News from RIJ subscriber firms

By Editorial Staff *Thu, Apr 9, 2020*

News from Milliman, AM Best, DPL Financial Partners, Great American Life, Allianz Life, MassMutual, Principal Financial, and Envestnet | MoneyGuide.

Corporate pension funded status rises in March: Milliman

The funded status of the 100 largest corporate defined benefit pension plans rose by $93 billion during March as measured by the **Milliman 100 Pension Funding Index** (PFI).

The funded status deficit improved to $255 billion at the end of March 2020 due to a record increase in the benchmark corporate bond interest rates used to value pension liabilities. This funded status gain was partially offset by the precipitous decline in investment returns during March. As the decline in pension liabilities outweighed the decline in pension assets, the March 31 funded ratio increased to 85.6%, up from 82.1% at the end of February.

The market value of assets fell by $85 billion as a result of March's sharp market decline. The Milliman 100 PFI asset value decreased to $1.516 trillion from $1.601 trillion at the end of February based on a monthly return of -5.08%. Only five other months in the last two decades have posted more severe investment losses, the last occurring in October of 2008 during the Great Recession. By comparison, the 2019 Milliman Pension Funding Study reported that the monthly median expected investment return during 2018 was 0.53% (6.6% annualized). The expected rate of return for 2019 will be updated in the 2020 Milliman Pension Funding Study, due out later this month.

The projected benefit obligation (PBO), or pension liabilities, decreased to $1.771 trillion at the end of March. The change resulted from an increase of 70 basis points in the monthly discount rate, to 3.39% for March from 2.69% for February 2020.

CARES Act will help insurers: AM Best

The recently passed Coronavirus Aid, Relief, and Economic Security (CARES) Act will provide U.S. insurance companies tax relief in the event of operating losses due to the COVID-19 pandemic outbreak, according to an estimate from AM Best, the ratings agency.

A new Best's Commentary, "COVID-19 Stimulus Package to Benefit Insurers," notes that the $2 trillion CARES Act provides a special rule applicable for all companies' net operating losses in 2018 to year-end 2020, allowing these to be carried back to each of the five tax years prior to the year of loss, which could help all insurance segments.

The Tax Cut and Jobs Act (TCJA), passed in late 2017, had repealed all net operating loss carrybacks for life companies, while preserving the net operating loss provisions for property/casualty companies. Allowing insurers to carry net operating losses to years prior to the effective date of the TCJA gives them the ability to use the 35% tax rate that was in effect then, thereby increasing tax credits.

The removal of carryback provisions in the TCJA also had forced life/annuity writers to reduce the amount of admitted deferred tax assets. With the modified carryback provisions, net admitted assets may increase at least over the period up to year-end 2020.

The CARES Act also allows companies to file for accelerated alternate minimum tax (AMT) credits, which could be a backstop in the event of a surge in health claims during the pandemic. A number of non-profit Blue Cross Blue Shield companies enjoyed significant windfalls from the TCJA due to the elimination of the AMT. This combined with the reduced tax rate resulted in significant surplus increases in 2017 and 2018.

These companies are in a very strong capital position owing to the AMT credits, but decisions to file for accelerated credits will depend on tax strategies employed as the pandemic evolves.

Plan participants are curious about income options: Allianz Life

More than three-quarters (77%) of current participants in employer-sponsored plans would consider adding a guaranteed lifetime income option to their plans, and 59% would consider adding an annuity, according to new research from Allianz Life.

About six in 10 (61%) of respondents to an Allianz Life survey say they want more information on how annuities can be part of their plan. At the same time, 60% of those surveyed are not sure of the benefits of having an annuity in their plan.

“The next step will be to provide [participants] with relevant information so that they are able to make an informed decision as to which potential options are a fit for their given situation. Ongoing volatility will only serve to increase the urgency surrounding this need,” said Matt Gray, assistant vice president of Worksite Solutions, Allianz Life, in a release.

DPL offers two more Great American Life indexed annuities

DPL Financial Partners (“DPL”), a platform where registered investment advisors (“RIAs”) can access insurance products, will add two more commission-free annuity contracts from Great American Life Insurance Company to RIA member firms.

Great American’s Index Protector 4 and Index Protector 5 MVA (market value adjustment) fixed-indexed annuities are available now at DPL. They feature shorter surrender periods than the Index Protector 7, which DPL already offers.

