Robust Pension De-Risking Activity Expected For 2019

PUBLISHED: February 13, 2019
AUTHORS: Elizabeth Dold, David Levine, Mark Lofgren, Louis Mazawey, David Powell, Jeff Witt, J. Rose Zaklad

Ever since General Motors and Verizon made headlines with their mega-billion dollar annuitization deals in 2012, the movement for defined benefit plan sponsors to "de-risk" by transferring their pension obligations to commercial insurers has not let up. We highlight recent activity – and what we expect to see in 2019 – below.

In general, the conditions that prompted the start of pension de-risking activity in 2012 persist today. These conditions include –

- substantial market volatility,
- improved mortality risks, and
- uncertain prospects for interest rate changes.

And, while PBGC premium rates are not scheduled to increase except for inflation adjustments, the current rates can be as high as $621 per participant ($80 fixed and $541 variable).

The term "de-risking" covers many strategies, including cashouts of vested terminated employees, "LDI" investment programs, benefit annuitization and, ultimately, plan termination. In this regard, the MetLife 2019 Pension Risk Transfer Poll of 100 corporate plan sponsors indicates that, among plan sponsors who intend to de-risk –

- one-third intended to completely divest all of their defined benefit plan obligations in the next 5 years,
- two-thirds were considering a risk transfer in the next 2 years, and
- 79% are more likely to consider an annuity buyout now than in the past.

Consistent with these results, since the start of 2019, there has been robust de-risking activity in the large plan market, including the following:

- Sherwin-Williams disclosed in its 8-K filing that it plans to settle "the majority" of its overfunded DB liabilities – through lump sums or annuity purchases – in early 2019.
- Lockheed Martin disclosed in its 8-K filing that it purchased $2.6 billion in annuities – affecting 41,000 retirees and beneficiaries – from two insurers.
- Weyerhauser announced a $1.5 billion annuity purchase from Athene – one of several relatively new entrants in the annuity market – covering 28,500 retirees and beneficiaries.

At the end of 2018, Bristol-Myers Squibb closed on a $3.8 billion transfer in a transaction that included current and former workers not in pay status, which goes beyond the typical participant population annuitized by ongoing plans. In the past, insurers willing to take on these additional populations have sought premiums of as much as 30% over the present values of the liabilities. The larger premiums to annuitize deferred vesteds and active employees are associated with factors such as –

- uncertainty as to when payments will commence,
- variations in the amount payable, due to the application of plan-required early retirement adjustments and subsidies, and
- additional costs associated with having to track down potential payees who have moved between the date of purchase (*i.e.*, data collection) and the commencement date.

There are some indications that annuity writers may be more willing to bid on these populations than in the past – and may seek lower premiums to do so. However, it remains to be seen how financially appealing that will be to plan sponsors.

We expect plan sponsors will carefully consider their appetite for annuity purchases this year. Groom has worked with numerous large plan sponsors on the IRS and ERISA aspects of these complex transactions and can offer considerable legal expertise in evaluating de-risking opportunities and implementing them in a legally compliant manner.