“Both Sides of the Pond”

Pension Risk Transfer in the US and UK Markets

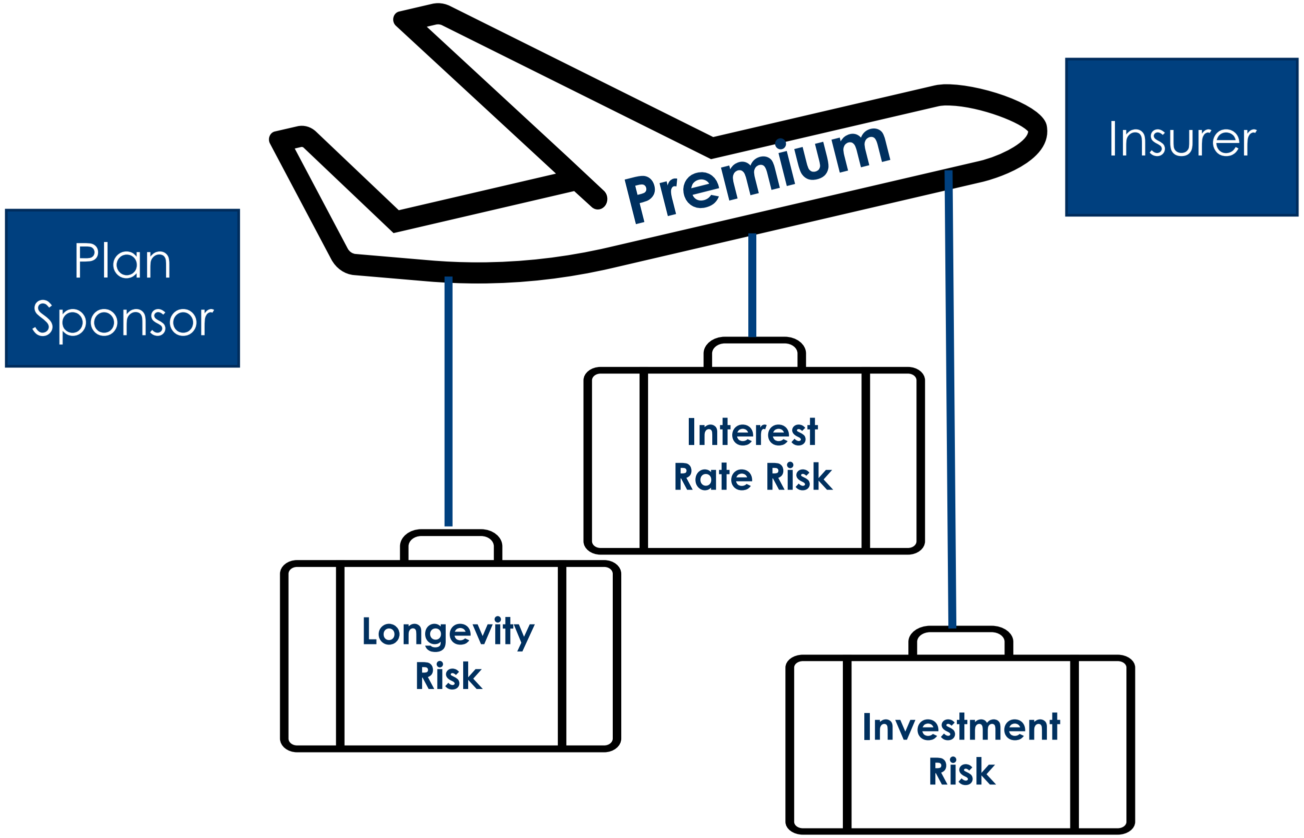
May 21, 2024

Agenda

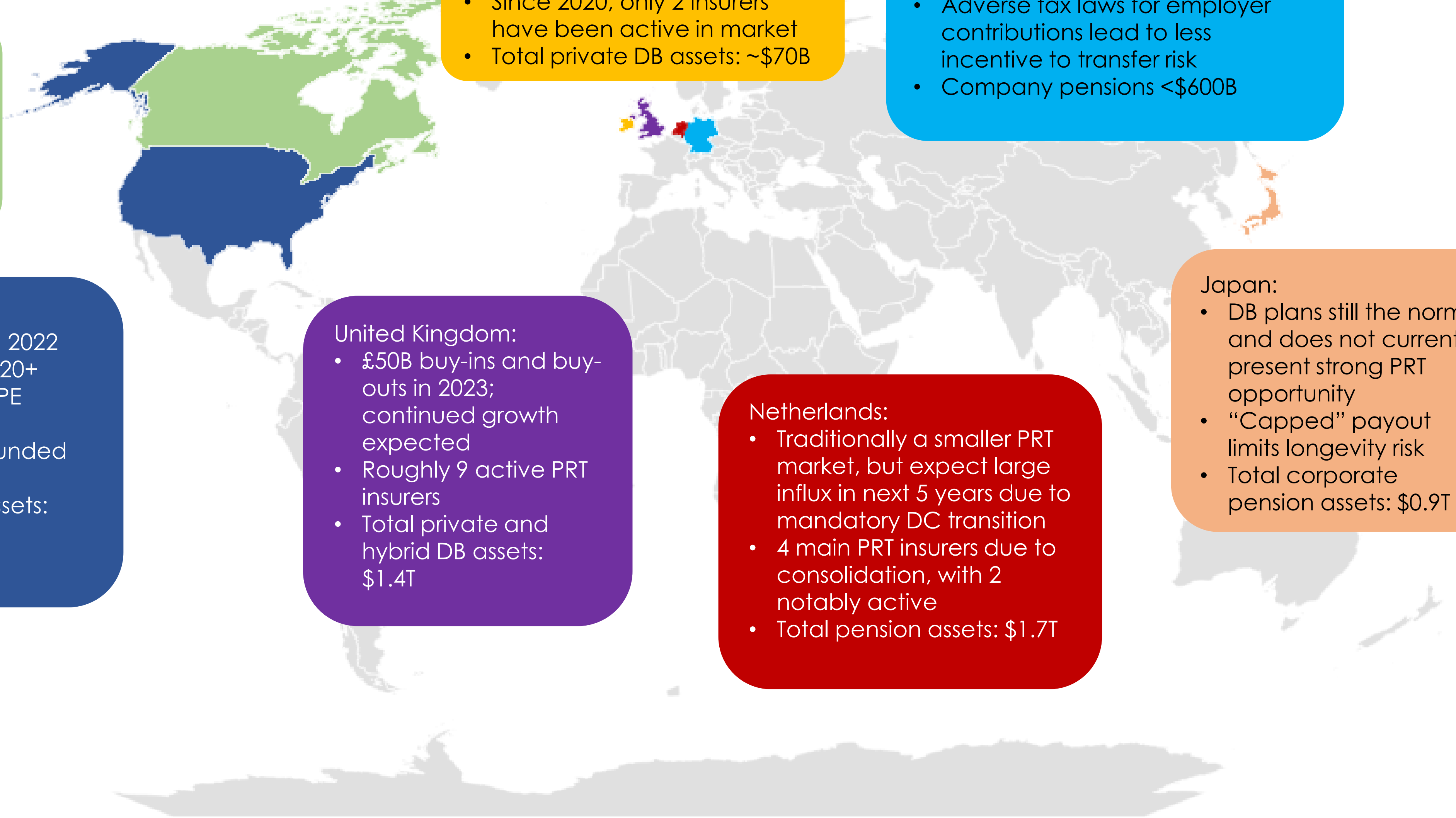
- What is Pension Risk Transfer and why did it start?
- Global Pension Risk Transfer markets
- Similarities and differences between the US and UK markets
- Reinsurance usage in PRT
- How do US insurers access global pension markets?
- Market challenges
- What’s Next?

