The Bucket

By Editorial Staff *Wed, Oct 14, 2015*

Brief or late-breaking items from Conning Research, Milliman, the Dutch Pensions Federation, the Society of Actuaries,TrimTabs, Morningstar, Voya Financial, LIMRA and UBS.

Life settlements industry still not fully recovered: Conning

The life settlements market continues to draw investor interest, but is challenged by the shifting demand for smaller face amounts, according to a new study by Conning.

“We have seen continued investor interest in life settlements as they seek above average returns in this low interest rate environment,” said Scott Hawkins, vice president, Insurance Research at Conning, Inc.

“Investors purchased $1.7 billion worth of U.S. life insurance face value in 2014, bringing our estimate of the total face value of life settlements at year end to just over $32 billion. We project continued steady growth in the amount of face value available for life settlements, but the industry has a long way to go to re-attract capital to pre-2009 levels to meet that supply.”

The new study, “Life Settlements and Secondary Market Annuities: Opportunities and Challenges,” provides Conning’s annual *Life Settlements Market Review and Forecast*, along with market guidance. Beyond life settlements, the study covers secondary annuities, structured settlements markets and non-U.S. secondary markets for insurance. It is Conning’s twelfth such report on the market.

“One challenge in attracting higher capital is the availability of other alternative investments,” said Steve Webersen, head of Insurance Research at Conning, Inc. “To attract capital to the traditional life settlement market, providers will need to restructure their operations to more effectively address small-face business and more closely align their compensation models with investor interests.”

Conning is a investment management company for the global insurance industry. It manages $92 billion in assets as of June 30, 2015, through Conning, Inc., Conning Asset Management Ltd, Cathay Conning Asset Management Ltd, Goodwin Capital Advisers, Inc., and Conning Investment Products, Inc. All are subsidiaries of Conning Holdings Ltd, a unit of Cathay Life Insurance Co., Ltd., a Taiwanese company.

Pension funded status falls to 81.7% on weak equity returns: Milliman

The funded status of the 100 largest U.S. corporate pension plans declined $28 billion in September, according to the latest edition of the Pension Funding Index, a service of Millman Inc. Asset values declined $19 billion and pension liabilities rose $9 billion. The funded status fell to 81.7% from 83.3%.

“It will take a massive rally in the fourth quarter for these 100 pensions to sniff their annual expected return of 7.3%,” said John Ehrhardt, co-author of the Milliman 100 Pension Funding Index.

Milliman actuaries have established optimistic and pessimistic forecasts for the year ahead. Under the optimistic forecast, rising interest rates (reaching 4.34% by the end of 2015 and 4.94% by the end of 2016) and asset gains (11.3% annual returns) would boost the funded ratio to 85% by the end of 2015 and 97% by the end of 2016.

Under the pessimistic forecast (4.04% discount rate at the end of 2015 and 3.44% by the end of 2016 and 3.3% annual returns), the funded ratio would decline to 80% by the end of 2015 and 73% by the end of 2016.

Pan-European pension product proposed

A Europe-wide, standardized “third-pillar” personal pension product (PPP) run by private providers has been proposed by the European Insurance and Occupational Pensions Authority (EIOPA), but Dutch and German pension officials don’t think it’s such a good idea.

The third-pillar product—in other words, a personal savings vehicle outside of government and employer-based retirement savings plans—would require “default products to guarantee contributions” or “need to be based around a lifecycle fund,” according to proposals by the European Insurance and Occupational Pensions Authority (EIOPA).

“The goal of a Pan-European Personal Pension (PEPP) system would be to deliver value for money for consumers through economies of scale as providers operated across national borders,” said the EIOPA, according to an *IPE.com* news report.

The Dutch Pensions Federation has criticized the proposal, however, arguing that demand for such plans would come only from the “happy few”, and fail to encourage workers to save more for pensions.

It said the European Commission should focus instead on second-pillar pensions, which encourage “solidarity, risk-sharing and the participation of all participants in governance.” This, it said, has “clear advantages” over purely commercial products, which “place risk and the drive for accrual with the consumer”.

Representatives of Germany’s pension funds association (aba) agreed, arguing that “we need more funded pensions in Europe but with the focus on occupational pensions”, as this pillar offered “good value for money.” It said existing systems should be “further developed and enhanced” before new systems were set up. Aba described the PPP as “unconvincing” and arguing that many questions “remained unanswered.”

The Dutch Pensions Federation also expressed concerns that cross-border product providers would be unable to offer sufficient service locally. “It would be difficult for a Danish provider of a PEPP to advise a participant in Italy correctly about how to deal with his pension rights during a divorce, unless the provider has a local subsidiary,” it said.

