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Pension Risk Transfers Continue to Skyrocket in Q1

PRT sales have broken records yet again, as the market grew another $6.3 billion in the first quarter of this year, according to LIMRA.

Reported by REMY SAMUELS

In the first quarter of 2023, total U.S. single premium pension risk transfer sales were $6.3 billion, a rise of 19% from Q1 2022, according to new data from LIMRA. The total was the highest first-quarter mark recorded, according to LIMRA's U.S. Group Annuity Risk Transfer Sales Survey.

The buy-out sales of $6.3 billion were 138% higher than the dollar amount sold in Q1 2022, and LIMRA reported that there were 116 buy-out contracts sold in Q1, up 55% from Q1 2022.

There were no new buy-in contracts sold. Q1 2022 saw $5.3 billion in sales split about evenly between single premium buy-ins and buyouts.

"Traditionally, first quarter sales tend to be sluggish. This year, buy-out sales posted strong results in both premium and volume, demonstrating broad growth across the industry," said Mark Paracer, assistant research director of LIMRA's Secure Retirement Institute, in a statement. "With three new carriers entering the market and growing plan sponsor awareness and interest, sales activity is expected to be strong in 2023. LIMRA is forecasting sales to surpass $35 billion."

The year's second quarter got a boost from the $8.05 billion transfer on May 3 by AT&T to insurer Athene Holding Ltd., owned by Apollo Global Management. The insurer is to start making payments to approximately 96,000 AT&T beneficiaries in August, according to securities filings.

"Under the group annuity contracts, Athene, through its wholly-owned subsidiaries Athene Annuity and Life Company and Athene Annuity & Life Assurance Company of New York, made an irrevocable commitment, and will be solely responsible, to pay the pension benefits of each transferred participant beginning with their August 2023 pension payments. The transaction does not change the amount of pension benefits payable to the" participants being transferred, according to the announcement.

That annuity purchase was funded "directly by assets of the plan via the pension trust underlying the Plan and required no cash or asset contributions by AT&T," the filing stated.

Insurers Global Atlantic Financial Group, Reinsurance Group of America Inc. and American National Insurance Corp. entered the U.S. PRT market last year, bringing the total number of insurers to 21. Because not all insurers participate in all PRT transactions, Aon said in its March U.S. Pension Risk Transfer report that the addition of these new insurers will provide more services to different PRT solutions.

LIMRA analysts found that single premium buy-out assets reached $239.5 billion in this year's first quarter, up from 25% from the prior year. In addition, despite the lack of new sales, single premium buy-in assets were $5.9 billion, down 8% from Q1 2022.

A group annuity risk transfer product, such as a pension buy-out product, allows an employer to transfer all or a portion of its pension liability to an insurer. In doing so, an employer can remove the liability from its balance sheet and thus reduce the volatility of its funded status.

Paracer predicts that rising interest rates and escalating costs to maintain pension funds will likely drive plan sponsor interest in risk transfers in 2023.

“As the market competition increases, we expect to see carriers introduce innovative solutions and new partnerships to win new deals in 2023,” he stated.

In related news, the hospitality workers’ union UNITE HERE, which represents 300,000 workers, recently warned hundreds of defined benefit pension funds of the potential risks involved with conducting PRTs with private equity-backed insurers.

The union’s letter claimed that Brookfield Reinsurance Ltd., which owns American National Insurance, used a strategy that involves acquiring blocks of annuities and group annuities and then replacing a portion of the safest assets with complex or illiquid investments such as private loans.

When looking at a prospective group of annuity providers, the union urged pension funds to carefully review the investment practices of prospective group annuity providers, including the degree to which they used affiliated offshore reinsurance and their track record as risk managers of long-duration liabilities.

A NISA Investment Advisors study argued that there is a 14% range in credit risk costs among nine PRT insurance providers.

Marcia Wagner, owner of The Wagner Law Group, says that under the Employee Retirement Income Security Act of 1974, fiduciaries are required to gather all pertinent facts about a particular investment, including an annuity, evaluate them and make a prudent decision from there.

The Department of Labor requires ERISA fiduciaries to select the “safest available annuity” provider when completing a pension risk transfer and continues to warn that reliance solely on ratings provided by rating services are not sufficient to determine the creditworthiness of an insurance company.

Tags Apollo Global Management, AT&T, Athene, defined benefit plan, LIMRA, pension risk transfer, PRT, rising interest rates, UNITE HERE

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