# PRT 101

An Actuaries' Club of Boston webinar

May 18, 2022

# PRESENTERS

**Sydney Rubert, FSA**

*Head of PRT Business Development, MassMutual*

**Sydney Rubert** is the Head of PRT Business Development at MassMutual and is based in Seattle, WA. In this role, Sydney owns the underwriting and pipeline of PRT transactions, provides actuarial support to various teams, and leads the introduction of new analytical and data management technologies to enable data driven decision making across Institutional Solutions.

With nearly 10 years of experience, Sydney joined MassMutual in 2018 and has held various roles within the PRT Pricing team. Prior to joining MassMutual, Sydney held positions in Asset Liability Modelling and Annuities Planning and Forecasting.

Sydney earned a Bachelor of Commerce degree majoring in actuarial mathematics, and she is a Fellow of the Society of Actuaries.

**Rob Forte, FSA, MAAA**

*Principal & Boston Office Leader, Oliver Wyman*

**Rob Forte** is a Principal with the Actuarial Practice of Oliver Wyman and Office Leader of the Boston location. He has nearly 14 years of actuarial experience spanning the insurance carrier and actuarial consulting spaces.

Rob's areas of expertise are actuarial modeling and financial reporting for a wide variety of life and annuity products under U.S. Stat and U.S. GAAP regimes including LDTI. He specializes in large-scale actuarial model builds and conversions spanning all types of products and software vendors.

Rob is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. He is also an active member of the Market Risk Benefit ("MRB") industry working group tasked with preparing the LDTI MRB Whitepaper.

**Tyler Keenan, FSA, MAAA, CERA**

*Manager, Oliver Wyman*

**Tyler Keenan** is a Manager with the Actuarial Practice of Oliver Wyman and is based in Boston. His expertise is in Prophet liability modeling, and he has led and supported several Prophet model builds, conversions, and validations. He is currently engaged in leading the PRT and annuity model builds for a multi-year Prophet model conversion and modernization initiative for a large carrier.

Prior to joining Oliver Wyman in 2020, Tyler spent 5 years at Unum where he held various roles including individual disability pricing and modeling, enterprise risk management, and voluntary benefits financial planning.

Tyler is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and a Chartered Enterprise Risk Analyst.

# OVERVIEW

1 What is PRT?

2 Structure of a deal

3 Market landscape

4 Recap and closing

# 1

## WHAT IS PRT?

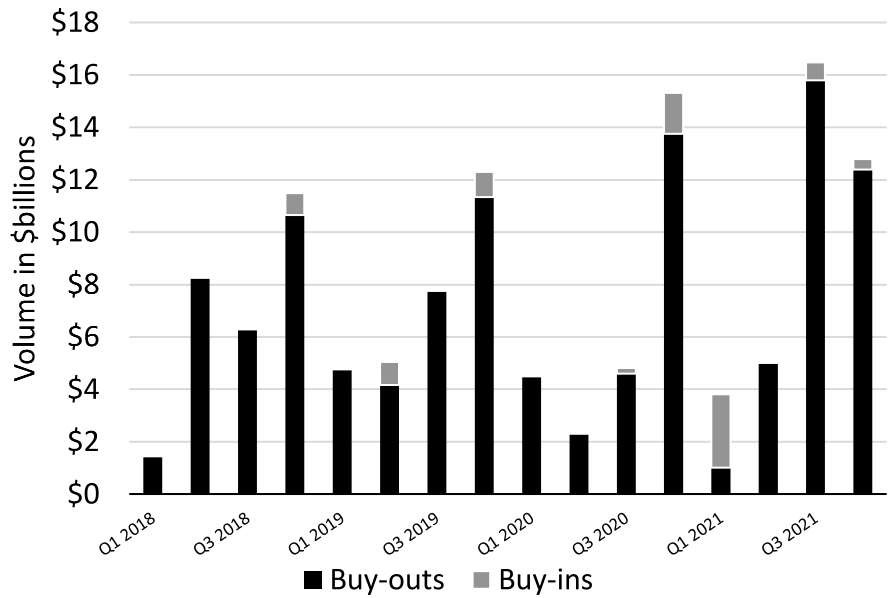
# PENSION RISK TRANSFER – A HOT TOPIC!

Pension risk transfer ("PRT") transactions have been increasing in both frequency and volume over the last several years

Pension risk transfer is a negotiated transfer of defined benefit pension liabilities between a plan sponsor and an insurance company. Plans may include in-pay participants (those who are already receiving benefits) and deferred participants (who are not yet receiving benefits).

