

The Current Environment for Pension Risk Transfer – A Roundtable Conversation

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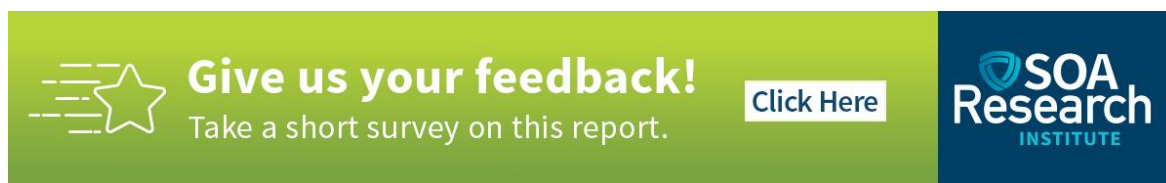
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The Current Environment for Pension Risk Transfer – A Roundtable Conversation

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The Current Environment for Pension Risk Transfer – A Roundtable Conversation

Executive Summary

Overview

Pension risk transfer (PRT) is a process where defined benefit plan sponsors transfer risks—such as longevity, investment, and interest rate risk—to insurers or reinsurers. The PRT market has seen robust growth, with \$51.8 billion in premiums and over 750 transactions in 2024. The Society of Actuaries Research Institute convened a roundtable with stakeholders from insurers, reinsurers, consulting firms, and regulatory bodies to discuss the current landscape and future outlook.

Common Situations for Pension Risk Transfer

Corporations typically consider PRT when the pension plan size exceeds their risk tolerance, PBGC premiums rise, or when plans are overfunded and sponsors seek surplus access. Frozen plans, especially those well-funded, are frequent candidates for PRT, as sponsors aim to reduce balance sheet risk and improve efficiency. Reinsurers support insurers in these transactions, enhancing market capacity and growth.

Pension Risk Transfer Analysis, Documentation, and Litigation

Selecting a transfer partner involves competitive bidding and actuarial analysis, often guided by Department of Labor rules and independent fiduciaries for large deals. Documentation is critical to minimize litigation risk, with independent fiduciaries providing process transparency. Litigation concerns influence timing and structure, though data on trends is still developing.

Key Risk Assumptions

Insurers and reinsurers evaluate mortality, investment rates, and other assumptions using third-party data and models. Base mortality is generally consistent across large cases, while future mortality improvement assumptions vary. Investment strategy and initial returns are pivotal in pricing, with COVID-era impacts still affecting assumptions.

Regulatory Considerations

PRT transactions often use separate accounts, with regulators assessing plans of operation and transaction size limits. Oversight varies by state and insurer experience, with independent fiduciaries playing a key role in ensuring safety and compliance. Solvency, investment returns, and liquidity risks are central to regulatory review.

Market Outlook

Panelists expect continued growth in PRT volume and market capacity, driven by corporate focus on core business and risk transfer to insurers. New entrants and increased reinsurer involvement are expanding the market, with no major regulatory or legislative changes anticipated. The consensus is for sustained, significant growth in pension risk transfer.

Section 1 Overview

Broadly speaking, pension risk transfer (PRT) is a process whereby the risks of a defined benefit plan are contractually transferred from a pension plan sponsor to reduce or eliminate various risks associated with the plan. There are varying approaches for transferring risks depending on the objectives and primary goals of the stakeholders. Key risks that are addressed in PRT include longevity risk, investment risk, and interest rate risk – among other considerations of the plan sponsor.

The marketplace for pension risk transfer has continued strong growth over recent years. According to a market update by Mercer, the pension risk transfer (PRT) market remained strong in 2024, with nearly \$51.8 billion in premiums shifting to insurers. This reflected over 750 successfully reported risk-transfer transactions as noted in the update.

With this continued significant volume of PRT activity, the Society of Actuaries Research Institute (SOA) held a roundtable conversation on the current landscape and outlook for the future of PRT. To bring a variety of perspectives, roundtable panelists were recruited to represent different stakeholders in PRT transactions. These perspectives included: Insurers, Reinsurers, Consulting Firms and Regulatory Bodies.

The roundtable panelists were:

- Maria Carnovale, Munich Re
- Tim Geddes, Deloitte Consulting
- Tiffany Norman, Hannover Life Reassurance Company of America
- Mike Yanacheak, Iowa Insurance Division

Moderator:

- Dale Hall, Managing Director, Society of Actuaries Research Institute

The remainder of this report discusses the questions posed to the panelists and their thoughts.

