (DB + DC) and ability to extend deficit funding timeframe
- Ongoing discussions with pension regulators around providing relief, but no legislation released

Steps employers are taking in response

Employers sponsoring defined benefit plans

Assess the impact

Decline in equity markets and corporate bond yield volatility has led to **lower funded status** for many employers.



Assess the effect of the market volatility and identify near-term priorities (balance sheet, P&L, cashflow, debt covenants)

Address Higher Cash / Costs

Employers are evaluating the options available in the near-term to **meet cost and/or cashflow constraints**.



Execute near-term opportunities to meet cashflow / cost needs (funding strategies, program design, operational costs)



Monitor participant behavior, review economic and demographic assumptions

Prepare for the Future


As conditions begin to stabilize, employers should be prepared that a **different path ahead** may be necessary.



Prepare to revisit DB financial management strategy as stability is restored

Steps employers are taking in response

Defined contribution and savings plans – employer cost savings actions



Ease Employer Cash Flow Concerns

For **employers**, retirement plans can be a drain on **available cash**.

There are short-term actions organizations can take to **ease** current **cash flow concerns**.

However, careful consideration should be taken with any action to avoid **unintended consequences** or **impact** to an employees' **longer term financial wellbeing**.



Eliminate, suspend or reduce employer contributions and/or institute a maximum contribution or a maximum matching contribution dollar limit



Change current “scheduled” non-elective employer contribution to profit-based or discretionary



Move matching contribution timing to end of year



Change compensation definition and/or limit compensation for calculating contributions



Transition employer contributions to an existing defined benefit plan (subject to funded status)

Steps employers are taking in response

Defined contribution and savings plans – actions to support employees



Help Employees Access Savings

For **employees, retirement savings** can be a source of funds to help with **immediate** needs, but using those savings now could cause longer term financial stress.



In the U.S., consider encouraging the use of DC loans over taxable withdrawals in certain cases



Educate employees on implications of withdrawals from various sources and provide increased access to different types of distributions, as appropriate



In the U.S., use Health Savings Accounts as emergency funds to pay for qualifying medical expenses

Careful consideration should be taken with any action to avoid **unintended consequences** or **impact** to an employees' **longer term financial wellbeing**.



Keep Employees Whole



Add a match true-up provision to ensure employees still have the ability to receive the full employer match even if they make short-term deferral reductions

Workforce reduction drivers

Cost Savings



Most recently the number one reason for severance or window programs

Culture and Capabilities



For organizations ready for (or going through) change

Open promotional channels



If low turnover for extended periods of time and a strong up and coming group

Improve workforce quality



For example, in a manufacturing organization there could be safety concerns

Manage legal and/or relations risk



Voluntary programs generally have lower risks than involuntary programs

Key retirement elements of workforce reduction programs

Feature	Furlough	Layoff	Involuntary Separation	Voluntary Separation
Duration of payroll reduction	Short	Medium	Permanent	Permanent
Terminated from employment?	No	Yes	Yes	Yes
Speed to implement	Fast	Fast	Medium	Longer
Access to DC dollars	Via hardship withdrawals, loans or 59.5 provision	Yes	Yes	Yes
Access to DB dollars	Potential for in-service amendment if 59.5, lump sum provision could increase access	Yes, lump sum provision could provide full access	Yes, lump sum provision could provide full access	Yes, lump sum provision could provide full access
Severance	No	Typically no	Typically, could also use pension plan to defer cash outlay	Typically severance or a pension enhancement

