Beyond the Text: Exploring the Pension Risk Transfer Market

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[Opening Music]

[Alyssa Gittleman (AG)]

Hello, and welcome to Beyond the Text, a Conning podcast featuring insights from our Insurance Research department.
I'm your host, Alyssa Gittleman, the Head of Marketing & Communications here at Conning.

Join me as I welcome analysts and guests to provide insights on recent publications and emerging industry trends.
Today I am here with Scott Hawkins, who is the head of our Insurance Research department and the author of our recently released "Pension Risk Transfer Market Annual Review – 2025" report. Thank you, Scott, for being here today.

[SCOTT Hawkins (SH)] (00:38)

Thank you for having me.

[AG] (00:41)

Before I go any further, I do want to mention that this report is available to purchase on our website Conning.com and we will be referring to Pension Risk Transfer Markets as PRT going forward.
So, with that, Scott, let's dive in. Could you explain what a PRT is for those who aren't familiar with it?

[SH] (1:08)

Sure Alyssa, so as you said, a PRT stands for pension risk transfer and that's the name for when a corporate defined benefit pension plan - classic pension plan - transfers some or all its pension liabilities to an annuity insurer.

When that happens, the insurer assumes the pension liabilities and is responsible for making any pension payments to retirees.
After PRT, the DB plan no longer has those pension liabilities, which can have a very significant impact on the sponsoring company's income statement and balance sheet in a positive way.

[AG] (1:42)

Ok thanks, and I know we've been including PRTs as part of our Group Annuity market overview for the past couple years. What made you want to write a four-part series on PRTs?

[SH] (1:54)

You're absolutely right. We've been following and writing about the U.S. pension risk transfer market since 2013. And over that time, this market has grown considerably in terms of the number of insurers in the market and the amount of pension liabilities transferred by DB plans. I'll give you an example of the size of the market. In 2024, Prudential reported there were over $40 billion worth of PRT transactions in that year alone, which was the third consecutive year of more than $40 billion in transfers. And it surpassed $50 billion for only the second time since 2022. In addition, what we call "jumbo transactions" - those are PRTs of a billion dollars or more - have become increasingly common as larger plans seek to take advantage of the robust derisking market for pension plans. So, from our perspective, it seemed time to take a deeper look at this market and see how annuity insurers are participating in it.

[AG] (2:45)

Yea that sounds pretty great. What do you think drove the PRT growth in 2024?

[SH] (2:52)

Well, 2024 saw the continuation of several factors that had been in play for a couple of years. First, DB plans continued to report higher funding ratios due in large part to the higher interest rate environment which helped reduce plan liabilities.

At the same time, competition contributed [to] lowering the cost of the buyouts, which is always a positive. And plan sponsors continued to face cost pressures from increasing PBGC premiums on their pensions as well as administrative costs of running the plan. And there is generally a really supportive regulatory requirement and framework to help plan sponsors to do more PRTs. So, all of those are a factor, but I do think the key driver was the continued high funding levels and funding ratios of DB plans.

A [DB plan's] funding ratio for those that might not be familiar is the ratio of the plan's asset to its liabilities. The closer that ratio is to 100%, the more attractive a PRT becomes in terms of transfer costs. On the other hand, the lower that ratio is, the less likely a DB plan will consider doing a PRT; it just simply costs more.

Corporate DB funding ratios have risen significantly in the last couple of years. In 2021 it was about 99%. Last year it was just about 102% so they're clearly in a strong position to consider taking PRTs on. That's what's driving the market.

[AG] (4:13)

Absolutely. What do you think 2025 looks like for this market?

[SH] (4:18)

So, in our report we do touch base on our view for 2025. Our view is that, right now, there continues to be a really strong appetite for PRT business among both insurers and plan sponsors.

We think insurers will see continued growth opportunities in the PRT space especially if interest rates remain relatively flat, or at least don't decline, those funding ratios should remain high which means plan sponsors will be looking to derisk.

We also think there's going to be more insurers entering the PRT market this year, there's about 20 or so in the market right now. And if more competition does enter in the form of new annuity insurers, that's going to lead to more aggressive PRT pricing which is another factor supporting the idea that this year will see even more PRT business.

