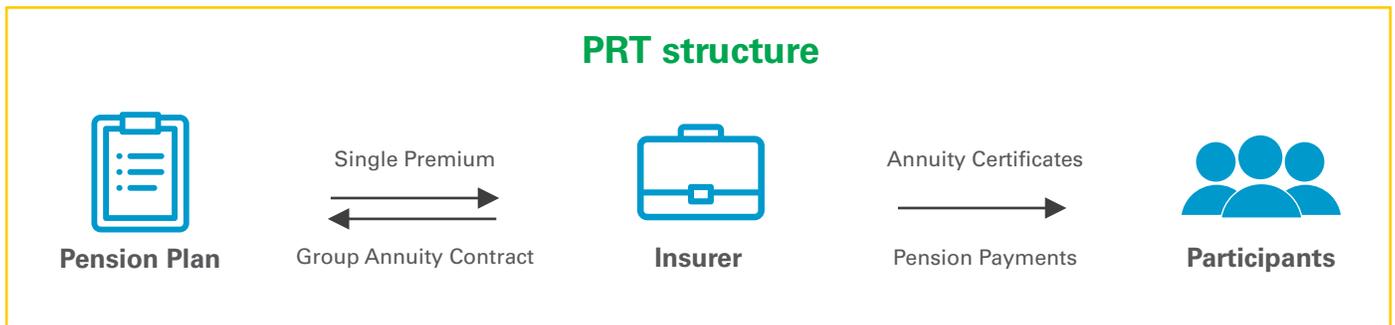




# Quick guide to Pension Risk Transfer

Pension Risk Transfer ('PRT') is one of the options available to plan sponsors to manage the volatility and economic uncertainty associated with defined benefit pension obligations.

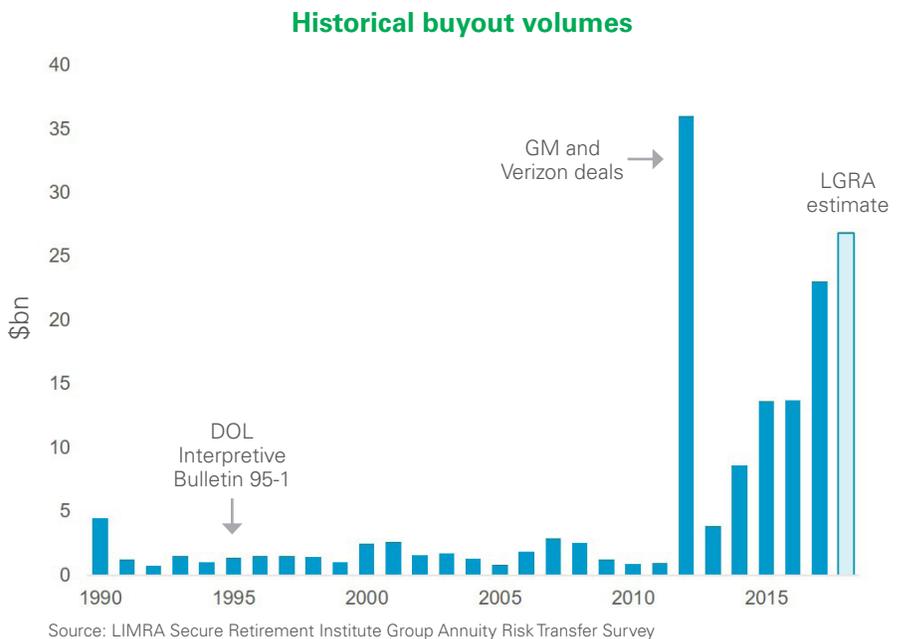


## Market overview

The PRT market has existed for decades but has evolved rapidly over the past five years.

**The most recent market trends include:**

- 'Bottom slice' cases to eliminate PBGC premiums on lowest benefit participants
- Demand for more insurer capacity to quote cases that include deferred participants
- Increasing use of Mortality Experience Data ('MED')
- Expect plan terminations to increase as funded status improves due to increased contribution rates and market conditions



# Stage 1: Preparation

Preparation is key to a successful transaction

## How to get the best execution

### Ensure your member data is up-to-date

- Make sure that complete membership data is available, including:
  - member status
  - marital status
  - DOB
  - zip codes
  - mortality experience data (generally needed for larger plans).
- It's also important to provide information on any previous lump sum exercises.

