

2020 Pension Risk Transfer Poll

A survey of U.S. defined benefit plan sponsors

About the poll

It is expected that a significant portion of the over \$3 trillion of U.S. defined benefit (DB) pension plan liabilities that have not yet been de-risked will flow through the pension risk transfer (PRT) pipeline over the next decade. To get a sense of how DB plan sponsors are viewing their pension plans, including if and when they plan to transfer risk to an insurer, MetLife commissioned a survey of 200 U.S. DB plan sponsors, with \$100 million or more in plan assets, who have de-risking goals.

For MetLife's latest Pension Risk Transfer Poll, DB plan sponsors were surveyed to:

- Assess the impact that COVID-19 has had on their companies broadly, as well as on their DB plans;
- Gauge the extent to which they have taken advantage of the DB plan provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act;
- Determine whether PRT activity is expected to be delayed in the future by COVID-19 and/or a protracted economic recovery;
- Determine what specific PRT activities they are most likely to use and for which participant population(s);
- Understand the current catalysts driving interest in PRT to an insurance company; and,
- Identify the timing for a PRT.

Summary of key findings

Most plan sponsor respondents (92%) report that their companies have been broadly impacted by COVID-19. Many say that the pandemic has had an impact on their DB plans, with 42% of plan sponsors reporting that C-suite executives have gotten more involved in DB plan management, and 40% reporting that they have borrowed money to fund pension deficits. The macro-economic environment is causing plan sponsors to be most concerned about maintaining/funding their DB plans in order to ensure that they are meeting their required benefit obligations. Nearly nine in ten plan sponsors (89%) say they have taken, or will take, advantage of the CARES Act provision that extends the deadline to make DB plan contributions until January 1, 2021.

Despite a slowdown of annuity buyout activity in the first half of 2020 compared to 2019 due to the impact of COVID-19, this is not expected to be a long-term trend. Many plan sponsors are moving forward with their de-risking plans – annuity buyout activity had picked up in the third quarter of 2020 and end-of-year activity is expected to be very strong.

A third of respondents with de-risking goals are considering an annuity buyout (34%), including those who are planning to use a combination buyout/lump sum offer (21%). Among those interested in a buyout, or a buyout in combination with a lump sum, 81% say the pandemic has either not changed their plans or has increased the likelihood they would transact. It's market volatility that is the primary catalyst driving interest in PRT. In terms of the timing, most plan sponsors considering an annuity buyout (81%) would transact within five years, and more are looking to secure an annuity buyout for a retiree lift-out (60%) versus a buyout for a plan termination (22%).

Poll findings

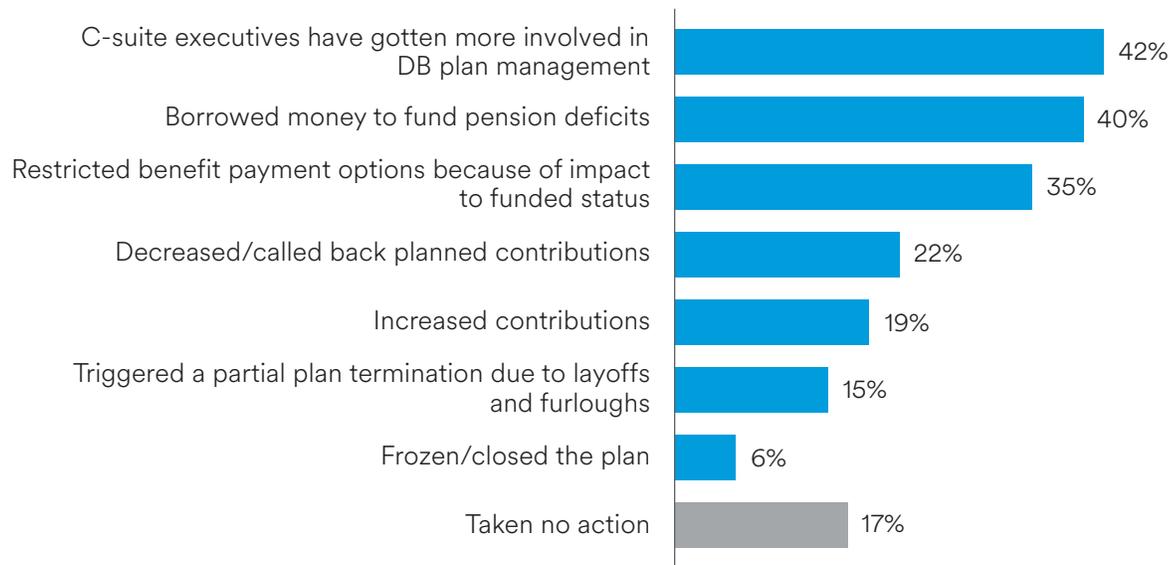
COVID-19 prompting attention on DB plans from the C-suite, along with borrowing to fund deficits

