



Brexit & Your Pension Plan

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Brexit means lower interest rates, higher unfunded liabilities & higher PBGC premiums. Brexit only affects the United Kingdom & Europe, right? If you sponsor a defined benefit pension plan (especially if covered by the PBGC), you'll likely find out that it impacts you as well. As of the date of the Brexit vote, the yield on the 10-year US Treasury bond was 1.75% and less than a month later, that yield is now at 1.55% (it reached a low of 1.36% in the immediate aftermath of the vote). While interest rates go up & down, many experts are now predicting that this rate may approach 1.00% by year end.

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Why do I care about interest rates?

If you're looking to refinance your mortgage or buy a new car, this is all great news. Unfortunately, if you sponsor a defined benefit pension plan you know that plan liabilities & interest rates move in the opposite direction. Therefore, this move in interest rates will increase disclosed plan liabilities under FASB 87/158 (ASC 715-30) and have a negative balance sheet impact.

What about PBGC premiums?

If your plan is covered by the Pension Benefit Guaranty Corporation ("PBGC"), you've already seen sizable increases in your premiums due to recent legislative changes that have increased both the fixed and variable contribution rates. These decreases in interest rates will further increase unfunded plan liabilities (assuming no corresponding increase in plan assets) which will further increase the premiums due.

What can I do?

This may be a good time to review your plan's investment policy statement with the plan's financial advisor to ensure that it meets your needs. If "Other Comprehensive Income" and balance sheet disclosures are a concern for your organization, you may also wish to consult your actuary to perform some year-end projections so you can make preparations for what may need to be disclosed.

Have Questions? We Have Answers

Contact an Odyssey consultant to see how we can help.

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