PENSION RISK TRANSFER

THE THREE PILLARS OF EXCEPTIONAL SERVICE DELIVERY

Pillar II
Transaction and Transition

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EXECUTIVE SUMMARY

Sponsoring a defined benefit pension plan is an increasingly costly and complex undertaking. Longer life expectancies, low interest rates, unpredictable funding requirements and asset-liability mismatch are creating challenges for plan sponsors around the world. When combined with ongoing market volatility and increasing Pension Benefit Guaranty Corporation premiums in the U.S., these factors are producing significant long-term business risks for many plan sponsors.

When you consider that the funded status of corporate pension plans in the U.S. has decreased over 30% twice since 2000, you can see just how challenging sponsoring a defined benefit plan can be. Over this same period, more than $572 billion in cash contributions—as well as substantial market gains—have been required to keep pension funds near healthy status. The funding index remains well below levels witnessed in 2007, so it comes as no surprise that scores of organizations are taking steps to reduce or completely eliminate pension risk from their balance sheets.

EXHIBIT 1: 
Pension Plan Funding Volatility

Source: Milliman 100 Pension Funding Index as of December 31, 2014.
In fact, a surge of pension buy-out transactions has already occurred in the U.S., with $51.6 billion in group annuity risk transfer sales having occurred from 2012 through the first quarter of 2015. And that figure is expected to escalate, as 48% of senior finance executives surveyed said they are likely to transfer defined benefit plan risk to a third-party insurer within the next two years. Plan sponsors are now, more than ever, implementing risk transfer solutions as a means to:

- Transfer unrewarded risks, particularly longevity.
- Fund a portion or all of their future pension liabilities.
- Achieve plan contribution certainty and improve corporate financial health.
- Enhance strategic flexibility and allow greater focus on the firm’s core business.
- Ensure their employees’ and retirees’ retirement security.

However, executing a pension risk transfer transaction can be an intricate process. Achieving pension certainty may involve multiple phases, and requires thoughtful and thorough planning. Partnering with an insurer experienced in completing pension risk transfer transactions of all sizes and levels of complexity is the first step to ensuring success.

An advisor or plan consultant—working closely with an insurer skilled at pension risk transfer—can help design the specific combination of solutions and timing to protect and deliver the promised benefits within the context of fiduciary and regulatory requirements; and within the framework of the plan sponsor’s core business.

An essential yet often overlooked component of pension risk transfer is service delivery. Selecting a provider that has developed expertise in meeting the needs of both the plan sponsor and its retirees—ensuring a positive experience through every stage of the process—is critical to the effectiveness of a pension risk transfer transaction.

Pension risk transfer has historically been viewed as a financial transaction whereby a company moved its pension liabilities to an insurance company. However, there is now a rapidly changing paradigm in that many plan sponsors are taking a very close look at the service delivery capabilities of annuity providers.

In exchange for their retirees’ hard work and loyalty to the company, plan sponsors are recognizing that retirees deserve to experience the “peace of mind” that comes with knowing their payments will arrive on time, every time, in the correct amount. Plan sponsors also recognize that peace of mind in retirement is more than just financial security; there are also life events that occur in retirement that require assistance and expertise.

As a result, plan sponsors are now looking for more than payout annuity providers—they are increasingly searching for retirement experts who devote all of their time and attention to the retiree experience, and deliver that experience and expertise one retiree at a time. Further, the retiree experience is now inclusive of insurer capabilities and retiree communications before, during and after the transition.

Pension risk transfer service delivery has often been viewed as a purely operational function in which:

- Data is processed
- Timelines are met and retirees are onboarded
- Payments are generated
- Records are maintained

These are all very important metrics when viewing service delivery through an operational lens, and are considered “table stakes” for insurers doing business in the pension risk transfer space. In fact, most all insurers possess these perfunctory transactional capabilities.

But exceptional service delivery is more than that—much more. Exceptional service delivery is the new standard in pension risk transfer, and far surpasses simply meeting baseline objectives or ensuring operational effectiveness. Exceptional service delivery is an evolutionary, holistic experience that occurs before, during and well after the transition, and requires a deep understanding of what plan sponsors and retirees are concerned about and experiencing. It is the ability to shed a purely operational lens and deliver a consultative relationship that creates a distinctively positive and delightful experience.

