MetLife

2021 Pension Risk Transfer Poll

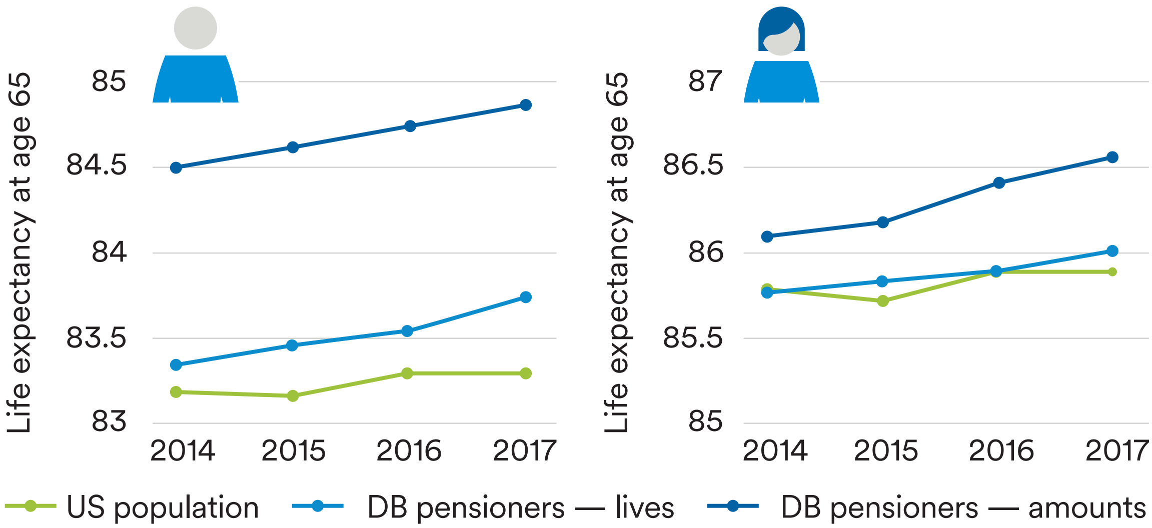
How the Group Annuities MetLife Introduced 100 Years Ago Enable Companies to Keep Their Pension Promises

INTRODUCTION

In today's business world, actively managing a defined benefit (DB) pension plan has become complex and costly. One of the many exceedingly difficult challenges is generating sufficient portfolio returns to fund liabilities in a prolonged low interest rate environment, coupled with market volatility arising from concerns about the Coronavirus pandemic and related variants.

Longevity is also a concern. Pension plan participants are living longer than they have in the past and, according to a recent analysis by Club Vita, mortality rates have been improving much more quickly for U.S. pension plan participants than for other Americans (around 0.8% per year higher among over 65-year-olds).[1] Although the final impact of COVID-19 on this population is not yet known, if this pace continues, "the existing [life expectancy] gap between DB pension plan participants and the US population will widen by around 1 more year by the late 2020s."[2] Longevity increases, especially for a very large participant population, can further increase plan costs — making a pension risk transfer (PRT) today all the more attractive.

Life Expectancy at Age 65 — DB Pensioners vs. US Population



Source: Club Vita analysis 2021, details of data and methodology used in that study's appendix

[1] Club Vita, "Research Note 21-08: Longevity Improvement Rates for U.S. Defined Benefit Plan Participants: Examining Widening Life Expectancy Inequality," August 2021.
[2] Ibid

While the overall U.S. PRT market "grew by over 25% between 2017 and 2019, reaching a value of $30 billion,"[3] followed by $27 billion of transactions in 2020, there are still $3.4 trillion in plan assets held by private-sector DB plans[4] — the majority of which is expected to be de-risked within the next decade.

Companies can reduce some or all of the pension plan's liabilities — and associated risks — by offering lump-sum distributions to participants and/or by using an annuity buyout, a type of group annuity, to transfer pension liabilities to an insurer to secure participants' promised benefits, among other PRT options. Transferring pension liabilities to an insurance company, where the benefits earned are preserved in exactly the same form, should not present a risk to the participant in any way but does facilitate the ability of a sponsor to responsibly reduce its plan risk and fulfill its promises to its long tenured employees.

100 Years of Pensions Experience

In 1921, MetLife was the first insurer to develop and offer a group annuity contract, issuing it to fund the William Rudge Printing Company's defined benefit (DB) pension plan.

