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SEI White Paper: Lump Sum Payments Should Be Paired With a De-Risking Portfolio Strategy

Analysis Finds Plans Could Benefit by Retaining Assets Under Management

OAKS, PA -- (Marketwired) -- 09/30/14 -- SEI (NASDAQ: SEIC) today released a white paper evaluating the potential impacts of offering lump sum payments to terminated-vested participants of pension plans. Average pension funding levels increased significantly last year, and many plan sponsors are considering the benefits of offloading a portion of plan liabilities through lump sum pay-outs. However, according to SEI's analysis, this strategy works best when used in conjunction with a de-risking portfolio strategy. For plans with a return-seeking strategy in place, which is the majority of U.S. corporate pension plans, lump sum pay-outs could prove counterproductive.

"A plan engaged in an asset optimization strategy is to some degree undermining its own strategy by reducing assets under management, and giving up the potential for positive investment returns. This is particularly the case for plan sponsors delaying de-risking strategies based on an anticipated increase in interest rates," said Thomas Harvey, Director of Advisory Team, SEI's Institutional Group. "Under the current low interest rate environment, costs of settling benefits through term-vested lump sum pay-outs now may turn out to be relatively high."

SEI's research analyzed a sample plan with $255 million in plan assets and $300 million in Pension Benefit Obligation (PBO) liability. Assuming the plan had a diversified portfolio of 60 percent equities, 30 percent medium duration fixed income, and 10 percent alternatives, the sponsor would see about a $4.5 million funding gap benefit to retain the assets over the next five years, rather than offer a lump sum pay-out. The analysis goes a step further to incorporate impending new mortality tables and a subsequent rise in liabilities, with similar results.

In addition, PBGC premiums are scheduled to rise from $46 per person to $57 per person over the next three years. While lump sum pay-outs do result in cost savings by reducing the number of people covered by the pension plan, SEI's analysis found that this strategy would not significantly offset the median investment returns on the assets if retained.

"While lumping out term-vested plan participants is perhaps one of the lowest cost strategies for reducing pension plan risk, it should be treated as one component of an overall de-risking strategy," Harvey said. "Plan sponsors and committees should approach pension management in a holistic fashion, aligning their asset allocations with other pension-related decisions."

To access the full paper, please visit: www.seic.com/termvestedpaper.

About SEI's Institutional Group
SEI's Institutional Group is one of the first and largest global providers of outsourced fiduciary management investment services. The company began offering these services in 1992 and today acts as a fiduciary manager to more than 450 retirement, nonprofit and healthcare clients in seven different countries. Through a flexible model designed to help our clients achieve financial goals, we provide asset allocation advice and modeling, investment management, risk monitoring and stress testing, active liability-focused investing and integrated goals-based reporting. For more information visit: http://www.seic.com/institutions.

About SEI
SEI (NASDAQ: SEIC) is a leading global provider of investment processing, investment management, and investment operations solutions that help corporations, financial institutions, financial advisors, and ultra-high-net-worth families create and manage wealth. As of June 30, 2014, through its subsidiaries and partnerships in which the company has a significant interest, SEI manages or administers $602 billion in mutual fund and pooled or separately managed assets, including $249 billion in assets under management and $353 billion in client assets under administration. For more information, visit www.seic.com.

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