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MANAGING PENSION SURPLUS: A NEW PLAYBOOK FOR A NEW ERA

Higher funding targets under the U.S. Pension Protection Act of 2006 (PPA) and the reduction or elimination of future pension accruals are increasing the likelihood of significant surplus in defined benefit pension plans. Now is the time to develop a strategy for effectively managing emerging pension surpluses.

WHITE PAPER

Pension surplus is often a form of “sleeping capital” that may have little economic value to its sponsor when it is largely or wholly trapped within the pension plan.

Recent changes in defined benefit pension plan funding and accounting rules may soon leave plan sponsors with surplus assets relative to pension liabilities. For example:

- The U.S. **Pension Protection Act of 2006 (PPA)** fundamentally changed how companies are required to fund pension plans by increasing the required funding target and accelerating the period over which a plan achieves full funding. In addition, plan sponsors may now receive a tax deduction on a higher funding target — essentially 150% of a solvency-type liability — to offset the impact of expected future pay increases.
- **Accounting reform** has moved a plan’s funded status onto the sponsor’s balance sheet, and future accounting changes will likely create additional earnings volatility. The increased focus on unfunded pension liabilities that may result, and the impact on debt-to-equity ratios, may cause companies to consider increasing contributions to reduce unfunded balance sheet liabilities. This increased funding raises prospects of pension surplus — once a plan is fully funded, investment earnings in excess of interest on benefit liabilities and new accruals will lead to the creation of pension surplus.

Moreover, many companies have curtailed or frozen benefit accruals. This action significantly reduces the benefit liability growth rate and fundamentally changes the nature of a plan’s risk. Sponsors that have frozen their plans may discover an emerging surplus as the growth in plan assets exceeds the interest accruing on the frozen plan’s liabilities.

PPA

The Pension Protection Act of 2006 was signed by President Bush on August 17, 2006. The new law has a significant impact on the financial environment for U.S. retirement plan sponsors. The PPA reformed pension funding rules, increasing the funding target for qualified pension plans and adding new constraints on plan operations and application of credit balances. The new law is designed to increase the level of retirement benefit security over time. Some of the changes through the PPA will allow companies to better fund their plans over time. Other provisions will expose plan sponsors to added financial risks and new restrictions on their ability to manage their plans, including the increased possibility of stranded surplus.

Under the pension regulations of many countries, removing pension surplus is at best a long-term proposition. Indeed, where trustees of the pension plan have full control over the disposition of surplus, it is unlikely that plan sponsors can effect any recapture at all. In the U.S., there is an excise tax on any reversion of pension surplus to a plan sponsor.

Pension surplus can thus be seen as creating a real cost to shareholders because the sponsor effectively incurs an opportunity cost due to an inability to access and redeploy surplus capital. The contributions made to the plan might have been reduced had the sponsor recognized the potential of emerging surplus. Pension surplus is often a form of “sleeping capital” that may have little economic value to its sponsor when it is largely or wholly trapped within the pension plan.

Preventing the emergence of trapped pension surplus, or excessive pension assets that can’t be used for other purposes, should be an important facet of fiscal governance and management.

Strategies to restrain the emergence of trapped pension surplus require active management of assets and liabilities within a specific governance policy. Similarly, a strategy to address surplus, if it emerges, requires one or more tactics that will use the surplus at an acceptable cost to the sponsor. And, of course, any strategy to address pension surplus must consider the plan participants’ benefit security.

The financial performance of a pension plan reflects management policies in four key areas: benefits, funding, investment and accounting.

Our experience with pension plans of widely varying size and characteristics in the U.S. and other countries suggests four principles for successfully avoiding excess pension surplus:

1. Govern pension finances with an actively managed corporate pension policy approved by high-level executive management.
2. Articulate a precise definition of pension surplus, and determine how much surplus is appropriate based on the company's broader risk objectives.
3. Develop a strategy for achieving and maintaining the appropriate level of pension surplus.
4. Document specific plans for using any excess surplus at an acceptable level of cost to the plan sponsor.

Historically, many companies honored these principles in theory rather than in practice. Because of the increased prospects for pension surplus, we believe disciplined attention to the four principles in practice is appropriate. This paper will examine each of the principles in greater detail as they apply in the United States.

