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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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Pension Risk Transfer (PRT) is a hot topic today with Plan Sponsors. *Plan Sponsor* asked BCG to be involved in an article about PRT and factors to consider. The following article also includes comments from other industry experts such as Prudential, Met Life, and Vanguard Investment Strategy Group.

Pension Risk Transfer:Containing Risk

Factors to consider before undertaking a DB plan pension risk transfer

As U.S. pension plans struggle to maintain their funding status, more are searching for ways to lighten maintenance costs. One option starting to gain traction is the pension risk transfer (PRT).

A PRT involves a plan sponsor transferring its company's pension risk to an insurance carrier, to protect the plan from market volatility. According to Cynthia Mallet, vice president of corporate benefit funding at MetLife, "The way we think about pension risk transfer is that it is the basic and long-standing way of transferring the obligations that a plan sponsor has developed under a defined benefit (DB) plan to an insurance company. The concept is not new; it is a concept that is being used in new ways," she says.

There are two main types of PRT optionsthe buyout and the buy-in.

As Michael Devlin, principal at BCG Terminal Funding Company explains: The buyout allows the company to transfer its pension fund to an insurance carrier; in turn, the insurance carrier is responsible for paying the benefits to the retirees. The buyout is an irrevocable transfer that eliminates all the pension risk of a particular participant block from the plan.

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With more and more concern about Pension Liability Risks, many plan sponsors have turned to LDI. Most are no longer willing to allow their funded levels to decline. *Pensions & Investments* did a survery of benefit plan executives regarding their plans.

2 of 3 pension plans use LDI, with more coming

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Two-thirds of defined benefit plan executives surveyed jointly by Pensions & Investments and Rocaton Investment Advisors said they have liability-driven investment strategies in place, a number expected to rise to more than 80% within two years.

The online survey was conducted in March. It showed that as their plans' funded status improves, a majority of LDI users will move more money to LDI strategies and away from growth asset classes such as equities.

For a solid majority of those respondents, that glidepath appears to be a one-way street. In response to a survey question, more than 80% said they will not add risk to their portfolios again if their funded status declines.

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Annuity Rates

Standard Pension Closeout/Terminal Funding Case Rates

No lump sums, no disability or unusual provisions

Immediates - 3.00%

Deferreds - 3.25%

50/50 Split of Immediates and Deferreds - 3.12%