The pandemic is having a profound impact on businesses in virtually every industry. Nearly all plan sponsors surveyed (92%) say their companies have been broadly impacted by COVID-19, including 47% who have reprioritized or redeployed resources/staff internally; 43% who have borrowed money (e.g., accessed a line of credit and/or other financing solutions); 42% who have prioritized their cash and liquidity needs; 42% who borrowed money through the Paycheck Protection Program; 25% who have conducted furloughs or layoffs; 10% who have filed, or are considering filing, for bankruptcy; and, 10% who have permanently closed some operations. Only 8% of DB plan sponsors surveyed say their organizations have not been impacted by COVID-19.

DB plan sponsors report several areas of impact from COVID-19 specific to their DB plans, including that C-suite executives have gotten more involved in DB plan management (42%). Additionally, they report that they have borrowed money to fund pension deficits (40%); restricted benefit payment options (e.g., lump sums) because of the impact to funded status (35%); decreased or called back planned contributions (22%); increased contributions (19%); triggered a partial plan termination due to layoffs and furloughs (15%); and, frozen or closed their plans (6%). Only 17% of plan sponsors said they have taken no action with their DB plans as a result of COVID-19.

Impact of COVID-19 on DB plan management

(n=200)



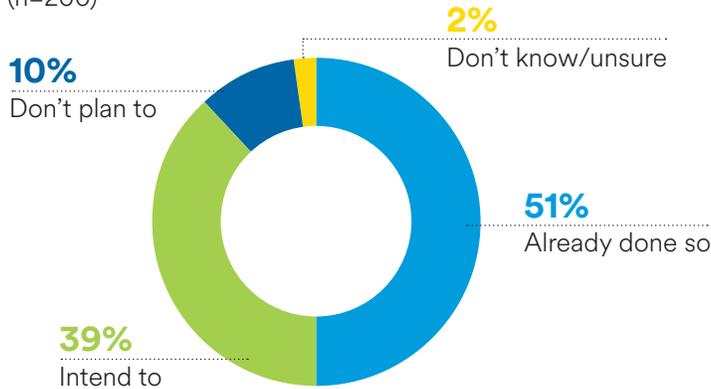
Plan sponsors were asked what they consider to be the most challenging aspect of managing their companies' DB plans in the current macro-economic environment. Many plan sponsors appear to be most concerned about maintaining/funding their DB plans in order to ensure that they are meeting their required benefit obligations. Additionally, in light of the current macro-economic environment, plan sponsors are focused on their DB plan investments, including minimizing volatility and managing the impact of the low interest rate environment.

Most plan sponsors taking advantage of CARES Act while seeking more public policy relief

The CARES Act, which was signed into law March 27, 2020, included relief for DB plan sponsors. Nearly nine in ten plan sponsors (89%) say they have taken, or will take, advantage of the CARES Act provision that extends the deadline to make DB plan contributions until January 1, 2021; only 10% say they don't plan to, and 2% are unsure.

Intent to take advantage of CARES Act funding deadline extension

(n=200)



Note: Percentages may not equal totals or total 100% due to rounding.