## Fortune 500 companies continue to transfer pension liabilities

## Transaction volume has been increasing and is expected to continue to trend upward



# PENSION MECHANICS

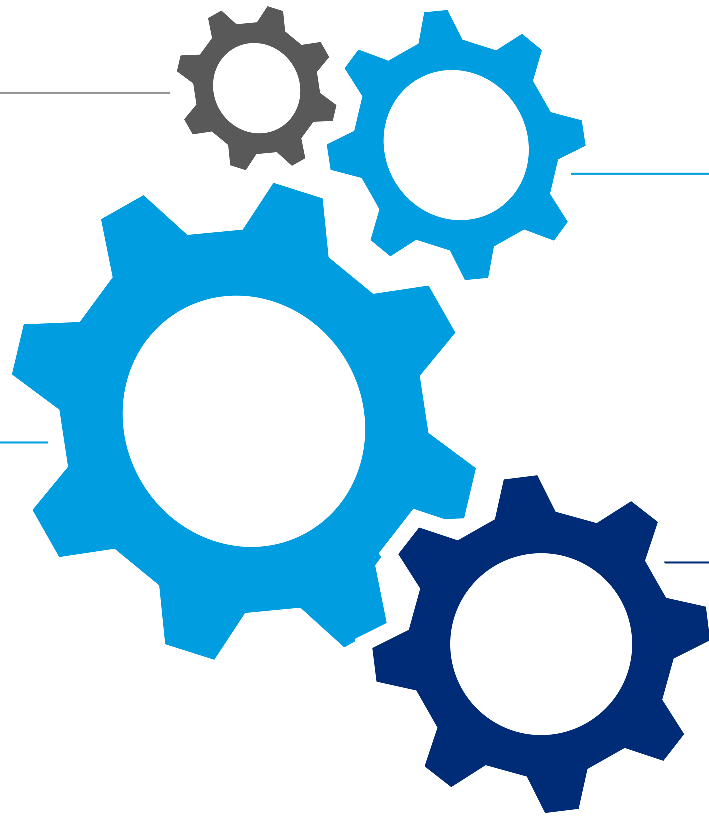
Defined benefit pension plans can be thought of as a type of payout annuity with some unique features

### Defined Benefit Plans

The plan specifies the benefit amount that the employee will receive upon retirement. Benefits are generally based on length of employment and salary history, among other potential factors

### Funding Contributions

Throughout the employee’s tenure with the pension sponsor, the employer is making periodic payments into the plan. The employer assumes investment risk since they need to adjust contributions based on the fund performance



### Employer Sponsored

Unlike a traditional payout annuity that is underwritten through an insurer, pension plans are independently operated through employers

### Benefit Form

Similar to payout annuities, pension participants can choose from multiple form options upon retirement (single life, joint, certain, etc.). Pension participants may also have additional options to consider such as lump sum payouts

