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Pension Risk Transfer Industry Trends & Outlook

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On February 19th, I discussed the state of the pension risk transfer (PRT) marketplace with Stephen Keating (Managing Director | BCG Pension Risk Consultants) and Neil Ronco (Senior Portfolio Manager | The Brentwood Companies). Both individuals are highly respected within the PRT industry and partners we have collaborated with to assist our clients with annuity placements. Below are some of the highlights from our conversations.

2020 Backdrop

In 2020, the second quarter and first half of the third quarter for PRT transactions were muted due to the ongoing pandemic forcing plan sponsors' focus elsewhere. However, Q4 was very active across the entire PRT market. 2020 finished with over $27B in transfers, down slightly from $30B in 2019. Given the business conditions and financial volatility in 2020 this reinforces the idea that plan sponsors are still committed to seeking out opportunities to transfer liabilities.

2021 and Beyond Outlook

There is a potential for a slowdown in PRT activity in the short run in 2021 due to the following:

- Less attractive lump sums opportunities – the reference rates set at the end of 2020 were low & have risen since
- Most plan sponsors have already capitalized on reducing cost associated with small benefit retirees

Plan sponsors considering any form of PRT will likely focus on purchasing annuities for larger benefit retirees and/or pursuing full risk transfer through plan termination. That dynamic, coupled with built-up demand from 2020, could lead to a big year in 2022 - both the number and size of transactions. Each sees a lot of activity in the $10MM-$200M retiree buyout. COVID-19 has not impacted pricing as insurers have viewed the pandemic as more of a shock to mortality, and further research will be necessary to determine if any long-term mortality effects exist.

The key drivers of annuity buyout transactions are all moving to increase demand:

- Equity returns and accelerated contributions due to tax reform improved funded status of plans
- Mortality table updates in recent years have decreased the relative cost of annuity purchases versus accounting basis and lump-sums
- Increased PBGC premium costs have driven plan sponsors to more aggressively fund their plans and move further down their de-risking glide-path
- Many plans have been frozen for a long period of time which has increased retiree population
- There is growing pension risk transfer competition among life insurers (new players in the space brining innovative ideas)