



MassMutual® Defined Benefit Plans Risk Survey

RISK: Confidence, Perception, and Solutions

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Summary

About this survey

At MassMutual, we were interested to understand plan sponsors' points of view and concerns about the types of risks inherent in managing certain defined benefit (DB) plan types: traditional active, closed, and frozen plans, and how pension plan sponsors can be served best. To learn more, we engaged PSB, a global custom research and analytics consultancy that merges a deep understanding of **PEOPLE x SCIENCE x BUSINESS** to create human insights that inspire leaders to make more informed decisions with confidence.

The research was designed to understand plan sponsors' confidence in their pension risk acumen, their top areas of concern, and the services they deem most valuable and of interest. While there were a few expected results, some findings were surprising.

Key Findings

CONFIDENCE, PERCEPTION, AND SOLUTIONS

Most sponsors indicated they understand pension risks and they are confident that their plan is fully funded, yet the values of the funded statuses tell a different story. In particular, more than half of the plan sponsors surveyed indicated a high degree of confidence that their plan is fully funded, yet three-quarters reported significant shortfalls.

56%

of surveyed plan sponsors described their plan's status as **'FULLY FUNDED'** yet when asked, **"AT WHAT LEVEL IS YOUR PLAN FUNDED,"** only **23% of plan the sponsors** reported a funded status of **90%** or more.



75+%

of the plans **ARE IN A SHORTFALL SITUATION.**



And, despite their confidence, sponsors also expressed high levels of concern about pension risk.



80%

of respondents indicated that their **TOP CONCERN** is the overall **BURDEN OF FUNDING THE PLAN.**



77%

expressed **CONCERN** about the potential impact of **INVESTMENT LOSSES** to the **COMPANY'S BOTTOM LINE.**

The good news is that there are solutions available and together, financial professionals, and service providers can help.

VALUED SERVICES

If you are an advisor or consultant, some of the following notes may be music to your ears. As a leading insurance company in America, some of the notes below are certainly music to ours.

Plan sponsors indicated that they appreciate the professional services offered by advisors and consultants. Specifically, plan sponsors value the following pension related services:

MORE THAN FOUR OUT OF FIVE plan sponsors rate professional services provided by advisors and consultants as highly valuable.

OVER TWO-THIRDS of plan sponsors express a strong interest in having an insurance company serve their company's retirement plan program.

NEARLY ALL of plan sponsors value investment consulting services and actuarial services.

Opportunities

PARTNERING WITH FINANCIAL PROFESSIONALS

And, there's more good news. Not only do plan sponsors confirm that they utilize and value the services offered by financial services professionals, there is ample opportunity for financial professionals to serve plan sponsors in the DB market.

Based on our findings, here are some areas where we believe financial professionals can continue to add value to plan sponsors:

- Financial professionals have an opportunity to offer targeted investment consulting services geared to help plan sponsors understand and manage or transfer pension plan costs and risks associated with sponsoring a defined benefit plan.

- Many DB plans are in a shortfall situation today, thus sponsors could benefit from expert investment and actuarial consulting services to remedy the situation.
- Organizations will continue to strive for more certainty around pension funding, and financial professionals are well positioned to help sponsors establish a plan and work through that plan.

COMPLEMENTARY SERVICE PROVIDER SOLUTIONS

Together with financial professionals, many service providers offer complementary services designed to address the risks that concern sponsors most. Here are a few ways in which partnering with the right service provider may be extremely valuable.

Expert pension consulting

In partnership with an advisor, expert pension consultants can devise both short-term and long-term funding and investment risk mitigation strategies that are tailored to each plan's situation and sponsor objectives. Solutions include Asset Liability Modeling, plan design enhancements, Liability Driven Investing, and more.

Sophisticated investment capabilities

To properly administer customized pension investment strategies, investment flexibility and choice are essential. Sponsors could benefit by engaging a provider who offers access to a broad array of investments and utilizes a modern and sophisticated platform with robust reporting capabilities and benchmarking tools. Such services can help make managing pension investments a breeze.

Quality administration

Many providers offer robust recordkeeping and administration outsourcing services. Best practice processes and precise data management can simplify plan administration and reporting, and drive cost efficiencies and financial risk forecasting.

Respondent Profiles

We surveyed a large variety of plan sponsors from a broad range of experience and company sizes.

Within this summary, we highlight the answers between two groups: plan sponsors who offer a standalone DB program, and sponsors who also offer a defined contribution plan. The groups are aptly named DB Plan Sponsors Only and Dual Plan Sponsors.