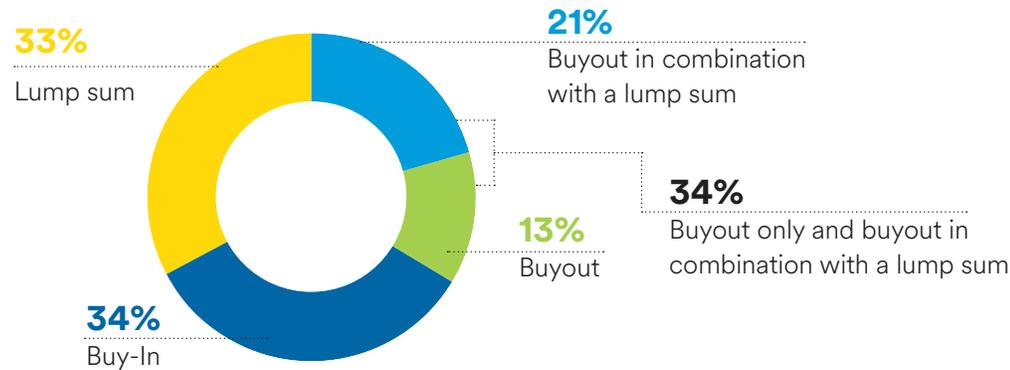
Plan sponsors are interested in additional legislative/regulatory relief for DB plans, including 68% who want maintenance of the 90/110 interest rate stabilization provisions for five more years through 2026. The stabilization corridors under current law were set to expand from 90/110 to 85/115 (then 80/120, etc.) in 2021. This would have a significant impact on contribution requirements over the next five to 10 years. Additionally, 46% say they want the 90/110 corridors changed to 95/110, which would further increase the interest rates used to determine funding liabilities, decreasing contribution requirements. A third of plan sponsors (33%) want Congress to eliminate 2020 Pension Benefit Guaranty Corporation (PBGC) premiums and reduce future year PBGC premiums, and 33% want a delay of all Department of Labor (DOL), Internal Revenue Service (IRS) and PBGC filings and credit balance elections to free up time for plan sponsors.

Retiree lift-outs most popular type of annuity buyout

When asked what type of PRT activity they would most likely use to achieve their de-risking goals when they are ready to de-risk their plans, an equal number of DB plan sponsors said that they are considering an annuity buyout (34%), including those who are planning to use a combination buyout/lump sum offer (21%), and an annuity buy-in (34%). A third of plan sponsors (33%) are considering only offering a lump sum.

Pension risk transfer activity most likely to be used

(n=200)



Note: Percentages may not total 100% due to rounding.

An annuity buyout is an annuity contract that permanently transfers future expenses, along with longevity, early retirement, interest rate and investment risks, for some or all plan participants to an insurance company in exchange for a single lump sum payment. Under a buyout, the plan sponsor's future obligations associated with the participants that are included in the contract are permanently curtailed, and the insurer takes over responsibility for paying participants their benefits directly. A buyout can be a plan termination, which involves the purchase of annuities to transfer liabilities for the plan's entire population of participants, or a retiree lift-out, which involves the purchase of annuities to transfer the liabilities related to some or all of a plan's retiree population. Our research found that 22% of plan sponsors who are planning to secure an annuity buyout are looking to secure a plan termination, while 60% are interested in a retiree lift-out.

Plan sponsors are also showing interest in annuity buy-in contracts. An annuity buy-in involves the purchase of a group annuity contract, which is then held as an investment in the pension plan. With a buy-in, the plan sponsor remains responsible for the plan's benefits and all the associated costs of managing the plan. A buy-in can eventually be converted to a buyout and, if the plan sponsor intends to hold the buy-in for a definitive period, there may be more favorable terms and conditions in the annuity contract.

Market volatility and PBGC actions are primary catalysts for PRT

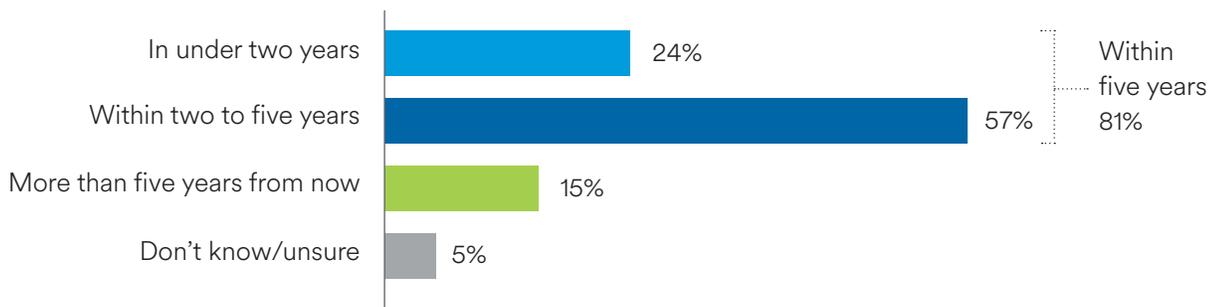
The primary catalysts driving interest in PRT are market volatility (51%); an increase in the volume of retirees (39%); actions by the PBGC, including premium increases (39%) and a change in the PBGC premium methodology to the risk-based formula (36%); and, mortality changes due to COVID-19 (36%). In addition to recent actions by the PBGC, 90% of plan sponsors surveyed say they are concerned about the long-term viability of the agency.