PRINCIPLE #1: GOVERN PENSION FINANCES WITH AN ACTIVELY MANAGED CORPORATE PENSION POLICY

The financial performance of a pension plan reflects management policies in four key areas: *benefits*, *funding*, *investment* and *accounting*. Ideally, these policies will be coordinated to meet specific financial performance objectives set by senior leadership. These four management policies should be closely interrelated. For example, the interest and equity risks inherent in a company's investment policy should directly impact its funding policy and the corresponding buffer reserve the company might establish to mitigate adverse capital market risk.

It is important that senior leadership fully understand and optimize the company's pension risk through its pension plan policies. Ideally, any policy should reflect input from a variety of sources. While a retirement committee and the plan's actuary can provide important guidance, it is often necessary to obtain input from other stakeholders, such as the company's risk manager, director of investments, accounting officer and/or global benefits coordinator. Indeed, all pension plan financial policies should be established within a consistent global risk management framework.

Establish a funding policy

While most companies have written investment, benefit and accounting policies, funding policies have tended to be more informal. However, an increasing number of plan sponsors are beginning to see the importance of establishing a formal funding policy to guide their financial risk decisions, especially in light of the current regulatory and capital market environments.

Below are several questions companies should consider as they establish a funding policy, which may also raise issues that influence their investment policy decisions:

- What is the nature of our plan liabilities, and how might they change over time? Have plan liabilities or their growth patterns changed as a result of recent demographic or plan changes?
- How does our company's industry influence our funding policy? Who are our key external stakeholders?
- How have recent legislative changes impacted the current financial position of our plan? How might these changes impact the plan's position over time?
- How do our pension and business financials interact in different economic conditions? Is the correlation of pension and business risk a significant factor?

As companies review their pension management policies, they will need to balance several — and sometimes competing — objectives. However, a common theme running through any funding policy should be the company's appetite for risk. This will vary across organizations depending on several factors, such as the nature of a company's business, its financial position and the size of its pension plan relative to the size of the organization.

Rapid changes in the economy and the plan sponsor's financial environment make it imperative to maintain current policy guidelines.

Key funding policy decisions

A funding policy should establish guidelines and be flexible enough to allow the company to adapt to changing circumstances. In addition, all funding policies should touch on several key areas:

- Having a **long-term funding target** helps focus the plan's other management policies and provides a benchmark against which the plan can periodically measure its financial position.
- A company may also choose to define how it determines its yearly **contribution level.** Most countries have funding standards that dictate how the minimum required contribution should be calculated each year. However, this contribution may not be significant enough to help the company achieve its plan and risk management objectives.
- A company should consider any direct or indirect **links between plan benefits and assets.** For instance, in the U.S., the possibility of funding status triggering legally mandated benefit restrictions may cause some sponsors to fund at higher levels than otherwise.
- The long-term funding target and contribution level imply a **time horizon** for plans that have not yet achieved their long-term target.
- A funding policy should address how the funded position of the plan will be measured and the **frequency of monitoring.** The funding policy may also include some guidelines on when and how the plan's financials will be benchmarked against other plan sponsors.

Giving pension policy a periodic checkup

Rapid changes in the economy and the plan sponsor's financial environment make it imperative to keep policy guidelines current. In many instances, a company's pension plan represents its greatest financial risk. For instance, for some companies, even a small change in interest rates can have a significant impact on cash availability, especially if it's coupled with a downturn in one or more aspects of the company's operations or sales. As with any other key financial policy, such as when and how a company should access capital via the debt and equity markets, the policy should be evaluated at regular intervals to determine whether it's effectively addressing critical pension financial management issues.

PRINCIPLE #2: DETERMINE AN APPROPRIATE MEASURE AND LEVEL OF PENSION SURPLUS

As discussed earlier, a key component of a funding policy is the selection of a long-term funding target. A key component of the broader pension governance policy — and one that is closely linked to the funding policy — is the definition of an appropriate surplus measure and an articulation of the desired level of pension surplus. While pension surplus can be broadly described as the amount of assets in excess of pension liabilities, the asset and liability values in this equation require definition.

Determining appropriate surplus measure

While smoothed or average asset values can be used for various purposes, such as determining contribution requirements under U.S. law, pension assets are often based on market values to measure pension surplus. Similarly, the measurement of pension liabilities can vary depending on the purpose — funding, accounting, plan windup (termination) or liability/asset transfer. For example, U.S. accounting liabilities may be higher than U.S. minimum funding liabilities due to expected future pay increases on pension benefits related to past service. Plan transfer or termination liabilities may also be higher than liabilities used for funding and possibly accounting purposes due to the use of more conservative assumptions, such as lower discount rates and earlier retirement dates. The increased conservatism in assumptions for plan transfer or termination liabilities is due to the different purpose of the measurement.