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1 Source: LIMRA Group Annuity Risk Transfer Survey, 1Q 2015.
There are two key constituents in any pension risk transfer transition; plan sponsors and retirees. Both demand and are entitled to “flawless execution” and exceptional service delivery. Flawless execution is more than successfully transitioning pension liabilities and issuing the first payment on time. Flawless execution is a multi-decade commitment the insurer makes to each and every retiree—a commitment that the insurer will be there for them and their beneficiaries every step of the way throughout their retirement years.

The plan sponsor wants the transition to go well not only because they are funding it, but also because their reputation is on the line with the retirees who worked hard their whole lives to enjoy a long retirement, and deserve reassurance and peace of mind that their benefit payments are safe and secure.

The retiree is interested in flawless execution because they depend on a steady stream of payments to live on. In short, this is their paycheck, and a lot of anxiety can be created for any of us if uncertainly exists about our paychecks.

Plan sponsor needs can vary based on many factors including company culture; plan complexity; number of retirees and pre-retirees; previous mergers and acquisitions; and the prior recordkeeper and data quality, to name just a few. Plan sponsors deserve an insurer who will take time to understand their needs, and who will consult with them to deliver an exceptional experience to all parties.

Retiree needs can be very different depending upon their current life stage and relationship with their employer. Exceptional service delivery can address those needs by embodying a consultative approach that begins with taking time to understand the company’s culture—fully comprehending the demographics and geographical dispersion of its retiree population—and listening with an empathetic ear for potential concerns that may arise before, during and after the transition.

This paper is the second in a series that explores what we refer to as the “Three Pillars of Exceptional Service Delivery.” The focus of this piece is on Pillar II, “Transaction and Transition.” It closely examines the important role the transaction and transition play in a successful pension risk transfer agreement, and explores the immeasurable value of providing plan sponsors and their retirees with the information and support they need to make prudent decisions. Pillars I and III of the series focus on “Communication and Education,” and “Consultation and Commitment,” respectively.
INTRODUCTION

De-risking activity in the pension risk transfer space continues to mount, with plan sponsors around the globe seeking solutions to mitigate or remove the inherent risks in their defined benefit pension plans.

Market volatility, lengthening life expectancies, widening asset-liability mismatch and erratic and inconsistent funding requirements are causing pension plans to interfere with many organizations’ business plans. What’s more, pension liabilities can have a weakening effect on corporate cash flows and stock prices, contributing to significant business risks over the long term.

Many sponsors are now recognizing unfunded pension liabilities as a form of corporate debt—debt that is more impactful than shareholder equity. Realizing that losses in the pension fund can cause the unfunded liabilities to grow significantly, plan sponsors are now transferring risk for all or a portion of their pension plans, reducing the risk of pension losses and the corresponding risk to the stock price.

In the current fiscal environment, most plan sponsors prefer to focus on their core competencies and what rewards them, their customers and their shareholders. As such, scores of plan sponsors now view their defined benefit plans as legacy liabilities to be divested accordingly. For those forward-looking companies that are removing these liabilities from their balance sheets, the lower risk profile realized by such transactions enables them to:

- Concentrate more intently on their primary business.
- Ensure the future health of their companies.
- Fulfill the obligations they have made to current and former employees.
- Eliminate potential capital calls and create more consistent financial results.
- Maximize strategic flexibility and solidify their positions of industry leadership.

A company seeking to lessen the financial volatility associated with defined benefit plans can use pension risk transfer to achieve its goal. A buy-out reduces the size of the plan relative to the company and alleviates pressure on shareholder equity from pension risk.

Working closely with a consultant or advisor to evaluate an insurance company’s service delivery expertise is crucial to being successfully prepared for pension risk transfer. When selecting an insurance partner, plan sponsors may wish to focus on the insurer’s ability to create a positive, straightforward experience—one that leverages the insurance company’s:

- **Service delivery capabilities**—including its ability to create a comprehensive plan that addresses all of the plan sponsor’s and retirees’ needs.
- **Systems capacity**—such as the ability to effectively onboard large populations of retirees and beneficiaries seamlessly and without payment interruption.
- **Human resources proficiency**—for instance, having a transition team in place to guide retirees through every phase of the transaction.
- **Commitment to the customer experience**—possessing a laser-like focus on a seamless transaction and successful transition for the plan sponsor and all retirees.

