Legal & General Retirement America

Pension Risk Transfer Monitor

May 2021

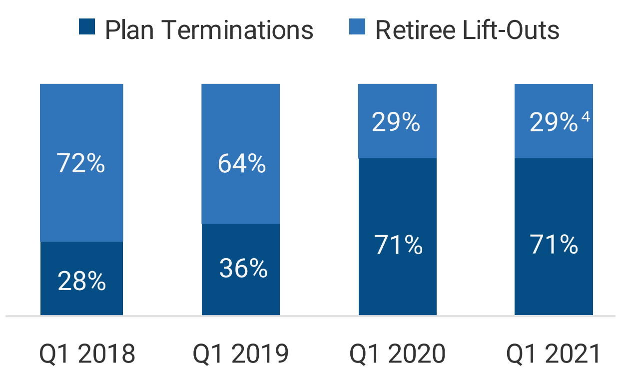
Market update

Coming off one of the largest quarters on record, the US Pension Risk Transfer (PRT) market slowed in the first quarter, as is typical for the beginning of the year. We estimate the first quarter's total market volume to be over $4 billion, a similar start to the last two years, and considerably higher than the years prior[1].

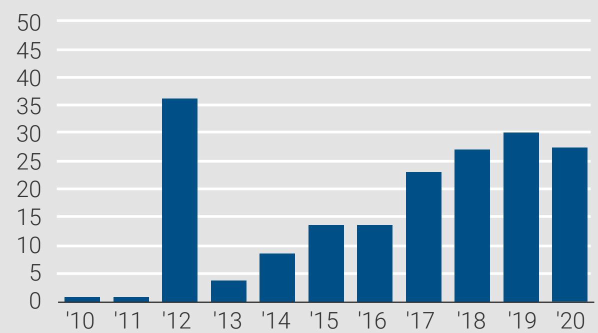
Plan terminations dominated the market once again, leading retiree lift-out transactions by both premium and count, according to our estimations. While we saw plan terminations account for approximately 71% of deals, by premium, that closed in Q1, it's important to note that one transaction represented a large portion of that percentage and the overall market volume: JCPenney's $2.8 billion plan termination that closed in March[2].

According to LIMRA's Secure Retirement Institute, total annual volume for the US PRT market in 2020 was $27 billion[3]. Though this is a decrease from 2019's $30 billion total, 2020 was still the fourth largest year on record.

Q1 Deal Type Breakdown (by premium)



US Historical PRT Market ($billion)



Source: LIMRA Secure Retirement Institute Group Annuity Risk Transfer Survey.

Market trends

Large deals

We have seen several deals over $500 million come to market, together adding potentially $8 billion to the pipeline for this year. Though it's still too early to predict what the total market volume for this year will be, these large deals along with the rising interest rates mentioned below, could help set the market up for another solid year. An increasing number of larger deals coming to the market may also be indicative of a broader trend; plan sponsors becoming more comfortable with, and recognizing the value of, PRT.

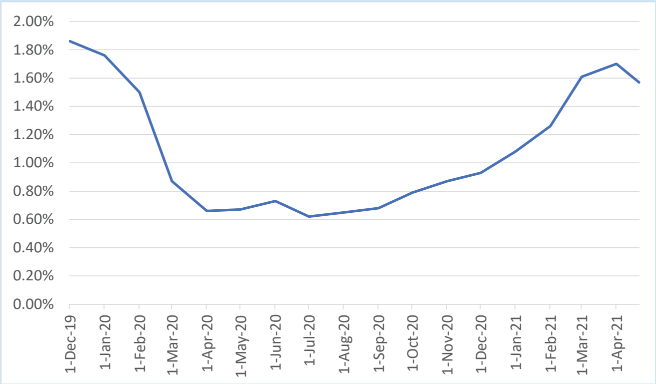
1. https://www.limra.com/siteassets/newsroom/fact-tank/sales-data/2020/q4/buy-out-4q2020-final.pdf
2. https://www.cfo.com/retirement-plans/2021/04/jcpenney-offloads-2-8-billion-in-pension-liabilities/#:~:text=Under%20the%20terms%20of%20the,emerge%20from%20Chapter%2011%20bankruptcy.
3. https://www.limra.com/en/newsroom/news-releases/2021/secure-retirement-institute-fourth-quarter-u.s.-single-premium-pension-buy-out-sales-jump-21/
4. The retiree lift-out percentage includes one transaction that was comprised of both retirees and deferred participants.

Rising rates

Treasury rates are noticeably on the rise once again after a decline from December 2019 through July of last year, as the chart on the right demonstrates. Funding levels generally improve as interest rates rise, which could encourage more plan sponsors to execute a PRT transaction.

Increasing interest rates combined with the economy recovering, PRT continuing to gain in popularity, and the larger deals coming to market as mentioned above, could pave way for a big year ahead.

10 Year Treasury Rate (By Month)



Source: https://www.multpl.com/10-year-treasury-rate/table/by-month

Contact us

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