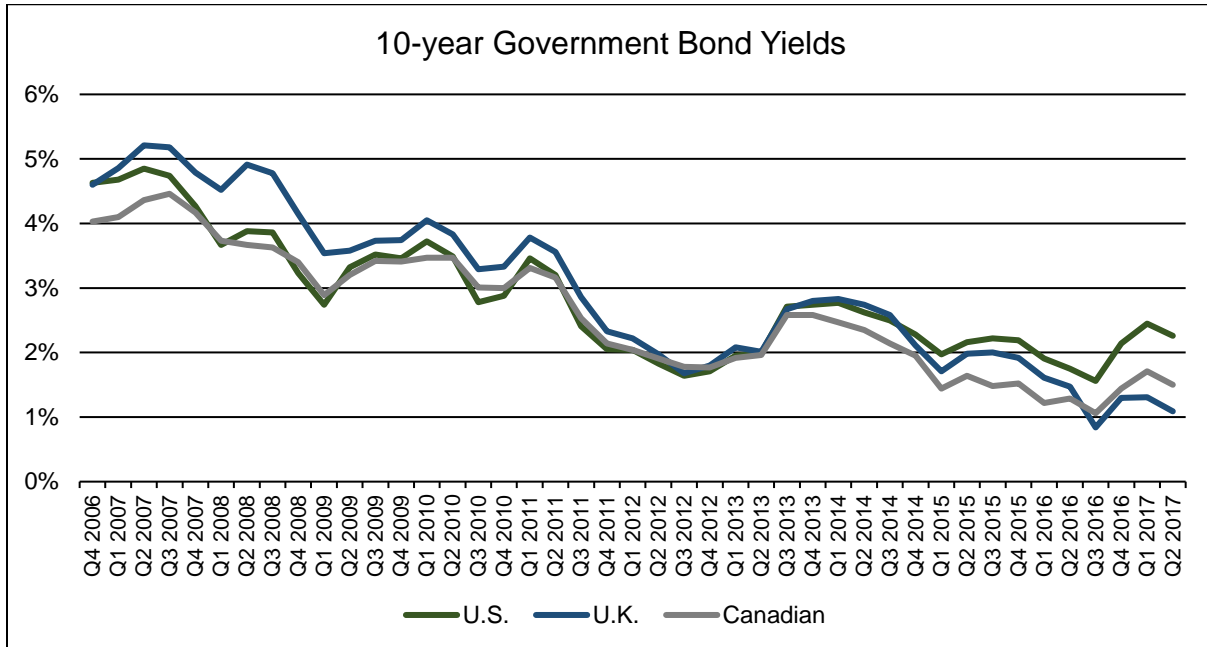


Changing post-recession landscape has put pension risk transfers in spotlight

I. Overview

A confluence of macroeconomic factors and a profound shift in the goals of corporations since the global financial crisis have dramatically accelerated corporate plan sponsors shifting defined benefit pension risk off their balance sheet through pension risk transfers (PRTs).

One significant macroeconomic event has been the dramatic decline in interest rates. For example, the U.K. 10-year bond yielded only 1.08% at June 30, 2016, down from 4.69% at the end of 2007.



