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## Honorable Mention

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By Editorial Staff    *Wed, Dec 2, 2020*

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*Aon PEP (pooled employer plan) opens in January; Life/annuity industry suffered sharp drop in net income in first nine months of 2020: AM Best; Morningstar to integrate ESG factors into research; Transamerica and Aegon launch defined benefit plan services; PenChecks Trust launches online payment service for retirement plans; American Equity completes \$337 million equity sale to Brookfield; will repurchase more shares; Principal promotes senior managers in Latin America and Asia; Alerus to acquire Retirement Planning Services Inc.*

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### **Aon PEP (pooled employer plan) opens in January with two clients**

Aon plc (NYSE: AON) registered its pooled employer plan (PEP) with the Department of Labor this week and will launch it Jan. 1, 2021. Aon, a \$47.7 billion global professional services firm, provides risk, retirement and health solutions. It expects more than half of US employers to merge their traditional 401(k)s into pooled employer plans during the next decade, according to a report.

PEPs were made possible by the passage of the SECURE Act last year. So far Mercer and Principal Financial, among large retirement plan providers, have also announced PEPs.

The Aon PEP will start the year with two employers in January and is scheduled to add three more clients through April. These initial employers are from a diverse mix of industries that include aerospace, chemical, music production, pediatric medicine and petroleum.

“Participants will benefit from higher performing, more efficient 401(k) plans,” an Aon release said.

“Based on overall value, we predict that many more employers will transition to PEPs in the coming years,” said Paul Rangelcroft, North America retirement practice leader for Aon.

“The benefits of such a move—lower costs, reduced time commitment from corporate staff, improved governance and high-quality retirement planning options—will be difficult to match in a single employer solution.”

Aon believes the economies of scale in pooled employer plans will help lower record-keeping fees, investment management fees, and other costs for firms. Participants may also have easier access to investment tools and education services.

From the employer perspective, pooled employer plans are expected to reduce staff time dedicated to plan management, compliance and governance (i.e., elimination of many tasks such as government filings, plan audits, etc.). “Pooled employer plans will also reduce

fiduciary and litigation risks,” the release said.

“The Aon PEP provides the efficiency and scale of a pooled plan, while maintaining individual employer autonomy to define matching and other contribution levels, and various key plan design features,” said Rick Jones, partner for Aon’s Retirement Solutions.

**Life/annuity industry suffered sharp drop in net income in first nine months of 2020: AM Best**

Net income in the US life/annuity industry fell 57% to \$12.7 billion in the first nine months of 2020, compared with the same period in 2019, according to a new Best’s Special Report, *First Look: 9-Month 2020 Life/Annuity Financial Results*.

The data comes from companies’ nine-month 2020 interim statutory statements received as of Nov. 23, 2020, representing an estimated 94% of total industry premiums and annuity considerations.

According to the report, total expenses increased by 3.2% in the first nine months of 2020. Death, annuity and other incurred benefits rose by 9.2%. These increases negated a 5.8% decline in surrender benefits, a 12.4% drop in general and other expenses, and a decline of \$13.4 billion in transfers to separate accounts.

The industry’s total income remained steady, but pretax net operating earnings, coupled with the increase in expenses, fell by 60.4% from the prior-year period to \$13.6 billion. A decline in tax obligations and a rise in net realized capital gains mitigated the impact slightly, resulting in industry net income of \$12.7 billion for the first nine months of 2020, compared with \$29.4 billion in the same prior-year period.

The industry’s bond holdings as a percentage of total cash and invested assets continued to decline during the first nine months of 2020, as cash and short-term investments rose by 38.2% and other invested assets were up by 15.1% from the end of 2019.

Aon partner for Retirement Solutions Rick Jones sent the following statement to *RIJ* in response to two questions: Will PEPs mainly aggregate existing 401(k) plans or expand coverage to employers without plans, and will PEPs contribute to the inclusion of annuities in qualified plans?