# WHY WOULD A PLAN SPONSOR ENGAGE IN A PRT TRANSACTION?

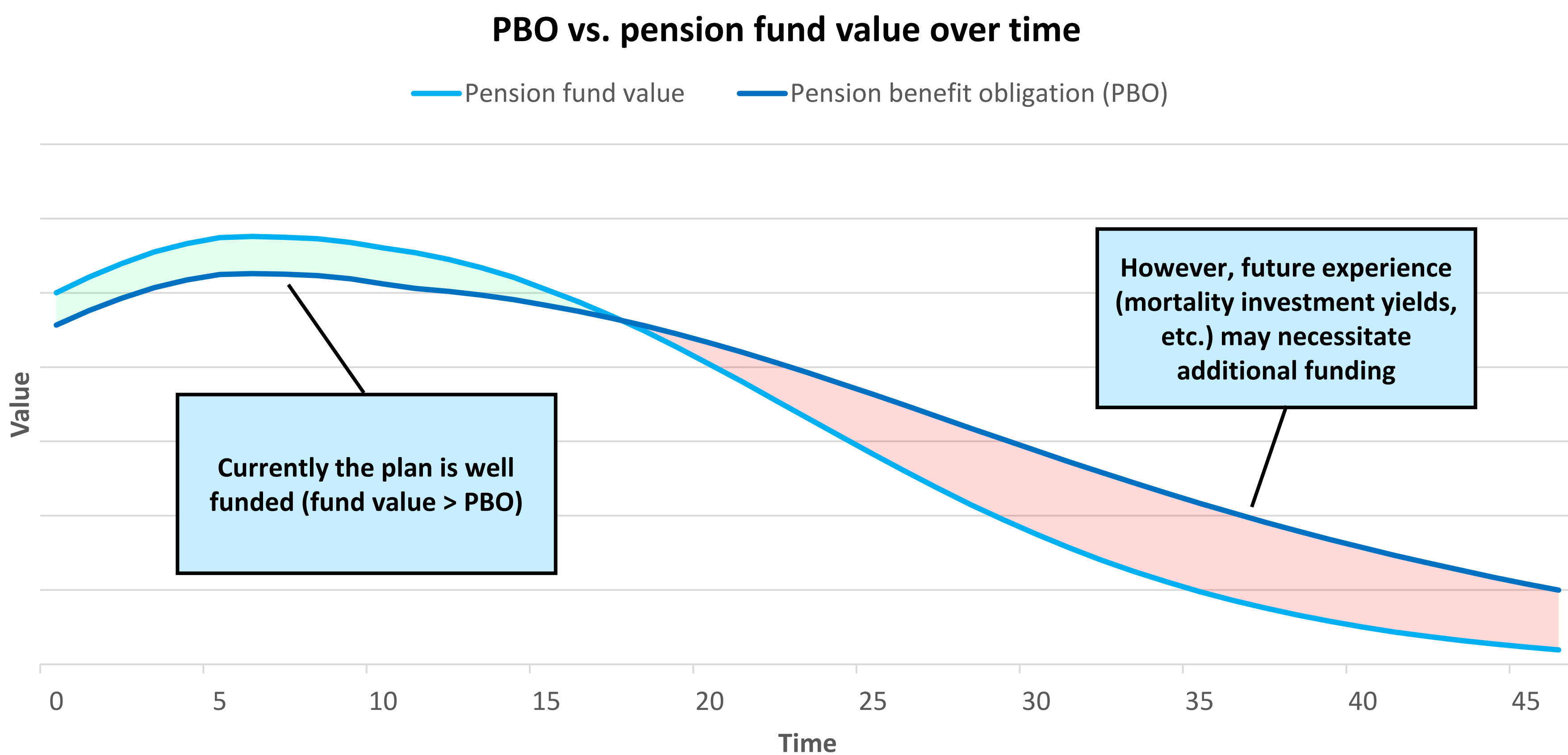
1. **Risk transfer**

2. **Cost savings**

3. **Core business expertise**

# PRT MOTIVATION – RISK TRANSFER

While plan sponsors may be managing well-funded pension plans today, future deviations from expectations may require additional funding to support liabilities




*Third party insurers are well positioned to absorb adverse experience through diversified portfolios and robust experience analysis capabilities*

# PRT MOTIVATION – COST SAVINGS

Pension sponsors incur various additional expenses to maintain their pension plans. Reducing these costs is a key motivator for sponsors

Plan sponsors incur various expenses to maintain a defined benefit pension plan, including the following:

- Pension Benefit Guarantee Corporation ("PBGC") premiums
  - Premiums paid to the PBGC *(see chart to right)*
  - Additional variable premiums are charged for underfunded plans
  - Insurers are exempt from paying these premiums
  - As more plans are transferred to insurers, premiums increase to ensure adequate coverage for remaining non-transferred plans
- Actuarial consulting fees
- Expenses for internal or external plan administration

