2019 Pension Risk Transfer Poll

A survey of U.S. defined benefit plan sponsors

MetLife

Navigating life together

About the poll

For U.S. defined benefit (DB) pension plans, 2018 was another very robust year of pension de-risking activity. If market dynamics continue their current course, it is expected that a significant portion of the over $3 trillion of DB plan liabilities that have not yet been de-risked will flow through the pension risk transfer (PRT) pipeline over the next decade. In fact, a key finding from MetLife's latest Pension Risk Transfer Poll is that 76% of DB plan sponsors with de-risking goals plan to completely divest all of their company's DB plan liabilities at some point in the future.

One way of reducing pension liabilities is for a plan sponsor to pay a lump sum to participants who have not yet begun collecting pension payments to settle any and all claims that those participants have 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 participants are vested.

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

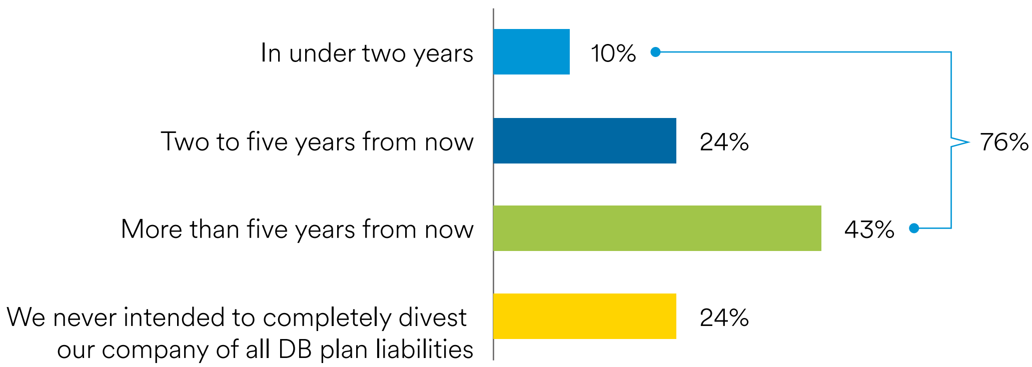
- Probe on voluntary contributions made to improve a plan's funded status;
- Assess the likelihood they would engage in PRT to achieve their plans' de-risking goals;
- Determine what specific PRT activities they were mostly likely to use and for which participant population(s);
- Understand the current catalysts driving interest in PRT to an insurance company;
- Identify the most important drivers when selecting an insurer for a PRT; and,
- Determine how quickly companies plan to completely divest themselves of their DB plans.

Key findings

Most plan sponsors with de-risking goals plan to completely divest their defined benefit pension liabilities

A key finding from MetLife's latest Pension Risk Transfer Poll is that 76% of DB plan sponsors with de-risking goals plan to completely divest all of their company's DB plan liabilities at some point in the future. This includes 10% of all plan sponsors surveyed who will completely divest their plans within the next two years; 24% who will completely divest their plans in the next two to five years; 43% who will take more than five years to completely divest their plans; and, 24% who never plan to do so.

When do you think your company will have completely divested all of its defined benefit pension plan liabilities?
(n=102)



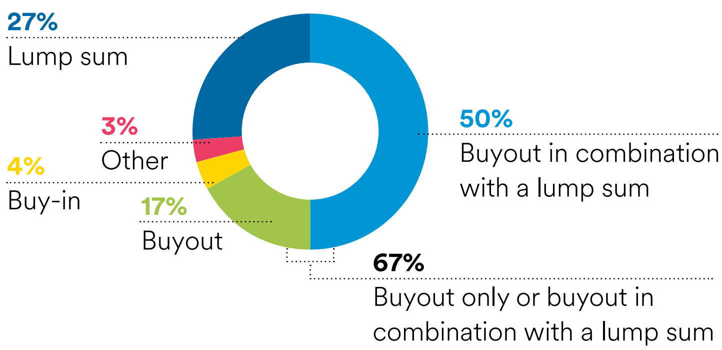
Note: Percentages may not equal totals or add to 100% due to rounding.

