News in brief

By Editorial Staff *Wed, Apr 3, 2024*

Researchers probe tie between auto-enrollment and household debt in the UK; Prudential closes $12.5 bn reinsurance deal with Somerset Re; Strong fourth quarter for pension risk transfers: LIMRA; PE-backed insurers control almost 10% of life/annuity assets: AM Best; NewRetirement raises $20 million in venture capital.

Researchers probe tie between auto-enrollment and household debt in the UK

In a new **working paper** from the National Bureau of Economic Research, researchers in the U.S. and U.K. report the results of their study of the impact of automatic enrollment pensions on the borrowing behavior of households covered by the NEST national defined contribution employer-based savings plan in the U.K.

"Individuals in many countries are automatically enrolled to save in retirement pensions unless they opt out—perhaps the most widespread policy implementation of nudging. Automatic enrollment is intended to raise household net wealth during the accumulation phase of retirement saving," the researchers write in the paper, "Does Pension Automatic Enrollment Increase Debt: Evidence from a Large Scale Natural Experiment."

"We show that the additional observed pension balances created by the introduction of automatic enrollment pensions are accompanied by significant increases in debt during the first 41 months after enrollment," the paper said. The authors are John Beshears, Matthew Blakstad, James J. Choi, Christopher Firth, John Gathergood, David Laibson, Richard Notley, Jesal D. Sheth, Will Sandbrook and Neil Stewart.

According to the authors, who looked at the experiences of defined contribution plan participants at 160,000 employers with between two and 29 employees, the average automatically enrolled employee accrues an additional £32-£38 ($40.40 to $48 on 4-3-2-24) of observed pension savings per month within the automatic enrollment pension, of which £16-£19 are employer contributions, £13-£15 are employee contributions, and £3-£4 are tax credits deposited to the pension.

But researchers found that the average employee simultaneously accrues an additional £7 ($8.84) of unsecured debt (such as personal loans and bank overdrafts) per month of enrollment, which is 19-23% of the increase in total pension savings and 47-58% of the increase in employee contributions.

Further, the probability of having a mortgage increases by 0.05 percentage points per month of enrollment (a cumulative 1.9 percentage points at 41 months after enrollment), against a baseline prevalence of 38%, and the average mortgage balance correspondingly increases by £118 per month of enrollment.

"Surprisingly," the researchers noted, "time under automatic enrollment progressively reduces loan defaults and increases credit scores, so that by 41 months after enrollment, the probability of having defaulted within the previous six years has fallen by 1.6 percentage points (13% of the baseline rate) and credit scores have increased by 0.07 standard deviations. We estimate no statistically significant effect on the likelihood of bankruptcy."

Previous research had shown that the auto-enrollment substantially increases pension participation rates, leading to higher average saving within the pension. However, the effects of automatic enrollment could be offset on other margins.

Automatic enrollment is legally required of employers in the United Kingdom, New Zealand and Turkey. In 2019, 40% of US private industry workers and 28% of US state and local government workers participating in a savings and thrift plan did so in one with automatic enrollment, and most 401(k) and 403(b) plans established from year-end 2022 onwards will be required to automatically enroll employees by 2025.

Prudential closes $12.5 bn reinsurance deal with Somerset Re

Prudential Financial, Inc. announced that it has successfully closed a reinsurance transaction for a portion of its block of guaranteed universal life insurance policies with Bermuda-based Somerset Re.

Under the terms of the agreement, Somerset Re reinsured approximately $12.5 billion of reserves backing Prudential's guaranteed universal life policies issued by Pruco Life Insurance Company and Pruco Life Insurance Company of New Jersey.

The transaction released about $425 million of capital that Prudential had provided to support the block. This transaction covered policies written prior to 2015, representing about one-third of Prudential's total guaranteed universal life statutory reserves.

First announced on July 24, 2023, the deal "advances the company's strategy to reduce market sensitivity and increase capital efficiency," a Prudential release said. Prudential Financial, Inc. had approximately $1.4 trillion in assets under management as of December 31, 2023. It has operations in the United States, Asia, Europe, and Latin America.

Somerset Reinsurance Ltd. is a provider of reinsurance solutions for asset-intensive life insurance and annuity business "helping its clients manage capital efficiency and improve their financial results," the release said. The firm's solutions include programs for new business flow and management of legacy blocks of life insurance and annuities, and capital-motivated reinsurance solutions globally. Large Insurers ranked Somerset No. 1 in the Business Capability Index (BCI), as measured by NMG Consulting's 2023 U.S. Structured Financial Solutions study in the Asset-Intensive Segment.

Strong fourth-quarter for pension risk transfers: LIMRA

Total U.S. pension risk transfer (PRT) premium was $12.7 billion in the fourth quarter 2023, 53% higher than fourth quarter 2022, according to LIMRA's *U.S. Group Annuity Risk Transfer Sales Survey*.

"Fourth quarter PR sales historically tend to be elevated and we saw this again in 2023. Plan sponsors often want to close the deal before the end of the year to remove some of the pension risk off their books," said Keith Golembiewski, assistant vice president, head of LIMRA Annuity Research.

"Strong economic conditions have encouraged more plan sponsors to think about de-risking their pension liability. We continue to see a record-level number of deals, suggesting broader awareness and interest in these contracts. LIMRA expects this trajectory to continue with 2024 PRT sales results similar to the results seen 2022 and 2023."

In 2023, PRT sales were $45.8 billion. While this is 13% lower than the record set in 2022, it does represent the second highest annual sales since LIMRA began its benchmark study.

