The Bucket

By Editorial Staff *Wed, Feb 16, 2011*

Late-breaking items from Prudential, Warren Buffett, Aon Hewitt, SPARK Institute, Insured Retirement Institute, Milliman, the Pension Benefit Guaranty Corp., Morningstar, Interactive Data Corp., and John Hancock Annuities.

Prudential Financial revenue rose 11% in 2010, but net income fell 20%

Prudential Financial Inc. posted an 88% drop in fourth-quarter net income on derivatives charges, but revenues for the quarter jumped 17% to $8.1 billion. For all of 2010, total revenues rose 11% to nearly $31 billion, but net income fell 20%, to $2.7 billion.

Net income for the fourth quarter dipped to $213 million on $912 million in realized losses and related charges on derivatives and fair value changes in embedded derivatives, pretax. These included $161 million in impairments and losses on sales of credit-impaired investments, Prudential Financial said in a release.

The company also announced that Bernard Winograd, 60, will retire as executive vice president and chief operating officer of its U.S.-based businesses on Feb. 11, to be succeeded by Charles F. Lowrey, 53, current president and chief executive officer of Prudential Investment Management.

In 2010, the company achieved "individual annuity account values over $100 billion and retirement account values over $200 billion," said chairman and CEO John Strangfeld in a statement.

Earlier this month, Prudential completed the acquisition of two Japanese life insurers, AIG Star Life Insurance Co. Ltd. and AIG Edison Life Insurance Co., from AIG for about $4.2 billion in cash and assumption of third-party debt.

In Prudential's individual annuity business contributed $146 million to overall income by reducing amortization of deferred acquisition costs on policies and releasing reserves for guaranteed death and income benefits on variable annuities. Results were driven by gains in customers separate account values, Prudential said.

Buffett feels bullish

Warren Buffett's $5 billion investment in Goldman Sachs during the financial crisis was a bet that the authorities would prop up the ailing economy, the billionaire businessman has claimed, according to bobsguide.com.

In an interview with the Financial Crisis Inquiry Commission (FCIC), the investor said that he knew key figures in charge of US financial policy would do what they could to ensure the financial system did not collapse. Buffett, who was quoted by Bloomberg, said: “It was a bet essentially on the fact that the government would not really shirk its responsibility at a time like that to leverage up at a time when the rest of the world was trying to deleverage.

“I made the fundamental decision that we had the right people, in [Ben] Bernanke, [chairman of the Federal Reserve] and [Henry] Paulson,[then-Treasury Department Secretary] and there with a president that would back them.”

The investor acquired preferred stock in Goldman Sachs during 2008, an investment which provides him with an annual ten per cent dividend.

As much as $700 billion was provided to banks and firms working within the financial services industry as part of the government’s Troubled Asset Relief Program.

Morningstar advisor platforms to receive bond data from Interactive Data Corp.

Morningstar, Inc., and Interactive Data Corporation have entered into an agreement where Interactive Data will supply individual bond information to Morningstar’s advisor software products. The bond universe will be available next month in Morningstar Advisor Workstation, the research and investment planning software platform used by roughly one in four financial advisors in the U.S., and in April in Morningstar Office, a portfolio management solution for independent advisors.

Morningstar will now feature reports and research on more than 1.3 million individual bonds, including corporate, government and municipal issues. It represents the first time an advisor software platform has offered comprehensive bond data alongside underlying holdings-based analytics for multi-security portfolios.

Advisors will be able to use Morningstar’s investment database to search, screen, and sort bond information and create Investment Detail Reports(TM) on individual bonds, which will contain up to 10 years of performance history so that advisors can evaluate how the bond issue has weathered a variety of market conditions. Advisors can also use the report’s bond issue details and risk exposure to evaluate the bond’s role within a portfolio and compare against other bond issues.

Once the bond data is available, when advisors import their client portfolios from third-party integration partners into Advisor Workstation or Morningstar Office, the software will automatically recognize the fixed income securities in those portfolios, saving time and resources by eliminating the need to manually map the security or assign a less-accurate proxy.

Morningstar Advisor Workstation provides financial advisors with investment planning, client presentation, portfolio analysis, and investment research tools. It is licensed to and through institutions such as broker/dealers, custodians, and clearing firms as a web-based modular platform designed to work with a firm’s other back-office systems and applications. The bond universe will be initially available through the Clients and Portfolios and Research modules, with availability in the Hypotheticals and Planning modules later in 2011.

Morningstar Office is a global practice and portfolio management platform for independent financial advisors and wealth managers. It features portfolio management and performance reporting, advanced research capabilities, sophisticated investment planning, and intuitive customer relationship management (CRM) tools for batch reporting and secure communications using the platform's Client Web Portal and document vault. Morningstar Office users also have the option to outsource all of their account management and reconciliation with Morningstar Back Office Services.

