Retirement Income
JOURNAL

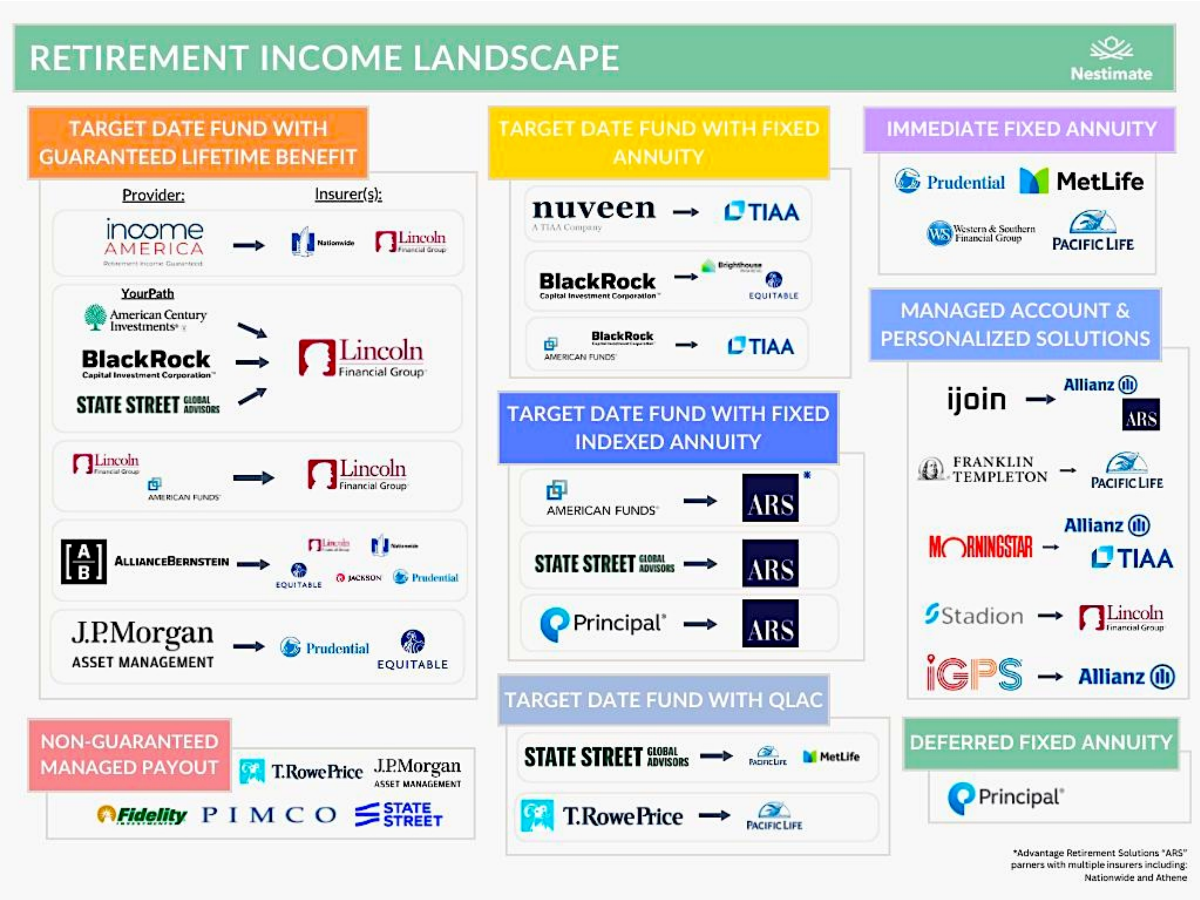
Honorable Mention

By Editorial Staff *Fri, Jan 3, 2025*

Nestimate publishes 'Retirement Income Landscape' chart; Fixed indexed annuity surrender rates have 'steadily increased," Milliman research shows; State Street and Verizon sued over pension risk transfer deal; Eldridge reorganizes, is criticized for borrowing from Security Benefit; Allianz sets up Bermuda reinsurer; Empower to distribute Allianz Life's in-plan annuity solution.

Nestimate publishes 'Retirement Income Landscape' chart

Here's what the company, whose software helps plan sponsors, advisors, and consultants choose the right annuities for their defined contribution plans, recently distributed:



Fixed indexed annuity surrender rates have 'steadily increased,' Milliman research shows

New research from Milliman, the global consulting and actuarial firm, shows that average surrender rates of fixed indexed annuity have been steadily increasing each quarter since 2022, with rates at the end of 2023 nearly double the average between 2019 and 2021.

