

Talking about defined benefit

Discussion tracks for existing defined benefit (DB) plans

DB plan sponsors — whether they have active, soft-frozen or hard-frozen plans — may offer significant opportunities to expand your business.

These discussion tracks could help you show prospective clients the value you could provide, such as: helping them determine their goals for their organization’s DB plans and working with them and their service providers to meet those goals.

Questions to ask the plan sponsor	Implications
<p>Is your organization’s current DB plan active (non-frozen) or inactive (frozen)?</p>	<p>If active, it’s important for the plan sponsor to review their goals for the plan on an ongoing basis. If inactive, see the next question below.</p>
<p>If the plan is frozen, is it hard-frozen or soft-frozen?</p> <p>A hard-frozen plan means the plan no longer allows new participants and has stopped benefit accruals for existing employees.</p> <p>A soft-frozen plan means the plan no longer allows new participants, but existing employees continue to accrue additional benefits.</p>	<p>A hard-frozen plan typically means the plan sponsor has made the decision to terminate it once funding levels are sufficient. The most likely goal is to terminate the plan as soon as is reasonable at the lowest possible cost to the plan sponsor.</p> <p>With a soft-frozen plan, you should not assume that the immediate goal is termination. It’s important for the plan sponsor to review their long-term goals and intentions with the soft-frozen plan.</p>

Active (non-frozen) plan discussion track

Questions to ask the plan sponsor	Implications
<p>Are your long-term DB plan goals something you’ve recently reviewed and/or you review periodically?</p>	<p>The answer to this question may help you determine the plan sponsor’s attitude towards their organization’s DB plan. Both Finance and Human Resources (HR) departments could likely play a key role in the DB plan decision-making process:</p> <ul style="list-style-type: none"> • Finance, from a budget and accounting perspective, has impact on the bottom line, the balance sheet and income statement. • HR, from a benefit delivery perspective, provides a level of benefits for employees, or for competitive reasons, etc.
<p>There are four big concerns other DB plan sponsors (or clients of mine) have shared with me:</p> <p>1. The volatility of contributions (the cost to fund the plan).</p> <p>How are you managing any potential volatility in regards to the level and amount of contributions needed to fund your organization’s plan?</p>	<p>This helps determine if the plan sponsor has a strategy to address this concern. Specifically, they may be concerned that costs may vary year to year depending on investment performance and interest rates.</p> <p>Possible ways to help manage this volatility, could include:</p> <ul style="list-style-type: none"> • Appropriate plan design • Linking their investment strategy to their risk tolerance and plan benefit characteristics

Active (non-frozen) plan discussion track (continued)

Questions to ask the plan sponsor	Implications
<p>2. The administrative challenges of managing a DB plan.</p> <p>Some plan sponsors I've talked to recently have told me they might spend double to triple the amount of time they can afford to managing their retirement program.</p> <p>Some plan sponsors have separate service providers for defined contribution (DC) and DB plans, and even multiple vendors for services within their DB plan alone. (For example: actuarial services, investment services, data management and other administrative services.)</p> <p>Are you experiencing similar concerns?</p>	<p>Their answer to this may help you determine their overall satisfaction with how the DB plan (and entire retirement program) is serviced.</p> <p>This may also confirm whether the DB plan is being serviced by multiple vendors (i.e., an unbundled or semi-bundled arrangement) or a single vendor (bundled arrangement).</p>
<p>3. Managing plan data and ensuring it's accurate. (For unbundled or semi-bundled service arrangements or if data management is in-house)</p> <p>Some DB plan sponsors I work with think it's their actuary's responsibility for managing the plan data, but that's not the case.</p> <p>The plan sponsor is ultimately responsible for ensuring their data is accurate when it comes time to process a benefit payment or carry out other tasks — and any errors creates fiduciary risk to the plan sponsor.</p> <p>Who helps you manage the plan data?</p> <p>What process do you go through to ensure your data is accurate and help prevent fiduciary risk?</p>	<p>This might open up a conversation around their data management process and highlights the fiduciary risk the plan sponsor could be exposed to if their data isn't accurate.</p> <p>The plan sponsor is ultimately responsible for maintaining historical service, compensation and breaks-in-service data — often going back many years. Errors could lead to fiduciary risk.</p>
<p>4. Plan design.</p> <p>What process do you use to analyze whether the plan design is effective and efficient in meeting your organization's HR objectives? (In context of your existing budget and your overall retirement program.)</p>	<p>To elaborate on this question or explain what you mean, you can ask questions such as:</p> <ul style="list-style-type: none">• Have you looked at things like projected short- and long-term costs of the current plan design?• Do you know if your employees can retire when your organization wants them to retire?• Does the current design provide an adequate amount of benefits for when your employees do retire? That is, taking into consideration any other retirement plans you offer as well as Social Security benefits.• Does the plan benefit the employees when your organization wants to? <p>A majority of DB plan sponsors may not know the answers to these questions. You could show value by gaining a full understanding of the plan sponsor's HR and financial objectives, and then working with service providers to design and deliver a retirement program to help meet those needs.</p>

Soft-frozen plan discussion track

Keep in mind that the concerns for active plans are still applicable here since the plan sponsor is still managing an ongoing DB plan.

