Athene Takes Another Bite at Pensions Apple

By Kerry Pechter *Thu, Aug 5, 2021*

In a pension risk transfer deal, Athene Holding will acquire about $4.9 bn in pension assets and liabilities from Lockheed Martin. But when do these deals become too much about investors and AUM and too little about pensioners? (Photo: Athene Holding CEO Jim Belardi ringing NYSE opening bell in 2016.)

Americans' retirement savings, either in the form of individual annuity contracts or group annuities funded by defined benefit pension funds, continue to supply a flood of manageable money to the asset management partners of private equity-owned life insurers.

In a "pension risk transfer" (PRT) deal announced this week, for example, Lockheed Martin, the aerospace giant, transferred $4.9 billion in pension obligations—and, presumably, the savings that back them—to Bermuda-based Athene Holding Ltd.

Athene's subsidiaries, Athene Annuity Life Company and Athene Annuity & Life Assurance Co. of New York, will provide a group annuity to about 18,000 Lockheed Martin retirees currently receiving pension benefits.

The transaction announced this week is the second pension risk transfer transaction Lockheed Martin has signed with Athene. In 2018, Athene insured approximately $800 million in pension obligations for more than 9,000 of Lockheed Martin's retirees and their beneficiaries.

In its second-quarter 2021 earnings report, issued today, Athene Holding reported assets of $215.5 billion. Yesterday, Apollo Global Management reported assets under management of about $471.8 billion. Last March, the two companies, already closely tied, announced that they would merge. "Athene accounts for about 40% of Apollo's AUM and generates 30% of its fee-related earnings revenue," according to a March 25, 2021, report from SP Global Market Intelligence.

In total, Athene said it has partnered with plan sponsors and intermediaries on more than $19 billion of transactions to support more than 300,000 annuitants since it entered the PRT market. In a release, Bill Wheeler, Athene's president, said the "transaction with

Lockheed Martin represents Athene's largest PRT transaction to date."

"The Athene group annuity contracts were purchased using assets from Lockheed Martin's master retirement trust and no additional funding contribution was required as part of this transaction," a Lockheed Martin release said.

But Athene's release said it had used its strategic capital vehicle, Athene Co-invest Reinsurance Affiliate (ACRA), "to support the completion of this transaction." Athene could not be reached for comment before deadline on why Athene would need third-party capital to complete a PRT deal.

A **report** from Artemis, a publication that covers the insurance industry in Bermuda, said Athene created ACRA in the spring of 2019 and soon funded it with $3.2 billion from third-party investors. According to Artemis:

Athene has built ACRA to give investors the certainty in their time horizon, which in the life space has hindered companies' ability to get third-party capital onboard. Investors need some certainty in how they can get out of a vehicle, not wanting to be on the hook endlessly for these long-tail transactions. "Investors want to know when is their exit and what does it look like," [Chip] Gillis [an Athene Holding co-founder, now retired] said, adding, "So that's been built into it."

ACRA provides investors with a mid-term allocation horizon with a way to access life and retirement risks in a structure providing the returns they seek, in a way they can see this exit point clearly. Other companies are likely to take notice and see the opportunity to bring in complementary sources of capital, or to tap into new investor groups with different appetites, all while providing an insurance or reinsurance linked return which meets the alternative needs of many institutions mandates.

On Jan. 1, 2022, Athene will begin paying and administering the retirement benefits of certain retirees and beneficiaries in the Lockheed Martin Corporation Salaried Employee Retirement Program and the Lockheed Martin Aerospace Hourly Pension Plan. The transaction will result in no changes to the benefits received by retirees and beneficiaries. Affected retirees and beneficiaries will receive a letter with additional details about the transfer.

This was Lockheed Martin's fourth PRT deal in about two years. In 2019, MetLife assumed approximately $1.9 billion in pension obligations for about 20,000 of the company's retirees and their beneficiaries. In 2020, a MetLife subsidiary, Metropolitan Tower Life, assumed

about $1.4 billion in obligations for about 13,500 Lockheed Martin retirees and beneficiaries.

In a press release, Lockheed Martin said it expects to recognize a non-cash, non-operating settlement charge of approximately $1.7 billion ($1.3 billion, or $4.75 per share, after tax) in the third quarter of 2021, primarily related to the accelerated recognition of actuarial losses for the affected plans. The actual settlement charge will depend on finalization of the actuarial assumptions, including discount rate and investment rate of return, as of the measurement date, the release said.

Athene's strategy in acquiring annuity, insurance and pension assets—as well as its penetration of the fixed indexed annuity business, where it is the overall sales leader—has been compared to Warren Buffett's strategy of buying insurance companies and using the premiums as a source of financing for other ventures.

These premiums are sometimes referred to as "permanent capital"—not because they never get paid back to policyholders but because they are a predictable and stable source of capital. If nothing else, the asset management affiliate of the insurance company earns management and possibly performance fees from managing the money.

"The way to think about Athene is part of the larger Apollo group. Of the assets that Athene gathers through large reinsurance deals, it keeps part in reserve and puts the rest into the investments that Apollo runs. That's the float. Buffett has $120 or $130 billion in insurance float. He keeps some in case losses arise, and puts the rest to work in the conglomerate. Athene and Apollo have the ability to do that," explained Steve Evans, the publisher of Artemis.

"The third-party capital piece is more recent," Evans added. "ACRA is a co-investment facility, designed like an insurance-linked securities (ILS) fund. It takes in capital, and the investors get a share of the profits or losses. It enables Athene to do more with less of their own capital."

But these deals—not unlike the efforts by broker-dealers to gain 401(k) savings via rollovers to brokerage IRAs—make some industry watchers nervous.

"Permanent capital in private markets will also accentuate the risk of misbehavior in a sector notorious for questionable practices. In the aftermath of the GFC, several PE groups saw their reputations marred by claims of collusion, corruption, and inadequate disclosure of fees charged to capital providers," wrote Sebastien Canderle, author of "The Debt Trap"

and other books, in a recent **blogpost** at the CFA Institute.

"Their use of float [of annuity and/or pension assets] is *clever*—but clever on a slippery slope," said Tom Gober, a Richmond-based forensic accountant who analyzes life insurers, in an interview. "It worries me that the primary focus of the private equity and hedge funds is the accumulation of assets, a focus more on getting money in the door, not on the claims they'll have to pay to annuitants or pensioners many years down the road."

Athene has been fined for mis-practices in the past. New York financial regulators on Thursday fined Athene Life Insurance Co. of New York $15 million for not providing required information to about 15,000 life-insurance policyholders from 2015 to 2017, according to a Wall Street Journal **story** on June 28, 2018.

The violations occurred after First Allmerica Financial Life Insurance Co., a unit of Global Atlantic Financial Group, agreed to administer many of Athene's life-insurance policies in 2013. FirstAllmerica also provided reinsurance for the policies. The types of policies impacted included universal life, whole life and term life.

As part of Thursday's agreement, First Allmerica also agreed to make remedial efforts totaling about $40 million, including waiving some back premiums or extending payments for policyholders who didn't receive notices, New York's Department of Financial Services said.

In April 2020, SPGlobal **reported** that the New York State Department of Financial Services fined Athene Holding Ltd. and unit Athene Annuity & Life Co. $45 million related to a probe into the subsidiary's unlicensed pension risk transfer business in the state.

The regulator noted that Athene Annuity & Life entered into 14 pension risk transfer transactions and engaged in thousands of unauthorized communications with New York-based plan sponsors.

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