Throughout the survey, we provided the results in aggregate (all), or per group: DB Plan Sponsors Only and Dual Plan Sponsors. The respondent profiles provides an overview of the sample sizes along with the definitions of the surveyed audience (Fig. 1).

RESPONDENT PROFILES



Total number of defined benefit plan sponsors and dual plan sponsors (DB+DC) (All) n=360

Where they work:



Small Organization
20-249 employees
n=68 (19%)



Medium Organization
250-999 employees
n=126 (35%)

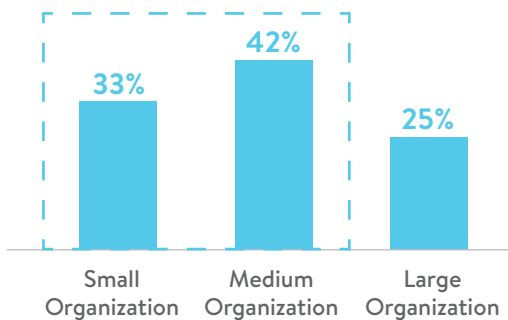


Large Organization
1000+ employees
n=166 (46%)

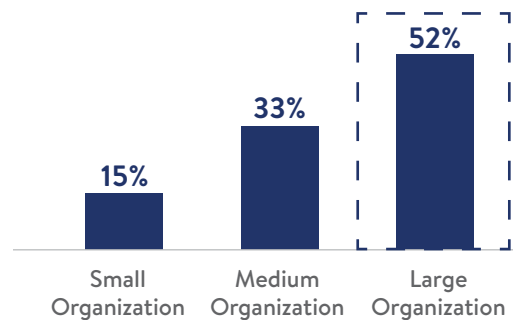
Types of plans they sponsor:



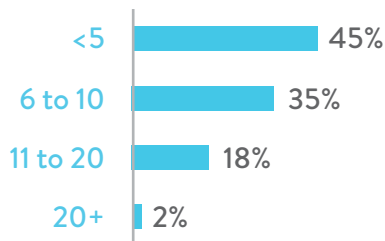
DB PS Only
Employed at a...
n = 80 (22%)



DP PS (DB + DC)
Employed at a...
n = 280 (78%)



Tenure in Current Role (Years)



Tenure in Current Role (Years)

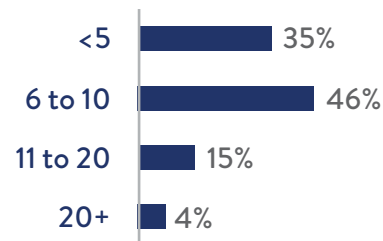


Fig. 1: Respondent Profiles¹

Dive in to learn more about the findings in our pension risk study – [Risk: Confidence, Perception, and Solutions](#), ways financial professionals may help plan sponsors strategically manage the innate costs and risks associated with sponsoring DB plans, and ways MassMutual can help.

The Survey Says

Through this survey, sponsors share insights about their understanding and perceptions of pension risks and funded statuses, their top concerns, and their perspectives on the services they deem most valuable.

Understanding Risk

As we mentioned earlier, we asked a large variety of plan sponsors from a broad range of experience and company sizes (Fig. 1). Most of the respondents sponsor traditional active DB plans, not cash balance plans, and some sponsor traditional closed, and frozen plans.

Of this group, roughly two-thirds of plan sponsors self-report high levels of confidence in their understanding of the innate risks associated with managing a DB program (Fig. 2):