**PBGC Premiums Over Time**

***(per participant per year)***

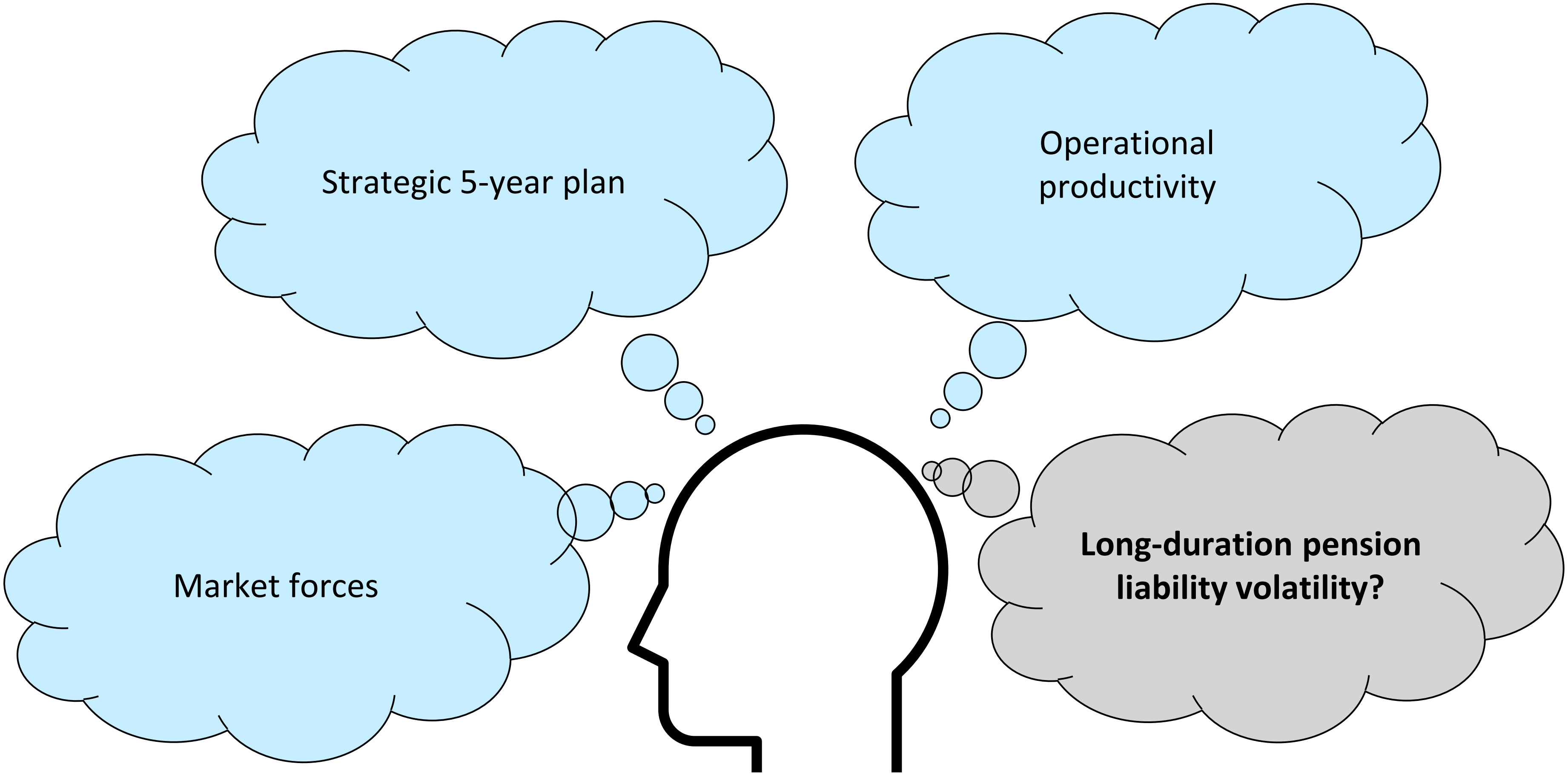
| Plan Years Beginning In | Single-Employer Plans | Multi-Employer Plans |
|---|---|---|
| 2021 | $86 | $31 |
| 2020 | $83 | $30 |
| 2019 | $80 | $29 |
| 2018 | $74 | $28 |
| 2017 | $69 | $28 |
| 2016 | $64 | $27 |
| 2015 | $57 | $26 |
| 2014 | $49 | $12 |
| 2013 | $42 | $12 |
| 2012 | $35 | $9 |
| 2011 | $35 | $9 |
| 2010 | $35 | $9 |
| 2009 | $34 | $9 |
| 2008 | $33 | $9 |

*Source: https://www.pbgc.gov/prac/prem/premium-rates*

*Plan sponsors can see significant expense savings by transferring liabilities to a third-party insurer that may not need to incur the same expenses to operate the plan*

# PRT MOTIVATION – CORE BUSINESS EXPERTISE

Maintenance of a defined benefit pension plan can distract a plan sponsor's leadership from focusing on core business competencies




*Third party insurers have the risk management experience and data to successfully administer and adequately capitalize a deferred benefit pension plan*