As a leading pension risk transfer provider, MetLife has a century of experience observing how actual benefit plan risks behave over a broad range of economic cycles, and managing them effectively.

Today, MetLife manages benefit payments of approximately $3 billion a year for about 780,000 annuitants.[5]

[3] "Onward and upward for life and pension market transactions," Willis Towers Watson, July 29, 2021.
[4] As of Q1 2021, Investment Company Institute and Federal Reserve Board.
[5] Internal MetLife data as of June 30, 2021. Includes both Metropolitan Life Insurance Company, New York, NY and Metropolitan Tower Life Insurance Company, Lincoln, NE.

About the poll

MetLife has been tracking PRT trends and developments for nearly 20 years. In this latest MetLife Pension Risk Transfer Poll, MetLife commissioned a survey of 253 plan sponsors who have de-risking goals (either near- or long-term) for their pension plan.

The MetLife 2021 PRT Poll assessed:

- If — and when — U.S. companies are considering divesting all pension plan liabilities
- The catalysts driving their decisions to transfer plan risk
- Whether the economic recovery and COVID-19 pandemic have impacted their de-risking plans
- The ideal timing and the most important considerations for a pension risk transfer to an insurer
- What PRT activities they are most likely to use and for which participant population(s)

In this report, MetLife's 2021 PRT Poll findings will show why the pension risk transfer market is expected to be robust for years to come. Driven by large, well-publicized annuity buyout transactions by Fortune 500® corporations,[6] interest remains very strong. Nine in ten plan sponsors are weighing their DB plan's value against the risks to which it exposes their organization, and nine in ten expect to completely offload their pension liabilities in the foreseeable future.

While neither COVID-19, nor the economic recovery during the first half of 2021, have negatively impacted plan sponsors' desire to de-risk their DB plans, there are several catalysts driving interest in transferring risk to an insurer. These include the current interest rate environment, market volatility, an increase in the volume of retirees, and favorable annuity buyout pricing, among others. The most important consideration when selecting an insurer for an annuity buyout transaction is the financial strength of the insurer — even ahead of the price/cost of the annuity buyout transaction.

[6] FORTUNE 500® is a registered trademark of the FORTUNE magazine division of Time Inc.

POLL FINDINGS

Nearly All Pension Liabilities to Ultimately Be Divested

We can expect to see a significant level of PRT activity in the marketplace for many years to come. In fact, most plan sponsors with de-risking goals (93%) plan to completely divest all of their DB pension plan liabilities — a sizable increase from the 76% of DB plan sponsors who, in 2019, said they would completely divest all of their plan liabilities. Among the 9 in 10 plan sponsors who intend to divest their liabilities, they'll do so in an average of 3.7 years.

Average Length of Time to Completely Divest Liabilities

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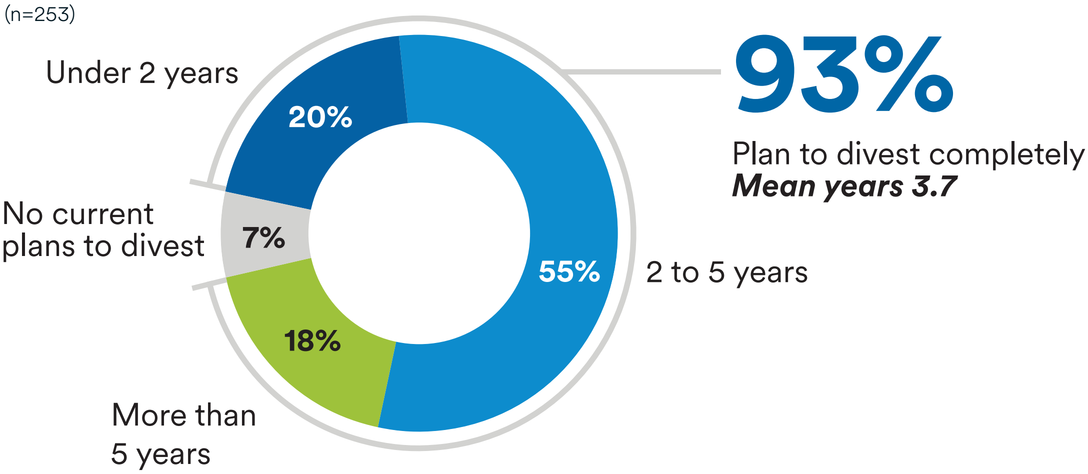

Among those plan sponsors we surveyed who plan to fully divest their DB plan liabilities at some point in the future, 32% have DB plan assets of $1 billion or more, 35% have assets in the $500–$999 million range, and 33% have assets in the $100–$499 million range.

