Milliman analysis: Estimated cost of retiree pension risk transfer drops significantly, from 105.5% to 103.9% in May

SEATTLE – JUNE 23, 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 May, the estimated cost to transfer retiree pension risk to an insurer dropped significantly from 105.5% of a plan’s total liabilities to 103.9% of those liabilities. This means the estimated retiree PRT cost for the month is now 3.9% more than those plans’ retiree accumulated benefit obligation (ABO). Discount rates in May dropped 27 basis points compared to a 10 basis point drop for annuity purchase rates, resulting in the relative cost of annuities decreasing by almost two percentage points.

“We’ve seen a continuous drop in rates in May, however the drop in annuity rates isn’t as steep as the decline in discount rates,” says Mary Leong, a consulting actuary with Milliman and co-author of the study. “We may see an uptick in PRT deals for the month given the improvement in retiree buyout costs.”

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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