
Conning study assesses pension risk transfer (PRT) market

By Editorial Staff Thu, May 12, 2016

'Longevity risk may be a future issue for U.S. insurers since they currently do not incur a longevity charge under RBC,' Conning analyst Scott Hawkins told RIJ in an email. "However, the NAIC is looking into the possibility of including such a charge.'

"Pension Risk Management Market: Key Opportunities and Challenges," a new proprietary research study from Conning Inc., analyzes the pension risk transfer market in the U.S. and U.K., and provides details on the insurers in the U.S. market and the issues insurers face in this developing market.

The study also examines key liability-driven investment concepts. It is available for purchase from Conning by calling (888) 707-1177 or by visiting the company's web site at www.conningresearch.com.

Conning analyzed data from the 20 largest U.S. corporate DB plans that accounted for 43% of aggregate DB plan assets of the 238 U.S. corporate DB plans with \$1 billion or more in assets.

"With the improvement in funding status in 2015 for these companies, plan sponsors broadly experienced a smaller impact on their balance sheets, long-term financial obligations, and contributions than in 2014," Conning said in a release.

But that improvement hasn't removed the pressure on DB plan sponsors. "Plan sponsors have a continued interest in pension risk management, which stems from the ongoing funding volatility and resulting negative impact on balance sheets, long-term financial obligations, and contributions," said Scott Hawkins, Director, Insurance Research at Conning, Inc., in a prepared statement.

"Plan sponsors' chief financial officers face uncertainty in planning future funding obligations, and the underfunded defined benefit liabilities are yet another form of long-term financial obligations. Significant funding status volatility can directly affect both credit ratings and the cost of capital."

"Insurers and asset managers are well-positioned to help plan sponsors remove or mitigate their pension risk and the funding volatility that creates cash-flow and other management issues," said Steve Webersen, head of Insurance Research at Conning. "Insurers have the expertise to assume a plan's pension liabilities through pension risk transfers using annuity

buyouts or annuity buy-ins.

“Asset managers, meanwhile, can help plan sponsors develop and implement liability-driven investment solutions that can reduce funding status volatility for the plan sponsor that chooses to retain the risk. Our analysis finds continued growth and interest in both solutions.”

But insurers do face limitations on the amount of longevity risk they can assume in PRTs. “Longevity risk may be a future issue for U.S. insurers since they currently do not incur a longevity charge under RBC,” Hawkins told *RIJ* in an email. “However, the NAIC is looking into the possibility of including such a charge. Should that happen, some insurers may reduce their PRT appetite to maintain RBC levels, or seek out longevity reinsurance deals as U.K insurers have done.”

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