Fortune 500® Annuity Buyout Activity Driving Interest

So why are private sector companies seeking annuity buyouts from insurers? First, nearly all plan sponsors (93%) say that annuity buyout transactions completed by major Fortune 500® corporations are increasing the likelihood that they will consider an annuity buyout. Often, mid-sized and large companies follow the actions undertaken by Fortune 500® companies, which are typically "first movers" when it comes to DB plan management.

As the PRT market continues to mature, insurers have also become more efficient in their ability to price complex benefit structures for large corporate plans, and onboard and transition the benefit payment administration, while minimizing the anxiety of participants. With a thriving market comes increased competition — there are currently nearly 20 PRT insurers in the U.S. — which has made annuity buyouts and other PRT solutions more affordable.

Likelihood of Considering an Annuity Buyout Due to Fortune 500® Transactions

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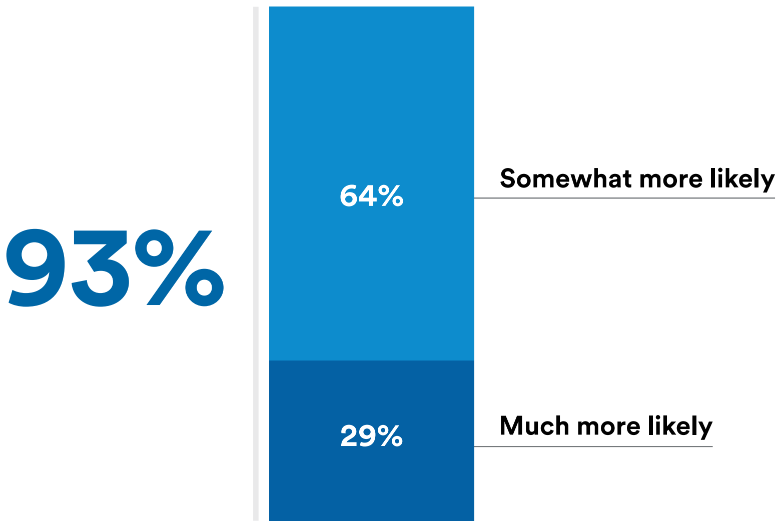

Low Interest Rates, Market Volatility, Increase in Volume of Retirees and Favorable Annuity Pricing are Primary Catalysts

When asked about the primary catalysts for initiating a pension risk transfer to an insurer, plan sponsors cite the current interest rate environment (61%), market volatility (47%), an increase of the volume of retirees (37%) and favorable annuity buyout market pricing (35%).

Catalysts to Initiate Pension Risk Transfer

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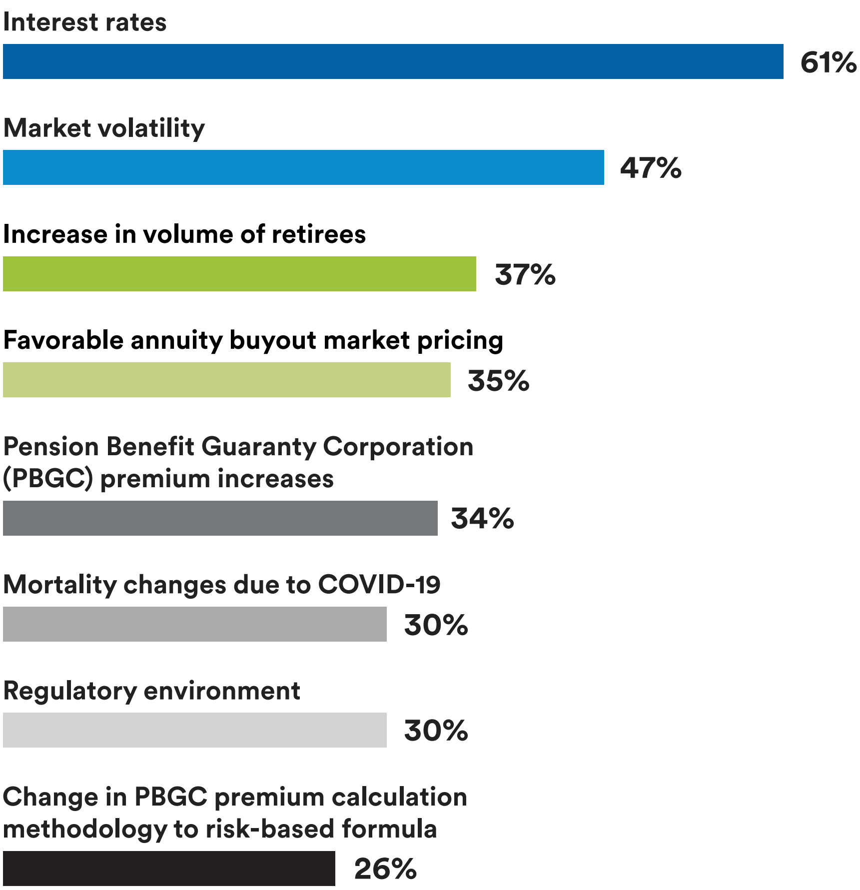

