

PENSION MANAGEMENT RESEARCH PANEL

A Market Gone Bad: How Are Pensions Around the World Responding?

GLOBAL RESULTS

The **Pension Management Research Panel** recently conducted a global Quick Poll of pension executives from five markets - Canada, Hong Kong, Netherlands, United Kingdom and United States. The poll was completed by a total of 157 executives overseeing pensions ranging from US \$30 million to over US \$5 billion in assets. None of the participants were institutional clients of SEI. The aim of the poll was to examine the extent of the impact last year had on organizations managing pensions and how they are responding to ongoing worldwide investment volatility.

Global Asset Losses in 2008

Around the world, organizations overseeing pensions experienced a significant loss in assets last year, including:

- 76% reported a decrease in overall pension assets of at least 11%
- Almost half (46%) of all polled reported a loss of between 21-30%.
- A tenth (10%) of the participants said the loss was 31-40% of the overall portfolio

Funded Levels Have Been Hit Hard

Poll participants in the US, UK and Canada were asked how much 2008 impacted the plan's funded level from the year prior:

- Almost two thirds (64%) of that group saw a decrease in funded level of at least 11%.
- A third (32%) said their funded level decrease was at least 21%
- 10% said the decrease was over 31%

Pensions Are Impacting Overall Business

Following 2008, what is the impact of pension contributions on the sponsoring businesses? While in relief is being considered or has been implemented in some of the countries polled, the impact cannot be ignored:

- Half (49%) of those polled said that if their organization was required to make the

contribution, "the company could have made it but it would have had a significant impact on overall corporate finances."

- 11% admitted the "organization would not have the cash to make the required contribution."

Asset Allocation Changes Taking Place

Market volatility is causing organizations to make changes to the asset allocation policy:

- 64% made changes in the past year
- 38% made changes in the past six months
- Nearly a quarter (23%) made changes in the past three months

What Actions Are Taking Place?

The recent market turmoil is causing organizations overseeing pensions to consider or implement the following options:

- 27% are diversifying out of equities and into bonds
- 21% said they are diversifying out of equities into alternatives
- 12% are considering or have already implemented interest rate swaps
- 6% are considering or have already implemented inflation swaps

U.S. POLL RESULTS

Organizations Polled

Breaking down participating organizations based on assets in their pension fund:

- 13% under \$50 million
- 26% between \$51 and \$100 million
- 21% between \$101 and \$300 million
- 8% between \$301 and \$500 million
- 11% between \$501 and \$1 billion
- 21% over \$1 billion

Losses in 2008

US plan sponsors reported significant decreases in pension assets last year as more than three quarters (78%) cited a loss of at least 20%. Here is the breakdown:

- 59% saw a decrease of 21-30%
- 19% saw a decrease of 31-40%
- 16% saw a decrease of 11-20%
- 5% saw a decrease of 1-10%

Subsequently, the funded levels of US pensions were also hit hard as 96% of US poll participants saw a decrease:

- 34% saw a funding decrease of 21-30%
- 33% saw a funding decrease of 11-20%
- 16% saw a funding decrease of 1-10%
- 9% saw a decrease of 31-40%
- 4% saw a decrease of 41% or more

Impact of Funding Relief

The recently passed funding relief in the US was clearly welcomed by plan sponsors.

- 14% of the US poll participants said that without funding relief the organization would not have had the cash to make required contributions
- Another 10% said the contribution would have had a devastating impact on the long-term stability of the organization

Responses to Market Conditions

The long term future for defined benefit plans in the US continues to change. Of all of the US plans polled:

- 43% of US participants said the organization is diversifying out of equities and into bonds
- 32% said they are moving assets out of equities and into alternatives

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Asset-Liability Studies

US plan sponsors have reviewed asset allocation recently:

- 67% of all US poll participants conducted a study in last 12 months
- 35% conducted one in the past six months
- 22% conducted one the past three months

Subsequently, 61% of all US participants made a change to the asset allocation policy for pension investments in the past 12 months.

Plan Design Changes

The long term future for defined benefit plans in the US continues to change. Of all of the US plans polled:

- Only 55% are active and open to new entrants
- 34% are closed to new entrants
- 10% are closed to new entrants and accruals have been frozen for participants
- 2% are closed to new entrants, accruals are frozen and termination process has begun

The recent market turmoil has unquestionably caused plan sponsors to evaluate this benefit even further. Almost half (46%) of the US participants said the recent market conditions have increased the likelihood the organization will take steps to terminate the pension plan as soon as possible.

CONCLUSION

There is little arguing that the events of 2008 have had a tremendous impact on pension investments and the organizations overseeing this benefit. Losses are significant resulting in funding deficiencies that are so large that many companies don't have the ability to make contributions. If organizations were required to make these payments, the ramifications would be felt across the entire business.

In response, those overseeing pension investments are moving assets away from the equity markets and continuing to review the overall strategy. This includes further evaluating plan design changes and the overall management of the pension. We caution against swift yet traditional changes to plans and recommend a full analysis of all options in light of current conditions.

