

Estimated retiree buyout cost as a percentage of accounting liability increased from 104.2% to 104.3% in January

Mary Leong, EA, MAAA, MSPA, CPC
Ryan Cook, ASA, MAAA, EA



The Milliman Pension Buyout Index (MPBI) uses the FTSE Above Median AA Curve and annuity purchase composite interest rates from several insurance companies to estimate the cost, as a percentage of accounting liability, of transferring retiree pension obligations to an insurer.

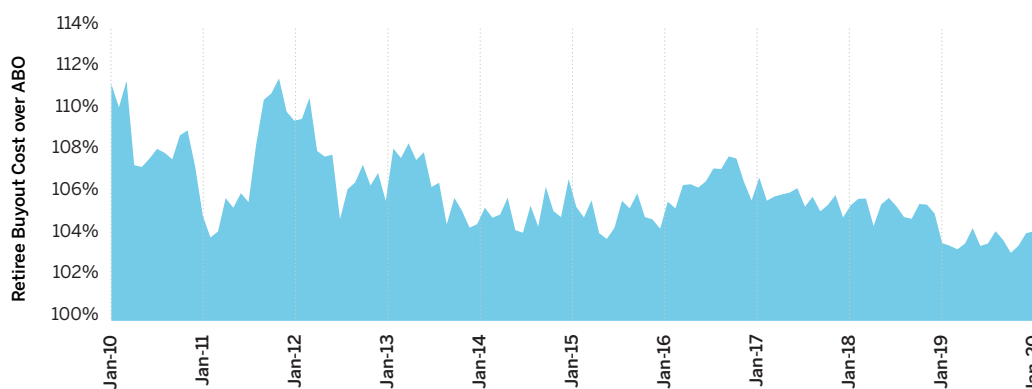
As the Pension Risk Transfer market continues to grow, it has become increasingly important for plan sponsors to monitor the annuity buyout market when considering a plan termination or de-risking strategy. The timing of the annuity buyout can ultimately impact the cost, as well as the plan's funding and accounting measurements. Other factors also impact annuity buyouts such as size, complexity, and competitive landscape, which should be taken into consideration with the estimated cost illustrated in the MPBI.

During January, 2020, average accounting discount rates and annuity purchase rates decreased in parallel by 35 bps each. This caused the estimated retiree buyout cost as a percentage of accounting liability (Accumulated Benefit Obligation) to remain stable, only increasing from 104.2% to 104.3%.

When considering these results, please keep the following information in mind:

- Annuity pricing composites are provided by the following insurers: Prudential Insurance Company of America, American United Life Insurance Company (OneAmerica), American General Life Insurance Company (subsidiary of AIG), Minnesota Life Insurance Company (Securian), and Pacific Life Insurance Company.
- Baseline accounting obligations are estimated using a representative retiree population, the FTSE Above Median AA Curve, and insurance company data.
- Plan sponsors should note that specific characteristics in plan design or participant population could make settling pension obligations with an insurer more or less costly than estimated.

FIGURE 1: MILLIMAN PENSION BUYOUT INDEX



Contact

Mary Leong
mary.leong@milliman.com

Ryan Cook
ryan.cook@milliman.com