# 2

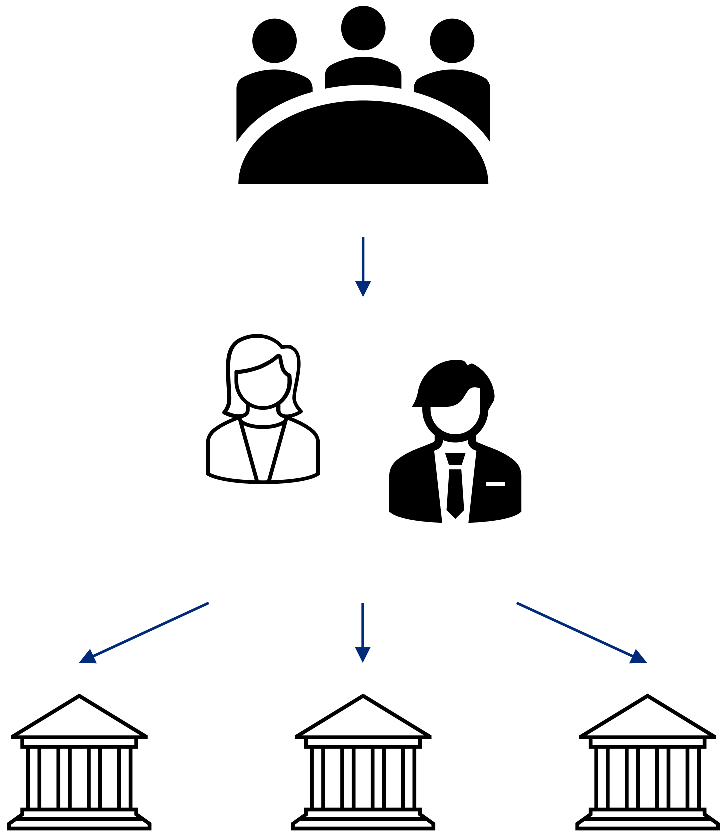
# STRUCTURE OF A DEAL

# PARTICIPANTS IN A PRT TRANSACTION

**PLAN SPONSOR**

**INTERMEDIARY**

**INSURANCE COMPANIES**



# "BUY-IN" VS. "BUY-OUT" TRANSACTIONS

Market participants have PRT deal options to match their risk profiles

**PRT transactions**

**"Buy-in"**
*~$3.9B volume in 2021*

- **Description**: Revocable insurance contract where plan sponsor transfers premium to insurance company in exchange for covering future benefits of included participants
- **Implication for employers:** De-risking of pension plans while maintaining legal obligation to pay benefit

**"Buy-out"**
*~$34.2B volume in 2021*

**Lift out**
*approx. 2/3 of buy-outs*

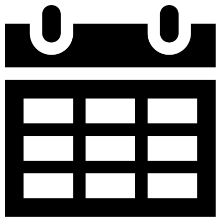
- **Description:** Plan purchases an irrevocable group annuity contract for a subset of their participant population (often retirees only)
- **Implication for employers:** Plan has irrevocably transferred the liability for the associated benefits off of its balance sheet and no longer administers the payments

**Plan termination**
*approx. 1/3 of buy-outs*

- **Description:** Plan purchases an irrevocable group annuity contract for their remaining population
- **Implication for employers:** Releases employers from risks and responsibilities of maintaining pension plans in long-term

# STRUCTURE OF A PRT DEAL

RFP review



**Request for Proposal (RFP)**

- Bid Timeline
- Benefit Specifications
- Census Data
- Contract Structure
  - Buy Out
  - Plan Termination
  - Buy In

**Review Includes:**

- Data
  - Census File
  - Mortality Experience Data
  - Asset in Kind Listing

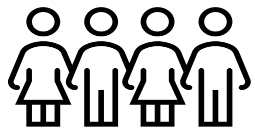
- Pricing Headwinds/Tailwinds
  - Repeat Client
  - Mortality Profile
  - Current Capacity Available
  - Sales Targets
  - Complexity of Plan Design

**RFP Review** → Preliminary Pricing → Final Pricing

# STRUCTURE OF A PRT DEAL

Preliminary pricing

### Mortality Assumptions

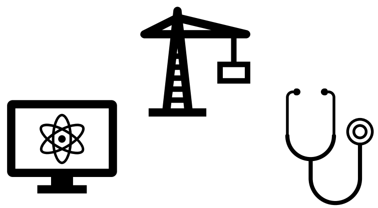


Participant Level

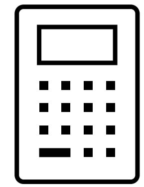
- Gender
- State/Zip
- Benefit $
- Benefit type

Contract Holder Level

- Industry

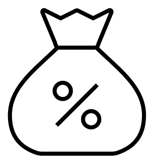


### Other Assumptions



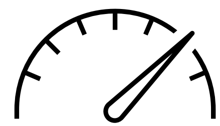
- Retirement Dates
- Optional Forms
- Cost of Living Adjustments

### Market Inputs



- Asset Allocation
- Interest Rates
- Spreads

### Key Pricing Metric

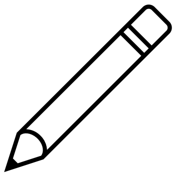


- Internal Rate of Return
- Return on Equity
- Return on Assets
- Profit Margin (% of assets)

RFP Review → **Preliminary Pricing** → Final Pricing

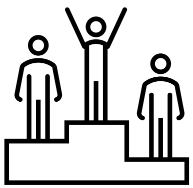
# STRUCTURE OF A PRT DEAL

Final pricing



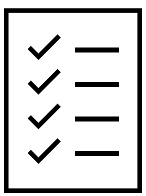
**Between Preliminary and Final Pricing**

