Pension Risk Transfer Poll

A 2017 survey of U.S. defined benefit plan sponsors

MetLife

Navigating life together

About the Poll

Interest in pension risk transfer (PRT) among U.S. defined benefit (DB) pension plan sponsors appears to be accelerating, and 2017 is predicted to be another very robust year of PRT market activity. A number of catalysts are leading a sizable number of plan sponsors to continue to take concrete steps to offload their pension liabilities—liabilities that are becoming increasingly difficult for some companies to manage in the current market and regulatory environment.

For MetLife's latest Pension Risk Transfer Poll, U.S. DB plan sponsors were surveyed to:

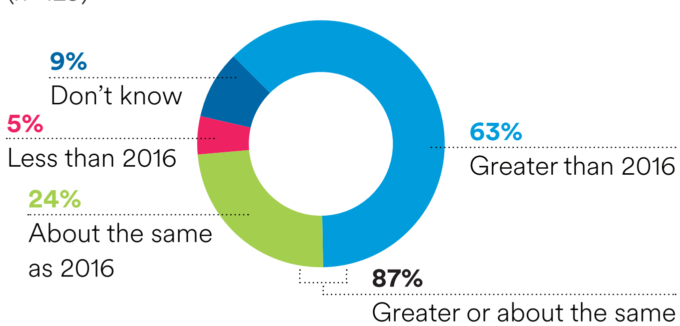
- Assess the likelihood they would engage in PRT to achieve their plans' de-risking goals;
- Determine what specific PRT activities they were mostly likely to use and for which participant population(s);
- Understand the current catalysts driving interest in PRT to an insurance company;
- Gauge knowledge about – and preparation for – an eventual PRT transaction, including interest in flexible transaction structures such as split deals and assets-in-kind (AIK); and,
- Probe on their expectations for the 2017 level of PRT activity.

Key Findings

Plan Sponsors Forecasting Another High Level of PRT Activity

In 2016, there was nearly $14 billion of annuity buyout-related PRT activity,[1] and nine in 10 plan sponsors (87%) believe the level of 2017 PRT activity will be at least as, or even more, robust than last year. This includes 63% of sponsors who believe the volume of 2017 PRT activity will likely be greater than 2016, and 24% who believe the volume will be about the same. Just 5% of plan sponsors believe there will be less PRT activity year-over-year, and 9% of plan sponsors don't know or are unsure about the volume of PRT activity expected.

Predictions for Volume of PRT Activity in 2017
(n=129)



Note: Percentages may not total 100% due to rounding.

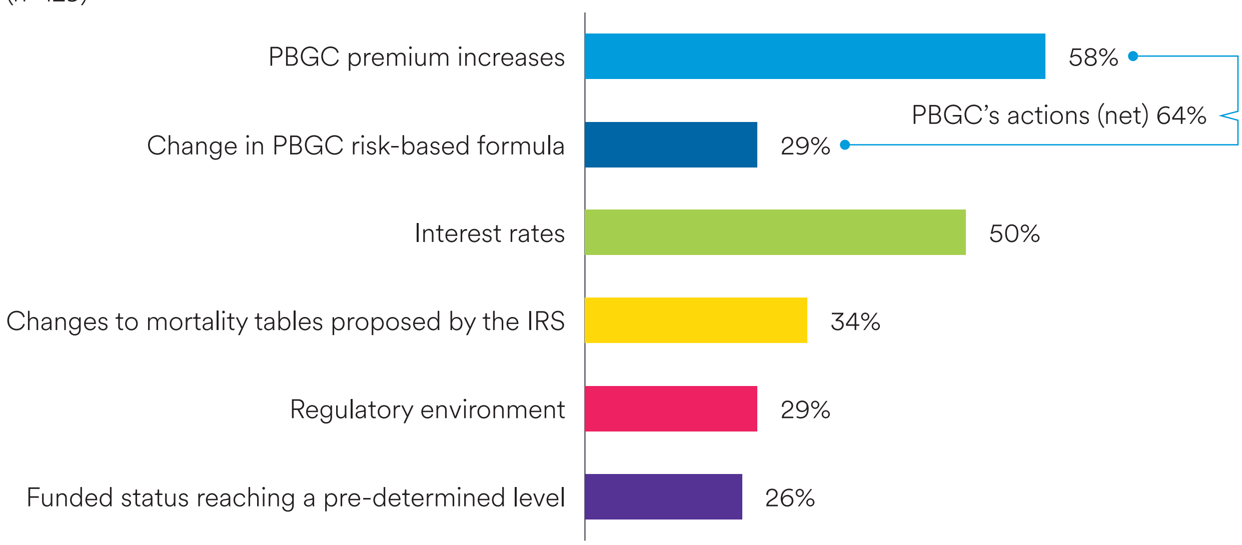
[1] LIMRA Group Annuity Risk Transfer Survey, Q4 2016