**Improve your outcome:** Complete and accurate data will allow insurance companies to reduce their risk charges and price more competitively.

## How to pay for it

### Implement a de-risking strategy

- Offer lump sums as permitted, complete plan amendments, freeze accruals and pare down ancillary benefits where able.
- Develop a contribution plan to improve funded status.
- Transition to a liability driven investment ('LDI') strategy to stabilize your funded status and prepare assets for transfer to an insurer.

**Improve your outcome:** Insurers may be able to offer a lower price by accepting attractive assets (over cash), which can reduce their transaction costs and the 'out-of-market' risk on large transactions.

## How to make it happen

### Define objectives and establish a project plan

- Establish a clear set of goals and framework for the transaction process.
- A number of work streams will need to be pulled together simultaneously, including:
  - legal advice and documentation
  - regulatory filings
  - member communications
  - coordination with the company's advisers, the plan's investment managers, the custodian and the administrator.
- Agree on roles and responsibilities in advance and determine who will own the various work streams.

**Improve your outcome:** A clear transaction process with a reasonable timeline encourages more insurers to participate, resulting in increased competitiveness.

# Stage 2: Quotation

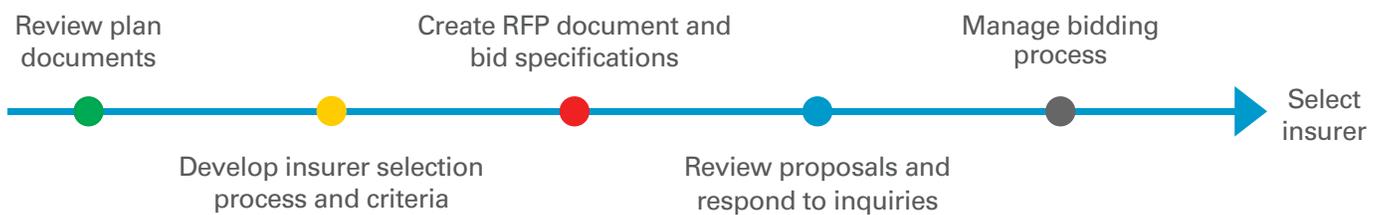
An annuity placement provider initiates and manages the bid process, including all communication with prospective insurers

Once preparatory activities are complete and an annuity placement provider is hired, the plan moves into the quotation phase.

The key to obtaining the best arrangement for your plan is working with your placement provider to understand the factors that will underpin your quote and to determine how to get the most cost-effective arrangement for your transaction.

The annuity placement provider initiates and manages the process to select an annuity provider, and typically serves as the point of contact between the plan, its representatives (actuary, legal counsel, administrator, fiduciary) and the insurance carriers.

## Typical process of the annuity placement provider



## DOL 95-1 guidelines: 'safest available' annuity provider

In 1995, the Department of Labor (DOL) published guidance on the selection of an annuity provider establishing a set of criteria to consider when choosing an annuity provider, including, but not limited to:

Department of Labor Criteria	Typical Assessment Criterion of Insurers by Fiduciaries
<ul style="list-style-type: none"> <li>Quality and diversification of the annuity provider's investment portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio predominantly invested in high-quality, diversified, duration-matched fixed income securities</li> </ul>
<ul style="list-style-type: none"> <li>Size of the insurer relative to the proposed contract</li> </ul>	<ul style="list-style-type: none"> <li>Insurer's general account relative to the size of the group annuity transaction</li> </ul>
<ul style="list-style-type: none"> <li>Level of the insurer's capital and surplus</li> </ul>	<ul style="list-style-type: none"> <li>RBC ratio at or above peer levels</li> </ul>
<ul style="list-style-type: none"> <li>Lines of business of the annuity provider and other indications of an insurer's exposure to liability</li> </ul>	<ul style="list-style-type: none"> <li>Risk profile and profitability of insurer's lines of business</li> </ul>
<ul style="list-style-type: none"> <li>Structure of the annuity contract and guarantees supporting the annuities</li> </ul>	<ul style="list-style-type: none"> <li>Features of insurer's separate account including risk charge, buffer, and administrative charge</li> </ul>

# Stage 3: Implementation

A clearly defined implementation process, set out in advance, helps to make sure participants experience a smooth transition to the insurer

## Typical implementation steps



### CONTACT US



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