Selecting a surplus measure that aligns with the company's time horizon, the extent of future accruals and the company's overall longer-term financial and broader corporate risk objectives is an important first step in developing an effective surplus management strategy.

While plan sponsors can attempt to control the level of surplus through changes in contributions, this policy may result in a highly volatile contribution pattern.

Determining appropriate surplus level
Prudent financial risk management may imply the need to create some limited surplus. A pension trust can be viewed as a single-purpose insurance company that provides annuities. Consequently, the sponsor should consider holding some amount of capital to buffer adverse experience in:

- interest rates
- investments
- participant longevity.

When viewed in this light, a sponsor may conclude that some level of surplus is desirable in order to avoid volatility in its contribution requirements or when it expects abrupt changes in plan liabilities and assets.

An optimal level of surplus often depends on the size of pension obligations relative to company size. On the other hand, companies that sponsor pension plans with relatively limited liabilities and assets may be able to withstand pension contribution volatility and prefer to minimize surplus assets. This may particularly be the case if the plans are closed or frozen and there is limited opportunity to use the surplus to fund future benefit accruals.

Surplus may also be viewed as beneficial if the effective interest rate earned in the pension plan, adjusted for the impact of tax events such as deferral of taxation on investment income in a pension trust or reversion excise taxes, exceeds the company's cost of capital. This comparison needs to take into account the company's ability to utilize emerging surplus and any costs related to its usage.

PRINCIPLE #3: ACHIEVE AND MAINTAIN THE RIGHT AMOUNT OF SURPLUS

Once the appropriate target is selected, plan sponsors will need to develop a road map to reach and maintain their defined surplus level.

Increasing funded status to reach desired surplus level
If a plan is underfunded or has insufficient surplus, the plan sponsor can take several actions to increase plan assets and/or decrease plan liabilities. However, before any such actions are taken, the plan sponsor should assess whether the funded status will improve over time. For example, if the expected return on plan assets exceeds the sum of interest on plan liabilities and value of benefits earned each year, no additional actions may be required because the plan's funded status is expected to improve over time. If the plan sponsor needs more rapid improvement, options include:

- increasing plan contributions
- changing the asset allocation with an expectation of generating greater investment returns
- reducing the rate of benefit accruals, which may include closing the plan to new participants, to the extent consistent with the broader value proposition between the company and its employees.

Decreasing funded status to reach desired surplus level
Surplus can be reduced in part by reducing contribution levels. Absent other changes, surplus will decline with the passage of time if the sum of the plan's investment return and contributions is less than the sum of interest on plan liabilities and the value of benefits earned each year. A sponsor could also adopt an investment strategy with less risk and lower expected returns (e.g., move from equity to fixed-income investments), which may also help reduce the volatility of investment return and improve the predictability of costs under both funding and accounting rules.

Maintaining desired surplus level
While plan sponsors can attempt to control the level of surplus through changes in contributions, this approach may result in a highly volatile contribution pattern. An alternative approach is to adopt an investment strategy that fences in the desired level of surplus with a hedging strategy. This investment strategy can be achieved singly or in combination by:

- increasing allocation to fixed-income securities, such as corporate bonds
- increasing the duration of fixed-income securities
- purchasing interest-rate derivatives, such as futures, swaps or "swaptions"
- purchasing equity puts.

Proper coordination of these actions with the plan's asset smoothing and discount rate selection methodologies is necessary for these strategies to translate into stable contribution requirements and pension cost.

Pension surplus can be used to enhance retirement benefits for existing participants in lieu of other reward elements.

PRINCIPLE #4: DEVELOP PLANS TO USE EXCESS SURPLUS

Another important aspect of a company's overall financial policy for its pension plan is the strategy for utilizing the surplus that may develop within the plan.

Although they may not all be appropriate or even available for every company, the following strategies can be used to utilize pension surplus:

- Improve retirement plan benefits.
- Merge plans.
- Use surplus to pay for retiree medical benefits.
- Expand the scope of the pension plan.
- Use a pension captive annuity program.
- For a non-U.S. plan, sell the plan in a corporate transaction.
- Terminate the plan and transfer a portion of the surplus to a different retirement plan, or distribute the surplus to employees.