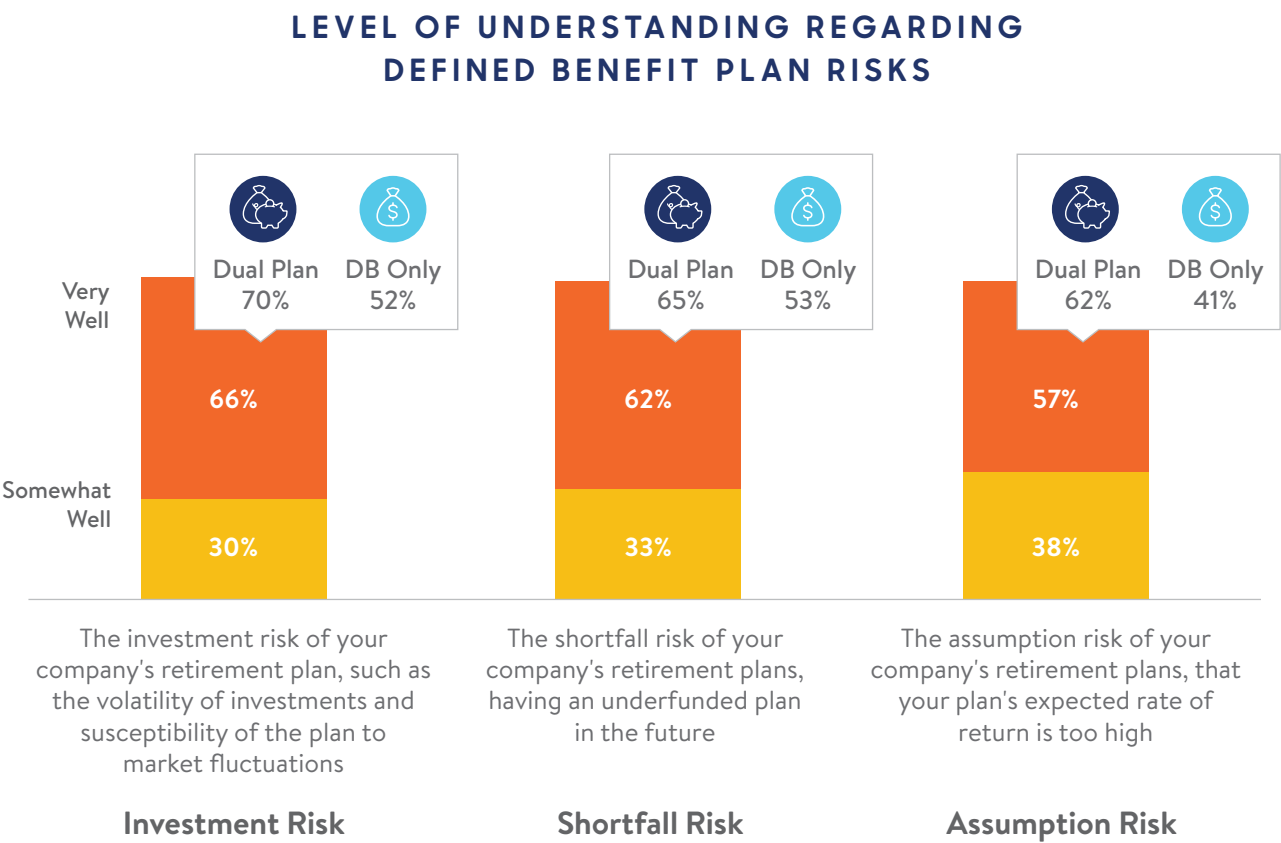


Fig. 2: Level of Understanding regarding Defined Benefit Plan Risks²

Fully Funded: Perception and Reality

While sponsors self-report a modest level of pension knowledge, an interesting and somewhat confounding finding is the discrepancy between qualitative descriptions of the plans' funded statuses in contrast to the actual quantitative value of the plans' funded statuses.

When asked, "How would you describe your pension plan's funding level" over 56% responded, "fully funded" yet, when asked, "At what level is your plan funded", less than a quarter of the reported funding levels are approaching a fully funded status (90% or more).

In short, 56% of the surveyed sponsors perceive their plan is fully funded, yet sponsors report significantly underfunded values for three quarters of the plans as illustrated below (Fig. 3).