What is Pension Risk Transfer?

- **Defined benefit plan sponsor purchases a contract to transfer some (or all) of their plan's liability**
  - Lift-out (some of the plan)
  - Plan termination (the entire plan)
- **Why would a sponsor do that?**
  - DB plans are typically not used as a recruiting incentive anymore
  - Risks and time involved in managing a defined benefit plan
  - Administration costs
  - Part of larger company strategy (M&A, consolidation, etc.)



Global Pension Risk Market



Canda:
- $8B PRTs in 2022 and growing
- Regs / capital requirements favor domestic insurers
- Total private DB assets: $0.3T

United States:
- $52B transacted in 2022
- Crowded market: 20+ insurers, including PE backed
- Increased use of funded reinsurance
- Total private DB assets: $3.2T

Ireland:
- <€0.5B PRTs in 2022
- Since 2020, only 2 insurers have been active in market
- Total private DB assets: ~$70B

United Kingdom:
- £50B buy-ins and buy-outs in 2023; continued growth expected
- Roughly 9 active PRT insurers
- Total private and hybrid DB assets: $1.4T

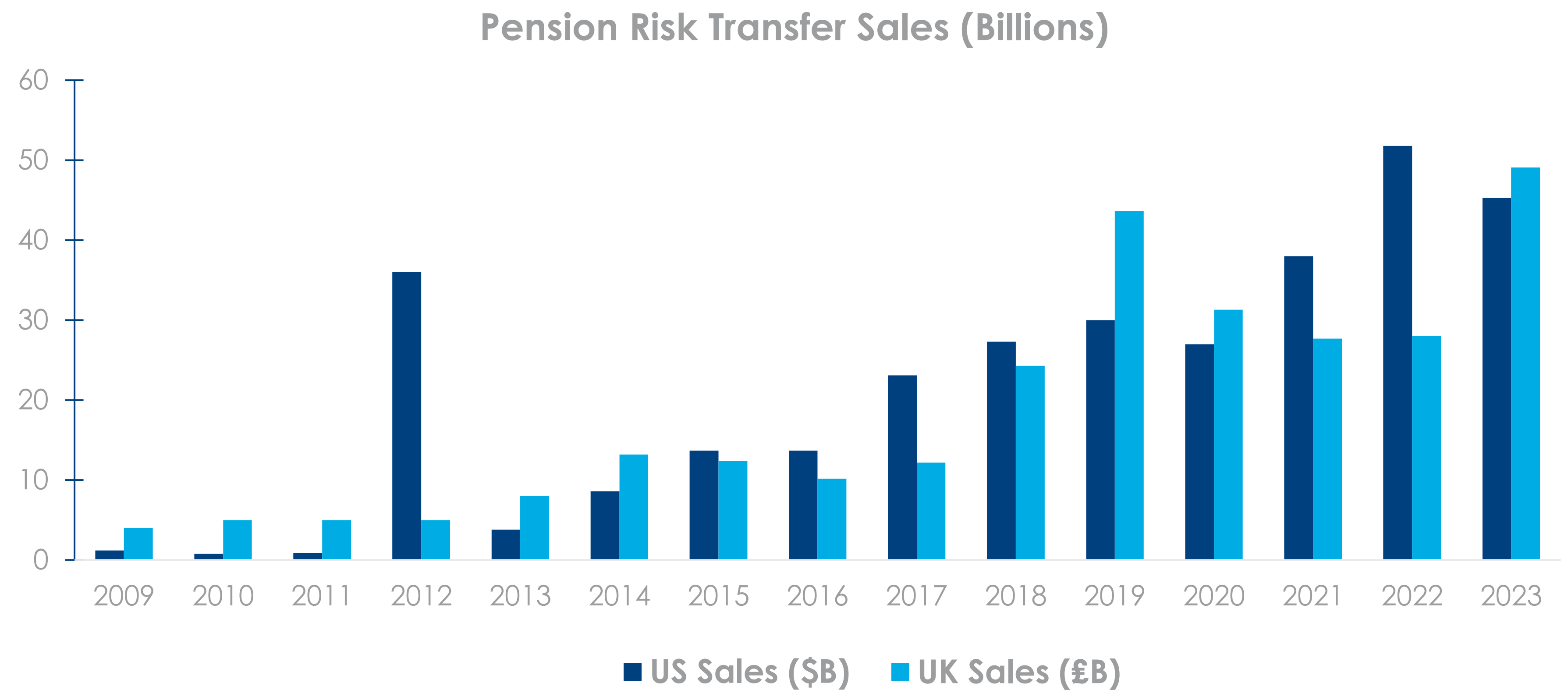
Germany:
- Law prohibits "full risk transfer" from employers
- Adverse tax laws for employer contributions lead to less incentive to transfer risk
- Company pensions <$600B

