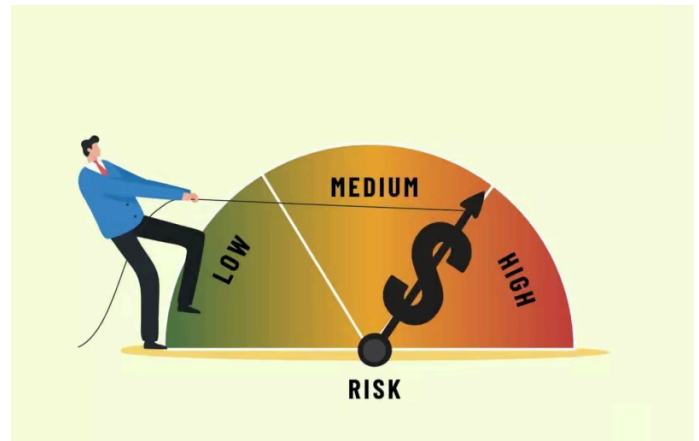


AN UPDATE TO THE POTENTIAL ECONOMIC LOSS TO PARTICIPANTS (ELP) OF PRT TRANSACTIONS

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Topics: [Risk Management](#)

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Year-end is often accompanied by an uptick in [Pension Risk Transfer \(PRT\)](#) transactions. Accordingly, we are updating our estimates of the potential ELP associated with commonly used insurers based on current (10/31/22) market pricing. We developed this methodology to aid fiduciaries who are responsible for choosing an insurer as part of PRT transactions. Our ELP formula uses a market-based approach to measure the relative credit risk of insurers who commonly compete to sell annuities to pension plan managers. By examining the credit spread on publicly traded, policy level securities, we can provide a market measure of each insurer's [default risk](#). Similar to our initial findings, the range of credit risk among insurers is quite striking.


Depending on the selected insurer, we estimate that beneficiaries risk losing as much as 13.8% of the value of their pension in the form of uncompensated credit risk. That is, for a \$1b PRT transaction, beneficiaries are at risk of an economic loss of as much as \$138mm.

A detailed description of the methodology can be found in our paper [“Pension Risk Transfer May be Transferring Risk to Beneficiaries.”](#)

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FIGURE 2. Quantifying the Economic Loss to Beneficiaries (ELB) Due to Credit Risk

Issuer	Observed Market Spread ¹	Market Price of Bond's Risks Over Treasuries	Economic Loss to Beneficiaries (ELB) of Choosing Insurer	Average Credit Rating	Market Implied Rating	Market Assessment of Safest Annuity Available
(A) MassMutual	68	6.8%	0.0%	AA	AA	 <p>CLEAR CANDIDATES</p> <p>QUESTIONABLE CANDIDATES: DEMANDS EXTENUATING CIRCUMSTANCES</p>
(B) NY Life	77	7.7%	0.9%	AAA	AA	
(C) Prudential	77	7.7%	1.0%	AA-	AA	
(D) AIG	99	9.9%	3.1%	A	A+	
(E) MetLife	118	11.8%	5.0%	AA-	A	
(F) Principal	152	15.2%	8.4%	A+	A-	
(G) PacLife	152	15.2%	8.4%	AA-	BBB+/BBB	
(H) F&G	192	19.2%	12.4%	A-	BBB	
(I) Athene	206	20.6%	13.8%	A+	BBB-	

¹Reported spreads are as of 10/31/2022 except for PacLife which is reported as of 10/25/2022 due to limited data availability. Calculations based on assumed liability duration of 10 years. Additional information on assumptions can be found on our website at <https://www.nisa.com/perspectives/pension-risk-transfers-prt-may-be-transferring-risk-to-beneficiaries/>. Source: Bloomberg, NISA calculations.