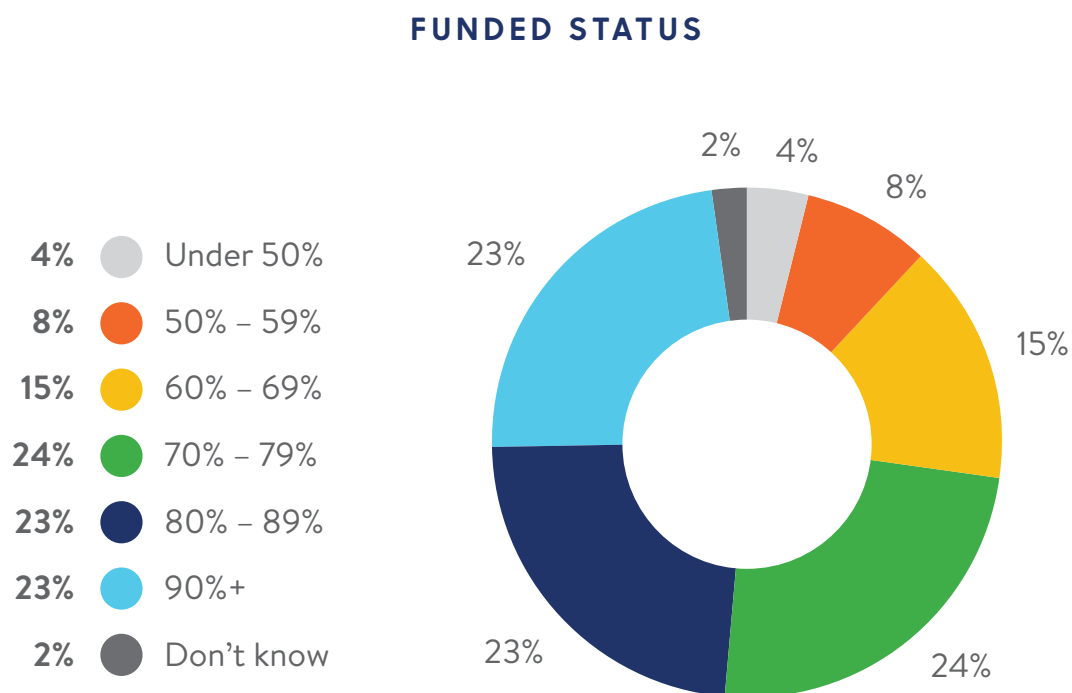


Fig. 3: Funded Status



OPPORTUNITY

Help clarify and identify which liability measure is most important: Accounting liability? Actuarial funding liability? Termination liability? Then, develop a plan to focus on getting that associated funded status to the desired goal.

Top Areas of Sponsor Concern

For each of the risks discussed in the survey, we asked plan sponsors to rank their top concerns.

The overall burden of funding the plan over the years causes the most unease at 80% followed by the chance of investment losses having an adverse impact on the company’s bottom line at 77% (Fig. 4).

Competitiveness risk — the risk that the benefit as a recruitment and retention tool will lose its appeal, is the third ranked concern at 73%. Meanwhile, sponsors report that 98% of employees appreciate the benefit.

