‘Missing’ group annuitants give MetLife a share shock

By Editorial Staff *Thu, Feb 1, 2018*

“It's not just embarrassing, it could cost MetLife future business,” wrote Canadian pension blogger Leo Kolivakis, who follows global pension issues and insurance companies. A.M. Best affirmed MetLife's A+ strength rating this week.

MetLife’s share price dropped by as much as 12% this week, to $48.48 on Wednesday from $55.15 on Monday, after the diversified insurance company, ranked 42nd on the Fortune 500, after the firm announced that it would increase its reserves by as much as $575 million and take an earnings hit as high as $195 million.

This week MetLife said it would delay its fourth-quarter and year-end 2017 earnings report and conference call to February 14 and would release its 2017 10-K on March 1. The earnings call had originally been scheduled for yesterday and today.

MetLife nonetheless reported preliminary fourth quarter 2017 results of $2 billion to $2.1 billion in net income, “including an after-tax benefit of $1.2 billion related to the impact of U.S. tax reform, which includes a negative impact to adjusted earnings of approximately $300 million.”

Investor concerns about MetLife are linked to “certain Retirement and Income Solutions group annuitants who have been unresponsive or missing over time,” MetLife revealed on its Dec. 15, 2017, Investor Outlook Call. The $50 billion company said it “was undertaking a review of practices and procedures used to estimate its reserves.”

In short, thousands of group annuitants hadn’t been sent or hadn’t received their pension checks because MetLife lost track of them through error or because they could not be located. “It’s not just embarrassing, it could cost MetLife future business,” wrote Canadian pension blogger Leo Kolivakis, referring to the business of pension risk transfer, or swapping group annuities for corporate defined benefit plan assets and liabilities.

News reports didn’t say which group annuity’s annuitants could not be found. Payouts to annuitants can last for decades, during which time some may relocate.

In the December statement, MetLife that it believed the group missing out on the payments represented less than 5% of about 600,000 people who receive a type of annuity benefit from the company via its retirement business. Those affected generally have average benefits of less than $150 a month, MetLife said.

“We are deeply disappointed that we fell short of our own high standards,” MetLife said. “Our customers deserve better. We are committed to making this right for our customers. We found the issue, we self-reported it, and we are committed to doing better.”

In its January 29 release, MetLife said “Management of the company has determined the prior release of group annuity reserves resulted from a material weakness in internal control over financial reporting. MetLife expects to increase reserves in total between $525 million and $575 million pre-tax, to adjust for reserves previously released, as well as accrued interest and other related liabilities.

“The total amount expected to impact fourth quarter 2017 net income is between $135 million and $165 million pre-tax, the majority of which represents a current period strengthening of reserves and will be reflected in Adjusted Earnings (formerly known as Operating Earnings). We expect the full year 2017 net income impact to be between $165 million and $195 million pre-tax,” the release added.

“To date, MetLife is not aware of any intentional wrongdoing in connection with this matter,” the company also said. Plaintiff’s attorneys responded immediately. Faruqi & Faruqi, LLP, for one, said it began investigating potential claims against MetLife, Inc.

In its release, MetLife said it “had previously informed its primary state regulator, the New York Department of Financial Services, about this matter and is responding to questions from them and other state regulators. The U.S. Securities and Exchange Commission enforcement staff has also made an inquiry regarding this matter and MetLife is responding to its questions.

A.M. Best issued a release affirming MetLife’s A+ (Superior) strength rating. “The Credit Ratings (ratings) of MetLife, Inc. and its insurance subsidiaries remain unchanged following the announcement that it will increase group annuity reserves,” the release said.

“MetLife has sufficient earnings capacity to absorb this charge, which is not expected to have a material impact on reported risk-adjusted capitalization ratios. While the charge has resulted in disclosure of a material weakness in MetLife’s internal control framework, A.M. Best believes this issue is confined to its PRT business segment only and not indicative of broader control risks throughout other business lines.

“Therefore, its ratings will remain unchanged at present. However, future disclosures relating to broader material weakness in its internal controls could result in a negative rating action, as would additional charges that materially impact MetLife’s level of risk-adjusted capitalization.”