Section 2 Common Situations for Pension Risk Transfer

To begin the conversation, Dale Hall posed the following question to the panelists:

What types of situations are most common for corporations to consider transferring pension risk to an insurer or reinsurer?

Kicking off the conversation, it was noted that most large pension plan sponsors are at least thinking about whether it is desirable to transfer some risk or consider terminating the full pension plan.

Primary drivers described include:

- The size of the plan relative to the risk comfort level of the plan sponsor's leaders.
- Pension Benefit Guaranty Corporation (PBGC) premiums and other expense items.
- The extent to which a plan sponsor can efficiently manage funds compared to an insurer.
- Situations where plans are overfunded. The plan sponsor might want to access the surplus and is unable to do so without terminating the plan.
- General corporate risk management and an overall desire to reduce risk.

It was then added that common situations include when a plan sponsor has a frozen plan that is well funded with participants not accruing benefits. These plans are based on promises made in the past and can represent a substantial portion of a plan's balance sheet. There is limited upside to continuing a frozen plan that is well-funded. Situations like this are a common occurrence because many plans are frozen and financial markets have performed well in recent years.

Focusing further on frozen plans, the question was raised as to whether fully frozen plans or partially frozen plans lead to more PRT. It was noted that it depends on what type of risk transfer is occurring. There is a difference if the intent is to terminate the plan completely or only complete a retiree lift out. If it is a retiree lift out, the situation may be either too much pension risk on the balance sheet or the sponsor cannot manage the plan as well as a large insurance company. In this situation, it is primarily a matter of efficiency to transfer the risk to an insurer. For terminations, it is likely that the plan is already frozen. This is because before a termination can be completed, the plan needs to be frozen. In cases like this, the plan will decide when the timing is right to terminate based on market conditions and other factors.

From the perspective of a reinsurer, it was noted that they are not licensed to write PRT contracts directly and, instead, serve as partners to the bidding insurers. Reinsurers generally view insurers as well positioned to take on these transactions, with reinsurers providing targeted support to drive growth. In turn, the fact that insurers are well positioned is viewed favorably by corporations seeking to derisk their balance sheets and is another driver for PRT transactions.

Section 3 Pension Risk Transfer Analysis, Documentation and Litigation

Moving on from common PRT situations, the following set of questions were posed to the panelists:

- **What types of analysis do pension actuaries, auditors and corporate finance teams consider for ensuring the right transfer partner and price?**
- **What type of documentation/validation is done to minimize risk of future lawsuits/litigation?**
- **Does the concern of litigation affect how parties look at pension risk transfers currently?**

To start this portion of the conversation, panelists laid out the typical process for selecting an insurer, and it involves testing the market fully in order to seek the best price. Plan sponsors will request bids from insurers who regularly participate in the market and collect as many bids as they can. This process gives plan sponsors a sense of receiving a relatively fair price because the market is competitive. It was further noted that the plan sponsors observed generally know the market price for their PRT at the outset.

Consulting actuaries then may use prior experience based on similar liabilities to advise on next steps. This would involve considering how the company may derisk via a lump sum window and what the consulting actuaries think the residual cost of buying the respective policies would be. For purposes of the conversation, a lump sum window is a strategy used in PRT to derisk the plan by allowing participants to receive a lump sum distribution as long as it is selected within a specific, limited time period. An actuarial analysis would be conducted as part of this assessment.

In the next step of finding a partner for the transactions, there are a couple of points to consider. The Department of Labor has clear guidance on the process to be followed in order to select the “safest available annuity provider.” Some plan sponsors will choose to undertake the selection process on their own through an existing Retirement Committee. However, for most deals that are of a substantial size, a company will hire an independent fiduciary to proceed through that process with them. This process will include the independent fiduciary providing substantial documentation of the process steps that were undertaken, the decisions that were made, and how it was determined that the selected insurer provided the safest available annuity.

From an insurer’s perspective, the first step is to decide if it wants to bid on a particular request for proposal (RFP) for PRT. Insurers will consider different aspects of the RFP and ways to make the decision. First, insurers typically look at the size of the transaction and assess whether it fits the range of sizes they would be willing to consider. An insurer then looks at the risks associated with a transaction and their complexity. It could be straightforward or perhaps there will be more complicated features, particularly if active or deferred participants are included. With differing levels of complexity, an insurer would consider whether it can properly evaluate and underwrite the risks. In addition, it would assess whether the risks could be properly priced and administered. There are also other macro factors in the decision-making process. These considerations would include how many other bids an insurer currently has in process and its capacity for taking on new deals.