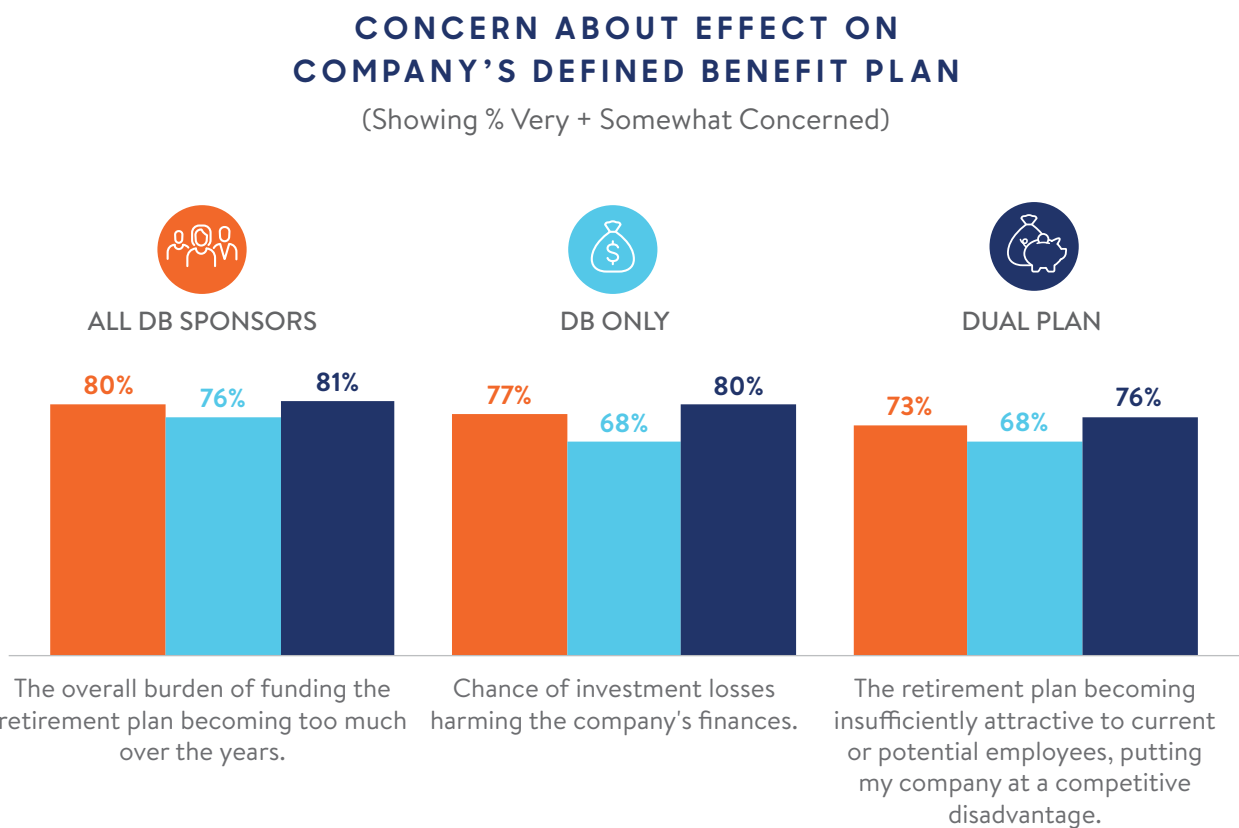


Fig. 4: Concern about Effect on Company’s Defined Benefit Plan³

OPPORTUNITY

Bolster client confidence through expert pension risk management consulting and service solutions.

Services Sponsors Value

The third objective of our survey was to understand the services of most value and interest to DB plan sponsors.

Advisors and consultants will be pleased to know that plan sponsors utilize and value the professional services provided, and there are growth opportunities for advisors and consultants in the DB plan services market. Here's more:

- 95+% of sponsors value both investment consultation, and actuarial services (Fig. 5).
- 80+% of sponsors value services offered by advisors and consultants (Fig. 6).