Morningstar acquires “tax-efficient rebalancing” technology

Morningstar, Inc., has agreed to buy Total Rebalance Expert (tRx), an “automated, tax-efficient investment portfolio rebalancing platform” for financial advisors, from FNA, LLC for an undisclosed um. Morningstar expects to complete the transaction net month.

More than 500 financial advisors from 175 firms currently rely on tRx to rebalance more than $20 billion in client assets, a Morningstar release said. Advisors can use the software to minimize taxes, harvest losses, and rebalance at the account or household level. The tool can show clients exactly how much they saved them in taxes.

Sheryl Rowling, CEO of FNA and principal of independent advisory firm Rowling & Associates, created tRx in 2008 when she couldn’t find an affordable, tax-efficient, easy-to-use rebalancing system for her own practice.

According to Tricia Rothschild, head of global advisor solutions for Morningstar, the Chicago-based fund information firm will integrate tRx with its ByAllAccounts aggregation service, which advisors use for client acquisition and profiling, building and analyzing portfolios across all of their clients' assets, and communicating performance.

In June 2015, Morningstar announced it was integrating the tRx rebalancing capabilities into Morningstar Office, the company's practice and portfolio management system, which more than 4,000 independent financial advisors use.

"Morningstar plans to add other important metrics, such as its investment valuation, risk factors, and real-time pricing, to the rebalancing capability," Rowling said in a release.

Rowling will continue to run her advisor practice and work for Morningstar on a part-time basis. Morningstar plans to incorporate the tRx capability into its advisor offerings and will also continue to offer it as a standalone platform.

More than half of U.S. financial advisors and the 25 largest U.S. broker-dealers have access to Morningstar's software, data, and research. The company has three primary research and practice management platforms for advisors: Morningstar Advisor Workstation, Morningstar Office, and Morningstar Direct. In 2014, Morningstar acquired ByAllAccounts, an account aggregation provider that helps advisors deliver more complete advice to their clients. Morningstar also offers outsourced investment management services through Morningstar Investment Services, Inc.

Longevity growth begins to slow: Society of Actuaries

The Society of Actuaries this week released an updated mortality improvement scale for pensions that shows a trend toward "somewhat smaller improvement in longevity" than in the past. The new scale—MP-2015—includes just-released Social Security mortality data from 2010 and 2011.

Updating current defined benefit plans to the MP-2015 scale released today might reduce a plan's liabilities by between zero and two percent, depending on each plan's specific characteristics, SOA's preliminary estimates suggest.

"People are living longer, but longevity is increasing at a slower rate than previously available data indicated," said Dale Hall, managing director of research at SOA. The new scale will allow pension actuaries to measure private retirement plan obligations more accurately, he said.

In October 2014, the Society released the RP-2014 base mortality tables and MP-2014 improvement scale, the first update to the SOA's pension plan mortality tables in more than a decade.

At that time, the SOA indicated the mortality improvement scale (used to project mortality rates) would be updated more frequently as new longevity data became available.

"Every plan is different, and it is important that professionals working in this field perform their own calculations on the impact to their plan," Hall said in a release. "It is up to plan sponsors, working with their plan actuaries, to determine whether to incorporate MP-2015 into their plan valuations."

The updated mortality improvement scale was developed by the SOA's Retirement Plans Experience Committee (RPEC). A full version of the *Mortality Improvement Scale MP-2015* report is available **here**.

Slower growth of withholdings indicates slowing economy: TrimTabs

TrimTabs Investment Research reports that the U.S. economy is slowing, based on declining growth in the withheld income and employment taxes that flow daily into the U.S. Treasury. Year-over-year real growth in income tax withholdings dropped to 4.0% in September from 5.5% in August.

"September's growth rate was the lowest all year, and it suggests the U.S. economy is cooling off," said David Santschi, chief executive officer at TrimTabs. "We believe turmoil in financial markets and emerging economies is having a negative impact on the U.S. economy."

TrimTabs added that growth in withholdings has continued to decelerate into early October. Year-over-year real growth slipped to 3.9% in the four weeks ended Friday, October 9. TrimTabs' analysis is based on daily income tax deposits to the U.S. Treasury from the paychecks of the 143 million U.S. workers subject to withholding.

"We've been writing for some time that the Fed will act later rather than sooner," noted Santschi. "The Fed has demonstrated repeatedly that its foremost objective is to support asset prices, and recent market volatility and looming fiscal debates in Congress are likely to keep it on hold for the rest of this year."

TrimTabs said another sign the economy is slowing is that the TrimTabs Macroeconomic Index fell to a three-month low last week and is down 0.7% this year after rising 4.5% last year. The index is a correlation weighted composite index of leading macroeconomic variables.

