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The PRT market transfers defined benefit pension liabilities from corporate sponsors to insurance companies, helping sponsors reduce financial volatility. Insurers assume these liabilities in exchange for a premium, which they invest to meet future payouts. There are three primary vehicles of pension risk transfers that TPL can consider. *(a)* Buy-out annuities involve TPL assuming full liability for pension obligations, a complete de-risking solution for plan sponsors that removes pension liabilities from their balance sheets. *(b)* Buy-in annuities involve TPL guaranteeing bulk pension payments without entirely de-risking the plan sponsors of the pension liabilities. TPL retains longevity, investment, and operational risk at lower premiums. Lastly, *(c)* longevity swaps would involve TPL supporting sponsors in partial de-risking by incurring the risk of retirees living longer than expected. TPL gains fixed premiums and insuresactual longevity experiences. All three forms of pension risk transfers involve longevity, investment, and operational risks.

Despite these risks, there are many benefits and opportunities for TPL to enter the PRT market. *(a)* Life insurance products represent 93% of TPL's portfolio mix, yet life insurance premiums are declining (from \$7.9M in 2022 to \$6.99M in 2024). Entering the PRT market is a diversification that hedges against eroding life insurance sales. *(b)* Annuities represent the 7% left of TPL's portfolio mix. Stiff competition and limited differentiation have plagued TPL's annuity offerings. By leveraging its annuity expertise to design and price pension de-risking solutions (e.g., buy-outs), TPL can expand this segment while generating predictable, long-term cash flows that help to manage pension payments and longevity risks efficiently. *(c)* TPL has an advanced command of managing longevity risk through its life insurance products. These same skills are directly applicable to the PRT market, where longevity risk is one of the primary factors influencing pricing and liability management.

Penetrating the PRT market requires thoroughly comprehending key assumptions in pricing PRT deals. *(a)* <u>Mortality rates</u> form the foundation of liability projections. TPL should use standard mortality tables, such as RP-2014 for white-collar workers, with adjustments through mortality multipliers to reflect specific demographic characteristics. *(b)* A <u>mortality margin</u> is a buffer against unexpected longevity improvements. This margin, typically 5-10%, adjusts for model uncertainty, data limitations, and adverse experience. For plans with highly credible historical data, a lower 1–2% margin can be applied to keep pricing competitive. However, in cases with limited experience data, a higher margin of 10–15% might be used to protect against underestimation risks. *(c)* <u>Mortality improvement</u> projections refine liability estimates by accounting for expected increases in life expectancy over time. TPL can adopt the MP-2021 mortality improvement scale as a baseline while incorporating post-pandemic adjustments based on RPEC 2024 findings. *(d)* The <u>discount curve</u> determines the interest rate used to value future pension payouts. An aggressive approach with lower credit spreads and narrow margins increases bid competitiveness but heightens risk, while a conservative approach with higher spreads and wider margins ensures stability but raises pricing. TPL must balance bidding pressures, differentiation tactics, regulatory requirements, jurisdictional variability, and longevity modeling challenges. Given its excess RBC ratio, TPL can leverage capital strength to enhance pricing competitiveness in PRT transactions.

Other considerations when transacting on a PRT deal include interpreting industry-wide dynamics and realizing TPL's specific opportunities and threats. TPL must recognize competitive bidding pressures, differentiation tactics, regulatory capital requirements, jurisdictional variability, and data and longevity modeling challenges. Specific to TPL, PRT pricing must account for the firm's excess RBC ratio.

Entering the Pension Risk Transfer (PRT) market presents several challenges for TPL, primarily due to pricing competitiveness, timing risks, and capital constraints. The premium gap poses a significant hurdle, as pension sponsors may expect lower costs than TPL's actuarial pricing allows. Without a strong historical dataset, TPL may adopt conservative mortality assumptions, further inflating premiums and reducing its ability to secure deals. Additionally, capital and regulatory constraints will limit scalability, as the capital-intensive nature of PRT transactions may push TPL's RBC ratio below the 400% target, restricting its ability to underwrite multiple deals without raising additional capital.

Penetration into the PRT market requires an astute end-to-end strategy. The stagnation of TPL's "cash cow" products in a mature market underscores the need for diversification and innovation. An effective entry into the PRT market can change this.

(Stage 1) To establish a competitive foothold, TPL must create a **dedicated PRT division** with expertise in compliance, pension administration, and predictive analytics. Investments in AI-driven mortality modeling and automated data validation will improve underwriting precision while addressing data inconsistencies in pension records. The initial focus should be on pension **buy-outs**, which allow full risk transfer and increase assets under management (AUM). To avoid competition with dominant players like Prudential and Legal & General, TPL should target **mid-sized corporate pension plans** ($100M–$500M) where its "Trusted Insurer" reputation can be a key differentiator.

(Stage 2) To enhance pricing precision, TPL should adopt a **tranche-based approach**, segmenting pension liabilities into risk-based cohorts. For example, "Tranche 1" could target low-risk retirees (in-pay) with stable mortality profiles, priced aggressively using a 5.5% discount rate to win bids. "Tranche 2" would address deferred retirees with conservative mortality margins (10–15%) and reinsurance partnerships to buffer against longevity uncertainty. Pricing accuracy will rely on historical plan data following RPEC 2024 guidelines. A 0.5% longevity margin will further buffer risk, with reinsurers absorbing excess exposure.

(Stage 3) TPL's **Risk-Based Capital (RBC) ratio of 427%**, 27% above its 400% target, provides a critical advantage. This surplus enables TPL to underprice competitors by 1–3% on small buy-outs, targeting predictable in-pay retirees. Reinsurance partnerships will further protect capital adequacy, offloading 30–50% of longevity risk and ensuring compliance with NAIC reserving mandates and fiduciary standards (IB 95-1). Expense efficiency will further differentiate TPL, leveraging AI-driven data validation tools to reduce operational costs and enable aggressive long-term pricing.

(Stage 4) Within the first two years, TPL can aim to secure 7–10 mid-sized buy-outs, refine pricing models, and strengthen relationships with pension consultants and reinsurers. Asset-liability matching will be the key, where 80% of PRT premiums can be allocated to long-duration corporate bonds and treasuries to ensure stable cash flows that mirror pension payout obligations. The remaining 20% will target higher-yielding assets like private credit and infrastructure debt. To mitigate interest rate and longevity risks, TPL can employ interest rate swaps and longevity swaps, transferring volatility to reinsurers and capital markets.

(Stage 5) Between the third and fifth years, TPL should focus on expansion into larger transactions (500*M*–1B), optimizing ALM strategies, and exploring international markets like Canada and the UK. Beyond year five, the firm's focus can shift to acquiring niche PRT insurers and reinsurers to accelerate market penetration and solidify TPL's global presence.

PRT expansion will diversify revenue streams, reduce reliance on stagnant life insurance, and establish annuities as a growth driver. Cross-selling deferred income products will boost profitability. Within three years, TPL aims to capture 5% of the mid-sized U.S. PRT market, capitalizing on projected $50 billion in annual transactions by 2026. By year five, expansion into Canada and the UK, along with niche PRT acquisitions, will solidify TPL as a global leader, surpassing $1 billion in annual PRT premiums.