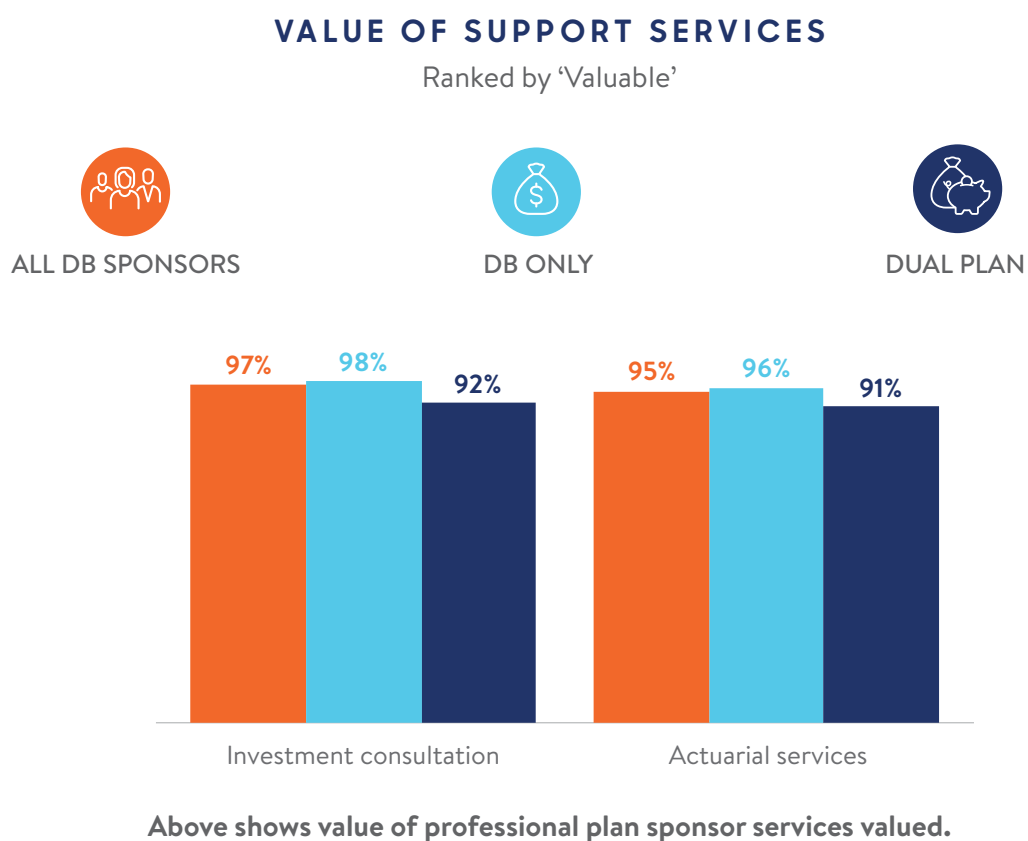


Fig. 5: Value of Support Services⁴



SERVICES IN USE AND VALUED

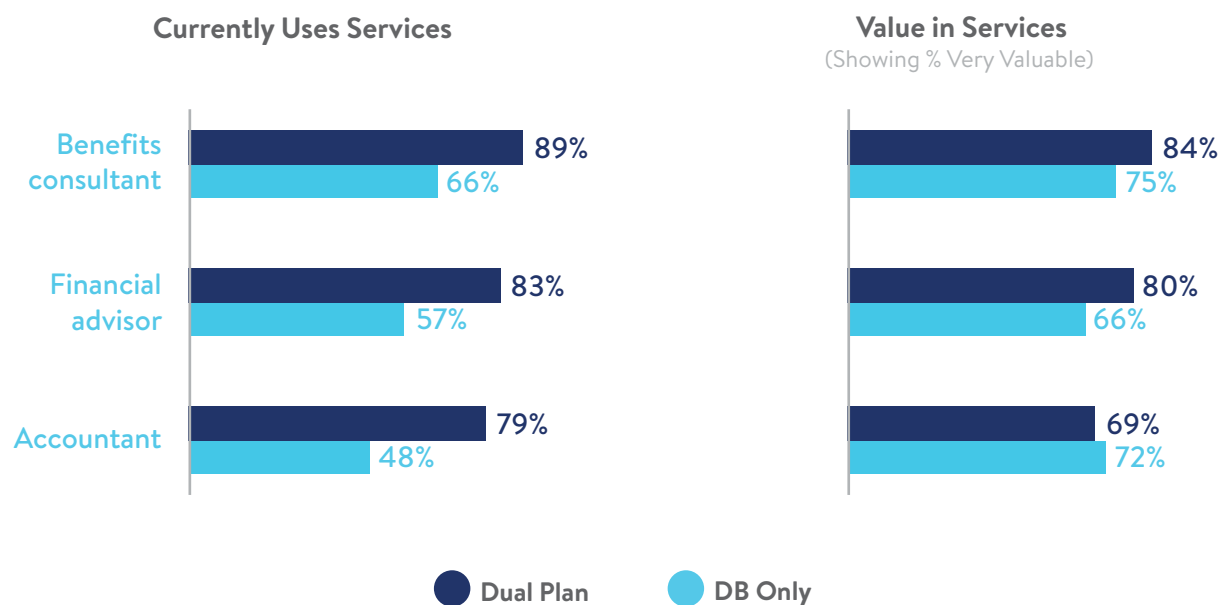


Fig. 6: Services in Use and Valued⁵

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As noted earlier in this survey, we are pleased to confirm that plan sponsors, particularly those with dual plans, are highly interested in services from insurance companies. In aggregate, insurance companies lead the pack as a preferred service provider (Fig. 7).

INTERESTED IN RETIREMENT PLAN SERVICES PROVIDER TYPE

(Showing 'Yes', Ranked by All DB Sponsors)

