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The Pension Insider

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The Pension Insider is a monthly newsletter developed for Actuaries, Third Party Administrators, Attorneys, and Consultants who work in the pension arena. The Pension Insider was created to share ideas, success stories, coming events, and industry specific articles.

BCG Terminal Funding Company specializes in settling pension liability for terminating and ongoing pension plans. Today's Solutions for Tomorrow's Needs.

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Plan sponsors are looking for alternative ways to reduce pension risk, such as the first Pension Buy-in that took place in 2011. This was followed by the decision by Ford to offer retirees a lump sum, and now the General Motors annuity transaction with Prudential Financial

Some say that the GM deal with Prudential Financial may be the beginning of a trend in pension derisking. In both the articles below you will hear from several experts in the pension field regarding solutions.

GM-Prudential annuity deal seen setting off race to gain piece of DB derisking action

(Pension and Investments) - A new day is seen dawning in pension derisking as a result of General Motors Co.'s purchase of a multibillion-dollar group annuity contract to cover future benefit obligations of retirees in its U.S. salaried defined benefit plan.

And it's a day for which insurance companies have spent years planning, in hopes a company with a large pension plan would make this move.

Sources said pension executives at large plans have looked into pension buyouts in recent years, but were hesitant to become the first. Compounding the indecision is the fact that a low funded status coupled with low interest rates makes it a costly proposition

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Insight: Demand soaring for pension transfers to insurers

(Reuters) - Last week's deal by Prudential Financial to take on $26 billion of the retirement liabilities of General Motors has reignited a part of the American insurance market that had been bouncing along the bottom in recent years.

But experts in the sector say GM's splash was so big, there may be somewhat limited capacity for more mega-sized deals in the market for pension-risk transfers. Still, the market could be in the tens of billions over the next few years, they said.

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A Reuters analysis of the pension obligations of the S&P 500 found that almost half of the companies with underfunded pensions have enough cash to spare to do a risk-transfer deal, including Rupert Murdoch's News Corp and agriculture giant Archer Daniels Midland Co, suggesting there could be a scramble ahead for that limited capacity.

Known as pension terminal funding, the concept is simple: an employer pays an upfront premium to an insurance company for an annuity that covers all the members of a pension plan.

The insurer becomes responsible, via the annuity, for all of the retirees' pensions and the sponsor gets to wash its hands of the obligation.

"Starting about a year ago it was the chatter, the chatter picked up ... in the last six months, even in the low interest rate environment, transactions are starting to happen," said Mike Devlin, the head of the Boston office for BCG Terminal Funding, which matches plan sponsors with insurers.

For years, plan sponsors have held off on buying single-premium group annuities to transfer risk, hoping that interest rates would rise from historically low levels, boosting the value of their assets and potentially filling pension gaps without extra cash.

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Annuity Rates

Standard Pension Closeout/Terminal Funding Case Rates

No lump sums, no disability or unusual provisions

Immediates - 2.75%

Deferreds - 3.25%

50/50 Split of Immediates and Deferreds - 3.00%