Milliman analysis: Estimated cost of retiree pension risk transfer
decreases from 104.2% to 102.8% in July

SEATTLE – AUGUST 25, 2020 – 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. 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 July, the estimated cost to transfer retiree pension risk to an insurer decreased by 140 basis points, from 104.2% of a plan’s total liabilities to 102.8% of those liabilities. This means the estimated retiree PRT cost for the month is now 2.8% more than those plans’ retiree accumulated benefit obligation (ABO). Accounting discount rates in June dropped 37 basis points compared to a 22 basis point drop for annuity purchase rates, resulting in a decrease in the relative cost of annuities.

“July’s drop in discount rates continued to drive an already historically low interest rate environment down even further,” says Mary Leong, a consulting actuary with Milliman and co-author of the study. “Insurer’s dropped their rates as well but didn’t keep up with the steep fall in fixed income yields, which led to the retiree buyout improvement. At 102.8%, this is the lowest rate we’ve seen since launching Milliman’s Pension 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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