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Milliman analysis: Estimated cost of retiree pension risk transfer rises from 103.9% to 104.6% in June

SEATTLE – JULY 30, 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 June, the estimated cost to transfer retiree pension risk to an insurer rose 70 basis points, from 103.9% of a plan’s total liabilities to 104.6% of those liabilities. This means the estimated retiree PRT cost for the month is now 4.6% more than those plans’ retiree accumulated benefit obligation (ABO). Discount rates in June dropped 11 basis points compared to an 18 basis point drop for annuity purchase rates, resulting in an increase in the relative cost of annuities.

“Since April, accounting discount rates have dropped approximately 30%,” says Mary Leong, a consulting actuary with Milliman and co-author of the study. “As insurers track the current fixed income market, annuity purchase rates have followed this trend, resulting in a historically low interest rate environment for PRT transactions.”

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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