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Milliman analysis: Competitive pricing rate for pension risk transfer drops from 99.9% to 99.3% in December

Competitive bidding process saves about 3.5% of buyout costs as of December 31

SEATTLE – JANUARY 21, 2022 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the latest results of its Milliman Pension Buyout Index (MPBI). As the Pension Risk Transfer (PRT) market continues to grow, it has become increasingly important to monitor the annuity market for plan sponsors that are considering transferring retiree pension obligations to an insurer.

During December, the estimated cost to transfer retiree pension risk to an insurer in a competitive bidding process decreased from 99.9% of a plan’s total liabilities to 99.3% of those liabilities. This means the estimated retiree PRT cost is currently 0.7% less than those plans’ retiree accumulated benefit obligation (ABO). Meanwhile, the average annuity purchase costs across all insurers also decreased, from 103.2% to 102.8%. This means that the competitive bidding process is estimated to save plan sponsors on average around 3.5% of PRT costs as of December 31.

“2021 ended with some of the lowest competitive costs we’ve seen in the history of our study,” says Mary Leong, a consulting actuary with Milliman and co-author of the MPBI. “While historically pension risk transfer slows in Q1, we expect competitive buyout costs to remain low with the increased interest in de-risking.”

The MPBI uses the FTSE Above Median AA Curve, along with annuity purchase composite interest rates from eight insurers, to estimate the competitive and average costs of a PRT annuity de-risking strategy. Individual plan annuity buyouts can vary based on plan size, complexity, and competitive landscape.

To view the complete Milliman Pension Buyout Index, go to https://www.milliman.com/mpbi.

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