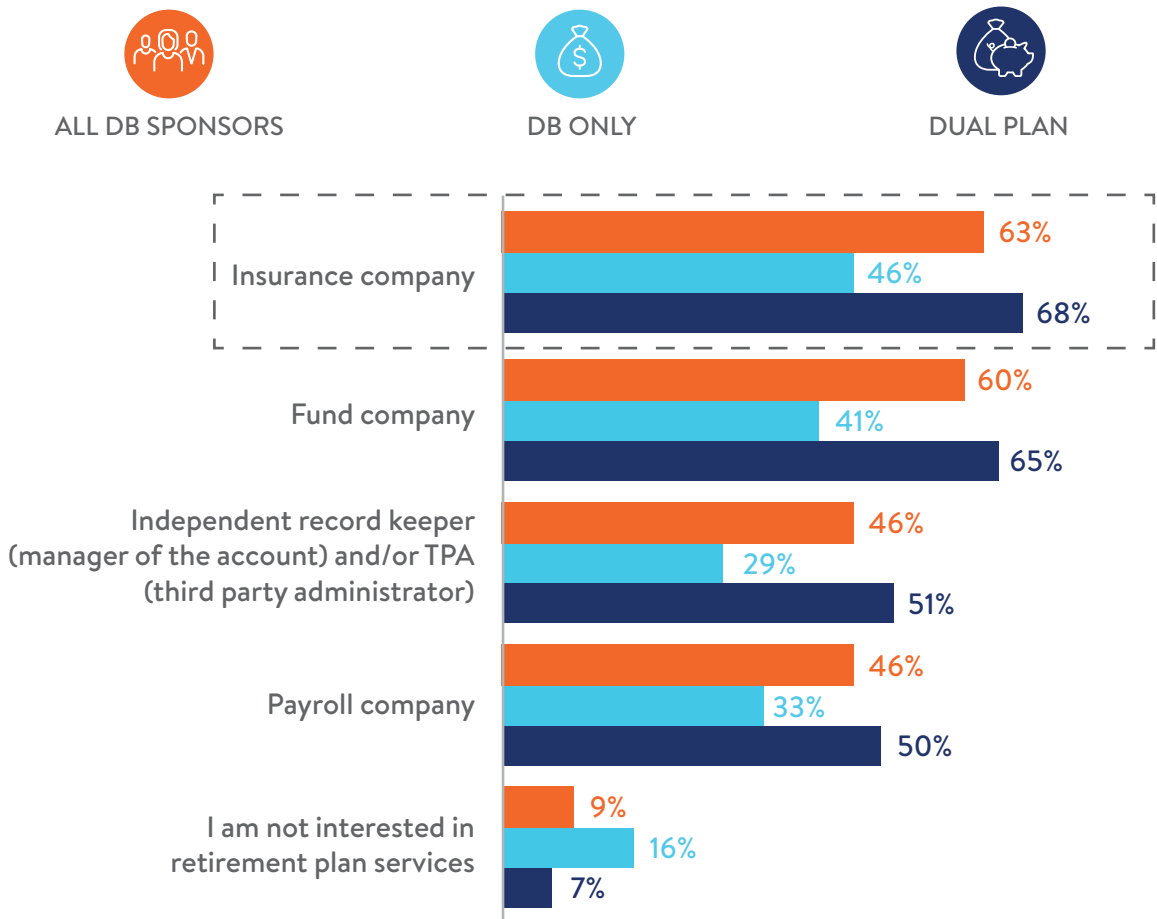


Fig. 7: Interest in Retirement Plan Services Provider Type⁶



OPPORTUNITY

Together financial professionals and insurance companies can offer comprehensive and complementary pension risk management services and solutions.

Based on the findings in this survey about funded statuses, risk concerns, and valued services, it's clear that sponsors would appreciate investment consulting and actuarial support in two key areas:

- Gaining a better understanding of the costs and risks associated with their pension plans.
- Devising strategies to manage risks and remedy the funded statuses of their plans.

Further, approximately 30% of plan sponsors with active plans are considering hibernation to manage risks. Hibernated or not, sponsors would benefit from appropriate cost and risk management solutions.

Opportunities for Financial Professionals

Together with actuarial support, financial professionals have ample opportunity in the DB plans consulting and services market.

Here are some opportunities for financial professionals to consider:

- Provide pension plan investment consulting services geared to ensure plan sponsor clients understand the impact of their plan's funded status on their company's bottom line and strategies to achieve and maintain a fully funded status.
- Offer comprehensive pension risk consulting services to plan sponsors to help them strategically manage their retirement program.
- Consult with plan sponsors on the solutions available to manage or transfer some or all of the costs and risks associated with pension obligations.



OPPORTUNITY

Partner with an actuarial consultant to provide complementary actuarial and investment consulting services to plan sponsors.

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How We Can Help

Here at MassMutual, we have a team of pension experts who work with plan sponsors and their financial professionals to help manage the costs and risks associated with managing DB plans. Our exemplary consulting and service delivery model is bolstered with modern technology making pension investing and administration a snap.

With this expertise, we understand that flexibility is key and our suite of comprehensive services can be tailored to meet your needs including: a full service option, or the ability to work with an outside actuary. Here’s an overview of our service models.

MassMutual Flexible Service Models for Defined Benefit Plans

- Fully-Bundled: integrated investments, actuarial, communications, record-keeping, and administration services
- Semi-Bundled: investment choice, record-keeping and administration, and communications services
- Total Retirement Approach: fully integrated DB and DC services
- Pension Risk Transfer solutions

Partner with a Proven Leader

With our consultative, client-focused approach to creating innovative, tailored solutions, we’ve built our reputation serving institutional retirement plans by earning our clients’ trust and delivering long-term, customized solutions to meet unique customer needs. Moreover, MassMutual’s financial strength ratings are among the highest of any company in any industry.

Partner with a proven leader. Partner with MassMutual.

A.M. BEST FITCH RATINGS MOODY’S INVESTORS SERVICE STANDARD & POOR’S	A++ (Superior, top category of 15)
	AA+ (Very Strong, second category of 21)
	Aa3 (High Quality; Fourth category of 21)
	AA+ (Very Strong, second category of 21)

Financial strength ratings are as of March 1, 2020 and are subject to change. Ratings are for MassMutual (Springfield, MA 01111) and its subsidiaries, C.M. Life Insurance Co. and MML Bay State Life Insurance Co. (Enfield, CT 06082). Ratings are subject to change.

Contact Us Today.

We'd appreciate the opportunity to discuss our
defined benefit plan services with you.
To learn more about our survey findings or our services,
please contact us.

