

Pension risk transfers have varied effects, actuaries say

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Pension risk transfers may include the purchase of annuities from life insurers, the payment to plan participants of lump sums, and/or the restructuring of plan investments to reduce risk to the plan sponsor, according to the American Academy of Actuaries.

Pension risk transfers, whereby a defined benefit plan sponsor reduces its risk by transferring all or part of its plan assets and liabilities to a life insurer, impact “the financial security and responsibilities” of different stakeholders in different ways, according to the American Academy of Actuaries.

A new [issue brief](#) from the AAA explains those differences. “Whether you’re a plan participant, a plan sponsor, or a pension regulator or plan fiduciary, pension risk transfer can help you take stock of how other key stakeholders view pension risk transfer and what a risk transfer transaction might mean for you,” said Ellen Kleinstuber, chairperson of the AAA’s Pension Committee, in a release this week.

Pension risk transfers are intended to reduce longevity risk, investment risk, interest rate risk, and other types of financial risk exposures for DB plan sponsors. Transactions may include the purchase of annuities from life insurers, the payment to plan participants of lump sums, and/or the restructuring of plan investments to reduce risk to the plan sponsor, the issue brief explains.

It examines such risk transfer implications as:

- The possible merits and downsides of different options typically offered to plan participants.
- The potential risks, benefits, and other business considerations for sponsors, including the effects on plan participants and shareholders, and on sponsor costs and liabilities.
- The responsibilities, including regulatory compliance concerns, of regulators and plan fiduciaries who serve or protect public or shareholder interests, respectively.

Download the issue brief by clicking on the “Public Policy” tab at www.actuary.org and visiting the issue brief section under “Pension.”

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