COVID-19 Having Minimal Impact on De-Risking Plans

Again, this year, neither COVID-19, nor the economic recovery, appear to be negatively impacting plan sponsors' desire to move forward with a pension risk transfer. Overall, most plan sponsors (89%) this year reported that there had either been no change to their de-risking plans (47%) due to the pandemic, or that COVID-19 has increased or accelerated the likelihood they would transact (42%). This is up from the 81% of plan sponsors overall who, in 2020, said COVID-19 either didn't impact — or even accelerated — their de-risking plans. This year, only 11% say that the pandemic has decreased or delayed the likelihood of entering into a transaction — down from 19% last year.

Similarly, 87% of plan sponsors reported that there had either been no change to their de-risking plans due to the economic recovery (46%), or that the recovery has increased or accelerated the likelihood they would transact (41%).

Plan Sponsors' Views on the Ideal Timing for a Risk Transfer to an Insurer

PRT transactions are idiosyncratic for plan sponsors. The decision of when to de-risk is unique to each plan sponsor, and the PRT solution is tailored to the specific requirements and objectives of the plan. Considerations for PRT typically include the plan's current funded status, the cost of an annuity buyout (relative to the economic carrying cost of the pension obligation), the sponsor's ability and willingness to fund the plan, and other benefits of risk reduction for the plan sponsor.

Recognizing that each company's situation — and de-risking goals — are unique, MetLife was interested in learning when plan sponsors thought the timing for a PRT made the most sense. A majority of plan sponsors (69%) — likely those who are seeking a full pension risk transfer — believe the timing for a pension risk transfer makes the most sense when the plan is well-funded, requires low or no plan contributions, and there is very little immediate pressure to transfer the risk to an insurer. Nearly one-third

(30%) — likely those who are interested in a partial risk transfer — believe that the ideal timing is when the plan is underfunded, high plan contributions are required, and there is significant pressure to address the plan's costs and risks.

Perspectives on the Ideal Timing for Pension Risk Transfer

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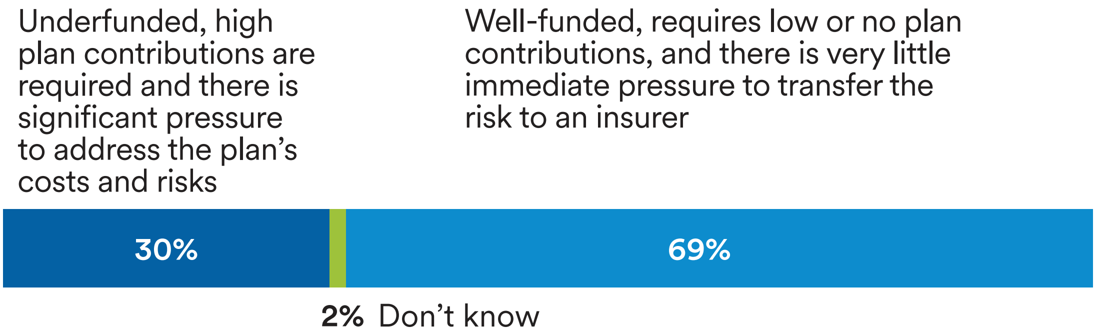