The ability to provide this experience illustrates how an insurance company’s service delivery team is the underlying foundation of a successful pension risk transfer transaction. When the transition is complete, it is the service delivery team that continues fulfilling the multi-decade commitment the insurer has made to retirees of the plan sponsor.

When evaluating insurers for potential pension risk transfer transactions, plan sponsors and their advisors would be well served to analyze the insurance firms’:

- Ability to deliver execution certainty.
- Proficiency in guiding plan sponsors and retirees through each phase of the transaction.
- Ability to ensure a positive experience for plan sponsors, retirees and their beneficiaries—before, during and after the transition.
Plan sponsors and fiduciaries who take action today to manage or transfer pension risk can confidently fund their pension obligations and gain a significant advantage relative to those who don’t. Equally important, sponsors who partner with an insurer that offers exceptional service delivery can create an extraordinary experience not only for themselves, but also for their employees and retirees.

The selected insurer should be adept at the three pillars of an effective pension risk transfer transaction: communication and education, transaction and transition, and consultation and commitment.

“[The] customer service we receive is unmatched in the industry.”

Partnering with the Right Provider

Clearly, service delivery is a critical component of a successful pension risk transfer agreement. As such, it is important that insurers chosen for these transactions demonstrate more than just the ability to issue group annuity contracts. They must also demonstrate a proven approach to risk transfer with a stellar track record of service delivery expertise.

The capacity to onboard large populations of retirees at one time—while ensuring all payments are made on schedule, retiree data is completely secured and all questions are fully addressed—is a fundamental skill of the leading insurers in the pension risk transfer space.

Accordingly, plan sponsors exploring risk transfer solutions may seek to partner with an insurer that can:

• Design and execute a series of customized agreements, and also offer experienced and skillful transaction and transition teams.
• Assist and guide the plan sponsor and its retirees through every step of the transition.
• Understand and empathize with retiree groups, keeping them informed throughout.
• Provide retirees with a dependable stream of payments for their entire lifetimes.

Of course, the importance of financial strength should not be discounted, as participants are reliant upon their payments for retirement income. To transfer pension plan risk with absolute certainty, plan sponsors must partner with an insurer that is fiscally sound, with financial strength ratings from the major independent ratings agencies that show its position is solid, and that has ample capital to meet all of its current and future financial obligations.

When partnering with an insurer, plan sponsors should expect—and demand—a firm-wide focus on pension risk transfer. The selected insurer should have invested significantly in its pension risk transfer team and capabilities, so the plan sponsor can be sure of receiving the highest levels of service, and be certain the insurer has the financial strength to completely fulfill the obligations it has assumed.

The insurer should also work diligently with the plan sponsor and its intermediaries to create unique solutions for the challenges presented—meeting the needs of all parties involved. Further, the insurer’s most senior leaders should be actively engaged in the pension risk transfer business, demonstrating an unwavering commitment to the marketplace, and to the plan sponsor’s retirees moving forward.

Insurers selected for pension risk transfer should pledge to deliver the assistance, information, resources and support that plan sponsors and their retirees need for a favorable and enduring experience—from day one and for all the days that follow. The insurers must maintain that pledge on an unconditional basis.

Early in the insurer selection process, the plan sponsor should be inquisitive about the insurers’ demonstrated commitment to retirees. This is a very important long-term obligation the insurer is assuming on behalf of the plan sponsor, and the plan sponsor needs assurance that the insurance company is equipped to handle it.

“Our transition to Prudential went extremely well.”

Here are a few areas which a plan sponsor should inquire about upfront:

- How will the insurer coordinate communications with the plan sponsor, the prior recordkeeper and the advisors?
- What is the plan to communicate with retirees: frequency, content, quality? (The plan sponsor should ask for proof points as to effectiveness.)
- What are the data requirements, and what is the preferred format? Poor data quality can impact retirees for years to come, including their beneficiaries. Plan sponsors may want to ask for examples of how the insurer will work with the plan sponsor and prior recordkeeper to ensure the data is clean (i.e., dates of birth, addresses, marital status, contingent annuitant data, etc., is current and accurate).
- How does the insurer manage capacity? Obviously, financial capacity is important, but the plan sponsor should look beyond that and examine both technology capacity as well as people capacity. Sponsors should inquire if systems are nearing end of life, what level of maintenance is performed, what are the information protection protocols and what system upgrades have been performed.
- With regard to retirees, how does the insurer manage capacity on an ongoing basis, how are projections made, what is the tenure, knowledge, education and experience level of the workforce, as well as the turnover rate?
- What steps does the insurer take to ensure continuous improvement? We don’t live in a static world, and a great many things will change in the years ahead. How is the insurer keeping up with—or even staying ahead of—the dynamic world we all live in?