LIMRA's findings show there were 296 PRT contracts sold in the fourth quarter of last year, up 26% year-over-year. In 2023, there were 850 PRT contracts completed, a 25% jump from 2022. This is the highest number of contracts sold in a quarter and annually.

Single-premium buy-out sales were $12.5 billion in the fourth quarter, up 73% from prior year's results. In 2023, buy-out sales fell 14% to $41.3 billion, as compared to the record buy-out sales in 2022. There were 280 buy-out contracts in the fourth quarter of 2023, up 40% from the fourth quarter 2022. For the year, there were 763 buy-out contracts completed, 36% higher than the number of buy-out contracts sold in 2022.

There were no buy-in contracts reported in the fourth quarter. At year-end 2023, there were eight buy-in contracts sold, totaling $3.9 billion.

Single premium buy-out assets reached $263.4 billion in 2023, up 12% from the prior year. Single premium buy-in assets were $6.9 billion, 2% higher than in 2022. (Two single-premium buy-in contracts were converted into buy-out contracts in the fourth quarter, lowering the total assets.) Combined, single premium assets were $268.5 billion in 2023, an 11% increase from the 2022 results.

A group annuity risk transfer product, such as a pension buy-out product, allows an employer to transfer all or a portion of its pension liability to an insurer. In doing so, an employer can remove the liability from its balance sheet and reduce the volatility of the funded status.

This survey represented 100% of the U.S. Pension Risk Transfer market. Breakouts of pension buy-out sales by quarter and pension buy-in sales by quarter since 2016 are available in the LIMRA Fact Tank.

PE-backed insurers control almost 10% of life/annuity assets: AM Best

The U.S. life/annuity insurance segment remains well-capitalized after a nominal 1.6% increase in statutory capital and surplus through Sept. 30, 2023, from year-end 2022, and steady net income, according to AM Best's annual Review & Preview report on the industry segment.

But the report also showed lingering concerns for 2024 about uncertainty and volatility in financial markets, risks contained within certain asset classes, and remaining legacy liabilities. The *Best's Market Segment Report*, titled, "US Life/Annuity Insurers Stay the Course as They Prepare for 2024 Uncertainty," said that "the rising interest rate environment has affected assets and liabilities, but the overall realized impact to balance sheets has been manageable, owing primarily to companies' strong asset-liability management frameworks."

The report discussed the rising number of private equity- and asset manager-owned insurers, which now represent nearly 10% of the total life/annuity industry by admitted assets. Despite the rapid growth in premiums, operating results for these types of organization structures have largely followed the greater industry, and returns on equity have mirrored those of stock companies, with results only minimally below those achieved by the stock entities.

Over the near term, most insurers plan to hold assets to maturity, driving unrealized losses, but they unlikely will be forced to sell to meet liquidity needs. AM Best estimates modest 4% growth in the industry's capital and surplus for 2023 and expects net income to approach pre-pandemic levels in 2023 and continue growing in 2024.

"With inflationary pressures expected to subside in 2024, the industry has more consensus about the investment landscape but with similar levels of uncertainty as in 2023," said Michael Porcelli, senior director, AM Best. "Shifts in asset composition has helped insurers mitigate the impacts of rising interest rates while minimizing cash flow volatility; however, these asset allocations cannot completely mitigate all risk, as evidenced by the material decline in the market value of invested assets on insurers' balance sheets over the past two years."

According to the report, the industry's net income of $31.6 billion through third-quarter 2023 was unchanged compared with the same prior-year period. For most companies, COVID-19 mortality had affected earnings, as opposed to balance sheets, suggesting no significant impact on reserves or capital, but the overall impact has declined since early 2022.

The longer-term implications of COVID-19 and other mortality factors on liabilities and future pricing assumptions are still uncertain, with most companies not yet making significant changes to their mortality assumptions.

The report also explores a host of other issues impacting the life/annuity industry, including sales trends, artificial intelligence and accounting changes. Overall, AM Best expects expect segment challenges to remain manageable given insurers' robust risk-adjusted capital, favorable liquidity profiles and effective ERM practices.

"Uncertainty about the US economy and geopolitical risks could create significant headwinds in 2024, but life insurers have mostly favorable risk management practices, including the use of hedges, adjustments to crediting and discount rates, business mix re-evaluations and a focus on technology and innovation," said Porcelli.

NewRetirement raises $20 million in venture capital

NewRetirement, a digital-first financial planning platform for consumers and enterprise partners, announced that it has closed its Series A round with $20 million in funding. The infusion brought the company's total funding to $20.8 million.

NewRetirement founder Stephen Chen said the firm will use the new funding to expand its enterprise offerings, scale onboarding and support for new partners, enhance R&D efforts aimed at helping its user base, integrate LLMs (large language models) and AI (artificial intelligence) to provide more personalized recommendations, and build capacity to meet growing demand.

The round was led by Allegis Capital and joined by Ulu Ventures, Nationwide Ventures, Fin Capital, Frontier Venture Capital, Cameron Ventures, Marin Sonoma Impact Ventures, Northwestern Mutual Future Ventures, Plug and Play Ventures and Motley Fool Ventures.

The NewRetirement planning and modeling engine considers thousands of scenarios, enabling individuals to do holistic accumulation and decumulation planning with digital guidance. NewRetirement’s direct-to-consumer product currently powers financial planning for 70,000 active users who are managing close to $100 billion dollars in their own financial plans.

Employer plan sponsors and plan providers can offer NewRetirement’s planner, calculators, and educational classes to their employees as a self-directed financial wellness benefit. Wealth managers, banks, and insurance companies can use the company’s APIs, planner, calculators, and advisor tools to develop a white-labeled or co-branded platform, enabling them to leverage new business models, retain assets, and drive revenue with more engaged consumers.