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**Subject:** The Pension Insider-January Issue  
**Date:** Tuesday, August 07, 2012 1:43:42 PM

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## The Pension Insider

January, 2012 - Volume 22, Edition 1

*The Pension Insider is a monthly newsletter developed for Actuaries, Third Party Administrators, Attorneys, and Consultants who work in the pension arena. The Pension Insider was created to share ideas, success stories, coming events, and industry specific articles.*

BCG Terminal Funding Company specializes in settling pension liability for terminating and ongoing pension plans. Today's Solutions for Tomorrow's Needs.

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#### **Pension risk takes front row seat in 2012**

The funded status of pension plans has been on a wild ride since 2008, experiencing major declines in 2008, 2010 and 2011. The drops were due to the "double whammy of declining equity markets and lower interest rates," said Jonathan Barry, Mercer's U.S. Retirement Risk & Finance DB Risk Leader, during a recent webinar.

How plan sponsors manage that pension risk volatility was the subject of a joint Mercer/CFO Publishing study, "Redefining Pension Risk Management in a Volatile Economy."

Mercer conducts a monthly analysis of the S&P 1500. At the end of November, it found that aggregate S&P 1500 defined benefit pension plans were underfunded by \$391 billion, which means they were funded at 75 percent. This was down from a funding ratio of 88 percent in April 2011, Barry said.

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#### **Running the Fund:Risk Shifts**

Boxed in by low interest rates and the PPA, pension risk transfer offers another alternative for DB sponsors

All good things come to an end, says the proverb: a view more realistic than optimistic, and one that seems suited, sadly, to the U.S. corporate defined benefit plan. Freezing plans over the last decade has not appreciably reduced their inherent risk, and pension issues are consuming increasing amounts of management time. More and more sponsors are of a mind to end them entirely and are considering risk transfers to insurance companies through the purchase of annuities.

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Annuity Rates

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## Standard Pension Closeout/Terminal Funding Case Rates

*No lump sums, no disability or unusual provisions*

**Immediates - 3.09%**

**Deferreds - 2.90%**

**50/50 Split of Immediates and Deferreds - 3.0%**



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