Regarding an earlier point about companies having guidance from the Department of Labor on choosing an insurer, the role of insurers was described. Part of the process is for insurers to address questions from the companies such as their portfolio of business and solvency. For large transactions where independent fiduciaries are involved, there is typically a process for interaction between the independent fiduciaries and the insurers. Part of the due diligence that independent fiduciaries often perform is to monitor all insurers in the market, so a deal does not start from scratch. Then, an independent fiduciary may request individual meetings to obtain specific information, especially for large or complex deals.

Following up on the insurer perspective, the part that reinsurers play was described. As a starting point, it was noted that insurers often focus on markets where they are most competitive, and this may be related to size—from jumbo plans to micro-plans, in pay or deferreds, or specific industries. From a reinsurer’s standpoint, the conversations

tend to be around the risk appetite, size capacity, growth objectives, target pricing and capital position of the insurer. It was noted that insurers do not want to withhold bidding solely due to constraints in these areas. Consequently, insurers may look to enter into a reinsurance agreement and cede a quota share of the block to help them meet their objectives. Reinsurers may also provide an upfront ceding allowance to more efficiently finance the new business strain. Through these partnerships and arrangements, a reinsurer would help an insurer bid on blocks that meet its target profile. Reinsurers may also be quite involved in reviewing longevity risk and offer strategic longevity risk solutions. Overall, a goal for reinsurers is to partner with insurers in winning the blocks they most desire.

The conversation turned to considerations that a regulatory actuary may look for in a transaction. It was noted that insurers are regulated by the states in which they do business. Therefore, an insurance regulatory actuary may not focus on Department of Labor Rules as part of the review. The actuarial review involves assessing documentation to confirm that the actuarial teams conducted their analysis appropriately. This includes analysis on how reliable the mortality experience is and how predictive it is for the rest of the group. This type of review is usually in cases of a full examination of the transaction.

In other cases, where the situation involves obtaining an update from an insurer that has been in the marketplace and growing over a few years, the questions are more about ongoing procedures. Questions include how an insurer evaluates its experience over time, including actual to expected mortality rates, investment returns and liquidity positions. The bottom line in this situation is to understand and review evidence that actuarial teams have met their professional responsibilities.

The conversation turned back to further understanding the role of an independent or co-fiduciary and how prevalent it is. It was noted that typically an independent fiduciary is brought in when the transaction reaches a certain size. There does not seem to be a hard and fast rule on that size, but size is a definite consideration. It was further added that it is logical that independent fiduciaries are playing a role in the market. For the items that a plan sponsor must consider, such as an insurer's solvency and other factors, a typical plan sponsor does not have that expertise. As a result, they hire experts to assist with those needs.

Further probing the role of an independent fiduciary, the question was raised about whether, from a risk management point of view, bringing in an independent fiduciary could be to mitigate the risk of potential future lawsuits or litigation. It was noted that litigation is likely a primary motivator for how the role of an independent fiduciary has evolved and why they may be brought into the transaction. Overall, considerations for involvement of an independent fiduciary may be related to a plan sponsor wanting to perform its fiduciary duties while mitigating the potential of litigation.

A further question was raised as to how litigation concerns may have impacted this space. It was noted that panelists have not seen data on trends for these concerns because this is an area that is still developing. However, it is logical to think that the advent of lawsuits has caused some plan sponsors to carefully consider whether the timing is right to proceed with certain transactions. It was further added that this may be less of a consideration for sponsors who want to terminate a plan. This may be because if they have reached this point in the decision process, they may decide it is worthwhile to move forward despite the risk of litigation.

Section 4 Key Risk Assumptions

The next question posed was:

How do insurers and reinsurers evaluate key pension risk assumptions such as mortality, investment rates, and others?

The conversation started with a description of base and future mortality assumptions. It was noted that most insurers/reinsurers have been observed to use third party vendors for mortality curves and data. This may include individual mortality curves that can be based on:

- Zip code
- Benefit size
- White Collar or Blue Collar participants
- Whether participants are in pay or deferred status
- Single or Joint
- Whether participant, beneficiary or corporation
- Type of Industry

It was further observed that most insurers/reinsurers arrive at a similar position on base mortality, especially if it is a large case and experience is highly credible. For smaller cases, there will be more judgement involved. For future mortality improvement (FMI) assumptions, insurers/reinsurers will have differing approaches they use depending on their overall philosophy. This could include using:

- Industry FMI tables
- Individual models (most reinsurers use their own FMI)
- Continuous Mortality Investigation (CMI) Tool

In terms of pricing, it was added that an overall pricing advantage that insurers may have could be based on how they invest including their asset strategy, target duration and liquidity. For solvency considerations, they would evaluate the reserves and capital they are going to hold and the spread to pay their shareholders.

