News From:

Kiplinger

Can Insurers Be a Pension Safety Net?

By Alina Tugend

Pensions are complicated enough without employers passing the buck onto someone else, but increasingly, that is what's happening. In exchange for buying a group annuity, employers are transferring their pension-paying obligations to life insurance companies, who pay the pension. The practice, known as pension risk transfer or de-risking has implications for how pensions are protected and whether the payments are off limits to creditors. About 33 million Americans still participate in private pension plans, according to the federal Pension Benefit Guaranty Corp.

Until recently, pension risk transfer accounted for only a tiny number of pension plans, but the practice took off when Verizon and General Motors sold about $36 billion of pensions to insurance companies in 20l2. "It made plan sponsors realize this is something they could do," says Jared Wilson, vice president and actuary at Segal, a benefits consulting company. Although pension risk transfers fell to a more typical $4 billion in 2O13, they have steadily grown to $30 billion in 2019, he says. That amount is still a drop in the bucket for pension plans, also known as defined benefit plans, which are worth trillions in the U.S., but "this is not going to go away," says Edward Stone, a lawyer who has represented pensioners in pension risk transfer cases.

When an insurer takes over the plan, that pension is no longer protected by federal law, but rather state law, which regulates insurance companies. In 1974, Congress passed the Employee

Retirement Income Security Act or ERISA, which established the Pension Benefit Guaranty Corp. for private pensions- PBGC is largely funded by premiums collected from defined benefit plan sponsors. If the company that owns a pension plan fails, PBGC will continue to cover part, if not all, of the monthly payments, depending on the pensioner's salary and age. In 2021, a 65-year-old could receive a maximum of about $6,034 a month, rising to $18,343 for a 75-year-old.

But if an insurance company becomes insolvent and can't cover annuity payments, a state guaranty fund for annuities kicks in. Depending on the state that amount can vary from a lifetime maximum of $250,000 to $500,000 per individual, Stone says. "The loss of all protections under ERISA is significant" says Jack Cohen, chairman of the Association of BellTel Retirees, which is trying to get some of that protection back.

Not everyone sees de-risking as a problem. Keith McDonagh, head of MassMutual Institutional Solutions Businesses, says state laws regulating insurers are robust and may even offer greater pension plan protection. "Plan sponsors have a fiduciary duty to pick a sound insurance company," he says. "In many ways there's a higher bar for an insurance company to take on this obligation than for a company in any other industry." Unlike many companies that currently sponsor pension plans, insurers have experience meeting long-term financial obligations. "It should give individuals a lot of comfort that this is something we do day in and day out," he says.

Another concern is that under ERISA, an individual's pension is protected from creditors but that's not the case in every state when a pension becomes an annuity. Connecticut and Virginia have passed laws that protect a pensioner's annuity benefits from creditors and New York is considering one, says Stone, who helped push for and craft those laws. In addition, under ERISA, pensioners receive annual notices about their plans, which insurers are not required to send. If you belong to a pension plan, keep tabs on the status of your pension, including any changes in ownership, and notify the company if you have moved.

Regulations that govern de-risked pensions need to be stronger, says Karen Friedman, executive director of the Pension Rights Center. "With lack of uniform regulation, my fear is that some of these big life insurance companies will have incentives to free up reserves for other purposes," Stone says. "My concern is not if they can pay out today, but if they can pay out 30 to 40 years from now."