Honorable Mention

By Editorial Staff *Thu, Jul 22, 2021*

Prudential sells its retirement plan business to Empower; A Monster First Half for Fund Flows: Morningstar; Bull market in stocks helps public pensions: Milliman.

Prudential sells its retirement plan business to Empower

The low-margin retirement plan recordkeeping business continues to consolidate. Reinsurance helped financed the latest multi-billion dollar divestiture.

Empower Retirement has agreed to buy Prudential's full-service retirement plan recordkeeping and administration business, subject to regulatory approvals, for $3.55 billion, Prudential announced this week. The transaction is expected to close in the first quarter of 2022.

The business includes more than 4,300 workplace savings plans with about four million participants and $314 billion in savings. "[It] will be supported by $2.1 billion of capital through a combination of the balance sheet of the transferred business and Empower capital and surplus," according to a Prudential release.

At closing, Empower will acquire Prudential's defined contribution, defined benefit, non-qualified and rollover IRA business in addition to its stable value and separate account investment products and platforms. The deal will increase Empower's participant base to 16.6 million and its retirement services recordkeeping assets to approximately $1.4 trillion administered in approximately 71,000 workplace savings plans. Empower will add a business also includes more than 1,800 employees who provide retirement recordkeeping and administration services to financial professionals, plan sponsors and participants.

"The acquisition will allow Empower to expand services to the broadening spectrum of workplace savings plans it now serves, which includes mega, large, mid-size and small corporate 401(k) plans; government plans ranging in scale from state-level plans to municipal agencies; not-for-profit 403(b) plans; and collectively bargained Taft-Hartley plans," the release said.

Empower will finance the acquisition with both a share purchase and a reinsurance transaction. Great-West Life & Annuity Insurance Company will acquire the shares of Prudential Retirement Insurance and Annuity Company and business written by The

Prudential Insurance Company of America will be reinsured by Great-West Life & Annuity Insurance Company and Great-West Life & Annuity Insurance Company of New York (for New York business).

Prudential will keep its Institutional Investment Products business, its Individual Annuities business and its global asset management firm, PGIM. Following the close of the transaction, Prudential's remaining retirement business will consist of Pension Risk Transfer, International Reinsurance, Structured Settlements, and Institutional Stable Value wrap product lines.

Prudential expects to use the proceeds from the transaction for general corporate purposes, including share buy-backs. The Newark, NJ-based insurance giant now expects to return $11.0 billion to shareholders through 2023, up from the $10.5 billion announced in May 2021, and intends to reduce financial leverage.

Empower acquired Personal Capital, the digital financial device platform, in 2020, and will offer it to its new participants.

Eversheds Sutherland served as legal counsel and Goldman Sachs & Co. LLC and Rockefeller Capital Management served as financial advisors to Empower. Debevoise & Plimpton served as legal counsel and Lazard served as exclusive financial advisor to Prudential.

Headquartered in metro Denver, Empower Retirement administers approximately $1 trillion in assets for more than 12 million retirement plan participants as of March 31, 2021. Prudential has more than $1.5 trillion in assets under management as of March 31, 2021, with operations in the US, Asia, Europe, and Latin America.

A Monster First Half for Fund Flows: Morningstar

U.S. equity funds collected nearly $18 billion in June after two straight months of muted flows, according to Morningstar Research's monthly fund flows **report**. Large-blend funds pulled in $10 billion, the most of any Morningstar Category in the group.

Large-value funds remained in favor, pulling in $6.8 billion. They've posted positive net flows in all six months of the year, including a record $20 billion in March. Their year-to-date intake of $50 billion led all U.S. equity categories. Small-value funds have enjoyed even greater success in 2021 in terms of organic growth. Their 7.1% tally for the first six months was easily the highest among the nine U.S. equity categories, with large-value's 3.8%

coming in second place.

While large-growth equity funds posted positive flows for just the eighth month over the past 36, small- and mid- growth funds saw outflows of $1.4 billion and $1.8 billion, respectively, Morningstar said. Through the first six months of the year, large-growth funds are the only U.S. equity category with negative flows and have the steepest outflows over the trailing 12 months.

Small- and mid-growth funds have managed to stay just above water over those same periods but have generally experienced outflows over the past three years as well. While equity investors may have been rebalancing away from growth stocks because of their strong performance in recent years, they haven't changed their tune in 2021 despite value-oriented stocks posting stronger results. The Morningstar US Market Broad Value Index's 16.9% return during 2021's first half beat the Morningstar US Market Broad Growth's 13.4%.

Bull market in stocks helps public pensions: Milliman

Milliman, Inc., the global consulting and actuarial firm, this week released the second quarter (Q2) 2021 results of its **Public Pension Funding Index** (PPFI), which consists of the nation's 100 largest public defined benefit pension plans.

Propelled by a strong bull market, the funded ratio for these plans climbed above 80% for the first time since Milliman began tracking the PPFI in 2016, a Milliman release said. Q2 2021 marked the fifth consecutive quarter of high-water marks for both public pension assets and liabilities, with the estimated funded status of the PPFI plans growing from 79.0% at the end of March 2021 to 82.6% at the end of June.

An estimated investment performance of 4.26% for the quarter generated a $191 billion funded status improvement, while the deficit dropped below $1 trillion – to $975 billion – for the first time in the study's history.

"This was a banner quarter for public pensions, though the individual plans in our study saw a range of investment returns – from an estimated 2.54% to 6.75%," said Becky Sielman, author of Milliman's Public Pension Funding Index.

"In the coming months, plan sponsors will begin to understand the extent to which the pandemic has affected liabilities, including higher death rates and the impact of furloughs on benefit accruals, pay levels, and contributions from active members."

Looking forward, the strong market run-up, combined with the current low yields on fixed income, may also push defined benefit plan sponsors to continue to lower their interest rate assumptions, the release said.