On the transaction side, the plan sponsor wants to close on time and in flawless fashion. To accomplish this, there needs to be a lot of continuous communication and collaboration between the plan sponsor, prior recordkeeper, advisor and insurer. An insurer that takes the time to truly understand unique plan provisions and data elements should be sought, and the selected insurer should be prepared to commit to a rigorous project plan and timeline, while agreeing on measures of success—such as all target dates being achieved and the first payments going out on time, and in the correct amounts.

Lastly, plan sponsors should look for an insurer that will consult with them and take time to understand the company’s culture, and its relationship with retirees. Inquiries should be made relative to how the insurer plans to customize the service delivery experience based on what the retirees have come to expect from the company. Retiree groups or associations can also be important constituents in terms of how retirees embrace the change in benefit providers. Developing an initial communication plan for these constituents and fostering an ongoing relationship can be critical to the ultimate success of a transition through the eyes of retirees.

Also, plan sponsors should evaluate how the insurer is bringing thought leadership to the table. Does the insurer engage in retiree research, and does it analyze and share industry trends? Does it routinely pause and reflect on key learnings from previous transitions, and apply those observations to current and future transactions? Finally, the insurer should be able to articulate the process controls that are in place to ensure promises are kept and retiree privacy is secure.

For retirees, it all starts with creating peace of mind. When pension risk transfer transactions are announced, a lot of angst can be created for retirees due to their unfamiliarity with group annuity contracts or the selected insurer. In some instances there can even be feelings of having been abandoned by the plan sponsor.

Prudential has conducted research on this phenomenon, and has identified what we describe as the “anxiety curve.” Simply stated, this is the period of time occurring immediately after the retiree learns of the transaction. During this period there can be a level of concern and uneasiness among retirees about what their future holds, and how secure their monthly payments are going to be. Left unchecked, this anxiety curve can be felt for years. But with recognition and a focused approach, the anxiety curve can be controlled, significantly reduced, or even eliminated completely. Anecdotal evidence suggests that when managed well, this period can convince the retiree that they are actually better off than they were prior to the pension risk transfer transaction.
Our experience indicates that with early communication and frequent and targeted messages reinforcing the insurer’s brand and financial strength and stability, the retirees gain a level of assurance that creates the peace of mind they deserve. Of particular importance in achieving this outcome is that clear expectations should be conveyed and reinforced in all messaging.

Retirees may have concerns at the transaction level, but they can be effectively addressed with good operational execution. For example, was the retiree’s payment received on time and was it accurate? Are service delivery associates accessible and knowledgeable when needed? And are these service professionals responsive to the concerns raised?

We have found that retirees have different preferences on how they want to interact with the insurer on an ongoing basis. In this regard, channel choice is an important consideration, and one that plan sponsors should inquire about. Insurers should meet retirees “where they are,” that is, by mail, phone and web. We are seeing a rapidly shifting preference for the web, particularly among those retirees under age 70. A continuously reliable and predictable transaction experience will inspire the trust and confidence retirees need—and demand.

Lastly, plan sponsors are becoming increasingly interested in how insurers approach the establishment of lifelong relationships with their retirees. Retirements can last 10, 20, 30 years or more. In fact, Prudential’s oldest current retiree is more than 108 years old. What’s more, there is a lifecycle to a retirement in terms of needs at various ages—50s, 60s, 70s, 80s, etc. How will the insurer assist retirees through life transitions, and how has it demonstrated its evolving service capabilities? For example, does the insurer offer communication channel choice, and does it provide web capabilities, including the ability to conduct transactions?

Exhibit 2 demonstrates the differences between the standard transition practices that have occurred within the context of pension risk transfer agreements and the exceptional service delivery transition practices that are now more the industry norm.

