Deeper dive into retirement program implications of COVID-19

Willis Towers Watson Webcast

April 9, 2020
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:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing through the crisis</td>
<td>Restoring stability</td>
<td>Operating post-crisis</td>
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1. Initial reaction and adaptation in key areas, followed by a period of sustaining operations, leading to a continuous cycle of additional reaction, adaptation, and sustaining as more is learned and conditions change.

2. Resetting and reimaging operations under new assumptions, protocols, focus areas, and pace, and helping bring people back to work.

3. Resuming sustainable operations and business model, and redefining what normal means in the new environment.
Today is a time unlike no other in our collective experience as people, communities and organizations.

<table>
<thead>
<tr>
<th>March 11</th>
<th>March 25</th>
<th>March 26</th>
<th>March 27</th>
<th>March 28</th>
<th>March 31</th>
</tr>
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<tr>
<td>Declared worldwide pandemic (WHO)</td>
<td>C$107 billion emergency aid and economic stimulus bill</td>
<td>“This is not a typical downturn” Federal Reserve Chairman Jerome Powell, Today show</td>
<td>$2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act passed</td>
<td>Nearly 10 million unemployment claims in U.S. for two week period ending 3/28</td>
<td>S&amp;P 500 down 19.6% during Q1 2020 VIX up from 13.78 at 12/31 to 53.54 at 3/31</td>
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Source: Bloomberg, Department of Labor
Market volatility effect on pension funded status and employee savings

Defined Benefit Funding Levels
Illustrative Accounting Funded Status\(^1,2\)

YTD Market Movements

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

\(^1\) 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.**

<table>
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<tr>
<th>Action</th>
<th>Description</th>
</tr>
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<tr>
<td>Eliminate, suspend or reduce employer contributions and/or institute a maximum contribution or a maximum matching contribution dollar limit</td>
<td></td>
</tr>
<tr>
<td>Change current “scheduled” non-elective employer contribution to profit-based or discretionary</td>
<td></td>
</tr>
<tr>
<td>Move matching contribution timing to end of year</td>
<td></td>
</tr>
<tr>
<td>Change compensation definition and/or limit compensation for calculating contributions</td>
<td></td>
</tr>
<tr>
<td>Transition employer contributions to an existing defined benefit plan (subject to funded status)</td>
<td></td>
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</table>
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.

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.

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

Help Employees Access Savings

Keep Employees Whole
## Workforce reduction drivers

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td>Cost Savings</td>
<td>Most recently the number one reason for severance or window programs</td>
</tr>
<tr>
<td>Culture and Capabilities</td>
<td>For organizations ready for (or going through) change</td>
</tr>
<tr>
<td>Open promotional channels</td>
<td>If low turnover for extended periods of time and a strong up and coming group</td>
</tr>
<tr>
<td>Improve workforce quality</td>
<td>For example, in a manufacturing organization there could be safety concerns</td>
</tr>
<tr>
<td>Manage legal and/or relations risk</td>
<td>Voluntary programs generally have lower risks than involuntary programs</td>
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</table>
### Key retirement elements of workforce reduction programs

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