Interest in annuity buyouts continues to accelerate, jumbo/large deals driving greater interest

When asked about the type of PRT activity plan sponsors will most likely use to achieve their de-risking goals, 67% say they will use an annuity buyout (including 50% who plan to use a combination of a lump sum and annuity buyout).

Pension risk transfer activity most likely to be used

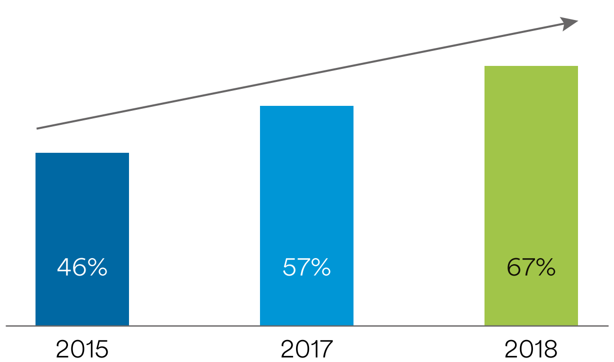
(n=102)



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

Interest in annuity buyouts is up considerably year-over-year from 57% in MetLife's 2017 Pension Risk Transfer Poll, which included 43% who planned to secure a buyout in combination with a lump sum offer. In fact, interest in annuity buyouts has increased a full 21 percentage points since MetLife's first Pension Risk Transfer Poll in 2015.

Interest in annuity buyouts has increased

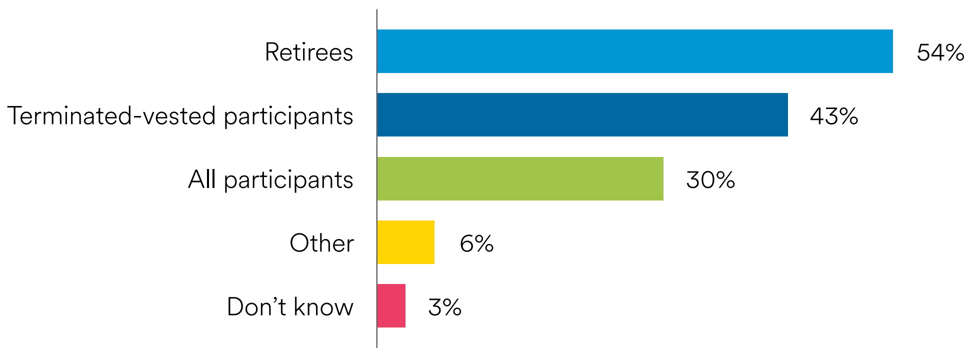


Note: Includes buyout only and buyout in combination with a lump sum.
MetLife did not conduct a Pension Risk Transfer Poll in 2016.

While interest in buyouts is growing, fewer plan sponsors are considering only offering lump sums to former employees who have not yet begun collecting pension payments. In 2018, 27% of plan sponsors said they were considering only offering a lump sum, down from 34% in 2017.

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 (54%), followed by terminated-vested participants (43%). Only one in three (30%) say they would secure a buyout for all participants.

Participant populations to be annuitized
(n=102)



Note: Respondents could select more than one option.

Eight in ten plan sponsors (79%) say they are more likely to consider an annuity buyout now that there have been several large, well-publicized instances of major corporations (e.g., Fortune 500® companies[1]) entering into annuity buyout deals with insurers.

Catalysts for pension risk transfer

Once again, actions by the Pension Benefit Guaranty Corporation (PBGC), the federal agency that insures private sector pension benefits, are the primary catalyst for plan sponsors to initiate a pension risk transfer to an insurance company (55%). This includes PBGC premium increases (52%) and a change in the PBGC premium methodology to the risk-based formula (18%).