While base mortality assumptions tend to be less variable, by contrast, FMI assumptions are where larger differences are observed. This would stem from using different assumption setting approaches like industry tables versus an insurer's own model. It was further added that PRT is unlike other insurance products where underwriting is performed and the health status of the underlying life is better known. It is more a question of what data is accessible, and which is most predictive of mortality. In addition, an insurer/reinsurer would assess if it could build a model from the available data and the way to build it. Currently, it has been observed that models used are relatively sophisticated. For larger transactions, it is typical that the plan sponsor would provide its own mortality experience data.

Since PRT transactions are inherently non-biometric, it was noted that when it comes to the price of the PRT transaction, the most impactful input can be the investment strategy and the initial investment return. Furthermore, investment strategy is a primary factor for the price differentiation across insurers. Insurers may vary their own

investment strategies depending on the characteristics of individual deals and to ensure proper asset liability matching (ALM).

A related factor for PRT that insurers consider is timing of investments. As far as timing of transactions, it is typical to provide a bid in the morning and then be selected by afternoon. If it is a cash deal, it's possible that the insurer could receive the funds perhaps five days later. Given this timing from an insurer's perspective, the initial investment return is among the most material assumptions. This is especially true in a situation where an insurer sets its pricing, but then in the five days before funds are received, rates drop significantly. Instances like this have been observed in the past few years when rates have, at times, been volatile even over short time periods. An insurer's investment strategy may contemplate situations like this beforehand to be prepared to mitigate the risk.

The next assumption discussed was the impact of the COVID era and how it might be considered for the future. The impact is a complex question and, to a certain extent, depends on the context under discussion - whether it is for PRT versus life insurance versus annuities. There is quite a difference in how insurers/reinsurers are making COVID adjustments. This differential in COVID assumptions can affect the relative competitiveness of the pricing and that can vary on the product under consideration. There appears to be significant deviation in what insurers/reinsurers are assuming for whether the impact of COVID will linger or not. Overall, it was observed that COVID seems to still be having an impact on the industry, more so in the U.S. than in global markets. And there is no current consensus on how to incorporate COVID adjustments or how long the adjustments will take to wear off.

Section 5 Regulatory Considerations

The next question under discussion concerned regulatory considerations. Specifically,

When do transactions rise to the point of regulatory considerations? When is it less so?

It was noted that many of these transactions are accomplished through the use of separate accounts. When a separate account is created, a plan of operations will be filed. The plan of operations provides an element that a regulator can use to assess the transaction. This is because it might have a current size limit or one set later depending on the circumstances of the transaction. The plan of operations may also be used to help foster a dialogue between a regulator and an insurer to confirm that prudent actions are being taken to manage the business.

A question was raised on whether these transactions are accomplished through a separate account that has been created solely for the transaction or, on the other hand, using an existing one for multiple transactions. It was observed that mostly commingled separate accounts have been seen where multiple transactions are held over time, perhaps, up to a size limit where large transactions may have their own separate accounts.

From a marketplace perspective, the oversight process for when a new insurer enters it was described. For a new insurer that is relatively small upon entering, a regulator may provide an aggregate dollar limit on transactions over a certain period. A common timeframe is two years. Before the end of the period or upon reaching the size limit, a regulator may ask for an update on the team that has been working on the transactions, including a description of their background and overall capabilities. This would also include documentation on the procedures the insurer is using and confirmation of how those are being applied. Other factors that a regulator might inquire about are the number of bids and percentage of winning bids. If an insurer has won all or a high percentage of bids, this may be an area for further investigation.

As an insurer continues through the process and has a proven track record, the timing for an update may be extended and the size limit increased on the commingled separate account. Depending on the comfort level of the regulator, the next check-in may be, perhaps, a few years later for a specialized analysis or, alternatively, when the next comprehensive insurer exam is undertaken.

When transactions are conducted through a general account, regulators typically want to have an agreement on how they will be informed along the way. This may include information on the relative growth of transactions and how uniform they are in aspects such as size, duration, collar/class and others. Where there is mainly consistent growth and uniformity, this fact is usually straightforward to document and may not cause much concern. On the other hand, if an insurer is taking on varying types of risks, this may result in greater concern and a more detailed review. A regulator would want to know the nature of the varying risks and the steps taken to ensure appropriate analysis, such as mortality assumptions.