- Refine assumptions
- Request feedback from preliminary bid
- Monitor market conditions
- Client meetings



**Final Bid Date**

- Day of pricing is needed for current market conditions
- Final pricing targets are decided, and most competitive bid is submitted
- Selection occurs by early afternoon



**Fiduciary Decision (DOL 95-1) requires plan sponsors "to obtain the safest annuity available"**

RFP Review → Preliminary Pricing → **Final Pricing**

# STRUCTURE OF A PRT DEAL

Timeline

**Final Bid Date**
- Sign Commitment Letter
- Assign Transition Team

**Installation**: 1 to 3 Months

Data:
- Receive identifiable data
- Scrub and clean data

Group Annuity Contract:
- Contract drafting and review by all PRT participants

**Group Annuity Contract is signed**

**Asset Transfer Date**
- Assets in Kind or Cash

$

**Welcome Kits Sent**
- Goodbye Letters Sent

**1st Payment Date**
- 1 to 4 months after Close Date

**Kick Off Meeting**

**Premium True Up**

**Pension Risk Transfer Post Sale Timeline**

**Ongoing Administration**

# 3

# MARKET LANDSCAPE

# PRT INDUSTRY PERSPECTIVE

## Recap

- Significant volume in 2021 driven by:
  - Pent-up demand from 2020 due to the **pandemic**
  - Strong equity market performance drove increased funding levels
  - Rising interest rates, especially in the second half of the year, led to higher assumed insurance company asset yields and therefore **more attractive bid prices**
  - Strong fund value and better bid prices further incentivized companies to engage in PRT transactions (no premium shortfall)

## Current trends

- Q1-2022 PRT volume was highest Q1 volume in history
- We are aware of several insurance companies that may enter the PRT space in 2022
- As carriers gain experience and competition in the market increases, appetite for plans with **deferred lives** is growing
- Large-to-jumbo ($500M - $1B+) sized deal activity continues to ramp up
- Plan sponsor interest in **buy-ins** is developing, potentially because of attraction to lock-in favorable pricing and convert to buy-out later

## Opportunities and outlook

- Amidst increased competition, carriers look to strengthen bids through:
  - Stronger ALM, especially at longer durations
  - Usage of offshore reinsurance
  - Mortality UW sophistication
  - Well-managed expense levels
- Carriers are more competitive when **flexible** with plan demographics and offer buy-ins in combination with buy-outs

**US defined benefit plan liabilities**

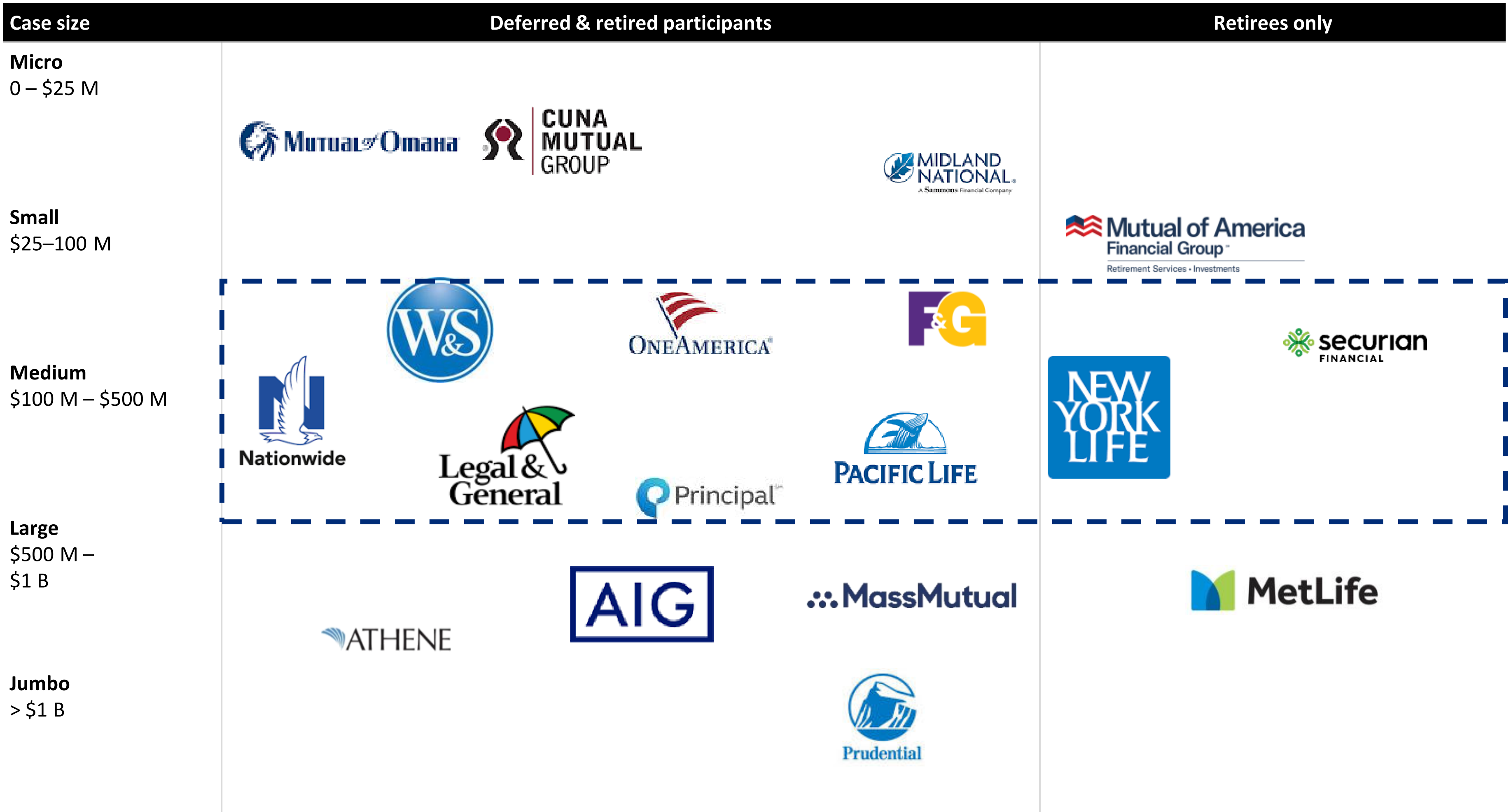
| | |
|---|---|
| Public | ~$4.1 trillion |
| Multiemployer | ~$0.7 trillion |
| Single employer | ~$2.4 trillion |