Netherlands:
- Traditionally a smaller PRT market, but expect large influx in next 5 years due to mandatory DC transition
- 4 main PRT insurers due to consolidation, with 2 notably active
- Total pension assets: $1.7T

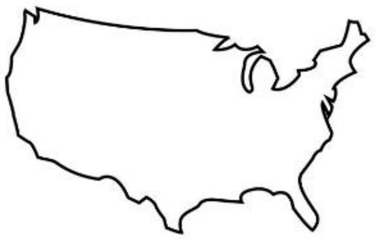
Japan:
- DB plans still the norm and does not currently present strong PRT opportunity
- "Capped" payout limits longevity risk
- Total corporate pension assets: $0.9T

Sources: ONS, "Funded Occupational Pension Schemes in the UK: April to September 2023"; US Citation: ICI, "Retirement Assets Total $38.4 Trillion in Fourth Quarter 2023"; ICI, "The Japanese Retirement System"; https://www.centralbank.ie/statistics/data-and-analysis/pension-fund-statistics; https://www.statcan.gc.ca/o1/en/plus/4494-pensions-snapshot-fund-values-payouts-and-memberships; https://www.thinkingaheadinstitute.org/research-papers/global-pension-assets-study-2024/;

Similar trends stimulate strong patterns of growth



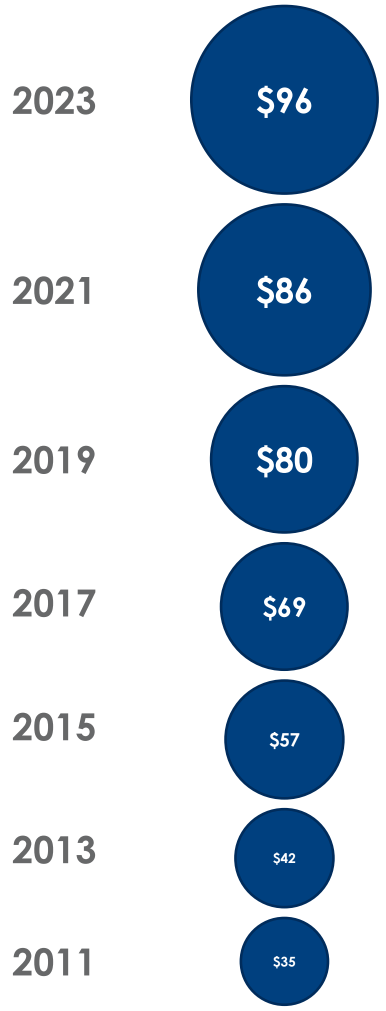
Pension risk transfer catalysts specific to US and UK



Rising Pension Benefit Guaranty Corporation **per-head premiums**[(1)] motivate substantial transaction activity

Inflation-linked benefits offered in UK plans **amplify longevity risk**, difficult to hedge without **insurance solutions**