Riskier firms to pay higher PBGC premiums

President Barack Obama's budget proposes to raise premiums the Pension Benefit Guaranty Corp. charges employers by $16 billion over ten years and, in a significant policy shift, would levy higher premiums on the riskiest companies, the *Wall Street Journal* reported this week.

The PBGC insures defined-benefit pension plans. Its $80 billion portfolio, mainly assets of pension plans it has taken over, is $23 billion short of the current value of pensions it has promised to pay. Premiums are supposed to make up the difference. Total premium revenues last year were $2.2 billion.

Rather than seeking a simple premium increase, the administration is asking Congress to give the PBGC authority to fashion a new approach in which premiums would be linked to the financial health of the employer sponsoring the underlying pension plan. Currently, two similarly funded pension plans, one sponsored by a well-financed company and another sponsored by a shaky one, pay the same premiums even though the latter is at much greater risk of sticking the PBGC with its pension promises. Under the proposal, the agency could charge the latter company a higher premium. The approach resembles one used to price bank-deposit insurance. Since 2007, the FDIC has grouped banks into four categories and charged riskier ones higher premiums.

Under the Obama proposal, the changes wouldn't take effect for two years—at the earliest—to give the agency time to devise the new system and go through a formal rule-writing process. Among big issues to be resolved are the factors to use in assessing the riskiness of the employers and how much more to charge riskier companies. About one-third of employers whose pensions are insured by the agency have credit ratings below investment-grade; they would be hit harder by the premium increases.

Some employers and unions are concerned higher premiums would lead businesses to freeze or even terminate pension plans. The American Benefits Council, which represents big employers, recently has complained to Congress about PBGC rules and its approach to businesses. "Employers are fleeing the defined-benefit-plan system…they are freezing their plans, and…certain well-intended PBGC policies can actually threaten business viability and increase PBGC liability," the council's Ken Porter testified in December. Of workers with defined-benefit plans, 22% are in plans that have been closed to new workers or ceased accruing benefits for some or all participants, the Labor Department says.

The collapse of several big pension plans has increased the PBGC's long-term deficit in recent years. In the past, Congress has raised premiums after the agency reported big deficits. The last time, in 2005, Congress lifted the premium on single-employer plans from $19 a worker annually to $30 and indexed it to inflation. Today, the current basic premium is $35. With various add-ons for underfunded plans, the average premium is close to $65.

The PBGC was created in 1974 after some workers lost pensions altogether when their employers went under. It guarantees basic benefits for 44 million American workers and retirees with defined-benefit pensions, a shrinking fraction of the work force, and is currently responsible for paying current or future pensions for about 1.5 million.

The president's fiscal commission, led by former Clinton White House Chief of Staff chief Erskine Bowles and former Sen. Alan Simpson (R., Wyo.), recommended PBGC premiums increase by $16 billion over 10 years, the same as the new Obama budget.

A private deficit-reduction panel, chaired by former Sen. Pete Domenici (R., N.M.) and former Clinton budget chief Alice Rivlin, proposed a 15% increase in the basic premium, among other changes. It recommended that premiums for underfunded plans be linked to the riskiness of their investment portfolios.

John Hancock Annuities launches New 'Retirement Talk' video

John Hancock Annuities has launched a second module of the integrated 'Retirement Talk' marketing program, giving advisors another simple way to connect with clients who are looking for ways to enhance their retirement security.

The new Retirement Talk module introduces options that help couples planning for retirement ensure that their income will last for the duration of two lives. It features a client-friendly educational video that addresses the emotions that many couples are experiencing after the roller-coaster markets of the last few years, and how they believe it has impacted their plans for retirement. The video complements John Hancock's original highly successful Retirement Talk video, which demystified annuities and the role that guaranteed lifetime income options may play in a well-rounded retirement portfolio.*

The videos plus a wealth of support material, including an interactive income planning calculator, is available at www.jhretirementtalk.com, and also in CD format.

Retirement Talk videos are packaged with a brief message and suggested follow-up actions for the client to consider. An Advisor Guide provides suggestions on identifying clients who may benefit from the program, and offers talking points to address during client meetings. Customizable client letters are also available. The entire program may be presented by authorized advisors in CD format or via a client-approved micro web site, www.jhretirementtalk.com, where authorized distributors and their clients may view the video and related material.

Funded status for largest pensions improves to 82.2% in January

The nation's 100 largest defined benefit pension plans experienced asset increases of $6 billion and liability decreases of $35 billion in January resulting in a $41 billion increase in pension funded status for the month, according to the Milliman 100 Pension Funding Index. It was the second consecutive month of positive performance recorded by the index.