These and other findings "validate previous observations of decreased surrender rates in fixed indexed annuity contracts when used for income generation. The studies also highlight how contract size is a key differentiator in surrender rates, especially in non-GLWB contracts at the end of the surrender charge period."

The findings came from Millman's two 2024 Fixed Indexed Annuity Industry Experience Studies, which cover surrender behavior and partial withdrawals, including income utilization for guaranteed lifetime withdrawal benefit (GLWB) riders.

"Our most recent studies, which contain data through the first quarter of 2024, provide insight into behavior for FIA policies that experienced a positive change in interest rate since issue," said Ben Johnson, Milliman actuarial data scientist, Life and Annuity Predictive Analytics. "Contracts that experienced increases in interest rates since issue saw elevated surrender rates, especially when credited rates were significantly lower than prevailing market rates."

Key findings:

- Recent data shows that contracts with credited rates much lower than market rates can have surrender rates over three times as high as those with credited rates relatively close to the market rate.
- Surrender rates increased for contracts in their surrender charge period compared to pre-2022 levels, especially for contracts with a living benefit.
- Observations since 2022 suggest surrender rates are more than 1.5 times higher for contracts without living benefits – and more than twice as high as contracts with living benefits – compared to pre-2022 levels.
- As GLWBs become more valuable (in-the-money), average surrender rates tend to decrease, particularly at the end of the surrender charge period where deep in-the-money surrender rates are about 11% and out-of-the-money surrender rates are about 22%.
- Once GLWB income has commenced, surrender rate patterns are significantly muted and below 5% on average for all durations.

Milliman's Fixed Indexed Annuity Experience Studies introduce an advanced behavioral model that is integrated into Milliman's Recon platform. This model, with a 99.8% actual-to-expected accuracy ratio, further empowers annuity writers to conduct their own experience studies, delve into industry data, and develop tailored models.

Allianz sets up Bermuda reinsurer

Global insurer Allianz, parent of Allianz Life in the U.S., has established a new independent strategic reinsurance platform called Sconset Re Ltd., which will be capitalized through equity investments from high-quality institutional partners.

Located in Bermuda, Sconset Re "will specialize in assuming fixed indexed annuity product risk and its asset management, and will aim to deliver more efficient returns across the subject business," a press release said.

Initially, the new platform will reinsure a $4 billion block of annuity liabilities and will enter into a forward flow agreement for $5-10 billion of new business. PIMCO, an investment management firm, will manage most of the investment portfolio.

Both Voya and Antares have been named as two of the institutional partners of Sconset Re, with each set to manage a portion of the sidecar's asset portfolio.

Deutsche Bank acted as the sole financial advisor to insurer Allianz on the transaction, and also acted as the sole arranger of a debt financing facility to Sconset Re.

"This transaction is representative of the opportunity that Allianz sees with its life and asset management business in the U.S," says Deutsche Bank.

Empower to distribute Allianz Life's in-plan annuity solution

Allianz Life Insurance Company of North America's in-plan annuity solution will be available through the nation's second-largest retirement plan provider, Empower, the insurer said in a release.

"Allianz Lifetime Income+" will be the first fixed indexed annuity on Empower's platform. As the only in-plan annuity on Empower's platform designed as an individual contract, Allianz Lifetime Income+ offers portability options without any changes to fees, features, or benefits.

Allianz Lifetime Income+® will soon be available to the more than 80,000 retirement plans and more than 18 million customers that use Empower for retirement plans, advice, wealth management and investments in the United States, the release said.

State Street and Verizon sued over pension risk transfer deal

State Street Global Advisors faces a federal class action lawsuit alleging that it violated its fiduciary duty in advising a client, Verizon Communications, to exchange two pension plans for group annuities provided by Prudential Insurance Company of America (PICA).

The suit was filed on behalf of 56,000 retirees from two Verizon defined benefit plans with about $5.7 billion in plan assets on December 30, 2024 in U.S. District Court, Southern District of New York.

The defendants are State Street and Verizon Communications Inc. and its pension departments. RGA Reinsurance Company was involved in the pension risk transfer (PRT) deal but wasn't named as a defendant.

The large-plan PRT business is booming and highly competitive among large life/annuity companies. Last month, LIMRA's *U.S. Group Annuity Risk Transfer Sales Survey* reported that total U.S. single-premium PRT premium was $14.2 billion in the third quarter, up 36% from prior year's results. Year-to-date (YTD), total single-premium PRT premium increased 21% to $39.9 billion. PRT premium includes ("buy-out" and "buy-in" deals).