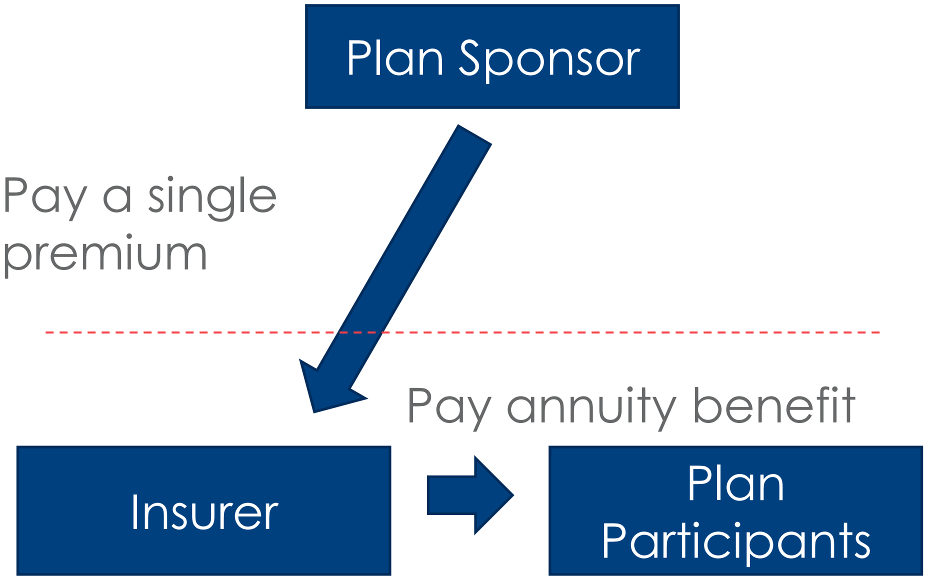
US PBGC Per-head Premiums[(1)]



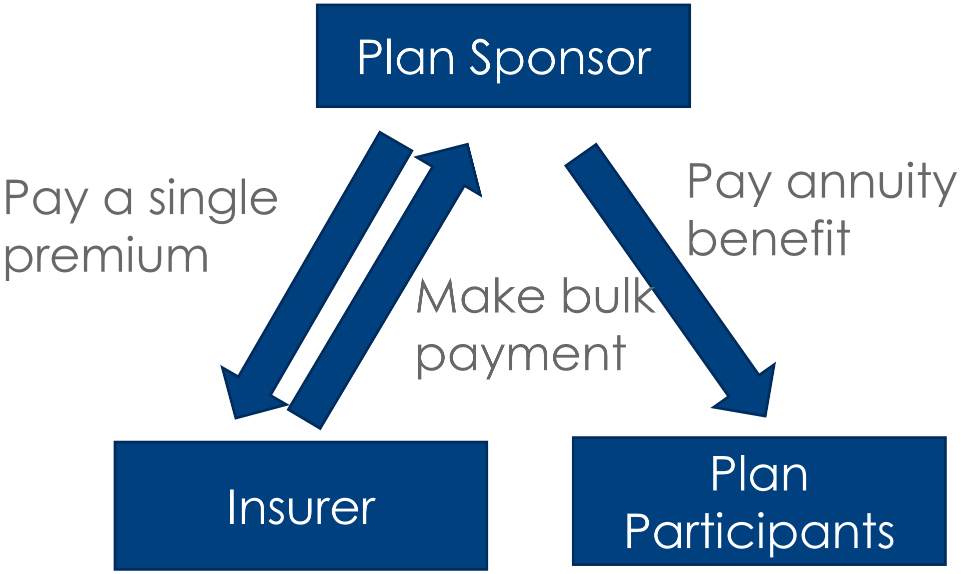
(1) https://www.pbgc.gov/prac/prem/premium-rates