For the last 12 months, these pensions experienced a $15 billion improvement in funded status, which compares favorably to the performance over the course of calendar year 2010, when these pensions saw the funded status deficit increase by $49 billion.
"This is the first time [the funded ration has] been above 80% since last April," said John Ehrhardt, co-author of the Milliman 100 Pension Funding Index. "At the same time, the pension deficit has been yo-yoing between $200 billion and $450 billion for the last two years, and we are still susceptible to that kind of volatility."

The study offers projections for 2011 and 2012, which help to illustrate the challenge posed by the pension funded status deficit. If interest rates continue along their current lines and these 100 pensions achieve their 8.1% median return, the deficit will shrink to $223 billion by the end of 2012. More optimistic performance—12.1% annual returns and eventual interest rates of 6.67%—would help these pensions reach 90% funded status by the end of September and would eliminate the deficit and put the funded ratio at 108% by the end of 2012.

To view the complete monthly update, go to http://www.milliman.com/expertise/employee-benefits/products-tools/pension-funding-index/. To receive regular updates of Milliman's pension funding analysis, contact us at pensionfunding@milliman.com.

SPARK Institute updates best practices for information sharing

Following a recent two-week public comment period on a draft version, The SPARK Institute has released a final updated version of its information sharing best practices for 403(b) plans," said Larry Goldbrum, General Counsel.

"This update of Version 1.04 reflects certain industry developments that occurred since it was originally published in June 2009," said Goldbrum. He said there were no significant changes to the draft as a result of public comments. The effective date of the updated version is October 1, 2011. The document is posted on The SPARK Institute website.

The SPARK Institute represents the interests of a broad based cross section of retirement plan service providers and investment managers, including banks, mutual fund companies, insurance companies, third party administrators, trade clearing firms and benefits consultants.

Advisor-focused websites progressing: IRI

The Insured Retirement Institute (IRI) and Corporate Insight have found widespread improvement in key areas on advisor websites offered by financial services firms. Advisor sales resources experienced the greatest improvement, rising 18% to an average of 2.72 (out of a 4-point scale) from the 2010 assessment average of 2.54.

Advisor product information and marketing also saw a notable improvement, with the category average increasing 13% to 2.88 from the 2010 figure of 2.75. Industry averages were up from the 2010 report in five of the six audit categories, a sign that firms are actively addressing key areas on their advisor websites.

The report also found that:

- A number of firms upgraded the detail and level of transparency offered on both variable and fixed annuity product information pages with a focus on suitability and fees.
- Firms consistently upgraded the size and quality of their advisor sales resource libraries throughout the year, expanding the availability of prospecting and business-building materials with a greater emphasis on growing client relationships.
- Despite a modest increase in the industry average (4%), advisor website design and usability continued to be a strong point, with navigation being the focal point of advisor site revamps performed.
- Advisor sales tools and advisor literature ordering systems categories continue to be an area poised for improvement, with only four new advisor tools being introduced.

Aon Hewitt 401(k) Index Observations for November 2010

401(k) participants continued to move money from fixed income investments into equities in November, according to the Aon Hewitt 401(k) Index.

A total of $217 million (0.19% of total assets) moved from fixed income funds into diversified equity investments (excluding company stock) during the month, with over three quarters of days seeing equity-oriented transfers.

In contrast, all fixed income asset classes saw net outflows in November. Bond funds experienced (net) outflows of $89 million while GIC/stable value funds had $49 million in outflows.

A sum of $12 million was also shifted out of money market funds. Company stock funds experienced the largest outflows of the month, with $110 million moving out of this asset class, which continued the outflow trend for past several years.

Lifestyle/premixed funds received the largest inflows during the month, with $100 million transferring into this asset class. In addition, all domestic equity asset classes received modest inflows. Small U.S. equity funds rallied during November, and also received $65 million in net transfers. Large U.S. equity markets were relatively flat, but received $55 million in inflows.

The level of transfer activity in November was in line with that of the past few months — 0.03% of balances transferred on a net daily basis. Two days in November had an above-normal level* of transfer activity.

Total equity holdings were up slightly from 58.3% at the end of October to 58.9% at the end of November. Overall, participants' sentiment toward the stock market did not appear to change much in November, as employee equity contributions remained similar to last month at 60.9%.

*A "normal" level of relative transfer activity is when the net daily movement of participants' balances as a percent of total 401(k) balances within the Aon Hewitt 401(k) Index equals between 0.3 times and 1.5 times the average daily net activity of the preceding 12 months. A "high" relative transfer activity day is when the net daily movement exceeds two times the average daily net activity. A "moderate" relative transfer activity day is when the net daily movement is between 1.5 and two times the average daily net activity of the preceding 12 months.