Each of these strategies has its own requirements, limitations, regulatory risk profile and associated costs. In the case of U.S. plans, each strategy seeks to minimize the federal excise tax applied to any reversion of pension surplus to the plan sponsor (50% excise nondeductible from the sponsor's federal income tax).

The following section describes each of the pension surplus redeployment strategies noted above.

Strategy 1: Improve retirement plan benefits

Pension surplus can be used to enhance retirement benefits for existing participants in lieu of other reward elements such as company contributions to savings plans, long-term disability, life insurance, severance and retiree medical benefits. While the value of the additional pension benefits would reduce the surplus, using excess surplus to fund additional retirement plan benefits can reduce the cash cost of existing rewards, which can free up working capital for use elsewhere in the organization. The appropriateness of this approach is dependent on a number of factors, including:

- *Is using retirement benefit enhancements as replacements for other reward elements consistent with the company's total rewards strategy?* For example, while a cash balance allocation in a defined benefit plan could be substituted for a 401(k) match, the removal of the match may negatively impact employees' retirement savings rates.
- *How do taxation differences change the efficiency of benefit delivery?* Pension benefits are not as tax effective as retiree medical benefits (at least for some participants), and it may cost more for an employer to deliver the same total after-tax value to retirees by providing pension benefits in lieu of retiree medical benefits. On the other hand, pension plans provide distinct tax advantages, such as the ability to roll over certain distributions to IRAs.
- *Will turnover patterns change in a manner consistent with workforce management objectives?* Some employees may consider terminating employment in order to gain access to pension benefits that are restricted from in-service distribution.
- *Do other legal implications and restrictions lessen the effectiveness of the strategy?* The Supreme Court has ruled that a plan sponsor does not violate applicable pension plan law when it amends a plan to improve benefits in a way that serves the company. Nonetheless, other restrictions may apply. For example, nondiscrimination rules may constrain a company's ability to design enhanced benefits in an optimal way, and limitations in collective bargaining agreements need to be considered.

These observations highlight the need for careful evaluation and planning. Activities such as employee preference research and financial modeling can help employers carefully consider the appropriateness of benefit enhancements as a surplus utilization strategy.

One way to efficiently use pension surplus is to expand plan participation to a new group of employees.

Strategy 2: Merge plans
An employer with multiple pension plans may be able to merge an underfunded plan with a plan that is in surplus. This would effectively redeploy the funding surplus for the underfunded plan and should reduce aggregate contribution requirements, at least in the short term. This may also reduce aggregate administrative costs, such as trustee fees, actuarial valuations, plan audits, government form filing, and preparation of plan documents and summary plan descriptions. In addition, funded status-related benefit restrictions (created by the PPA) applicable to the underfunded plan may be alleviated by such a merger.

Collective bargaining agreements might prohibit — or a union may object to — this approach if the plan with surplus assets covers union members. Also, such a merger could complicate a future divestiture involving participants in the merged plan and possibly result in an unintended transfer of greater assets if a subsequent plan spin-off or asset/liability transfer occurs.

Strategy 3: Use surplus to pay for retiree medical plans
Pension surplus can be used to fund retiree welfare benefits through a "420 transfer," named for the section of the Internal Revenue Code that authorizes it. Prior to the PPA, the law allowed a transfer of assets in excess of 125% of pension liabilities to cover retiree medical benefits for the current year. The PPA augmented the 420 transfer rules by allowing a plan to transfer assets in excess of 120% of pension liabilities to cover retiree medical benefits for up to 10 years. This "big bang" 420 transfer can utilize a very significant portion of surplus and enhance corporate cash flow. Plan sponsors implementing a 420 transfer must commit to medical benefit cost maintenance requirements for the length of the transfer period plus four years, e.g., 14 years for a transfer of 10 years' worth of medical benefits. In addition, all pension plan participants must be vested at the transfer date.

Strategy 4: Expand the scope of the pension plan
One way to efficiently use pension surplus is to expand plan participation to a new group of employees (assuming retirement benefits or other rewards need to be provided to this group), including employees in other countries who are not U.S. citizens or residents.