Buy-out vs. Buy-in

Buy-Out – Prominent in US



Buy-In – Prominent in UK

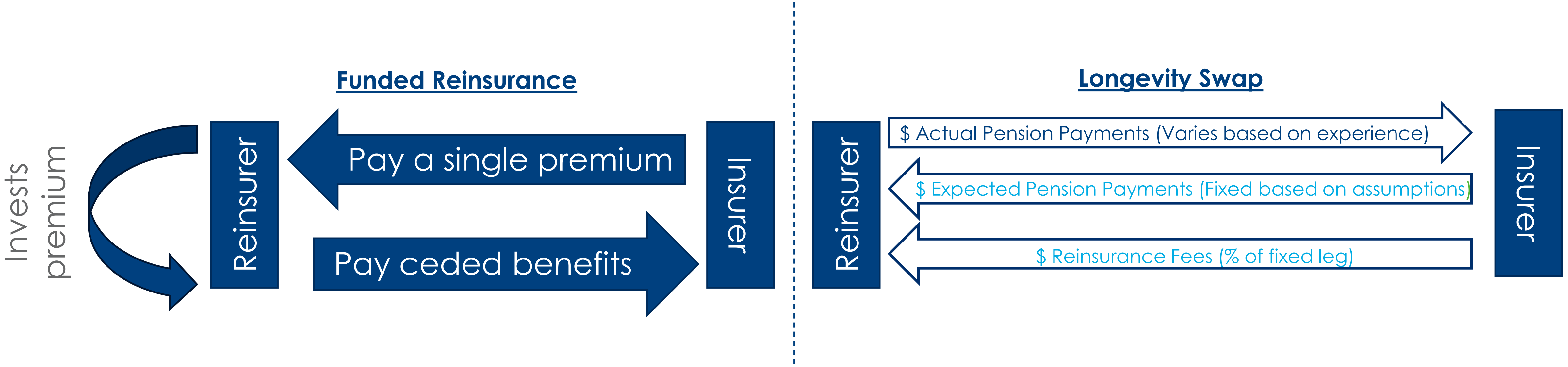


	Buy-Out	Buy-In
Benefits “settled” with insurer	Yes	No
Liability to plan participants	Insurer	Plan Sponsor
Administrative responsibility	Insurer	Plan Sponsor

Reinsurance Usage

Reinsurance utilization allows insurers to spread risk in order to provide most efficient pricing to plan sponsors

- **Funded reinsurance and split deal structures have increased in the US to support pricing and manage capital capacity**
- **Longevity swaps have long been popular in the UK as a way to mitigate longevity risk and reduce the impact of heavy longevity-related capital charges**



How do US insurers participate in both the US and UK markets?

Insurers access global pension risk transfer markets in a number of ways, with varying profitability and risk implications

	Earnings	Capital	Risk	Administration
Direct writer	Spread	High	Asset, Longevity	Heavy
Unfunded longevity reinsurer	Fee	Low	Longevity	Light
Funded reinsurer	Spread*	High*	Asset, Longevity	Light
Ownership interest	Via dividend or sale	Measured	Equity	None

* - Relative to reinsurers target and need to be accretive

MetLife
Legal & General
Prudential Financial
MassMutual
RGA
Global Atlantic Financial Group
corebridge financial
Athene
Pacific Life
American National

Current challenges in both markets

Retiree receptivity to change of benefit payor

Data availability and quality

Lack of personnel given rapid market expansion

In-plan illiquid assets

Conclusions and Predictions

- **In any given market, three ingredients for a growth in pension risk transfer activity:**
  - High volume of defined benefit assets
  - Maturity in the defined benefit → defined contribution transition
  - Permissibility from a regulatory perspective

- **Ability to distribute risk to firms best equipped to handle it will continue to be key to efficient pricing and growth across global markets**

- **We will increasingly see firms expand the ways in which they participate in growing pension risk transfer markets to diversify streams of earnings**