Interest rate changes (42%) and funded status reaching a predetermined level (29%) are also driving plan sponsor interest in PRT. Many in the industry had predicted that lower corporate tax rates under the Tax Cuts and Jobs Act (H.R. 1) would be a significant tailwind for the U.S. PRT market in 2018. While 47% of plan sponsors with de-risking goals had made, or were planning to make, additional voluntary employer contributions for the 2017 plan year to improve their plan's funded status, only 6% say that the recent tax law changes are a catalyst for them to initiate a PRT to an insurer. Those closest to being fully funded (i.e., with funding positions between 80% and 99%) were the most likely to have made, or to be planning to make, additional voluntary contributions for the 2017 plan year.

[1]FORTUNE 500® is a registered trademark of the FORTUNE magazine division of Time Inc.

Preparatory steps taken toward annuity buyouts

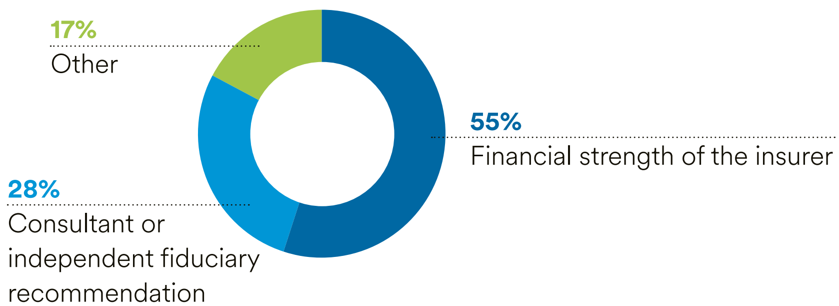
Two-thirds of plan sponsors with de-risking goals (67%) say they would consider a pension risk transfer to an insurer in the next two years. Of those likely to enter into a transaction in the next two years, a significant percentage have already taken preparatory steps toward a buyout, including evaluating the financial impact of a pension risk transfer (77%), holding discussions with key stakeholders (74%), engaging in data review/cleanup (65%), exploring the solutions available in the marketplace (59%), and/or quantifying the cost of a pension risk transfer (59%).

One of the most important preparatory steps sponsors can take toward an annuity buyout is to ensure that participant data are clean and complete so that an insurer can provide the most accurate quote possible. Providing mortality and medical experience data for participant populations may further improve the accuracy of the buyout transaction pricing.

Financial strength and administrative experience matter

When looking at the number one driver influencing the selection of an insurer for an annuity buyout transaction, plan sponsors unequivocally state that, assuming comparable pricing for the annuity buyout transaction, the financial strength of the insurer is the most important driver or attribute (55%) that influences their selection. Additionally, 28% say that a recommendation from their independent fiduciary or consultant is the most important driver influencing their selection.

Top drivers influencing insurer selection in an annuity buyout
(n=102)



With regard to the administrative experience of an insurer for an annuity buyout transaction, online customer service capabilities (e.g., general inquiries, change of address, enroll in/update direct deposit information) (49%) and experienced call center staff (34%) top the list of considerations for how plan participants are serviced.

Data privacy and security are top of mind for plan sponsors

Nearly all plan sponsors surveyed (97%) say that data privacy and protection of their participants' information is becoming a concern for their company, including 70% who say they are very concerned about the privacy of their participants' data.

Methodology

The MetLife 2019 Pension Risk Transfer Poll was fielded between August 13, 2018 and September 27, 2018. MetLife commissioned MMR Research Associates, Inc. to conduct the online survey in cooperation with Strategic Insight, which owns PLANSPONSOR and CIO magazines. Survey responses were received from 102 defined benefit (DB) plan sponsors with de-risking goals. This included 52% of plan sponsors who reported DB plan assets of $500 million or more, and 48% with DB plans that are at least 90% funded (including 21% that are fully funded).

Plan size	Respondents
Greater than $1 billion	41%
$500 million – $1 billion	11%
$100 million – $499 million	34%
Less than $100 million	12%
Don't know	2%

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