Mercer

Sources: Oliver Wyman 2021 US Life Insurance Pricing Survey, Mercer

# KEY PLAYERS IN THE US PRT MARKET

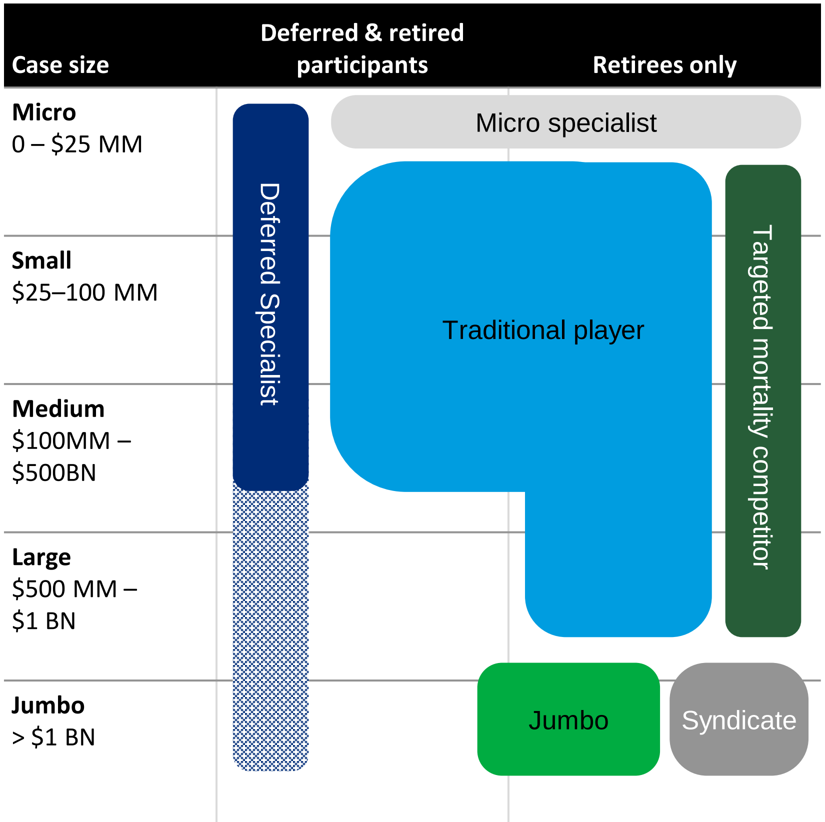
Carriers compete in various market segments, with a concentration in the $100 – $250 M range



