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# Adviser Sees a Favorable Landscape for PRT Advice

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**A confluence of factors has combined to make this a compelling time to enter the pension risk transfer advice business, says Steve Keating, principal at Penbridge Advisors LLC.**

Keating tells PLANADVISER his firm, launched in January 2013, was specifically formed to serve in an advisory capacity to retirement plan sponsors considering or implementing a pension risk transfer (PRT). Penbridge has since established several formal alliances, one with the London-based P-Solve and another with Deloitte Consulting, to build out its service offerings for pension plan sponsors and employers looking to offload defined benefit (DB) liabilities.

"We established our business model specifically to bring an approach where the collaboration of advisers and other firms providing PRT settlor and fiduciary services could be brought together, addressing all of the areas of specialty that are required to achieve a successful PRT outcome for employers and pension plan participants," Keating explains. "Overall we're very optimistic about the future for this type of pension risk transfer advice and support."

Keating points to a variety of factors making late 2014 and 2015 a great time to enter the PRT advice market—from pending hikes in Pension Benefit Guaranty Corporation (PBGC) benefit insurance premiums to higher funded statuses for most pension plans following recent stock market growth. These factors and others make PRT look more and more attractive, he says.

"A lot of things have really come to a head right now in terms of plan sponsor decisions regarding their pension plan liability," Keating notes. "There's also the fact that the latest PBGC numbers, which are from year-end 2011, show about one-third of all remaining DB plans in the United States are hard frozen."

As Keating observes, the only means for a hard-frozen plan to be completely removed from a plan sponsor's balance sheet is through a combination of lump-sum cash out offers and annuity purchases. Important for the advisory community, Keating says, is the fact that very few employers, if any, have the internal expertise to execute a PRT transaction entirely on their own. And even for those pension plans that are not frozen, Keating suggests many plan sponsors are considering or have already gone through a reallocation of assets from primarily return-seeking portfolios towards better liability matching, which means many plan sponsors are positioning themselves to get serious about risk transfers. "The way we think about it is—it's not a matter of if a pension plan sponsor will take de-risking or PRT action, it's a matter of when," Keating says. "So in this sense it's clearly a compelling market for advisers to consider. The adviser's job is to step in here and provide the key information that helps sponsors determine when is the right time, and what is the right approach."

Keating says the sheer complexity of PRT transactions means there are many areas where advisers can apply their expertise to improve de-risking outcomes for DB clients.

"The sponsor decides the scope and design of the de-risking strategy and the plan fiduciary manages the implementation. From the fiduciary perspective, there is the creation of the fiduciary structure, including whether to retain an independent fiduciary," he notes. "There are numerous notices and filings that are required by the IRS and the PBGC, just to name a few of the regulators that can be involved. There is also the annuity selection and placement process, which involves cleaning participant data, requesting price quotes from insurers and considering the factors under DOL-95-1, amongst other things."

These are all areas in which a skilled adviser can distinguish himself and help improve outcomes for plan sponsors, Keating says. But, even Penbridge can't deliver all of these services by itself, he explains; for that reason Penbridge has established strategic alliances with advisory firms that can. "We believe this coordinated approach provides the plan sponsor the comprehensive information needed to decide rationally how to de-risk and whether to pursue a PRT transaction," he adds.

"Larger firms may be able to deliver many of these services under one roof, but may not be well positioned to engage and integrate their services with other firms that will inevitably be involved in the PRT transaction process," Keating says. "Especially in larger transactions, there is a lot of business case analysis and implementation work involved—from both settlor and fiduciary perspectives. We believe that no one firm has all of these advisory capabilities internally."

Keating suggests one of the main areas where pension plan sponsors can use help in preparing for a PRT transaction is around the timing of the actual transaction. The relative attractiveness of purchasing annuities to offset pension liabilities fluctuates on a weekly and even daily basis, he notes, making the timing extremely challenging.

"As the adviser, you are in a unique position to sit down with the sponsor to determine what are the factors and conditions that would allow a plan sponsor to move forward with confidence," Keating says. "In that context, price discovery and monitoring is crucial. So is setting up the legal framework that will allow the transfer to move ahead quickly when the time is right. The adviser's role can be to educate the plan sponsor and business owners on what the different de-risking options are. It's generally going to be a combination of lump sums and annuity purchases."

This is not an easy task, Keating warns, even for a skilled adviser with sound knowledge of pension plan operations, as different approaches are often possible.

"Some cases have come to market pursuing a 'spin-off termination,'" Keating says. "Here GM's move comes to mind, and Motorola Solutions also took this approach. Others, Verizon for example, pursued an annuity buyout without plan termination, which is usually referred to as a 'pension lift-out.' So there are clearly a lot of steps involved in deciding not only when to pursue PRT, but how to pursue it. The adviser is there to help the plan sponsor answer questions like, 'Do I want to offer lump sums or not?' And then on the annuity purchase, what's going to be the preferred approach?"

Keating says Penbridge has established a database that collects information from PRT insurance providers each month about annuity pricing. The data is compiled and made available to registered users of the database, currently 144 plan sponsors. "We also currently have more than 200 advisory firms that access the database," he notes. "To us, this indicates there is a growing interest among both the sponsor and adviser communities around pension risk transfer."

—*John Manganaro*

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