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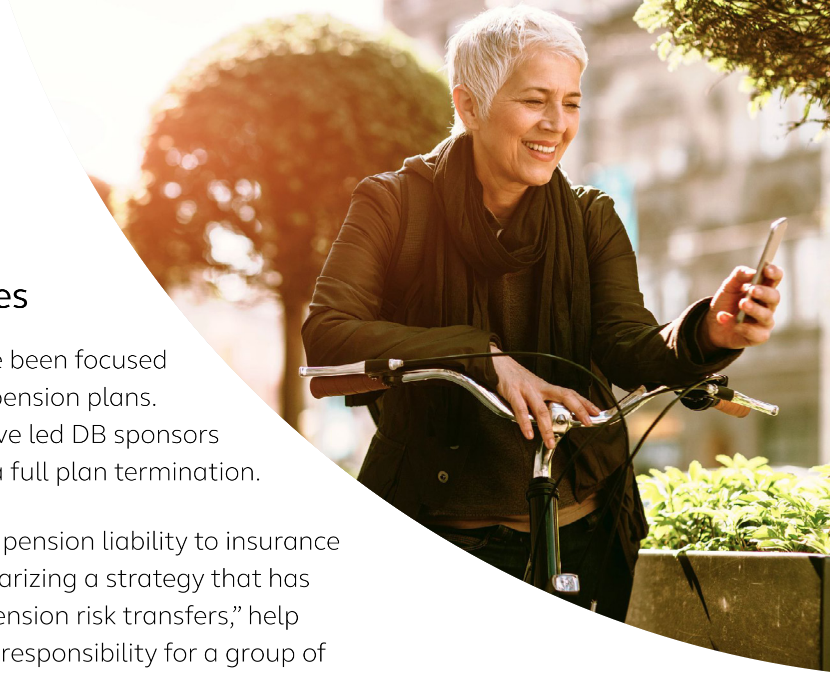
Five steps for insurers to successfully administer pension risk transfer policies



Over the past decade, more and more employers have been focused on de-risking strategies for their defined benefit (DB) pension plans. Rising PBGC premiums and balance sheet scrutiny have led DB sponsors to take steps to remove pension plan liability prior to a full plan termination.

In 2012, Verizon and General Motors each transferred pension liability to insurance companies via annuity settlement transactions, popularizing a strategy that has continued ever since. These transactions, known as "pension risk transfers," help pension plan sponsors remove risk by transferring the responsibility for a group of retirees, beneficiaries and sometimes deferred annuitants.[1] When insurers undergo such a transaction, they are assuming the fiduciary responsibility for this group of participants, and are required to "act with the care, skill, prudence and diligence" to administer those benefits.[2]

Alight finds that 35% of plan sponsors say they are likely to purchase annuities for some participants in 2024, while 8% of plan sponsors indicate they are likely to terminate the plan in 2024.[3] Pension risk transfer (PRT) premiums grew by 51% per year during the 2010s, and there is no sign of slowing down.[4] Despite some potential headwind, the PRT market continues to heat up with total premiums in the last three years exceeding the six years prior,[5] and insurers find themselves in a fiercely competitive space. To compete, insurers know that they need to have an administrative platform that keeps costs down while enabling growth. For some insurers, this may mean outsourcing operations to a third party to focus on maximizing premium capture while avoiding the capital-intensive cost of maintaining in-house administration. For others, it may mean leveraging a partner for overflow or targeted back-office work.

As one of the largest administrators of DB plans in North America, Alight has had the unique experience of working on different sides of annuity settlement transactions. We work with large DB plan sponsors undergoing annuity settlements and we also partner with insurers growing their PRT business. Reflecting on these experiences, we have identified five important administrative practices that PRT providers should champion — whether it is to aggressively grow an active PRT business or to simply manage a closed PRT book of business.

1. **Choose a partner with deep pension knowledge.** The complexity and diversity of pension plans means that insurers must be able to understand and adapt to the provisions of new policies, particularly when adding new blocks of business at a high rate. This means knowing how to administer traditional (e.g., final average pay) pension plans and hybrid (e.g., cash balance) plans. It also means having deep expertise in optional forms available, how benefits are calculated and when a policyholder can take their benefit. Other insurance policy types generally may not have this amount of diversity and complexity.

[1] *Pension risk transfers also include annuity settlements from full plan terminations.*
[2] *Interpretive Bulletin 95-1, U.S. Department of Labor*
[3] *2024 Hot Topics in Retirement & Financial Wellbeing, Alight Solutions*
[4,5] *2020 U.S. Pension Risk Transfer, 2023 Reflections and Looking Ahead, Aon*

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2. **Implement new contracts quickly with expanded capacity.** Ensuring a fast and smooth transition from the point of settlement to first payment along with deeper capacity for a higher volume of transactions enables growth. As the PRT market continues to grow, particularly the value of lower premium transactions, insurers need to make sure the administrative transition is seamless. They should be able to quickly understand and implement new policy blocks with provisions that are different from existing PRT policies. Any stumbling blocks with the transition process can lead to policyholder dissatisfaction and increased call center volume. Ninety percent (90%) of the transactions in 2023 were below $100 million in premiums, with the volume of transactions growing year over year.[6]

3. **Make the user experience exceptional.** Assuring annuitants that benefits will continue helps avoid an immediate barrage of inquiries. Providing online modeling and educational tools via the web and mobile app empowers deferred annuitants to take control without requiring a call to a customer service representative. Equally important is the actual commencement process. Allowing deferred annuitants to initiate their benefit online in addition to a traditional call center model improves satisfaction and lowers cost.

4. **Maintain data.** It is critical to keep up-to-date contact information including email, telephone and address information for annuitants, to reduce the cost of finding missing people, which can add up when considering the additional expenses of recordkeeping and compliance. Our AI-powered engagement platform keeps policyholders engaged at critical milestones to ensure that we manage risk and reduce your liability.

5. **Know your data.** Real-time access to data enables proper asset-liability management which in turn maximizes growth and reduces risk. Diligent death searches and address data collection reduces overpayments and generates more accurate liability calculations.

If any of these principles are compromised, insurers will face both short-term and long-term costs. From a short-term perspective, poor administrative practices will cause reduced capacity to onboard new contracts, increased call volume and higher overpayments. The immediate consequences from poor technology and administrative practices can subsequently lead to longer-term impacts of reduced growth and win-rate.

Brand reputation could also be at risk. Insurers may have a relationship with policyholders via PRT contracts, but they also may have a current or future relationship for other insurance benefits such as life insurance or longevity annuities. Providing a subpar PRT experience can have a damaging impact to growing other lines of business outside of PRT.

Alight is a committed long-term partner to both DB plan sponsors undergoing annuity settlements and insurers in the PRT space. Insurers should treat PRT blocks differently than traditional insurance policies and administer them with strong expertise and a superior customer experience to enable both short-term and long-term growth.

[6] *2020 U.S. Pension Risk Transfer, 2023 Reflections and Looking Ahead, Aon*

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