# BUSINESS MODELS

There are a variety of potential business models in the pension space

**Competitive dynamics by market segment**




### Micro specialist

- Smallest deals where competition is limited; and willing to take deferred/complex liabilities

### Deferred specialist

- Complex and uncertain deferred liabilities with very limited competition

### Traditional player

- Small to mid-sized deals with most competition
- Preference for retiree-only liabilities, but may accept deferred liabilities if required to

### Targeted mortality competitor

- Use sophisticated longevity analysis to gain competitive advantage in targeted deals

### Jumbo

- Compete for largest deals with limited competition

### Syndicate lead or participant

- Build or participate in a syndicate to compete with jumbo players

# MARKET ENTRY CAPABILITIES

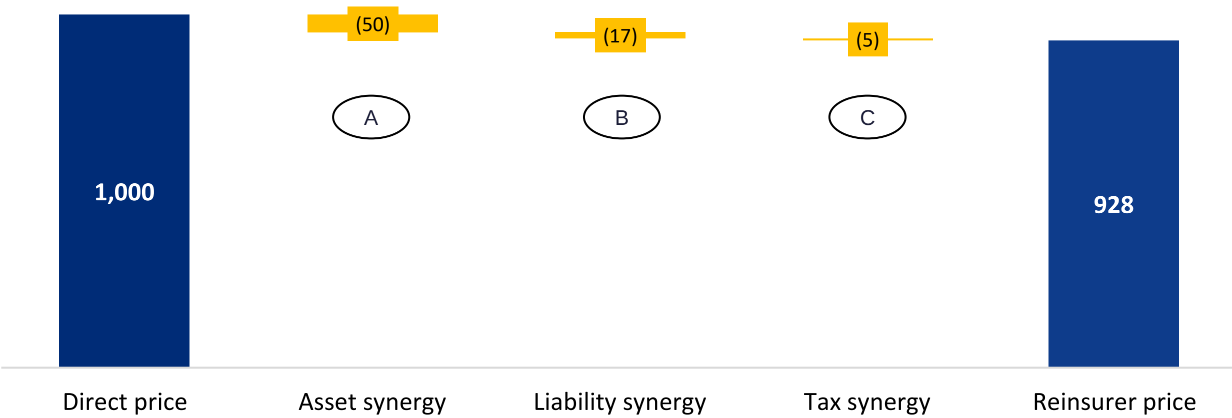
| | | Capabilities required by deal size: | Small ( 0 – $100 MM ) | Large ( $100 MM – $1 BN ) | Jumbo ( > $1 BN ) |
|---|---|---|---|---|---|
| **Price competitiveness** | | Ability to achieve market pricing | | | |
| **Investments** | **Investment yield** | Asset sourcing capabilities | | | |
| | | Iterative bid process agility | | | |
| | **Ability to receive in-kind assets** | In-kind assets: bonds | | | |
| | | In-kind assets: private equity | | | |
| **Other** | **Structure** | Separate account | | | |
| **Underwriting & pricing** | **Mortality** | Base mortality assumptions | | | |
| | | Internal perspectives on mortality | | | |
| | | Process: plan experience | | | |
| | | Process: plan-level underwriting | | | |
| | **Behavior** | Plan form and retirement ***(deferred lives only)*** | | | |
| | **Pricing** | Pricing model & process | | | |
| | **Reinsurance** | Offshore reinsurance capability | | | |
| **Operations & admin** | **Outsourced** | Vendor management, legal & compliance | | | |
| | **In-house** | | | Need to build/buy/rent an admin system | |

***Increasing capability importance***

Deals with deferred lives introduce greater complexity

# OFFSHORE REINSURANCE VALUE DRIVERS

Offshoring can boost profitability of in-force PRT blocks and enhance competitiveness in future deals




- A: Access to value-adding assets
- B: Optimize reserves and capital levels
- C: Tax efficiency

**Reinsurer Pricing Competitiveness**

- Long dated liabilities such as deferred lives suited for alternative assets
- Reinsurer asset origination capabilities
- Pricing impact vs. cedant tolerance
- Interaction with regulatory regime
- Formulaic VM-22 vs. principles-based reserves
- Tax implications

Additional considerations include **fiduciary requirements** and **structuring flexibility**

# 4

# RECAP AND CLOSING

# PRESENTER CONTACT INFORMATION

**Sydney Rubert, FSA**

*MassMutual*

Email: srubert20@massmutual.com

**Rob Forte, FSA, MAAA**

*Oliver Wyman*

Email: robert.forte@oliverwyman.com

**Tyler Keenan, FSA, MAAA, CERA**

*Oliver Wyman*

Email: tyler.keenan@oliverwyman.com