“We predict that many single employer plans will transition into the Aon PEP, but we also foresee an opportunity for new employers to offer 401(k) benefits to employees who never before received a retirement benefit. New employers will be attracted to

PEPs because they will reduce time and energy dedicated to plan management, compliance and governance. PEPs will also will reduce fiduciary and litigation risks.

“Moving forward, we believe PEPs will provide robust platforms for retirement plan innovations, including secure forms of lifetime income, better recognition of diversity, equity, and inclusion initiatives, and the best use of behavior analytics to improve retirement outcomes. We are in regular conversation with industry groups and legislators in Washington on these points.

“ We also hope and believe the PEP concept can be expanded to gig workers in the future. The “SECURE 2.0” proposals in Washington include PEP coverage for 403(b) plans as well, and we believe that would be another fantastic development for retirement security. There are many markets that have insufficient or no solutions at all, and we believe PEPs provide a great opportunity to close that gap.”

#### **Morningstar to integrate ESG factors into research**

Morningstar, Inc., has begun formally integrating environmental, social, and governance (ESG) factors into its analysis of stocks, funds, and asset managers, the Chicago-based information giant said in a release.

Morningstar equity research analysts will “employ a globally consistent framework to capture ESG risk across over 1,500 stocks,” the release said. Analysts will identify valuation-relevant risks for each company using Sustainalytics’ ESG Risk Ratings, which measure a company’s exposure to material ESG risks. The analysts will then evaluate the probability that those risks will materialize and the associated impact on valuations.

Results from this research will inform Morningstar’s assessment of a stock’s intrinsic value and the margin of safety required before the stocks receive a Morningstar Rating between five stars and one star. Morningstar acquired Sustainalytics, an ESG ratings and research firm, in July 2020.

Morningstar manager research analysts will analyze the extent to which strategies and asset managers are incorporating ESG factors as part of its new Morningstar ESG Commitment Level evaluation. The analysts will assess the analytics and personnel committed to each strategy and the extent to which the strategy incorporates those resources into the investment process.

“To perform the evaluation of asset managers, analysts will consider how clearly the firm

has articulated its ESG philosophy and policies, and the degree to which it has driven those policies through its culture and investment processes. The ESG Commitment Level evaluation of strategies and asset managers will follow a four-point scale of Leader, Advanced, Basic, and Low,” the release said.

#### **Transamerica and Aegon launch defined benefit plan service**

Transamerica, in partnership with Aegon Asset Management, has launched a new defined benefit plan management service — Transamerica DB Complete. The solution packages services typically outsourced to unrelated third party vendors, including plan administration, asset management, consulting services, and actuarial, non-advisory support.

Transamerica DB Complete will draw on the expertise of Transamerica Retirement Solutions, Transamerica Retirement Advisors (for fiduciary advisory services), and Transamerica affiliate Aegon Asset Management (for fixed income).

#### **PenChecks Trust launches online payment service for retirement plans**

PenChecks Trust, an independent provider of outsourced benefit distribution services and Automatic Rollover/Missing Participant IRAs, has launched Amplify, an online payment processing service that third-party administrators (TPAs), plan sponsors, recordkeepers, financial institutions and plan participants can use to manage regular retirement benefit distributions.

Amplify is “a holistic solution for retirement payment/benefit needs, combining intuitive navigation with robust functionality for better processing and tracking of benefits,” according to PenChecks director of product Kelsey Wolstencroft. Amplify also includes security upgrades for heightened data security.

Other new or upgraded benefits include: a dashboard with more relevant information, multiple formats for uploading data to the portal, the ability to create and manage recurring payments, and a guided process for submitting benefit elections payment instructions. Amplify can also help plan participants track the status of benefit elections and distributions.

#### **American Equity completes \$337 million equity sale to Brookfield; will repurchase more shares**

American Equity Investment Life Holding Company (NYSE: AEL) announced today that, following Hart-Scott-Rodino approval, it has closed an initial equity investment of 9,106,042

shares at \$37.00 per share from Brookfield Asset Management Inc. as part of a previously announced deal.