That means prices are going to soften due to competition and even if that happens, we think this is going to make some pressure on insurers to really look at their investments and capital management strategies to generate profitable spreads on this business because they are not going to necessarily get this in price.

They are also going to have to have access to capital or reinsurance to support the growth potential in 2025 and perhaps on.
So, in the report and generally speaking overall, our view is that annuity insurers are going to continue to see PRTs as a natural extension of their core annuity business. We think they are really gearing up to capture as much of this multi-billion-dollar opportunity as possible this year and over the next couple of years.

[AG] (5:41)

So, all of this sounds great, but there have to be some challenges. What do you think insurers need to be thinking about if they want to get into this market?

[SH] (5:51)

Yea, for insurers looking to enter this space and even for the ones that are in it, there's really only two big challenges that they have to think about. How do they think about their investment management as they're taking these large blocks of business and what are they thinking about managing their capital as they assume these greater liabilities.

In terms of investments, these PRTs mean an insurer is going to be investing relatively large blocks of premium or assets in the current market environment. Those blocks can be a challenge to the investment strategies of an insurer in a couple of ways. First, they are going to need to source assets if what they're getting is premium - if you're getting $5 billion in premium you got to go out in the market and find the assets to support that. That can be a challenge for certain sized insurers that might not have access to a lot of the market out there and can quickly source those assets.

Now sometimes a PRT is not done with premium; you're taking the assets of the pension plan. And when you do that, insurers are still going to have to adjust some of those assets to match its own investment criteria, which means they are going to be buying or selling some of the assets they're assuming. They have to have the capacity to do that. In both cases, however, insurers typically will price those changes into the PRT offering that they're making - that would be a part of their bid.

We think the bigger challenge will be the availability of capital for an insurer that's looking to grow into this market. Depending on the insurer, adding a multi-billion-dollar, or even a multi-hundred-million-dollar PRT block could cause a real capital strain on their available capital.

That's why we think insurers will continue using reinsurance to support PRT growth. And therefore, raising the capital to support PRTs has been a factor in this market. We're seeing that supporting the creation of these sidecars that are supporting the reinsurance. We think that's going to be an avenue that insurers are going to leverage to grow in the market this year.

[AG] (7:45)

Does this mean only the largest players can participate in the PRT market?

[SH] (7:51)

Our high-level answer is no, there's opportunities across the board here. That said, large, midsized, and small insurers do have distinct roles. Clearly the large insurers capture the headlines with all the jumbo deals that are out there but there's opportunities here. That said, we do see opportunities for insurers – from multi-billion-dollar jumbo buyouts to niche small-plan terminations. Now the large insurers' will look at those jumbos, midsized insurers may look for something in say the $50 million to $100 million plan termination. We're also seeing partnerships arise to take on some of these jumbos so we can see a group of several midsized insurers coming together to take on a jumbo PRT which they then divide among themselves. So definitely large insurers, definitely midsized insurers are finding opportunities in this market. We think that's going to continue.

[AG] (8:40)

That's great, I'm looking forward to seeing what this year brings and we'll see what kinds of deals come up. I think we're running out of time so before I let you go; can you give us a sense of what the other PRT reports will be in the series?

[SH] (8:56)

Yea glad to. So, as you mentioned at the beginning, this first report is our new annual review of the prior year's PRT activity. We'll be doing this every year. It also includes our thoughts on what this year brings. We've been talking a little bit about that now.

This year, however, the other three reports are going to take a closer look at the investment challenges in growing a PRT business if you're an insurer. So, we're going to look at the capital management challenges, the investment challenges, and finally look at the strategic questions insurers should be asking themselves if they're considering entering this market and that would be the last report coming out sometime in the second half of the year.

[AG] (9:30)

Great, thank you, so that's a wrap for today's episode--thank you so much Scott for sharing your insights with us today and for going beyond the PRT market with us. And thank you all for listening to today's episode of Beyond the Text. If you are interested in learning more about what you heard today, you can purchase our reports at Conning.com or you can always send questions to insuranceresearch@conning.com. We hope you will subscribe to this podcast and join us for our next episode as we stay up to date on industry trends.
Thank you.

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