Questions to ask the plan sponsor	Implications
When was the plan soft-frozen and what initially prompted your review of the DB plan?	<p>A common response as to what prompted their review of the plan may be cost.</p> <p>However, this concern doesn't go away with a soft-frozen plan if it's not managed properly.</p> <p>To help address this, you may refer to the active plan discussion track (question 1) regarding the volatility in the level and amount of contributions needed to fund the plan now that it is soft-frozen.</p>
What review process did you go through before deciding to soft-freeze the DB plan?	<p>This question might help you uncover the long-term intent and strategy for the soft-frozen plan.</p> <p>It may also address other questions such as:</p> <ul style="list-style-type: none">• Do you intend to keep the soft-frozen DB plan as is indefinitely?• Did you consider a hard-freeze and/or termination? If so, why did you decide against those options? <p>There might not be a clear long-term strategy for the soft-frozen plan, or the effectiveness of the soft-freeze hasn't been recently measured (e.g., cost savings, enhanced benefit delivery). You have the opportunity to demonstrate your value by focusing on measuring the effectiveness and overall efficiency of their current retirement program.</p>
<p>How are you currently measuring the effectiveness of dollars spent on your retirement program?</p> <p>Has freezing the DB plan addressed all of the concerns you and other key employees had with the plan?</p> <p>Is the soft-frozen plan effectively meeting your short- and long-term needs (both financial and HR)?</p>	<p>One option can be to refer to the active plan discussion track (question 4) about plan design and content to further elaborate.</p> <p>Many plan sponsors may know the reason for — and intent of — implementing a soft-freeze, but others haven't measured the effectiveness of the soft-freeze from a financial and HR perspective. They also may not have a long-term strategy in place for the soft-frozen plan.</p>
Do you have any ongoing administrative challenges or concerns managing your soft-frozen DB plan?	<p>One option can be to refer to the administrative burden and plan data management concerns (questions 2 and 3) in the active plan discussion track.</p> <p>All of the issues raised in that section might still apply to plan sponsors of soft-frozen DB plans.</p>

Hard-frozen plan discussion track

Hard-frozen DB plans could be overlooked as an opportunity when prospecting, but with a basic understanding of common concerns and/or key discussion points, they might offer opportunities to grow your retirement plan business.

Questions to ask the plan sponsor	Implications
<p>The two biggest concerns other hard-frozen DB plan sponsors (or clients of mine) have shared with me are:</p> <p>1. The volatility of contributions (the cost to fund the plan).</p> <p>How are you managing any potential volatility in regards to the level and amount of contributions needed to fund the DB plan to termination?*</p>	<p>This question might help you determine if they have a clear strategy to accomplish this goal while managing common concerns (such as the volatility of contributions and the overall cost to fund the plan to termination).</p> <p>Costs may vary year to year, depending on investment performance and interest rates.</p> <p>There could be ways to manage this volatility by helping link the plan sponsor's investment strategy and contribution levels to the plan's liabilities and the plan sponsor's risk tolerance and budget parameters.</p>
<p>2. Not having an "exit strategy" for their organization's DB plan.</p> <p>What is your exit strategy?</p>	<p>If asked to define what you mean by an "exit strategy", start by stating that hard-frozen DB plan sponsors usually have a goal to terminate their plan as soon as is reasonable and at the lowest possible cost — but there may not be a formal strategy to accomplish this goal. (This might be your prospecting opportunity — where you can add value.)</p>
<p>As a financial professional, I work with service providers who understand the importance of three key steps in developing the most cost efficient and timely exit strategy by taking into consideration both assets and liabilities:</p> <p>1. Evaluating the cost of termination.</p> <p>2. Evaluating multiple funding strategies.</p> <p>3. Evaluating the outcome of various asset allocation strategies.</p>	<ol style="list-style-type: none">1. Knowing the potential cost of termination could be essential in helping plan sponsors determine how long it may take to fund the plan.2. Evaluating multiple funding strategies allows the plan sponsor to choose a funding strategy that their organization could afford within a given timeframe.3. Knowing the potential outcome of asset allocation strategies lets the plan sponsor assess possible cost scenarios, and the potential volatility associated with these costs. Then this could be linked to the organization's risk tolerance which helps determine an appropriate asset allocation strategy for the organization.
<p>Do you have a strategy in place to monitor your progress in terminating the DB plan?</p>	<p>It is critical for plan sponsors to monitor progress and evaluate the effectiveness of their current funding and asset allocation strategies.</p> <p>Plan sponsors may realize it can take years to terminate the plan, but many mistakenly place monitoring of the hard-frozen plan on autopilot.</p>

* Funding required to terminate a plan is calculated differently than an active or soft-frozen plan. Plan funding on a termination basis typically results in higher funding costs necessary to reach their end goal of termination, but can vary depending upon a number of factors including a plan sponsor's asset allocation, interest rate and their ability to contribute to the plan.

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