The addition of Great American’s Index Protector 4 and Index Protector 5 MVA fixed-indexed annuities brings the number of commission-free annuity and life products available to DPL members to well over 30 products.

MassMutual puts CARES Act into action

Massachusetts Mutual Life Insurance Company (MassMutual) will begin implementing new provisions available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act this week, the company announced.

To start, MassMutual is offering several new provisions enabled by the CARES Act for its 32,000 retirement plan sponsors to offer employees enrolled in a MassMutual retirement plan, which reflects 3 million participants. Plan sponsors can ‘opt-in’ to offer:

- A suspension of required minimum distributions for 2020
- A temporary increase of up to $100,000 for loans and an extension of up to one year for loan repayment
- A penalty-free COVID-19-related distribution capped at $100,000 with no mandatory tax withholding requirements and the ability to repay distributions

MassMutual is also waiving fees associated with eligible retirement plan hardship distributions, loan initiations, and withdrawals under the CARES Act until further notice. MassMutual will also continue to pay third-party administrators’ portions of these fees.

Principal offers relief for plan sponsors and participants

In accord with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Principal and Wells Fargo Institutional Retirement & Trust (IRT) said they will waive participant-paid distribution and loan origination fees for participants taking tax-favored withdrawals, hardship withdrawals, or loans from their employer-sponsored retirement accounts.

Additionally, retirement plan sponsors will have fees waived for plan amendment changes to allow participants to access these programs, or who need to reduce or remove their employer contributions1.

To help Principal insurance policyholders—individuals and employers—prevent a lapse in coverage, grace periods for premium payments have been extended. For employers who hold group benefits coverage the company is temporarily halting any rate increases.

This measure is for employers with fewer than 500 employees with policy renewal dates coming due between May 1 and August 15 of this year. Policyholders and others can visit the dedicated Principal COVID-19 resource page for more information related to insurance coverage.

Principal is also leveraging recent investments in digital services to continue meeting customer needs during this time of disruption. When underwriting life and disability policies, the company is using digital health data and records where possible, instead of requiring physicians' statements and labs.

For dental insurance customers, Principal will cover expenses related to teledentistry (exam fees were already covered) and ensure they will not count towards annual frequency limits.

Envestnet | MoneyGuide offers new tax planning feature

Envestnet | MoneyGuide has launched a new Tax Planning feature that will enable advisors to have deeper conversations with clients regarding different strategies and show via interactive graphics and illustrations the potential impact of each across personalized retirement plans. Since the SECURE Act recently became law, advisors say clients have more questions than ever about rules related to required minimum distributions (RMDs) for certain retirement accounts and how the new law could impact their own financial plan.

Advisors are also finding that clients have some common misconceptions about paying taxes in retirement, as pre-retirees often assume they will automatically pay less to Uncle Sam during their golden years. However, today the opposite is more likely.

The new Tax Planning feature quantifies the expected savings and illustrates the potential impact of implementing different strategies in the plan, thereby helping reduce a client's tax burden during retirement.

Based on the client’s goal, advisors can calculate a Roth Conversion, Qualified Charitable Distributions (QCDs) and Qualified Distributions, to test the strategies, and see the impact on the client’s probability of success and overall tax savings.

Some examples of what this new feature can help advisors show clients:

Roth Conversion: Show how converting a Traditional IRA or an Employer Retirement Plan to Roth Assets impacts your tax burden and the assets left to heirs. Based on the clients’ projected taxable income during retirement, auto-calculate the amount to convert that maximizes the use of a selected tax bracket.

Qualified Charitable Distribution (QCDs): Show the impact on lifetime tax savings of gifting up to $100,000 of Qualified Retirement Assets directly to charities. Establish the amount to gift based on the client’s projected Required Minimum Distribution.

Qualified Distribution: Show the impact of taking distributions from Traditional IRA or an Employer Retirement Plan early in retirement rather than waiting until RMDs begin. Based on the clients’ projected taxable income during retirement, instantly determine the amount that maximizes the distribution in years where there is lower taxable income.

These strategies are available in MoneyGuidePro as Goal Strategies on the What If Worksheet. Interactive visual models to demonstrate these strategies in the plan are available in MoneyGuideElite, according to the release.