**EXHIBIT 2:**
From Standard to Exceptional Service Delivery

<table>
<thead>
<tr>
<th>Standard Transition Practices</th>
<th>Exceptional Service Delivery Transition Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition interactions conducted via phone, mail and web.</td>
<td>Offer and encourage site visits for plan sponsor, advisors, and independent fiduciaries to assess the insurer’s capabilities and services that will be provided to retirees.</td>
</tr>
<tr>
<td>Accept data from plan sponsor and/or prior recordkeeper.</td>
<td>Provide assistance to plan sponsor on data accuracy support services (i.e., evidence of existence, names, Social Security numbers, date of birth information, annuitant phone numbers and addresses). Ensure retirees and annuitants are located and the premium paid is accurate.</td>
</tr>
<tr>
<td>Obtain data and load to recordkeeping system to make payments.</td>
<td>Provide expertise to guide plan sponsor in a step-by-step process, including weekly status updates throughout the transition.</td>
</tr>
<tr>
<td>Limited flexibility or customization to timeline deliverables.</td>
<td>Encourage open discussion on timelines and gain agreement and commitment on deliverables.</td>
</tr>
<tr>
<td><strong>Standard Transition Practices</strong></td>
<td><strong>Exceptional Service Delivery Transition Practices</strong></td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>Focus only on transactional elements of transition.</td>
<td>Take time to understand and address retirees' emotional concerns relative to the transition.</td>
</tr>
<tr>
<td>Direct retirees to communication channels that are most cost-effective for the insurer.</td>
<td>Understand retiree communication preferences (phone/mail/web), and allow them to select preferred channel with each interaction.</td>
</tr>
<tr>
<td>Incentivize service representatives to limit time speaking to retirees.</td>
<td>Encourage service representatives to take as much time as necessary to ensure retirees’ questions/issues have been addressed to their complete satisfaction.</td>
</tr>
<tr>
<td>Focus on matching “gross” monthly benefits which can result in “net” payment amount differences, causing anxiety to retirees.</td>
<td>Focus on matching “net” monthly benefit amount to give retirees peace of mind.</td>
</tr>
<tr>
<td>Black-out period for last retiree payment from pension plan to first payment from insurer.</td>
<td>Accept all data changes from prior recordkeeper and open service center several weeks in advance of first payment to ensure there is no gap in service to retirees.</td>
</tr>
<tr>
<td>Insurer provides general statement of transition to retirees.</td>
<td>Customized retiree communication of initial payment amount and description of what to expect related to the transition as well as FAQ’s describing details of an annuity.</td>
</tr>
<tr>
<td>Mail annuity certificates to retirees and provide contact information for potential questions.</td>
<td>Offer to interact directly with retirees (group meetings, phone, webcast, etc.) to educate them on the insurer, the annuities and the transition, and to address any questions or concerns.</td>
</tr>
</tbody>
</table>
## Execution Certainty

Before embarking on a pension risk transfer venture, plan sponsors and their consultants should confirm that the insurance company they are choosing possesses the proven ability to provide a best-in-class transaction and transition experience, including the capability to deliver:

- Risk management expertise and benefit administration excellence.
- Analytical rigor and superior execution capabilities.
- State-of-the-art payment systems.
- An unwavering commitment to continuous improvement, ensuring it leverages all lessons learned from previous transactions to benefit future customers (more on continuous improvement appears later in this paper).

The insurer’s dedication to pension risk transfer and track record of success will help the plan sponsor transact with confidence. Independent fiduciaries should review and approve the insurer’s risk management expertise, financial strength, benefit administration excellence, and execution capabilities. The insurer must also bring analytical precision to the transaction, and leverage its asset management expertise to develop seamless solutions for transferring assets.

What’s more, the insurer should be well positioned in the pension risk transfer space, possessing a market-leadership position that enables it to maintain a strong discipline regarding capital, mortality and risk. This assessment will satisfy fiduciary requirements for plan sponsors and ensure long-term benefits for firms that transact.

As a provider of pension risk transfer arrangements and a recordkeeper of retirement benefits, the selected insurer should have no functional limitations on the number of retirees it can operationally assume. It is essential that insurers chosen for pension risk transfer agreements have robust systems specifically designed to accommodate the varied needs of their plan sponsor clients. And it is crucial that they possess time-tested, proven regimens of pension administration that deliver timely and accurate results to plan sponsors and their retirees.