Primary Catalysts Driving PRT

The top catalysts driving sponsors to consider transferring pension obligations to an insurer are Pension Benefit Guaranty Corporation (PBGC) actions (64%)—this includes PBGC premium increases (58%) and a change in the PBGC premium methodology to the risk-based formula (29%); interest rates (50%); and, the impact of changes to mortality tables proposed by the U.S. Internal Revenue Service (IRS) in 2016 for use starting in plan years beginning on or after January 1, 2018 (34%). Other notable factors for initiating PRT include the regulatory environment (29%) and funded status reaching a pre-determined level (26%).

Primary Catalysts for PRT

(n=129)



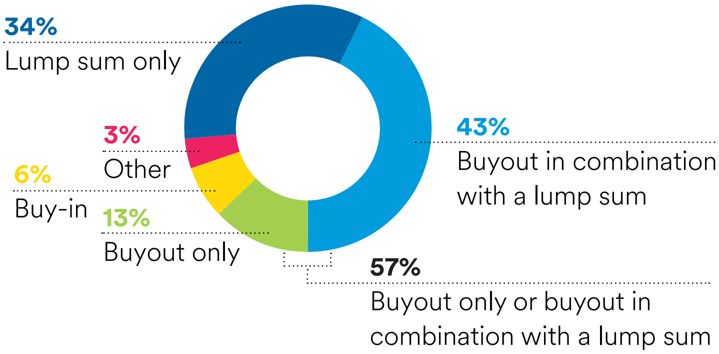
Note: Respondents could select more than one option.

Growing Interest in Annuity Buyouts

One way of reducing pension liabilities is for the plan to pay a lump sum to the participant who has not yet begun collecting pension payments to settle any and all claims that the participant has under the plan. Another PRT option involves the purchase of a group annuity contract from an insurance company, known as an annuity buyout. This transfers some or all of a DB plan's benefit obligations and related risks to the insurer, while retaining all of the plan design features and benefits in which the participants are vested.

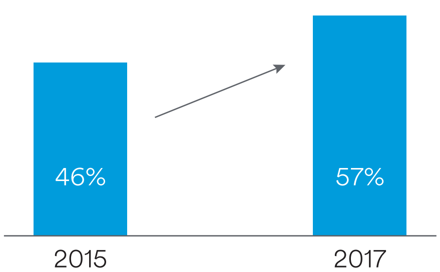
When asked about the type of PRT activity plan sponsors will most likely use to achieve their de-risking goals, nearly 57% say they will use an annuity buyout, including 43% who plan to use a combination of a lump sum and annuity buyout. Interest in annuity buyouts rose from 46% in MetLife's 2015 Pension Risk Transfer Poll, which included 37% who planned to secure a buyout in combination with a lump sum offer.

PRT Activity Most Likely to Be Used
(n=129)



Note: Percentages may not total 100% due to rounding. The percentage for buyout only and buyout in combination with a lump sum is rounded to the nearest whole number.

Interest in Annuity Buyouts Has Increased
2015 (n=229) vs. 2017 (n=129)



Note: Includes buyout only and buyout in combination with a lump sum.
See methodology for changes to survey population from 2015 to 2017.

