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J.P. Morgan Manager Forecasts a 'Grim' 2013 for Pensions

The year 2012 was a tough one for corporate funding levels, and one asset manager says next year doesn't look good either.

(December 17, 2012) – Strong equity markets did little to help corporate pension plans in the United States during 2012, and likely won't in 2013 either, according to one top asset manager.

"The bottom line: the outlook is grim for pension funds next year," Karin Franceries, executive director of J.P. Morgan Asset Management, told *aiCIO*. "Even if equity markets perform well as they did this year, credit spreads will then likely tighten and funding statues will fall."

J.P. Morgan Asset Management has released its year-end review of the US corporate pension space, a project Franceries headed up with a handful of colleagues.

According to the report, one key trend in 2012 was declining in funded statues, despite a 14% market rally. "A range of factors combined to overwhelm the equity gains," the authors noted, including "funded status volatility, unfavorable changes in the index used to value pension liabilities and longevity assumptions that increase liability values. With the persistence of large pension deficits and the growing size of the companies' 'pension promises' relative to their balance sheets, plan sponsors have been extending the range of their derisking strategies, including lump sums and buyouts alongside contributions and asset allocation changes."

Among those derisking strategies: pension-risk buyouts and lump-sum offers. The report indicates that at least eight of the 100 largest plans in the US have offered lump sums to their participants this year. There were common features among the companies that chose this route: most of them offered lump sums to former employees still active at other companies, and did so while underfunded. This of course runs counter to the notion of risk transfers as a rich plan's game, best played by corporate giants like GM.

The flurry of pension derisking this year was largely motivated by the Internal Revenue Service (IRS), according to the research, which allowed corporate funds to use backdated discount rates in valuing lump sum payments. This meant funds could cut more from their liabilities than they actually doled out to members.

While Franceries could not speak to the IRS' policy for 2013, she did foresee another year of strong demand for derisking. "There is a real willingness to get rid—as much as possible—of the pension exposure that is a side concern, and taking too much of their [executives'] time," Franceries said. "Whether it's a lump sum or buyout—there will be an appetite."

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