Eisenbach to run retirement marketing at Voya

Karen Eisenbach, the former executive director of Retirement Marketing at J.P. Morgan Asset Management, has joined Voya Financial Inc. as chief marketing officer for its Retirement business. Eisenbach will be based in Voya's Windsor office and report to CEO of Retirement Charles P. Nelson.

Eisenbach will oversee the marketing strategy for Voya's institutional and retail retirement segments while partnering with Corporate Marketing to drive engagement with distribution partners, plan sponsors and retirement plan participants, a Voya release said.

At J.P. Morgan Asset Management, Eisenbach helped develop and launch a retirement offering for small- and mid-sized plan sponsors. She has also managed her own consulting business and held prior leadership positions with Nationwide Financial and National City Bank.

Eisenbach received her undergraduate degree in finance from The Ohio State University. She also served as a past board member of the Bexley Education Foundation.

Aging workforce means higher benefit costs: LIMRA

Even as waves of Millennials enter the workforce, millions of Boomers are still working. As a result, 73% of employers have planned for their benefit costs to go up as a consequence of having those older workers in their companies, according to a **survey** by the LIMRA Secure Retirement Institute.

Half of employers surveyed have said they will absorb the higher benefit costs while 41% will pass the costs on to employees. About a third of employers said they might reduce in benefits, salary growth and employer contributions to retirement plans to manage benefit costs.

Despite higher benefits costs, 9 in 10 employers told LIMRA that keeping older workers on the job is good for business. Eighty percent of employers said that older workers offer experience, leadership and institutional knowledge.

Many older employees prefer to keep working, often because they want to increase their retirement savings. Only 5% of workers in the study said they feel “extremely well prepared” for retirement, according to a previous LIMRA survey. Among pre-retirees (workers within 10 years of retirement), 30% say they intend to work until age 66, while one in five expects to retire at age 70 or older.

At the same time, 60% of employers worry that delayed retirements will slow the careers paths of younger workers. Nearly half said they “struggle to address the different retirement planning needs for workers of various ages.”

Seven in ten employers said they would like guidance from their plan provider on how to transition older workers into retirement. Half said they would use an advisor or consultant for this guidance.

UBS to pay $19.5 million for misleading U.S. investors

UBS AG has agreed to pay $19.5 million to settle charges that it made false or misleading statements and omissions in offering materials provided to U.S. investors in structured notes linked to its own foreign exchange trading strategy, the Securities and Exchange Commission announced this week.

Structured notes typically consist of a debt security with a derivative tied to the performance of other securities, commodities, currencies, or proprietary indices. The return depends on the performance of the derivative over the life of the note.

UBS agreed to cease any similar future violations, to pay disgorgement and prejudgment interest of $11.5 million, to distribute $5.5 million of those funds to V10 investors to cover their losses, and to pay a civil penalty of $8 million.

Between $40 billion to $50 billion of structure notes are registered with the SEC per year, with many of those notes sold to relatively unsophisticated retail investors, the SEC said in a release. UBS is one of the largest issuers of structured notes in the world.

UBS agreed to settle the SEC’s charges that it misled U.S. investors in structured notes tied to the V10 Currency Index with Volatility Cap. According to the charges, UBS falsely stated that the investment relied on a “transparent” and “systematic” currency trading strategy using “market prices” to calculate the financial instruments underlying the index, when in fact undisclosed hedging trades by UBS reduced the index price by about 5%.

According to the SEC's order instituting a settled administrative proceeding:

• UBS perceived that investors looking to diversify their portfolios in the wake of the financial crisis were attracted to structured products so long as the underlying trading strategy was transparent. In registered offerings of the notes in the U.S., UBS depicted the V10 Currency Index as "transparent" and "systematic."

• Between December 2009 and November 2010 approximately 1,900 U.S. investors bought approximately $190 million of structured notes linked to the V10 index.

• UBS lacked an effective policy, procedure, or process to make the individuals with primary responsibility for drafting, reviewing and revising the offering documents for the structured notes in the U.S. aware that UBS employees in Switzerland were engaging in hedging practices that had or could have a negative impact on the price inputs used to calculate the V10 index.

• UBS did not disclose that it took unjustified markups on hedging trades, engaged in hedging trades with non-systemic spreads, and traded in advance of certain hedging transactions.

• The unjustified markups on hedging trades resulted in market prices not being used consistently to calculate the V10 index. In addition, UBS did not disclose that certain of its traders added spreads to the prices of hedging trades largely at their discretion.

• As a result of the undisclosed markups and spreads on these hedging transactions, the V10 index was depressed by approximately five percent, causing investor losses of approximately $5.5 million.