The manufacturing sector is the industry most likely to consider a buyout (72%), including in combination with a lump sum, at some point in the future. Among those sponsors that plan to use an annuity buyout on its own or in combination with a lump sum, 77% say they are likely to consider doing so in the next two years.

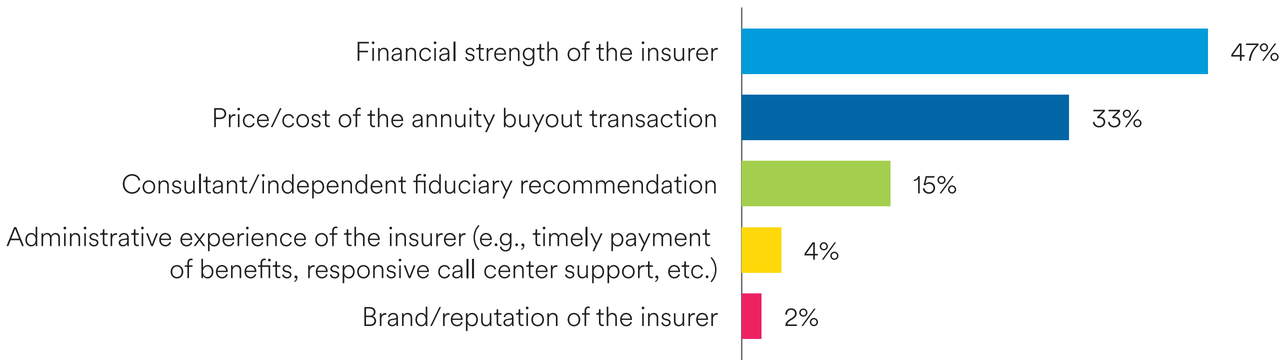
Financial Strength Tops Considerations When Selecting an Insurer

The U.S. Department of Labor's (DOL) Interpretive Bulletin (IB) 95-1 lays out rigorous requirements concerning fiduciary standards when a plan sponsor intends to transfer the liability for pension benefits to an annuity provider. The only insurers eligible for consideration under DOL IB 95-1 standards are the very strongest in the industry, generally with an AA rating or higher for financial strength from the major, independent rating agencies. In most cases, an insurance carrier's financial strength rating is as high as, and often higher than, the plan sponsor's credit rating. This enables both plan sponsors, and their participants whose benefits are being transferred, to be confident in the long-term security of pension payments.

The importance of insurer financial strength is evident in the Poll findings, with nearly half of plan sponsors (47%) saying that financial strength is the most important consideration when selecting an insurer for an annuity buyout transaction, followed by the cost of the annuity transaction (33%) and recommendations from their consultant or independent fiduciary (15%).

Most Important Considerations When Selecting an Insurer

(n=129)

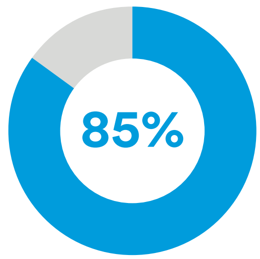


Note: Percentages may not total 100% due to rounding.

Role of the Insurer in Protecting Participant Benefits

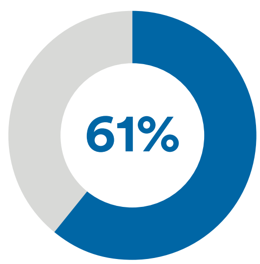
The large majority of plan sponsors (85%) is aware that it is insurance companies, rather than pension plan sponsors, who are required by regulation to overfund their liabilities and hold an additional layer of capital. It is generally recognized that insurance companies' core business is risk management, which makes them uniquely qualified to manage the investment, market and longevity risks that come along with these long-term obligations.

Plan Sponsor Awareness of Regulatory Funding Requirements for Insurers
(n=129)



Nearly two-thirds of plan sponsors (61%) are also aware that a risk transfer to an insurance company, where the benefits earned are preserved in exactly the same amount and form, does not represent a risk transfer to plan participants in any way. It does, however, facilitate the ability of a sponsor to responsibly reduce its pension plan risk. The only thing that changes is the entity from which a participant (or beneficiary) receives retirement income payments.