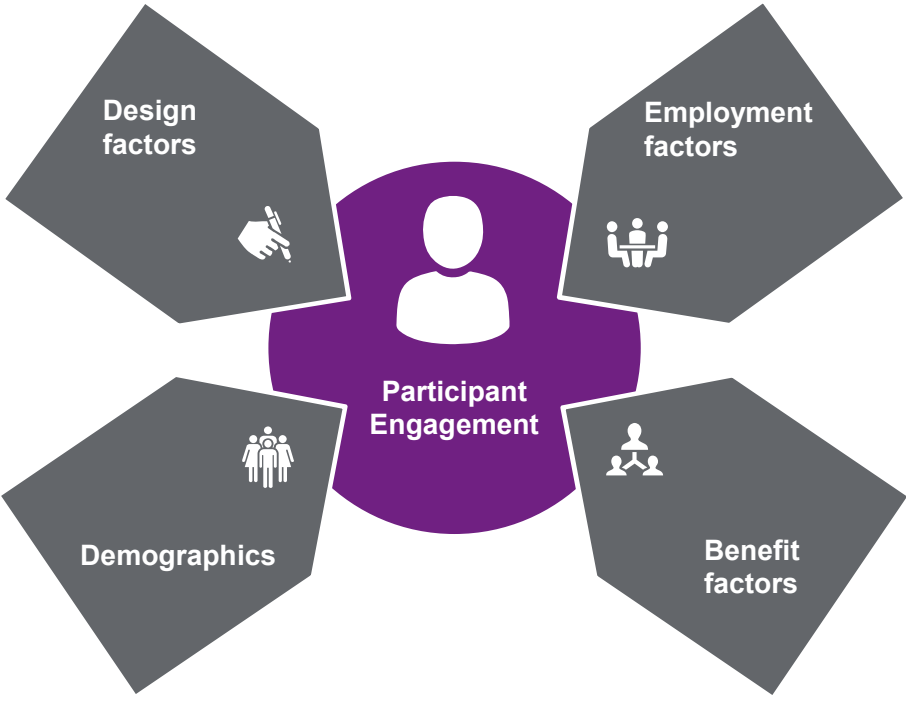
Terminology is important:

- **Furlough:** A temporary, involuntary requirement that employees either work fewer hours or take a certain amount of unpaid time off
- **Layoff:** Temporary or permanent separation from payroll because there is not enough work for the laid off worker's position (role not eliminated)
- **Involuntary separation:** Permanent separation from payroll because the position is eliminated or performance related
- **Voluntary separation:** Permanent voluntary separation from payroll, can be broad based or targeted to population close to retirement

Involuntary and voluntary leave program features

- Compensation**
- Severance/cash incentives
 - Typical program or enhanced severance; by employee group – minimums and maximums and multiples of pay
 - Salary continuation/garden leave
 - LTI*
 - Forfeited, accelerated vesting, continued vesting, actual vs. target performance

- Benefits**
- Vacation/PTO payout
 - Medical/dental
 - Continuation of active coverage for limited period 30-90 days
 - Paid COBRA
 - *Limited retiree medical typically through Health Reimbursement Account**
 - Outplacement assistance
 - Retirement
 - Enhanced defined benefit retirement benefits
 - Phased retirement incentive
 - Discretionary contribution to the 401(k) plan
 - Life insurance
 - *Long serviced travel discount program**



* Program features that are non-cash or deferred cash benefits

Prepare for the journey forward

Key stages of action

There are three distinct phases for organizations and their leaders:



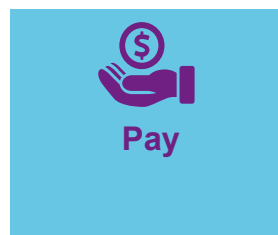
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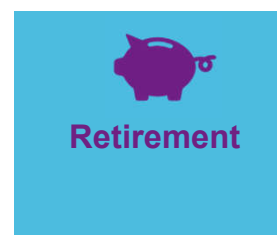
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Employee Experience and Communication



Culture

Questions

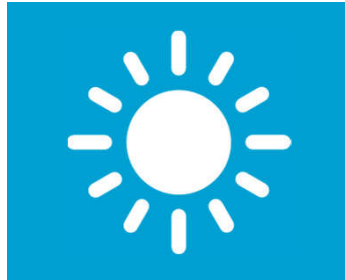


COVID-19 Webcasts: Implications of Coronavirus for Employers



April 2

Workforce
and Business
Implications
of the
Coronavirus



April 7

Health and
Welfare
Programs



April 9

Retirement
Programs



April 14

Work and
Rewards



April 22

Employee
Experience

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