How defined benefit plans can help grow your business

Pension plans still offer an untapped opportunity.

Defined benefit plans offer a new way to **grow your business** that many advisors don't consider.

Contrary to popular belief, defined benefit (DB) plans still provide a significant opportunity for advisors--and will continue to for a long time to come.

This presents an opportunity for you to become a trusted resource and elevate your role as an advisor.

Use these three steps to get started.

45,610
DB plans

36 million
participants

$2.9 trillion
in assets

Current health of the DB market*

*As of 2016

Step 1

Spot the opportunities

The majority of DB plans exist in small-to-medium-sized businesses with less than $1 billion in assets.

Many small-to-medium-sized businesses lack the internal resources to effectively manage their DB plan in-house. Many business owners worry about the rising expense of maintaining a traditional pension plan or they've already frozen their plan and just looking to get out from under it. That means they're often seeking advice and guidance.

That's where you come in.

One of the best places to start looking for business leads is with your 401(k) clients — many organizations with a DB plan also have a defined contribution (DC) plan. Look particularly at plan sponsors who have DB and DC plans with different providers. By moving both plans to the same provider, you could make life a little easier for the plan sponsor by keeping all retirement business in one place.

Expand your referral base

As you expand your role with DB plans you may be surprised at some of your new connections. Since so many different individuals are involved in pension plans, it may offer new contacts for your business.

- Employee benefit firms
- Accountants
- Banks
- CFOs
- Property and casualty insurance brokers

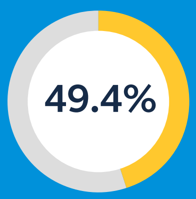
Two ripe opportunities

To better understand the strategic opportunities and challenges facing an organization's DB plan, start by evaluating the plan as it stands today. Look at these factors, which can be found on the Form 5500.

1 Tax-exempt organizations

In addition to the private sector, make sure to consider tax-exempt organizations, many of which still have DB plans.

Less than 50% of tax-exempt organizations have an advisor



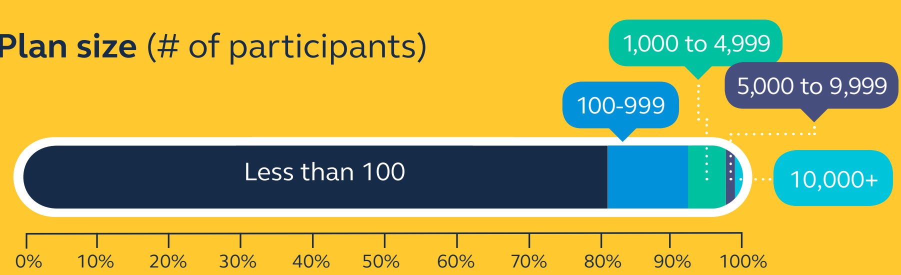
Only 49.4% of tax-exempt organizations have an advisor[1]

[1] 2017 PSCA 403b Survey

2 Small professional organizations

While there aren't a lot of new DB plans, small start-ups are an area of new plan growth. Mostly professional firms, these organizations use DB plans to help business owners maximize their retirement savings beyond what a qualified DC plan can do. Although the audience is small, it might be another opportunity to reach a new market – and to expand your business as these start-ups become more established.

Plan size (# of participants)



Source: The Cerulli Report, U.S. Retirement Markets 2016, Corporate DB Plans by Plan Size, 2005-2015, 2016.

Step 2

Understand the nuances of DB plans

Whether a plan is active or frozen, it's critical to connect the risk management strategy with the organization's goals for the plan.

With a typical DC plan, advisors tend to work most closely with an organization's HR team. However, since a DB plan directly impacts an organization's balance sheet, it's more likely to get the attention of the CFO and possibly even the CEO as well.

The best way to be viewed as a trusted advisor in the eyes of the C-suite is to help them work through an effective DB plan strategy — which many organizations may lack.

A solid strategy begins with a DB plan review

To better understand the strategic opportunities and challenges facing an organization's DB plan, start by evaluating the plan as it stands today alongside the current economic outlook. Rising or falling interest rates, an ongoing recession and/or a bull vs. bear market can dramatically shift DB plan liabilities and risk--and therefore, your strategy. Look at these three factors.

DB plan's funded ratio

A frozen plan looking to terminate soon requires a different funded ratio than one that's active.

DB Replacement Ratio

Is the current benefit formula meeting the plan sponsor's goals and objectives?

