Intro to Pension Risk Transfer

New York University Actuarial Society

Friday, September 21st, 2018

What is a Pension?

"A pension is a regular payment made during a person's retirement from an investment fund to which that person or their employer has contributed during their working life"

<u>Some questions:</u>

- Who owns the investment fund?
- Who pays the annuity?
- Why would a company do this? Why would a company *not* do this?
- Are there any risks involved with a company providing this?

Companies Provide Pensions

Companies like FedEx, Verizon, Nike, etc. give pensions to employees

What do these companies have in common?

<u>Some (more!!) questions:</u>

- Does it make sense for them to dedicate resources to providing this service to their employees?
- Are there any alternatives?
  - Hint: who *specializes* in providing this service?

Passing on the Responsibility

- Companies have the option to pass on their pension responsibility and sell it to someone else
  - Who would buy that?

Correct! Financial services companies that specialize in <u>life insurance,</u> <u>retirement</u>, and <u>pensions</u>, are potential deal partners.

(e.g., Prudential Financial, New York Life, MassMutual)

How much do they pay?

- How much do non-financial services companies pay for pension specialists to take over their pension liabilities?

Okay, that one sounds a little tough…let me ask these instead

- We know that the pension is worth the discounted sum of the future cash flows…but what does that mean in this context?
- What factors do pension specialists use to price these pension deals?
  - *What are the non-financial services companies paying for?*

Definition of Insurance

"A practice or arrangement by which a company or government agency provides a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a premium."

In other words:

<u>A transfer of risk from one party to another</u>

What risk is being transferred in pension risk transfer deals?

Thanks for coming!

Questions?