If the newly covered group of employees works outside the U.S. (and are not U.S. citizens or residents), there are a number of questions to consider, including:

- Will coverage subject these individuals to U.S. income tax, at least with respect to a portion of the benefits they receive?
- Will the administrator be capable of accommodating special income tax withholding rules and applicable exceptions that generally apply to payments sent from the U.S. to nonresident aliens?
- Will the compensation laws in the relevant countries prohibit offsetting the new pension benefit from existing benefits? Are benefit increases required for the new group of participants to comply with nondiscrimination rules?
- Do collective bargaining agreements prohibit the plan sponsor from expanding coverage?

While careful analysis is required, this strategy can be an effective tool and has been used by a number of companies in the U.S.

One approach that may be available to plan sponsors with excess pension surplus is a corporate transaction.

Strategy 5: Use a pension captive annuity program

The use of a pension captive has become a compelling option in some instances. A company can use a captive to buy annuities from a fronting insurance company and reinsure a portion or all of the risk back to a company-owned captive. Future annuity tranches can be purchased based on the company's funding strategy. The captive assumes the risk from the fronting insurer and therefore is compensated for it. The plan relies on the fronting insurer's credit rating rather than the captive's credit rating. Returns in excess of those committed to paying the annuity benefits can be eventually returned to the plan sponsor.

This approach — pioneered by Towers Perrin's Pension Captive Annuity Program (patent pending) — has higher recovery efficiency compared to most of the other options mentioned, with the additional benefit of enhancing corporate control of European plans. However, there are limitations to this approach:

- There will likely be significant cash requirements from the plan to purchase the annuities and for the captive to be appropriately capitalized.
- For U.S. plans, a Department of Labor exemption from the ERISA-prohibited transaction rules will be required.

Strategy 6: Sell the plan in a corporate transaction

Selling the pension plan is another approach that may be available to certain non-U.S. plan sponsors with excess pension surplus, especially for plan sponsors in the U.K., where transactions such as this have already occurred. Under such a transaction, the plan sponsor would create a new subsidiary into which the pension plan is transferred. Along with pension assets and liabilities, the sponsor may also transfer cash, which is negotiated between the sponsor and the plan buyer and may be dependent on the funded status of the plan. The subsidiary is subsequently sold to the buyer for a price adjusted for the amount of the surplus.

This transaction would enable the company to gain access to the surplus by receiving the purchase price, even though the plan would remain in place for the participants' frozen benefits. The completed transaction will eliminate future risks and the administrative burden associated with the plan, and the buyer will assume full fiduciary liability for future plan obligations. The transaction will eliminate any future pension expense for the company selling the plan.

This transaction potentially costs less than a more traditional plan termination (via annuity purchase or lump sum distribution) and would help the company eliminate the potential for long-term debt that may adversely affect its credit rating and/or market capitalization. Lastly, if the buyer has a strong balance sheet, this transaction may increase the prospective security of benefits.

While these types of corporate transactions are an emerging solution, there are numerous unanswered regulatory, tax and accounting questions. In the U.S., the IRS and the Treasury have indicated that this type of transaction is only permissible under current law if it occurs together with a transfer of significant business assets, operations or employees unrelated to the management of the pension plan. However, the Treasury, the DOL, the Pension Benefit Guaranty Corporation and the Commerce Department have developed a set of principles to guide the development of legislation that could permit such transactions in the case of frozen plans under certain conditions in the event Congress wishes to pursue legislative changes to allow such transactions.

Strategy 7: Terminate the plan and fund other retirement benefits with the surplus, or distribute the surplus

Somewhat similar to improving retirement plan benefits (Strategy 1), an employer can terminate the plan and transfer all or a portion of the surplus to another retirement plan, such as a defined contribution plan. As long as at least 25% of the surplus is transferred to the follow-on plan, the excise tax applicable to the reversion to the employer is reduced from 50% to 20%. And no excise tax applies to the amount transferred to the follow-on plan — which can be the full amount of the surplus. Note that the amount transferred to a follow-on defined contribution plan must be allocated to participants' accounts within the seven years following the transfer. An employer might even be able to take advantage of this strategy while continuing to offer its existing defined benefit program to employees.

