

Prudential and MassMutual in Deal to De-Risk Kimberly-Clark Pension

By Kerry Pechter Tue, Feb 24, 2015

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Another S&P 500 company has taken steps to de-risk its defined benefit pension plan, and Prudential, this time in partnership with MassMutual, has bagged another billion-dollar pension risk transfer deal.

Kimberly-Clark, the \$21 billion maker of Kleenex tissues, Huggies diapers and Scott toilet paper, among other consumer products, has announced the purchase of group annuity contracts from The Prudential Insurance Co. of America and MassMutual Life.

Existing Kimberly-Clark DB pension assets, a 2015 contribution to the plan of \$100 million, and an anticipated \$400 to \$475 million debt-financed addition to pension plan will finance the annuities. Responsibility for paying retirement pension benefits to about 21,000 U.S. retirees will shift to the two insurers.

The move will reduce Kimberly-Clark's projected pension benefit obligation by about \$2.5 billion, the Irving, Texas-based paper products giant said in a release. While Prudential will be the annuity administrator, Prudential and MassMutual will each pay half of each retiree's benefit.



Prudential has been a leader in the pension risk transfer business, executing deals with General Motors, Verizon in the past, and signing agreements in 2014 to annuitize the pension assets of Motorola Solutions and pharmaceutical giant Bristol-Myers Squibb.

The Newark, NJ-based insurer has also done longevity risk insurance deals with firms in the U.K. A Bloomberg report last fall quoted MetLife CEO Steven Kandarian as saying that MetLife has bid on pension risk transfer deals but at the same time is hesitant to take on

long-term liabilities.

“MetLife and Prudential are the largest companies who have been aggressively bidding for pension risk transfer, and Prudential has won all of them. Prudential is evidently underpricing MetLife, but it’s very difficult to tell the risk in their pricing because the disclosure is so poor. Are they underpricing to gain market share?” Rob Haines, senior insurance analyst at CreditSights in New York, told *RIJ*.

“This is not necessarily a bad business to be bidding on, but it’s inherently risky, especially with the low rate environment. The question is, can they earn sufficient income to cover the liabilities associated with these deals? It’s hard to say, given the lack of disclosure. With insurance companies, you get a lot of exposure about assets. They tell you the CUSIP of every asset they own. But from the liability perspective you get very little,” Haines added.

“MassMutual’s capacity to take on this risk is better than Prudential’s, because it’s a mutual company and its overall risk profile is lower. Whether these are good decisions or bad decisions, we won’t be able to judge for several years,” he said.

The *Dallas Business Journal* reported this week that in 2014, Kimberly-Clark had about \$6 billion in pension assets and \$7 billion in total pension obligations. “The \$2.5 billion in savings may help buoy the company’s financials after Kimberly-Clark reported net income of \$1.52 billion for full year 2014. That’s down 29% from \$2.14 billion in 2013, primarily due to currency fluctuations in Venezuela,” the newspaper reported.

Prudential will begin making benefit payments and providing administrative services to the affected retirees on June 1, 2015, according to the release. Retirees will receive the same monthly benefit they received from Kimberly-Clark.

The decision to use two insurance companies was driven by fiduciary and risk-management concerns. State Street Global Advisors (SSGA), representing the interests of the affected retirees as the independent fiduciary, determined that a transaction split between Prudential and Mass Mutual was the safest available annuity structure to provide retiree benefits.

As a result of the annuity purchases, Kimberly-Clark expects to recognize a non-cash pension settlement charge of \$0.8 billion after tax (\$1.3 billion before-tax) in the second quarter of 2015. This charge will be excluded from the company’s 2015 adjusted results.

Deutsche Bank and Towers Watson served as strategic advisors to in this transaction.

Other DB sponsors eye annuity purchases

Almost two-thirds of defined benefit (DB) plan sponsors surveyed expect to act in 2015 to curb Pension Benefit Guaranty Corporation (PBGC) premium costs down the road, with most likely to elect settlement strategies, according to a new report from benefits consultant Aon Hewitt.

Of defined benefit (DB) plan sponsors surveyed by Aon Hewitt:

- Nearly one-quarter (22%) are very likely to offer terminated vested participants a lump sum window in 2015.
- 19% of employers plan to increase cash contributions to reduce PBGC premiums in the year ahead
- 21% are considering purchasing annuities for a portion of their plan participants.

“A growing number of plan sponsors anticipate increasing pension plan costs due to recent changes to the Society of Actuaries longevity models and rising PBGC premiums,” said Ari Jacobs, Aon Hewitt’s Global Retirement Solutions leader, in a release.

More than one-third (36%) of pension plan sponsors said they are “increasingly adjusting plan assets to match liabilities.” Another 31% are “very likely” to do so in the year ahead.

“Pension plan sponsors... are taking actions now to better position themselves to manage volatility in their pension plans,” said Rob Austin, director of Retirement Research at Aon Hewitt.

In other survey findings:

- 74% of the companies surveyed have a DB plan; Of those:
 - 35% have an open, on-going pension plan
 - 34% have a plan that is closed to new hires
 - 31% have a frozen plan
 - 45% of companies surveyed recently conducted an asset/liability study. Of those that haven’t, 25% are somewhat or very likely to in 2015.
 - 18% of companies performed a mortality study in 2014; 10% plan to do so in 2015.
 - 26% of companies currently monitor the funded status of their plan on a daily basis, up from 12% in 2013.

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