

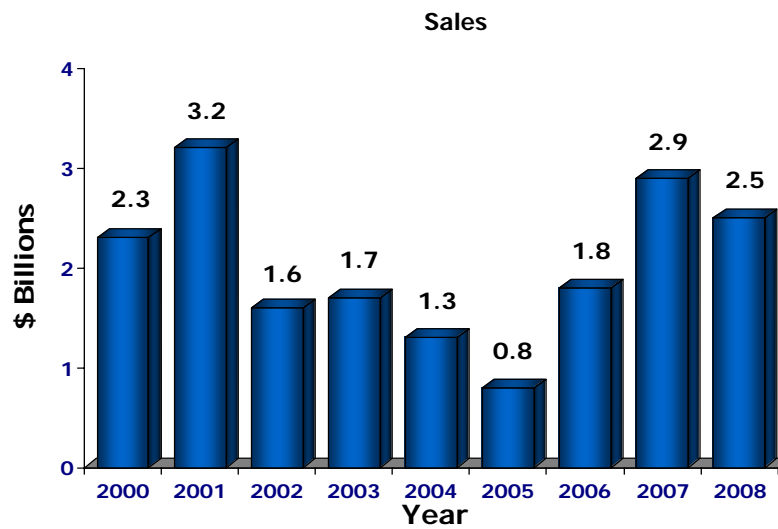


Solutions in Mitigating Plan Sponsor Risks for Pensions

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U.S. Retirement Solutions

DB Closeout Market



DB Closeout Market

Future Growth

- Increased regulations
 - PPA
 - FAS 158
- Shift from DB to DC
- UK market
 - Pensions Act similar to PPA
 - FRS 17 similar to FAS 158
 - 2008 sales over 8 billion GBP

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Steps in Client Discussions:

- Discuss Alternatives with Sponsor
 - Stick with current asset allocation
 - Immunization or other “LDI” Approaches
 - Partial Risk Transfer
 - Termination
- Communicate costs and risks of these approaches
 - Risk to funded status
 - Lower EROA?
 - “Educational” issues with client committees
- Obtain illustrative bid(s)
 - For plans that are large and overfunded consider a participating approach

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Funded Status: $\geq 125\%$

- Ideal candidate for a par approach
- Plan Sponsors should understand the nature of a par contract and what participation features are most logical for them.
 - Plans with heavily subsidized early retirement may focus on that risk,
 - Plans with active managers may also wish to focus on retaining them as managers
- Partial Risk Transfers will generally increase funded status (given that the plan is overfunded) facilitating section 420 funding.

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Funded Status: 100%

- Consider an immunization or annuitization approach especially if the plan is frozen.
- While a high equity exposure may improve the return on assets, 85% of over funding may eventually go to the Treasury by way of corporate and reversion taxes.
- Active plans may benefit from higher equity returns as they may help fund ongoing normal costs`

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Funded Status: 90%

- Contribute sufficient assets to fully fund, then terminate the plan or adopt an immunization strategy
- Monitor funded status periodically (carriers are happy to update liability values)
- Investigate the possibility of settling retirees as an interim step to a termination or full immunization.
 - All else equal, lump sums will be less costly in 2012, reducing cost of termination
- Seek approvals to take action at a given “shortfall” level.

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Funded Status: 75%

- Requires taking a long term view in most situations.
- Entails significant contributions over several years and
- Leads sponsors to retain a high equity exposure.
- Suggest an asset / liability modeling study to help them understand their options & quantify risks.
- Sponsors in poor financial health with poorly funded plans have the “PBGC Put Option”; this may affect their risk tolerance

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Participating Contract Structures

- Individually structured to best meet the needs of the Plan Sponsor
- Favorable experience benefits the client via “participation rights payments”
- Cost more than a non-par approach “up front” but may be less expensive on an NPV basis

Nonparticipating and Participating Contracts

	Nonparticipating	General Account Early Retirement Participation
Structure	General Account investment.	General Account investment.
Impact to Plan Participant	Receives certificate; lifetime income guaranteed by Insurer.	Receives certificate; lifetime income guaranteed by Insurer.
Impact to Plan Sponsor	Insurer assumes total liability; no additional funding required.	Insurer assumes total liability; no additional funding required.
Participation (return of positive experience)	Price known at issue. Any favorable experience retained by Insurer.	Net price depends on experience. Favorable early retirement experience returned to Plan or Sponsor by contractual agreement.
Fees	Insurer’s revenue equals pricing margin ± actual experience on all features.	Insurer’s revenue equals pricing margin ± actual experience, excluding favorable early retirement.

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Partial Risk Transfers (“FAS 88” settlements)

- Uses annuities as an ideal immunization strategy without necessity for plan termination (or freeze)
- Eliminates PBGC premiums and asset related costs for settled liabilities
- Starts with least risky liabilities – retirees
- Requires recognition of a portion of the unamortized actuarial gain / loss
- Impacts funded status of “remaining” plan
- Impacts “remaining” plan’s asset allocation

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Fiduciary Prudence in Vendor Selection

- Selecting an annuity provider is a Fiduciary action requiring:
 - Use of a prudent process and proper documentation
 - ERISA sets a process standard, not a result standard
- Most fiduciaries rely on the DOL’s guidance in IB 95-1 (“Safest Available Annuity Provider”)
- In addition to ratings, this requires a review of:
 1. Quality & Diversification of Investment Portfolio
 2. Size Relative to Liability
 3. Lines of business & exposure to liabilities
 4. Level of Capital & Surplus
 5. Structures and guarantees underlying the contract and
 6. Extent of additional protection from state guaranty fund

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The “internal” plan sponsor communication / approval process:

- Investment Committee (or similar bodies)
- Counsel
- Accountants
- CFO
- HR
- Union
- Trustee
- Investment Managers

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Pricing

Mortality and Interest Rate for Premium (GAAP Reserves)

- Insurance company can select mortality table
 - Adjust current table using mortality improvement
 - Create a table using experience
- Interest rates tied to current rates on long-term fixed income securities

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Pricing

Mortality and Interest Rate for Statutory and Tax Reserves

- Mortality prescribed by regulation
 - Currently 94 GAR, generational mortality improvement
- Interest rates prescribed by regulation
- Insurance company has to hold assets equal to Statutory reserves
- Statutory reserves are usually greater than the premium

Pricing

DB Closeout Premium vs. DB Valuation

- Single price vs. annual valuations
- Capital requirements
- Mortality
- Interest rates
- Expenses

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Service

Implementation service

- Usually lasts about 6 months
- Takeover of annuity payments
- Data clean-up
- Participant communications
- Contract
- Certificates

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Service

Participant service

- Participants contact insurance company
 - Phone, mail, internet
- Services
 - Retirement benefit calculations
 - Death benefit calculations
 - Tax withholding
 - 1099R's

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Questions?

MetLife Corporate Benefit Funding Sales

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