Source: Federal Reserve Bank of St. Louis

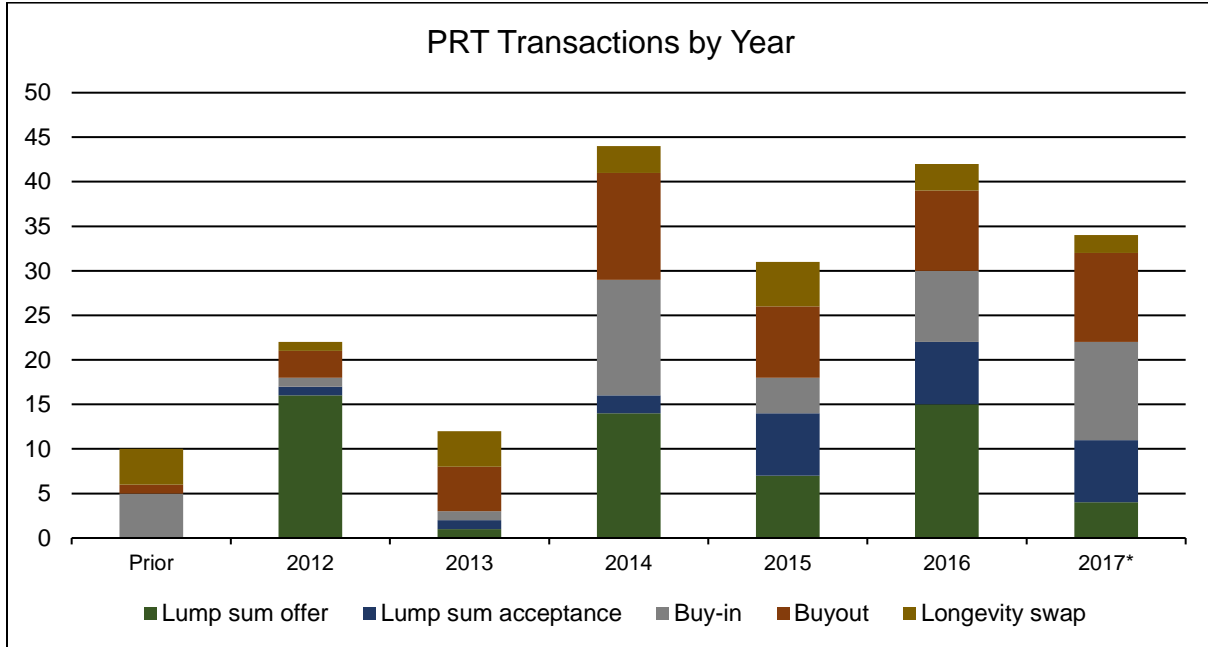
The decline in interest rates has increased the liabilities of pension funds that mark to market. In 2008, the liability for the 100 largest corporate U.S. plan sponsors was about \$1 trillion. In 2016, the amount had increased to \$1.4 trillion even after a meaningful amount of pension risk transfers.

There has also been a long-term trend of participants living longer, creating ever-growing liabilities. According to the Office for National Statistics, a female born in England in 1991 is expected to live to 79. A female born in 2014 is now expected to live to 83.

According to the U.S. Bureau of Economic Analysis, corporate profits sharply rebounded from the Great Recession and have been running at all-time highs since 2010.

With flush bank accounts and memories of the pain that pension funds inflicted on balance sheets, many corporations have chosen to permanently remove the risk by engaging in a risk transfer.

Pension risk transfers have come in different sizes and shapes. In the U.K., many plan sponsors have chosen to eliminate the risk of participants living longer than actuaries originally forecast. Pensions & Investments has reported on 20 longevity swaps in the U.K. insuring almost \$90 billion in liabilities. The BT Pension Scheme entered into a \$27.4 billion longevity swap, which was reinsured by Prudential Insurance Co. of America.



Source: *Pensions & Investments*

*Through Q3

In the U.S., many plan sponsors have made lump-sum offers to participants. P&I has tracked almost 125,000 participants accepting lump-sum offers.

Plan sponsors in both the U.K. and U.S. have transferred assets and liabilities to insurers through buy-ins and buyouts. The U.S. has accounted for about 60% of the \$100 billion that has been transferred. General Motors entered into the largest pension buyout with Prudential, a \$29 billion transaction.

II. Insurers

Insurers play a vital role in assuming pension risk. They have expertise in managing long-term liabilities and are well regulated. Pension risk transfers also act as a natural hedge to insurers' life insurance liabilities. Announced transactions have totaled almost \$200 billion. This has been led by Prudential, which has engaged in more than \$80 billion in transactions. Legal & General has entered into more than \$20 billion in pension risk transfer contracts.

III. Consultants

The potential personal impact on millions of people and the hundreds of billions of dollars of assets involved has led to a need for specialized advice. The main consultants advising plan sponsors to date are Aon, Hymans Robertson, Lane Clark & Peacock, Mercer and Willis Towers Watson.

IV. Conclusion

Pension risk transfers have and will continue to profoundly change the institutional retirement landscape. Insurance companies will become an even bigger force in the retirement market. Tens, if not hundreds, of billions of dollars in assets will be transferred to insurers in the next 10 to 20 years.

Individuals who are often incapable of properly managing investment and longevity risk will have to educate themselves to ensure they have a happy and financially stress-free retirement. The defined contribution investment community has tried to create solutions to help individuals. Many believe target-date strategies help individuals properly manage investment risk. Longevity risk remains a real issue for most individuals, although deferred annuities are available.

About the author



Aaron is responsible for developing and overseeing the Research Center and P&IQ. He joined P&I in 2008 as data editor, where he developed graphic content and analysis. Aaron has a B.S. in Business Administration, finance concentration, from Franciscan University of Steubenville, where he graduated summa cum laude. He also has a M.S. in Accountancy from Loyola University Chicago, where he graduated with High Dean's Honors. He obtained the Chartered Alternative Investment Analyst designation in 2010.