With this investment and the accelerated share repurchase and other share repurchases (described below), Brookfield now owns about 9.9% of American Equity stock and will receive one seat on the company's board of directors. Sachin Shah, managing partner and chief investment officer of Brookfield, has joined American Equity's board, which has expanded to 14 members.

American Equity also announced that it has entered into an accelerated share repurchase (ASR) agreement with Citibank, N.A., to repurchase an aggregate of \$115 million of American Equity's common stock. Since starting its first share repurchase program on October 30, the company has already repurchased more than 1.9 million shares for \$50 million in the open market. Combined with the ASR announced today, the company has substantially offset dilution from the equity issuance to Brookfield.

The company intends to continue to repurchase shares in 2021 under its \$500 million share repurchase authorization until Brookfield owns a 9.9% equity interest in American Equity, with further repurchases after American Equity receives the insurance regulatory approvals required for Brookfield's purchase of additional equity interest above 9.9%.

On October 18, 2020, American Equity announced a set of commercial business arrangements, through reinsurance, with Brookfield. As part of this strategic partnership, Brookfield entered into an equity investment agreement with the company to acquire up to a 19.9% ownership interest in the common shares of American Equity.

This equity investment includes the initial purchase of a 9.9% equity interest at \$37.00 per share, and a second purchase, expected to close in the first half of 2021, that with the initial purchase will equal up to a 19.9% equity investment (at the greater value of \$37.00 per share or adjusted book value per share (excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives)). The second equity investment is subject to finalization of certain reinsurance agreement terms, receipt of applicable regulatory approvals and other closing conditions.

Under the ASR agreement, American Equity will receive an initial share delivery of approximately 3.5 million shares, with the final settlement no later than March 31, 2021. The total number of shares to be repurchased will be based on the volume-weighted average price of American Equity's common stock during the term of the transaction, less a discount

and subject to customary adjustments.

### **Principal promotes senior managers in Latin America and Asia**

Principal Financial Group has promoted regional presidents Roberto Walker (Latin America) and Thomas Cheong (Asia) of Principal International to its executive management team. Principal also announced the retirement of Luis Valdés, CEO and president of Principal International.

International markets and the global customer are growing in significance for Principal, the company said in a release. Walker and Cheong will report to Dan Houston, chairman, president, and CEO of Principal.

Walker, senior vice president and president of Principal Latin America, and Cheong, senior vice president and president of Principal Asia, will become executive vice presidents as part of the changes, effective Jan. 1, 2021.

Walker joined Principal in 1996 and has led Latin America for Principal International since 2011. Cheong joined Principal in 2015 as vice president of North Asia for Principal International and took over leadership responsibilities for the entire Asia region in 2019.

Valdés will retire March 31, 2021, after 26 years with Principal. He led Principal International as president and CEO the past nine years - driving significant growth in Latin America and Asia through acquisitions in emerging markets. Valdés will serve as chairman of the Principal International board for two years following his retirement.

### **Alerus to acquire Retirement Planning Services Inc.**

Alerus Financial Corporation ("Alerus") (NASDAQ: ALRS) has agreed to acquire Retirement Planning Services, Inc. The all-cash transaction is anticipated to be immediately accretive to Alerus' GAAP earnings per share, adding an estimated \$0.08 in 2021 and \$0.13 in 2022.

The transaction represents Alerus' eleventh acquisition in the retirements and benefits vertical since 2003. The transaction is expected to be completed December 18, 2020, and will increase Alerus' assets under administration/management to approximately \$31.5 billion. Terms of the transaction will not be released.

RPS, which does business as RPS Plan Administrators and 24HourFlex, provides retirement and health benefits administration for more than 1,000 plans, 48,000 plan participants, 300 COBRA clients, and 10,000 COBRA members. RPS is based in Littleton, Colorado, which

expands Alerus' geographic footprint to the Rocky Mountain region.

"A substantial portion of the premium paid will be allocated to a customer account intangible and amortized up to 10 years, contributing to a cash-GAAP earnings difference while restoring the tangible equity utilized to complete the acquisition," an Alerus release said.

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