"Single-premium buy-out premium totaled $13.1 billion in the third quarter, up 62% from prior year's results. There were 203 contracts finalized in the third quarter, level with prior year. YTD buy-out premium jumped 26% to $36.5 billion. Through September 2024, there were 530 buy-out contracts, 10% growth over prior year. This marks a record-high number of buy-out contracts sold," a LIMRA release said.

The class action complaint alleges that State Street and Verizon violated their fiduciary duty under U.S. labor law to act solely in the interests of plan participants when they agreed to exchange the pensions for PICA annuities.

According to the **complaint,** State Street and Verizon chose an annuity provider on the basis of their own financial interests rather than the financial safety of participants or retirees.

"Instead of going through a rigorous, independent and thorough selection process

that took into consideration the requisite analysis that an ordinary and prudent ERISA fiduciary is required to undertake, Verizon and State Street chose to purchase substandard annuities for Verizon retirees from PICA and RGA, which are both heavily dependent upon transactions with affiliates that are not transparent and expose plan participants to unreasonable amounts of risk and uncertainty.

"These affiliates are domiciled in 'regulation light' jurisdictions where wholly owned captive reinsurers and affiliates are permitted to count debt instruments as assets and are not required to file publicly available financial statements in accordance with Statutory Accounting Principles (SAP), the requisite accounting standard under which all U.S. life insurance companies operate. Without clarity around the assets, liabilities, structure and claims paying ability of these wholly owned captive reinsurance companies and affiliates, State Street and Verizon could not possibly have met their obligations as prudent fiduciaries under ERISA."

The plaintiffs are represented by Edward Stone Law in New York and Kantor & Kantor LLP in Northridge, CA.

Under the pension deal, announced last March, Prudential and RGA each irrevocably guarantee and assume 50% of the benefit obligation to the retirees, except in certain jurisdictions where Prudential will irrevocably guarantee and assume 100% of the benefit obligation.

At the time, transaction marked the second major pension risk transfer agreement between Prudential and Verizon. In 2012, Prudential completed an approximately $7.5 billion transfer that covered approximately 41,000 of Verizon's retirees.

Under the terms of the agreement, PICA is responsible for administrative services. This includes providing protected retirement income payments to this transaction's population of retirees and their beneficiaries on behalf of Prudential and, where applicable, on behalf of RGA, beginning July 1, 2024.

Since 2012, Prudential has completed pension risk transfer deals or "pension buyouts" with General Motors, HP Inc. (2021), IBM (2022 and 2024), Shell USA (2024) and Sound Retirement Trust (2024).

Eldridge reorganizes, is criticized for loans from Security Benefit

Eldridge Industries announced plans to launch Eldridge, an asset management and insurance holding company with approximately $74 billion in assets under management. Eldridge will be wholly owned by Eldridge Industries and consist of two divisions: Eldridge Capital Management and Eldridge Wealth Solutions.

Eldridge Capital Management will focus on four investment strategies – corporate credit, GP solutions, real estate credit, and sports, media, and entertainment – and will conduct business under the Eldridge brand. Eldridge Wealth Solutions, an insurance and retirement solutions platform, will be comprised of Eldridge's wholly owned insurance companies, Security Benefit and Everly Life.

Related **story**: "Security Benefit had more collateral loans to affiliated borrowers than all other US insurers combined, according to the most recent data. It also has piled into structured credit and lower-rated bonds to a greater extent than others," Bloomberg reported.

"That's prompted scrutiny from ratings firms, regulators and creditors, some of whom have balked at investing. 'These types of assets could become illiquid very fast, especially in a crisis environment like the one we had back in '09,' said John Han, a credit analyst at F/m Investments, which passed on a recent Security Benefit bond offering.

Eldridge will be managed by a newly formed Executive Committee, chaired by Todd Boehly, Chairman and CEO and controlling shareholder of Eldridge Industries. Mr. Boehly, in his capacity as Chairman of Eldridge's Executive Committee, will be involved with strategic oversight and partnerships of both Eldridge Capital Management and Eldridge Wealth Solutions.

Eldridge will have offices in New York, Greenwich, Beverly Hills, Chicago, Dallas, Atlanta, Overland Park, Des Moines, Topeka, London, and Abu Dhabi. The transaction is expected to close in January 2025.