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Appendix 1

Largest PRT Transactions by Assets Involved

Type	Asset owner	Employees covered	Assets involved	Country of plan	Date
Buyout	General Motors Co.	118,000	\$ 29,000	United States	6/11/2012
Longevity swap	BT Pension Scheme	NA	\$ 27,400	United Kingdom	7/4/2014
Longevity swap	Aviva PLC	19,000	\$ 8,400	United Kingdom	3/6/2014
Buyout	Verizon Communications Inc.	41,000	\$ 7,500	United States	10/17/2012
Buy-in	ICI Pension Fund	NA	\$ 5,000	United Kingdom	3/26/2014
Longevity swap	BAE Systems 2000 Pension Plan	NA	\$ 4,900	United Kingdom	2/21/2013
Longevity swap	Rolls-Royce Holdings PLC	37,000	\$ 4,680	United Kingdom	11/28/2011
Longevity swap	MMC U.K. Pension Fund	7,500	\$ 4,500	United Kingdom	9/14/2017
Longevity swap	AXA	11,000	\$ 4,400	United Kingdom	7/13/2015
Longevity swap	AstraZeneca Pension Fund Trustee	10,000	\$ 4,100	United Kingdom	12/16/2013
Longevity swap	BCE Inc.	NA	\$ 4,000	Canada	3/3/2015
Longevity swap	ITV PLC Pension Scheme	12,000	\$ 4,000	United Kingdom	8/22/2011
Buyout	TRW Automotive Holdings Inc.	22,000	\$ 3,900	United Kingdom	11/27/2014
Lump sum acceptance	General Motors Co.	12,600	\$ 3,900	United States	10/31/2012
Longevity swap	Heineken	19,000	\$ 3,600	United Kingdom	9/14/2015
Buyout	Motorola Solutions Inc.	30,000	\$ 3,100	United States	9/25/2014
Longevity swap	RSA Insurance Group	NA	\$ 3,100	United Kingdom	7/27/2009
Lump sum offer	International Paper Co.	47,000	\$ 3,000	United States	4/1/2016
Longevity swap	ScottishPower U.K. PLC	9,000	\$ 3,000	United Kingdom	2/9/2015
Buyout	Philips Pension Fund	26,000	\$ 2,900	United Kingdom	11/5/2015
Longevity swap	BAE Systems	17,000	\$ 2,900	United Kingdom	12/19/2013
Buy-in	ICI Pension Fund	NA	\$ 2,800	United Kingdom	10/29/2015
Buy-in	Total U.K. Pension Plan	NA	\$ 2,700	United Kingdom	6/9/2014
Buyout	WestRock Co.	35,000	\$ 2,500	United States	9/9/2016
Buy-in	Civil Aviation Authority Pension Scheme	NA	\$ 2,500	United Kingdom	7/21/2015

Appendix 2

Insurers

	Buy-in	Buyout	Longevity swap	Total
Abbey Life Assurance Co./Deutsche Bank	\$ -	\$ -	\$ 15,680	\$ 15,680
Aviva	\$ 646	\$ 467	\$ -	\$ 1,113
Canada Life	\$ 355	\$ 8	\$ 2,276	\$ 2,639
Legal & General	\$ 7,641	\$ 6,818	\$ 8,843	\$ 23,303
MassMutual	\$ -	\$ 2,675	\$ -	\$ 2,675
MetLife Inc.	\$ -	\$ 2,255	\$ -	\$ 2,255
Pension Insurance Corp.	\$ 7,392	\$ 6,552	\$ -	\$ 13,944
Prudential Insurance Co. of America	\$ 2,475	\$ 49,317	\$ 29,650	\$ 81,442
Prudential U.K.	\$ 1,677	\$ -	\$ -	\$ 1,677
Rothesay Life	\$ 4,782	\$ 1,186	\$ 5,139	\$ 11,107
Sun Life	\$ 147	\$ 132	\$ 4,000	\$ 4,279
Swiss Re	\$ -	\$ -	\$ 6,393	\$ 6,393
Other	\$ 583	\$ 2,101	\$ 20,784	\$ 23,468
Total	\$ 25,698	\$ 71,511	\$ 92,766	\$189,974

Appendix 3

Transactions by Country

	Number	Employees	\$ millions involved
Canada	4	NA	\$ 4,436
Multi-country	1	NA	\$ 200
United Kingdom	81	285,956	\$ 129,156
United States	109	1,305,308	\$ 75,487

Appendix 4

Transactions by Type

	Number	Employees	\$ millions involved
Lump sum offer	57	718,000	\$ 7,975
Lump sum acceptance	25	122,385	\$ 10,400
Buy-in	43	11,750	\$ 26,799
Buyout	48	551,629	\$ 72,648
Longevity swap	22	187,500	\$ 91,766