Alternatively, a sponsor could consider distributing the surplus to employees. In order to avoid excise taxes, an employer may have to amend the pension plan to ensure the surplus is directly distributed to employees. The employer might consider reducing other benefits at the same time to recognize the value of the additional distribution. Such an amendment would be subject to nondiscrimination rules. In other words, the increased benefit would need to be relatively uniform relative to employees' other compensation. And, if employees simply take the additional distribution as income, many of them may be subject to early distribution taxes — but are likely to avoid FICA taxes. This approach also raises spousal consent and QDRO issues.

MAKING CHOICES

Plan sponsors should review the details of each strategy, along with their specific company situation, and carefully evaluate which could work singly or in combination. Redeploying pension surplus can free up excess assets, which the company can use to improve operations, provide secure benefits and enhance employee relations. As a result, all enterprise constituents — shareholders, bondholders and employees — can benefit.

CONCLUSION

As a senior financial executive of a FTSE company once said, "Aside from getting no credit from the city [London] for my well-funded plan, the analysts bleat like sheep when we have what they like to call an overabundance of surplus and howl like wolves when we have a deficit."

Pension surplus management is a fundamental component of a sponsor's overall financial and risk management plans. Being effective demands financial executives who are well prepared and ready to take action.

APPENDIX

U.S. funding measurements

Under the PPA, the "Funding Target" is the measurement of liabilities for determining minimum required and maximum tax-deductible contributions, PBGC variable premiums and potential benefit restrictions. It is defined as the present value of pension benefits earned to date (i.e., based on past service and pay), except for maximum tax-deductible contribution purposes, which can reflect the impact of expected future pay increases on benefits related to past service. This measurement is practically the same as current liability under the funding rules prior to the PPA and is also similar to the accumulated benefit obligation (ABO) under accounting rules (FAS 87). The discount rate used to measure the funding target is based on yields available on high-quality corporate bonds with durations similar to that of the liabilities and can be calculated either using a one-month average (yield curve approach) or a 24-month average (segment rate approach). The PPA also allows the discount rate to be determined as of any of the four months prior to the valuation date (referred to as a lookback period) when the segment rate approach is used.

The actuarial value of plan assets can be defined as simply the market value of assets (i.e., as reported by the plan trustee) or the average of asset values (up to three years) within 90% to 110% of the market value of assets. The actuarial value includes the discounted value of any contributions due from the plan sponsor (i.e., outstanding contributions for the prior plan year).

U.S. accounting measurements

For purposes of determining annual expense (net periodic pension cost), balance sheet liabilities and AOCI under FAS 87 and FAS 158, pension liabilities will typically differ from the PPA Funding Target. This is due to mark-to-market accounting requirements, the reflection of any expected future pay increases that would affect projected benefit payments and other measurement differences. The primary accounting term for pension liabilities is "projected benefit obligation" (PBO) and is generally defined as the present value of future benefit payments reflecting past service (i.e., pay through termination or retirement). The discount rate used to measure PBO can be based on yields available on non-callable high-quality corporate bonds (Aa or Aaa) and must be determined on a snapshot basis as of the measurement date — without a lookback period and smoothing of rates.

FASB also requires that the market value of plan assets (excluding any receivable contributions) be used to measure the plan's funded status (balance sheet asset/liability/AOCI). Although a smoothed market value of assets can currently be used to determine annual expense, it is possible that smoothing will no longer be permitted under Phase II of FASB's reform project.

Plan termination/windup measurements

A third measurement of a plan's funded status, applicable for plan termination, would reflect either the cost of purchasing annuities from an insurance company or paying lump sums to plan participants. In the case of purchasing annuities, more conservative assumptions (primarily the discount rate, mortality and retirement assumptions) would likely be reflected, which would increase the value of plan liabilities and decrease the value of any surplus assets. When fully phased in under the PPA, the lump sum interest rate would be determined using a similar basis as funding.

Other factors affecting pension liability measurement

In addition to the discount rate, several other factors affect the value of pension liabilities, including:

- **Mortality.** While relatively new studies have produced standard tables, there is ongoing debate about future improvements that generally will increase the value of pension liabilities. The fit of the basis of the general tables with the characteristics of specific participant groups is often considered in selecting an appropriate mortality assumption.
- **Rates of termination and retirement.** The impact of final average earnings and any early retirement subsidies will depend on the actual date of termination and retirement.
- **Form of payment.** Many plans provide subsidized payment options, such as lump sums and/or surviving spouse benefits, that will affect the value of liabilities.

ABOUT TOWERS PERRIN

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