Plan Sponsor Awareness That Risk in PRT to Insurer Is Not Transferred to Participant
(n=129)

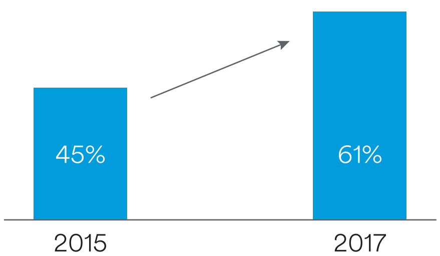


Sponsors Stepping Up PRT Preparations

Nearly all plan sponsors (92%) are aware that, although the length of time it takes to complete a PRT transaction will vary by plan, the entire process typically takes six to 18 months. To ensure that they are ready to act, more than six in 10 plan sponsors (61%) have taken preparatory steps for an eventual PRT transaction, up from 45% in 2015. The percentage of plan sponsors that have taken preparatory steps rises to 79% among plan sponsors that are likely to engage in PRT to an insurer in the next two years.

Preparatory Steps Taken Toward PRT

2015 (n=229) vs. 2017 (n=129)

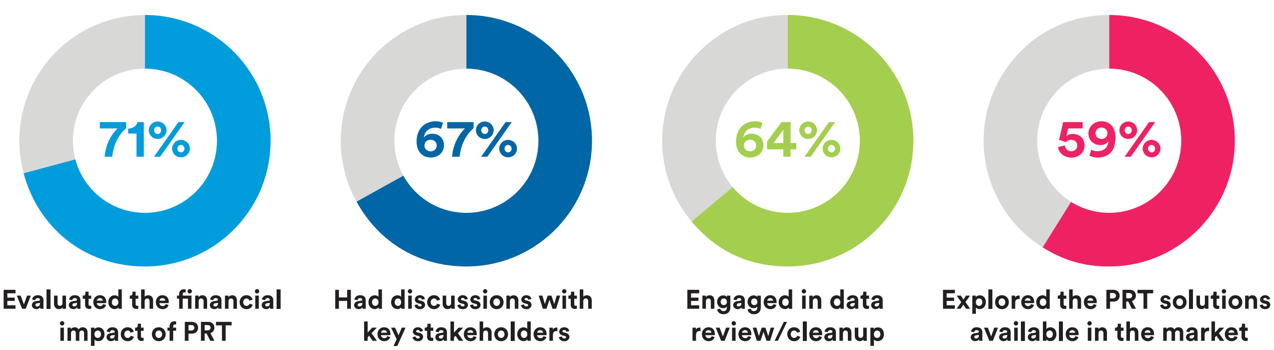


Note: See methodology for changes to survey population from 2015 to 2017.

The most common preparatory steps taken include an evaluation of the financial impact of a pension risk transfer (71%); discussions with key stakeholders (67%); data review/cleanup (64%); and, exploration of the PRT solutions available in the marketplace (59%).

Preparatory Steps Taken

Among Those Who Have Taken Preparatory Steps (n=78)



Note: Respondents could select more than one option.

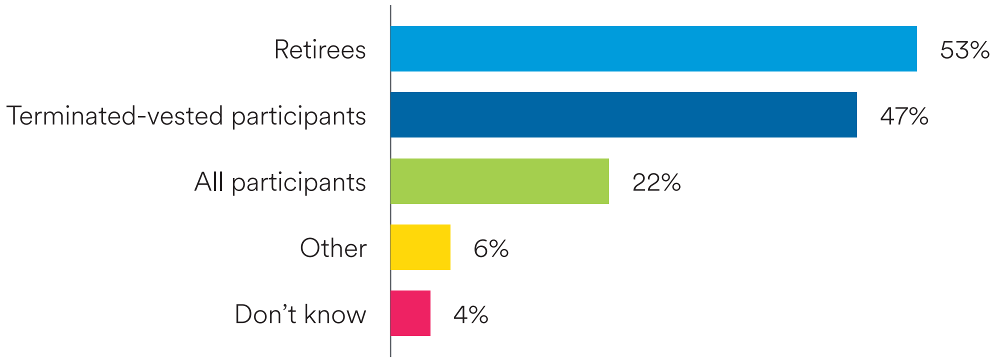
Among those planning for a buyout or buyout in combination with a lump sum, one in five (20%) has already secured an illustrative bid from an insurer. Securing an illustrative bid is a strong indicator of intent to transact in the near future.