Note: Does not total 100% due to rounding

To transfer risk when the timing is right, 91% of plan sponsors are weighing their DB plan's value against the risks to which it exposes their organization. DB risks fall into three broad categories: investment risks, liability risks and business risks. Further, 96% of plan sponsors say an asset-centric approach to pension risk management has given way to a more balanced approach that considers a plan's liabilities relative to its assets. Today, the current estimated split between return-seeking (i.e., equities) and liability-hedging assets (i.e., fixed income) in their companies' DB plan(s) is: 55% return-seeking vs. 45% liability-hedging.

In the last two years, 54% of plan sponsors have increased plan contributions and they also say that their C-suite executives have become more involved in DB plan management (44%). Other plan sponsors haven't been as fortunate to be able to increase plan contributions. During the COVID-19 pandemic, 29% of plan sponsors restricted benefit payment options because of the impact to funded status; 19% said a partial plan termination was triggered due to layoffs/furloughs; and, 17% had to borrow money to fund pension deficits.

Financial Strength of Insurer Trumps Annuity Pricing

The U.S. Department of Labor's (DOL) Interpretive Bulletin (IB) 95-1 lays out rigorous requirements concerning fiduciary standards when a plan sponsor intends to transfer the liability for pension benefits to an annuity provider. The only insurers eligible for consideration under DOL IB 95-1 standards are the strongest in the industry, generally with an AA rating or higher for financial strength from the major independent rating agencies. In most cases, an insurance carrier's financial strength rating is as high as, and often higher than, the plan sponsor's credit rating. This enables both plan sponsors, and their participants whose benefits are being transferred, to be confident in the long-term security of pension payments.

When asked to rank the most important consideration when selecting an insurer for an annuity buyout transaction, 33% of plan sponsors selected financial strength of the insurer as the most important. This was followed by the price/cost of the annuity buyout transaction (23%), brand/reputation (22%) and administrative experience of the insurer (18%).

Financial Strength is the Most Important Consideration When Selecting an Insurer for an Annuity Buyout

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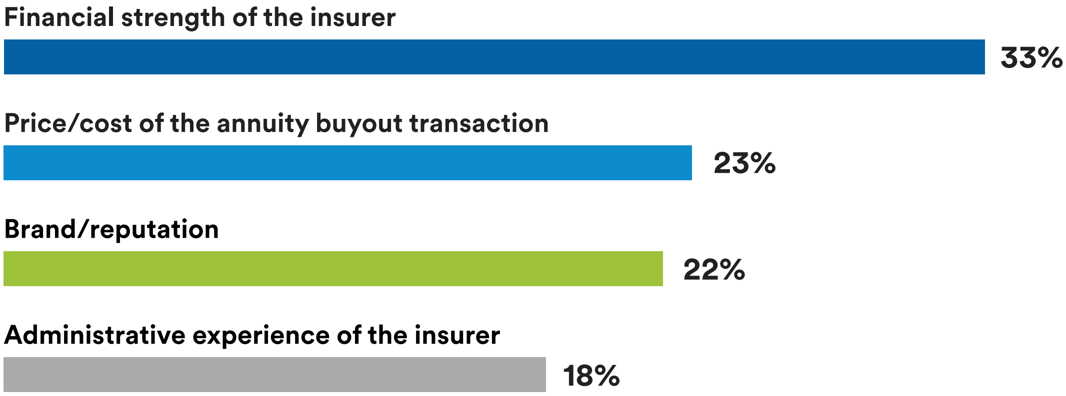

Among those focused on the cost of an annuity buyout, including favorable buyout costs as a catalyst to act, 56% are very closely tracking estimated annuity buyout pricing. When looked at by industry, 39% of manufacturing companies and 30% of finance companies seeking an annuity buyout plan to transact in under two years.

Retiree Lift-outs and Plan Terminations are Both Expected

A buyout can be a plan termination, which involves the purchase of annuities to transfer liabilities for the plan's entire population of participants, or a retiree lift-out, which involves the purchase of annuities to transfer the liabilities related to some or all of a plan's retiree population. With a retiree lift-out, companies can quickly offload a portion of their obligations to help reduce the plan's risks and improve its funding status. Our research found that 42% are planning to secure an annuity buyout for a retiree lift-out and 40% are looking to transfer risk to an insurer for a plan termination.