From an insurer's perspective on the interactions with regulators, the specific items described above were aligned with experience. It was further noted that interactions will differ from state to state, as each state may focus on particular items.

Turning to a consulting perspective, the question was raised as to how well plan sponsors understand the regulatory environment and what questions they may be asking. It was noted the Department of Labor has issued guidance as to the factors to consider in evaluating an insurer. Much of this evaluation may fall on the independent fiduciary who has been engaged for a transaction. As a specific example, separate accounts are often a significant consideration when selecting an insurer. A separate account can have a strong impact on the perceived safety of an annuity that is being purchased on behalf of the participants. This differentiation is especially the case if many of the

participants have benefits above the state guaranteed amounts. Overall, separate accounts, along with individual limits of state guaranteed funds, are important considerations for the decisions that fiduciaries make.

For the considerations of solvency and overall asset adequacy analysis of a life insurance company carrying PRT risks, three areas of review were outlined:

- Mortality – How has the insurer documented their mortality analysis? Is it adequate for the block the insurer has? Have there been changes over time?
- Investment Returns – What are the investment returns being used to demonstrate adequacy of assets?
- Liquidity – What are the different liquidity risks associated with the block of business?

Specifically, liquidity risks can vary based on the nature of the block. For example, the situation could be that there are participants in the block who are already retired, and their payments are set for their lifetimes. Alternatively, it could be a situation of deferred lives where participants may have a cash-out option or can elect a different payout based on multiple lives. Situations such as these may require varying analysis of liquidity risk to ensure that liquidity needs are met for the block of business. This could inform how liquidity risk might impact cash flow testing and asset adequacy overall.

From a reinsurer's perspective, it was noted that regulatory oversight plays a critical role in maintaining long term stability for the market. The specific regulators who an insurer and reinsurer interact with can differ depending on where they are domiciled. The type of review will also vary whether the insurer/reinsurer's regulatory location is in the U.S. or global. The bottom line is that the regulatory function is important regardless of jurisdiction.

Section 6 Market Outlook

The final question posed:

What do you see as the future outlook for pension risk transfer in terms of volume, opportunities, structure, etc.?

This question began with the observation that current trends are expected to continue unless some regulatory upheaval occurs. It is thought, in general, that corporate entities do not want to take on annuity payment risk as part of their business. Instead, they want to focus on their core businesses such as manufacturing or providing retail services. Furthermore, it is not expected to see a resurgence of defined benefit plans. Rather, it is expected that there will be continued interest in PRT because it shifts risk to the insurance industry, which is best positioned for managing it.

Although it was observed that, currently, there is no reason for this trend to abate, potential factors that may cause it to change could include unfavorable litigation outcomes, regulatory structural changes resulting in more difficult or expensive transactions, and legislation that may change decision-making for retaining a defined benefit plan. However, none of those potential developments are expected at this time.

From the insurer side, it appears that capacity is continuing to increase. There are new entrants in the market every year and a few that are currently considering entering. Overall, it is a strong market in terms of risk appetite and capacity. There was further agreement on previous points regarding the appropriateness of PRT in shifting risk to those entities who best manage it and that there is currently a strong market. Continued growth is also expected on the reinsurer side as insurers look to manage the amounts that they have written and new entrants to the market seek partners. This would be viewed as a positive development in that insurers are taking proactive steps for help in managing their blocks. It has also been observed informally that more insurers are in the marketplace—more in the past three years than in the previous five years. Also helping to drive growth is that insurers may view entering the marketplace as a natural extension of the capabilities they already have and the types of risks they are willing to take.

In conclusion, all four panelists were aligned with the expectation of continued significant growth in the area.



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Section 7 Acknowledgments

The Society of Actuaries Research Institute and author of this report are grateful for the participation of the panelists in this conversation and for their willingness to share their views. Thanks also to Dale Hall for moderating the conversation and providing informative commentary throughout the conversation.

About The Society of Actuaries Research Institute

Serving as the research arm of the Society of Actuaries (SOA), the SOA Research Institute provides objective, data-driven research bringing together tried and true practices and future-focused approaches to address societal challenges and your business needs. The Institute provides trusted knowledge, extensive experience and new technologies to help effectively identify, predict and manage risks.

Representing the thousands of actuaries who help conduct critical research, the SOA Research Institute provides clarity and solutions on risks and societal challenges. The Institute connects actuaries, academics, employers, the insurance industry, regulators, research partners, foundations and research institutions, sponsors and non-governmental organizations, building an effective network which provides support, knowledge and expertise regarding the management of risk to benefit the industry and the public.

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