Learn more at www.MassMutual.com
1-800-874-2502, option #4
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Appendix

Appendix A — Definitions for purposes of this survey

Assets: For purposes of this survey, the term assets refers to the plan's underlying investment holdings.

Asset Statement: A statement detailing the plans investments and values on a specific day for a certain time period such as monthly, quarterly, or annually.

Assumption Risk: The risk to the plan that the estimated rate of return is too high.

Competitive Benefits Risk: The risk that an employer's benefits package may lose its ability to attract top talent.

Decision Maker: The person employed by the plan sponsor who is empowered to make decisions with regard to the plan. Typically, this person is a Fiduciary to the plan.

Defined Benefit Plan: This type of plan, also known as the traditional pension plan, promises the participant a specified monthly benefit at retirement. Often, the benefit is based on factors such as your salary, your age, and the number of years you worked for the employer.

Defined Contribution Plan: In a defined contribution plan, the employee and/or the employer contribute to the employee's individual account under the plan. The employee often decides how his or her account is invested. The amount in the account at distribution includes the contributions and investment gains or losses, minus any investment and administrative fees. Generally, the contributions and earnings are not taxed until distribution. The value of the account will change based on the value and performance of the investments.

Fiduciary: Under ERISA, a Fiduciary is anyone who exercises discretionary authority or discretionary control over management or administration of the plan, exercises any authority or control over management or disposition of plan assets, or gives investment advice for a fee or other compensation with respect to assets of the plan.

Fully Funded: A term qualifying a defined benefit plan's solvency. More specifically, the term indicates that the value of the plan's investments is sufficient to cover the plan's financial obligations as of stated date or at a point in time.

Funded Status: The state of a defined benefit plan's solvency. Numerically, it is the ratio of the value of the plan's assets to liabilities stated as a percentage.

Funding Risk: The possibility that a company's retirement plan may be underfunded in the future, thereby requiring the employer to make a contribution to the plan. This is also referred to as shortfall risk or asset shortfall.

Investment Risk: The possibility of losing some or all of the amounts invested or not gaining value in an investment. For purposes of this survey, more specifically, it is the risk to a company's pension plan's assets, such as the volatility of investments and susceptibility of the plan to market fluctuations.

Liabilities: The financial obligations of the plan including benefits to be paid.

Liability Driven Investment strategy (LDI): An investment approach that aims to invest the plan's assets in a manner that tracks to the plan's liabilities with the overall goal of reducing volatility in the plan's funded status. Rather than focusing on total portfolio return, the key focus is portfolio return in relation to the change in liability. LDI and other de-risking strategies are designed to mitigate risk, decrease volatility, and lock in funding gains.

Plan Sponsor: An entity or employer that sponsors a benefit plan.

Plan Participant: A person who is eligible to be enrolled in the plan.

Shortfall Risk: The possibility that a company's retirement plan may be underfunded in the future. This is also referred to as funding risk or asset shortfall.

Underfunded: A term qualifying the plan's lack of solvency. More specifically, the term indicates that the value of the plan's investments is insufficient to cover the plan's financial obligations.

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MassMutual is a leading mutual life insurance company that is run for the benefit of its members and participating policyowners. MassMutual offers a wide range of financial products and services, including life insurance, disability income insurance, long term care insurance, annuities, retirement plans and other employee benefits. For more information, visit www.MassMutual.com.

MassMutual does not provide vendor selection services, does not provide investment advice, and does not practice law.

- ¹ Fig. 1 Question asked:
Approximately how many employees, full time and part-time, does your company at all locations employ?
Which of the following most closely matches your job title within your company/organization as it appears on your business card?
Which of the following retirement plans does your company offer? Please select all that apply.
Approximately, how long have you been in your current role at your business?
- ² Fig. 2 Question asked:
How well would you say you understand the following aspects of your company's defined benefit retirement plan?
- ³ Fig. 4 Question asked:
For each of the risks we just looked at, please rank them from most concerning to you in regards to your plan to least concerning.
For each of the following, please indicate how concerned you are about its effect on your company's defined benefit plan(s).
- ⁴ Fig. 5 Question asked:
How valuable are the following support services that could be offered to a plan sponsor?
- ⁵ Fig. 6 Question asked:
Do you use the services of any of the following to help manage your company's retirement plans?
How valuable do you find the guidance and advice provided by any of the following in regarding to managing your company's retirement plans?
- ⁶ Fig. 7 Question asked:
Are you interested in retirement plan services from any of the following companies?

The study was conducted by PSB in 2019 with 360 defined benefit pension plan sponsors.