Most Annuity Buyouts Will Be Tranched

The majority of plan sponsors intend to tranche their annuity buyouts by participant population. Retirees are identified as the most common population for which sponsors are considering purchasing annuities (53%), followed by terminated-vested participants (47%). Only one in five (22%) say they would secure a buyout for all participants.

Participant Populations to Be Annuitized

Among Those Likely to Use an Annuity Buyout (n=73)*



Note: Respondents could select more than one option.
*Buyout only or buyout in combination with a lump sum.

Split Deals: Awareness Much Higher Than Interest

Over two-thirds of plan sponsors (69%) are aware that it is possible to split an annuity buyout transaction among two or more insurers. The highest level of awareness is among sponsors with $1 billion or more in DB plan assets (75%).

While there is a high level of awareness about split deals, only one in five plan sponsors (21%) say that if and when they are ready to complete an annuity buyout, they would be likely to split the transaction among two or more insurers. The largest plans (those with assets of $500 million or more) were the most likely to say they would split a transaction (26%). The top reasons for being likely to split a PRT transaction include the ability to diversify risk and the perception that they will receive better pricing. Commenting on risk diversification, one plan sponsor said they would consider a split deal to "address… (credit/insurer) concentration risk" perceived by retirees. Another plan sponsor said they would only consider a split transaction if there were "pricing efficiencies."

Four in 10 plan sponsors (44%) say they would be unlikely to split the transaction, primarily for reasons of perceived complexity, believing it would cause administrative burdens and that it would be easier to manage a single transfer. For example, one plan sponsor said, "knowing my company, I think it would seem 'cleaner' and less risky to keep it with one insurer," while another plan sponsor said splitting a transaction would not be consistent with their culture since they "typically go 'all in' with one vendor." Others noted that, at their companies, "some retirees receive more than one benefit payment, so it would be best if they continue with one payment…for simplicity and tracking," and a split deal could "complicate the transaction as well as any communication around the transaction." Another common reason cited for not being likely to split a buyout among multiple insurers was smaller transaction sizes.

Assets-in-Kind Starting to Take Hold

When their company is ready to complete an annuity buyout, more than half of plan sponsors (51%) say they would be more likely to select an insurer that allows the premium for the annuity to be paid with assets-in-kind (AIK). With an AIK transfer, a relatively new approach used in the U.S. since 2012, the premium for the annuity is paid by transferring ownership of some or all of the plan's eligible assets to the insurance company, as opposed to liquidating plan assets for cash. An AIK transfer is possible when assets held by a DB plan are generally consistent with those the insurer would deem suitable for its portfolio, pursuant to regulatory requirements and internal risk management practices. Working with the plan sponsor, the insurance company will identify the types of securities and duration profile sought for the in-kind portfolio and minimal, if any, liquidation of plan assets takes place.

Methodology

The MetLife 2017 Pension Risk Transfer Poll was fielded between March 30, 2017–May 8, 2017. MetLife commissioned MMR Research Associates, Inc. to conduct the online survey in cooperation with Strategic Insight, which owns PLANSPONSOR and CIO magazines. There were 129 defined benefit (DB) plan sponsors who participated in the survey, including nearly six in 10 (59%) who reported DB plan assets of $500 million or more. In 2017, an additional screener question was added to the survey questionnaire to ensure that only those plan sponsors with de-risking plans involving pension risk transfer were able to participate in the research.

Plan Size	Respondents
Greater than $1 billion	43%
$500 million – $1 billion	16%
$250 million – $499 million	20%
$100 million – $249 million	14%
Less than $100 million	6%
Don't know	1%