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Press Release

Milliman analysis: Estimated cost of retiree pension risk transfer increases from 102.8% to 103.2% in August

SEATTLE – SEPTEMBER 22, 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 August, the estimated cost to transfer retiree pension risk to an insurer increased by 40 basis points, from 102.8% of a plan's total liabilities to 103.2% of those liabilities. This means the estimated retiree PRT cost for the month is now 3.2% more than those plans' retiree accumulated benefit obligation (ABO). Accounting discount rates in August rose 24 basis points compared to a 20 basis point increase for annuity purchase rates, resulting in a slight rise in the relative cost of annuities.

"The cost of pension risk transfer has begun to tick back up after July's record-low rate of 102.8%," says Mary Leong, a consulting actuary with Milliman and co-author of the study. "As interest rates rebound, and annuity purchase rates slowly follow suit, we will be watching closely to see if insurers keep up with the current climb in fixed income yields."

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>.

About Milliman

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