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Subject:	Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities

Comments:

Public Comments on Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities:
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Comment: Developments in Insurance involvement in Pension funding

There have been increasing transactions, in the billions of dollars, involving transfer of pension obligations from the original employer to an insurance company which assumes some or all of the employers future pension obligations. These pension risk transfers raise important questions about the capital structure of the institutions accepting future pension risk, because it is important that those pension obligations be met. The increasing size and pace of these transactions should be taken into consideration in assessing the adequacy of insurance and banking institutions providing these pension risk transfer products. There are, for example, reporting obligations for pension plans which discuss the balance of assets and liabilities for ensuring the future payment of pension payments. What kinds of reporting will be made available, at the plan level, and at the overall insurer level, about the relative balance of assets and liabilities for insurers, including stress tests if returns are lower than projected, or payout and longevity risks are higher than projected. Insurers engaged in such pension risk transfer, should identify
1. The amount of liabilities represented by pension risk transfer transactions
2. The amount, and value at risk, of assets associated with, or dedicated to, meeting these pension obligations. If specific assets are not allocated to meeting pension risk transfer obligations, or the assets nominally identified with meeting these obligations for the insurance companies board of directors and risk management executives.

Examples of these trends include the following:

PPG has entered into an agreement with both Metropolitan Life Insurance Company (MetLife) and Massachusetts Mutual Life Insurance Company (MassMutual) to provide annuity benefits to approximately 13,400 retirees in PPG's defined benefit (DB) pension plans, representing pension obligations of $1.6 billion. PPG, a Fortune 200 company, is a global manufacturer of paints, coatings, optical products, specialty materials, glass and fiber glass, with operations in nearly 70 countries around the world. The transaction involves two groups of retireessalaried and non-union hourly. For 11,000 salaried retirees, MetLife and MassMutual are each providing 50% of the monthly benefits. MassMutual will act as lead administrator. MetLife will pay its portion of the benefits through an administration agreement with MassMutual. MetLife will be the exclusive provider for the non-union

hourly group, making payments directly to the retirees.

On September 8, 2016, The Prudential Insurance Company of America completed a pension risk transfer agreement with the WestRock Company, a provider of paper and packaging solutions in consumer and corrugated markets. Under the terms of the agreement, WestRock will transfer $2.5 billion in pension liabilities to Prudential, reducing its overall U.S. pension obligations by 40 percent. The transfer will cover approximately 35,000 retirees and their beneficiaries.

Such transactions, beginning with the huge GM transfer in 2012, have already raised questions and issues. All of that activity has a cost, though. Given the low interest rate environment, insurers have to charge more upfront (GM paid 110 percent of its liabilities) and then put the money into the highest-returning instruments available. Putting money into high yielding instruments may also have risks, both of default and decline in value if interest rates change.

Tadros said the capacity for these kinds of deals will have to come from traditional participants, as regulators are unlikely to bless the private equity-backed, special-purpose insurers formed in Britain to take on these liabilities. Such special purpose companies do not provide nearly the same degree of financial strength and stability U.S. regulators have sought.
"I think capacity in this particular area of terminal funding certainly is not limitless," said Elaine Sarsynski, executive vice president of retirement services and chief executive of international business at MassMutual.

"There is definitely going to be risk-adjusted capital applied to this business," she said. "It's a question of making sure you underwrite with an appropriate return."
Beyond the availability of capital, there are also questions about compliance with government standards for annuities and retirement plans. BCG's Devlin said at most a half-dozen insurers comply fully with U.S. Department of Labor guidelines, which are intended to ensure plans are financially sound and safe for consumers.

U.S. regulators have good reason to be careful. The Labor Department's rules were crafted following the demise of California insurer Executive Life in 1991. The company imploded after heavy investment in junk bonds that were ultimately too risky for such a large pension guarantor.