Other relevant factors

Things like changes in management or evolving market and industry trends can impact an organization's DB needs.

No one-size-fits-all approach

When working with C-suite executives, it's important to explain no single strategy is right for every organization. Successfully managing a DB plan is really an exercise in managing risk — by matching that plan's liabilities to an investment strategy that balances it.

Step 3

Offer a holistic approach

Successfully advising a DB plan means helping the C-suite focus first on strategy, then implementing the proper tactics to meet the strategic objectives.

DB plan sponsors are looking to efficiently and effectively manage their risk. Many think their plans are too costly and too complex, but they don't know how to fix it. They could be stuck in a cycle of making tactical decisions without a big picture view.

You can offer a fresh perspective with real data and action points to get CFOs/plan sponsors unstuck and moving toward a smart strategy for meeting their plan goals.

Get plan sponsors unstuck

- **Educate and empower plan sponsors** to manage their DB plan according to the needs and goals of their business.
- **Provide a strategy** as well as tangible action steps to help plan sponsors achieve their goals.

Components of a DB plan strategy

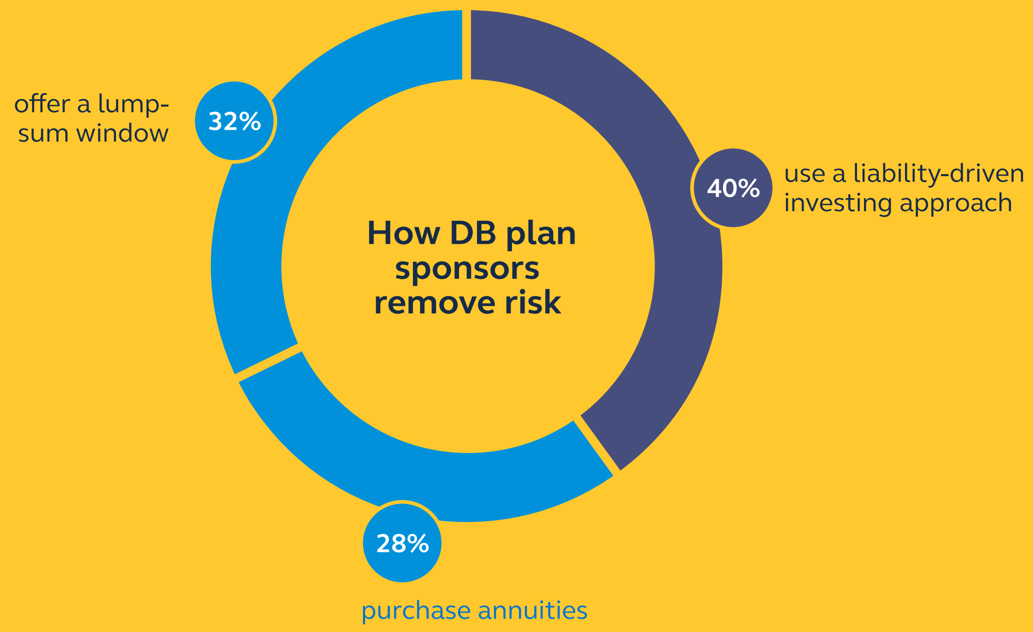
While each plan is different, a comprehensive strategy could include these considerations:

1. Plan goals
2. Review of participant data
3. Risk management approach
4. Funding policy
5. Plan funding ratio
6. PBGC premiums and plan fees/costs
7. Investment approach, including asset allocation and glidepath

Once you've determined the goals driving the business and influencing the DB plan, it's time to work with the actuarial team to develop a risk management strategy.

Two options for managing DB plan risk

1	2
Transfer the risk to someone else by offering lump-sum distributions or purchasing an annuity.	**Retain the risk within the organization** through plan design or investment decisions, such as dynamic asset allocation or liability-driven investing.



Aon Hewitt, 2017 Hot Topics in Retirement and Financial Wellbeing, 2017

Bottom line
Make selling and servicing DB plans part of your practice

The assets held in existing DB plans will require close management for years to come. Plan sponsors could need your help creating and executing a successful strategy that meets the needs of their businesses. The value of DB plans goes beyond the financial — pensions represent an often decades-long promise between an organization and its employees. By focusing on the human perspective underlying the pension plan, and better understanding the market, you'll be ready to use DB to expand your business.

If you want to learn more about DB plans and how you can help grow your practice, call our Advisor Support Team at 800.952.3343, option 2, or visit **principal.com/DB**

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