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Milliman analysis: Estimated cost of retiree pension risk transfer rises from 105.2% to 105.7% in March

SEATTLE – APRIL 21, 2020 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the latest results of its new 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. The MPBI uses the FTSE Above Median AA Curve, along with annuity purchase composite interest rates from insurers, to estimate the average cost of a PRT annuity de-risking strategy.

During March, the estimated cost to transfer retiree pension risk to an insurer rose slightly for the month, with costs ticking up from 105.2% of a plan’s total liabilities to 105.7% of those liabilities. This means the estimated retiree PRT cost for the month is now 5.7% more than those plans’ retiree accumulated benefit obligation (ABO). March’s increase is the result of discount rates increasing 80 basis points, compared to a 71 basis point rise for annuity purchase rates, so that the relative cost of annuities climbed slightly.

“March’s 80 basis-point jump in discount rates – a significant monthly increase – is likely the result of market volatility from the COVID-19 pandemic,” says Mary Leong, a consulting actuary with Milliman and co-author of the study. “However, insurer rates also increased to match the discount rate movement, so the end result is only a small increase in the buyout index.”

Plan sponsors should note that the MPBI is an average cost estimate, and individual plan annuity buyouts can vary based on plan size, complexity, and competitive landscape. Furthermore, specific characteristics in plan design or participant population can affect the cost of a pension risk transfer.

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

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