Types of Annuity Buyouts to Be Secured

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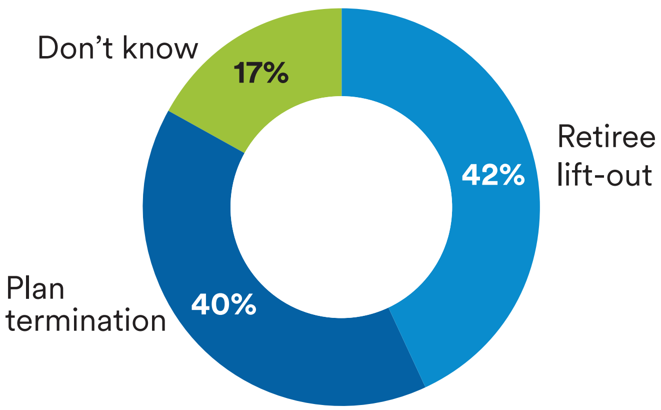

Note: Does not total 100% due to rounding

PRT Steps

While the length of time to complete a pension risk transfer will vary by plan, the entire process could typically take 12 to 18 months. PRT steps include, but are not limited to, the following:

- Identifying the company's internal team that will manage the pension risk transfer process
- Retaining advisors to help guide the plan sponsor through the process (this could include specialty consultants such as actuaries, investment bankers and/or legal counsel)
- Completing a financial analysis for the plan
- Reviewing and cleansing participant data
- Conducting insurer due diligence by the plan's fiduciary (including DOL IB 95-1)
- Developing and issuing a Request for Proposal (RFP)
- Evaluating RFP responses, including quotes, submitted by the insurers
- Selecting the annuity provider
- Finalizing the contracts
- Implementing and servicing the group annuity contract
- Communicating to plan participants, retirees, etc.

CONCLUSION

Group annuities have been a mainstay in the qualified plan arena since MetLife introduced them a century ago

Today, group annuities directly fulfill the intent of the Employee Retirement Income Security Act of 1974 (ERISA): they protect the promises made by the plan sponsor; they pay the pension benefits earned by participants; and, they do so by providing guaranteed lifetime income. Insurance companies are uniquely suited for PRT transactions since they are regulated for long-term solvency and their core business is risk-pooling.

When considering an annuity buyout or another type of PRT, plan sponsors should determine the objectives of maintaining their DB plan and whether the plan satisfies the corporation's current retirement strategy in light of the macroeconomic environment. This determination should be made in a way that addresses the organization's strategic focus and, at the same time, meets the needs of the plan's participants.

By transferring a pension plan's liability to an insurer, plan sponsors can mitigate financial risks (e.g., unpredictable plan contributions, balance sheet and income statement volatility, longevity risk, etc.), while fulfilling their pension promises to their retirees.

METHODOLOGY

The MetLife 2021 Pension Risk Transfer Poll was fielded between July 12 and July 20, 2021. MetLife commissioned MMR Research Associates, Inc. to conduct the online survey. There were 253 defined benefit (DB) plan sponsors who participated in the survey, including nearly seven in 10 (68%) who reported DB plan assets of $500 million or more. Only those plan sponsors with de-risking plans involving pension risk transfer were able to participate in the research.

Plan size	Respondents
Greater than $1 billion:	33%
$500 million–$999 million:	35%
$100 million–$499 million:	32%

MetLife: A Trusted Pension Risk Transfer Partner

MetLife's U.S. Pensions team is a fully integrated business unit that can work with you and your advisors to structure, underwrite and implement a PRT transaction. The length and the breadth of MetLife's participation in the group annuity market — 100 years — provide us with unique insight and a proprietary data set spanning decades of experience and nearly a million annuitants. Based on this information, we can conduct our own credible studies of mortality, mortality improvement, and other facets of group annuity experience. This, combined with our strong technical expertise and deep bench of pricing professionals, has enabled MetLife to offer innovative PRT solutions. As a leading provider of group annuity solutions for qualified pension plans, we have extensive experience servicing our clients and their plan annuitants. Contact one of our **Pension Risk Transfer team members** to discuss your pension risk transfer needs.

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