Most plan sponsors interested in buyouts will seek to transact within the next five years

Among DB plan sponsors interested in a buyout, the majority (81%) say they would transact within five years, including 24% who said they would secure a buyout within two years; 15% of plan sponsors say it will take more than five years; and, 5% are unsure of their timetable for transacting.

Timetable for annuity buyout

(n=67*)



*Among those interested in a buyout.

Note: Percentages may not total 100% due to rounding.

Nearly all plan sponsors (95%) say they have been closely tracking the estimated market pricing for annuity buyout transactions.

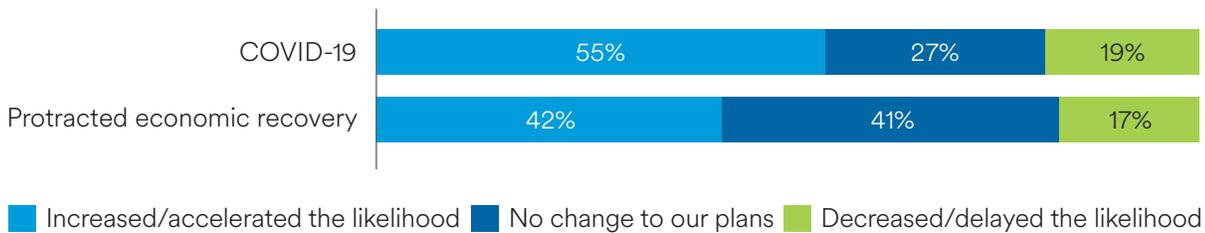
Going forward, annuity buyout activity not expected to be delayed either by COVID-19 or a protracted economic recovery

Although there was a slowdown of annuity buyout activity in the first half of 2020 compared to 2019, buyout activity has picked up significantly during the second half of 2020. Plan sponsors interested in an annuity buyout who had a specific timeframe in mind for when they intend to transact were asked to what extent COVID-19 would impact the likelihood that they would enter into a buyout with an insurer. Most (81%) reported that there had either been no change to their plans (27%), or that COVID-19 has increased or accelerated the likelihood they would transact (55%). Only 19% say that the pandemic has decreased or delayed the likelihood of entering into a transaction.

A protracted economic recovery could also favorably impact plan sponsors' decisions to enter into a buyout with an insurance company, with nearly equal percentages saying that a protracted economy would either not change their PRT plans (41%), or that it would increase or accelerate the likelihood of a buyout (42%). Only 17% of plan sponsors say it would decrease or delay the likelihood of a transaction.

Impact on likelihood of entering into a buyout

(n=64*)



*Among those interested in a buyout with a specific timeframe in mind for transacting.

Note: Percentages may not total 100% due to rounding.

Plan sponsors working with consultants to understand their options

A majority of plan sponsors (87%) say they first contacted, or were contacted by, a consultant or advisor to discuss the PRT options available from insurance companies within the past five years, including 49% in the last two years.

Methodology

The MetLife 2020 Pension Risk Transfer Poll was fielded between August 6, 2020 and August 27, 2020. MetLife commissioned MMR Research Associates, Inc.¹ to conduct the online survey. Survey responses were received from 200 DB plan sponsors with \$100 million or more in plan assets who have de-risking goals. This included 55% of plan sponsors who reported DB plan assets of \$500 million or more.

¹MMR Research Associates, Inc. is not affiliated with MetLife.



Metropolitan Life Insurance Company | 200 Park Avenue | New York, NY 10166
Metropolitan Tower Life Insurance Company | 5601 South 59th Street | Lincoln, NE 68516
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