Such insurers must also be able to execute multiple complex transactions simultaneously. Their procedures should be tried and proven, clearly demonstrating the ability to transition the administration for large groups of retirees without payment disruption. In addition, they must offer depth of talent, having honed their ability to welcome retirees to their firms through the successful execution of several risk transfer agreements, and be able to leverage these past transactions to continuously improve the customer experience they provide.

In summary, the insurer selected for a pension risk transfer transaction must have the aptitude to deliver an exceptional plan sponsor and retiree experience, while fulfilling the long-term promises made to hard-working people—the promise that they are going to receive their retirement income, seamlessly and without interruption for the duration of their retirement years. Doing so enables plan sponsors to transact with absolute certainty.

“They’ve been really good to me. They always send their statements on time and their deposits are always on time. They’re on the ball, they get their job done. Whenever I’ve had to call [Prudential], they were more than helpful.”

The effect of Prudential’s efforts in the pension risk transfer space is reflected in Exhibit 3, which shows the levels of satisfaction annuitants have experienced in transitioning from their employers’ pension plans to Prudential. In this survey, retirees were asked to rate their initial and current impressions of the insurer, using a scale of 1 to 10, with 10 being the highest rating.

As Exhibit 3 illustrates, in 2013 70% of annuitants newly transitioned to Prudential “felt good” or had a positive initial impression (8, 9 or 10) about the insurer’s ability to understand retiree needs. When asked again in 2014, 85% of annuitants responded positively. When a similar group was asked how well they thought Prudential was doing at keeping them informed, 77% answered positively in 2013—a figure that increased to 81% a year later.

This year-over-year improvement applied to the following categories as well: setting clear expectations, meeting expectations, time required to complete the transition, and overall ease of the transition. In addition, annuitants’ opinions regarding the accuracy of the transition and their overall satisfaction with the transition remained steadily high.

EXHIBIT 3:
Transition Experience Among New Annuitants—Percent Highly Satisfied (Rating of 8, 9 or 10)

<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding Retirees’ Needs</td>
<td>70%</td>
<td>85%</td>
</tr>
<tr>
<td>Keeping Retirees Informed</td>
<td>77%</td>
<td>81%</td>
</tr>
<tr>
<td>Setting Clear Expectations</td>
<td>79%</td>
<td>85%</td>
</tr>
<tr>
<td>Meeting Expectations</td>
<td>83%</td>
<td>88%</td>
</tr>
<tr>
<td>Time Required to Complete Transition</td>
<td>85%</td>
<td>90%</td>
</tr>
<tr>
<td>Overall Ease of the Transition</td>
<td>88%</td>
<td>90%</td>
</tr>
<tr>
<td>Accuracy of the Transition</td>
<td>88%</td>
<td>88%</td>
</tr>
<tr>
<td>Satisfaction with the Overall Transition Experience</td>
<td>88%</td>
<td>88%</td>
</tr>
</tbody>
</table>

SECTION 3

Offering Transaction Readiness

Collaborating with an accomplished annuity provider is essential to the success of any pension risk transfer agreement. The insurer’s proficiency at retirement services recordkeeping is a primary concern, and its systems must be flexible enough to accommodate the diverse needs of plan sponsors with an array of benefit structures, facilitating both the financial and reporting processes. In addition, the insurer’s administrative capabilities should not only be verified by the plan sponsor and its consultants, but also by independent third-party fiduciaries.

The ability to deliver administrative, investment and actuarial expertise—along with effective annuity solutions—is a mandatory requirement. As such, it is incumbent upon any plan sponsor considering a pension risk transfer transaction to examine and confirm the insurance company’s transaction readiness, including regulatory, corporate, independent fiduciary review, administrative and retiree readiness.

Many insurers, when chosen for a pension risk transfer deal, begin analyzing the sponsor’s plan after they have won the business and the transaction is complete. Subsequently, a large amount of transition activity takes place in a compressed amount of time. The selected insurer must assume complex pension liabilities under tight time constraints, and deploy significant resources to assist the plan sponsor with its pension risk transfer needs.

Insurers that deliver exceptional service take a different approach. For example, when a sponsor and its advisors engage Prudential about a potential pension risk transfer agreement, it triggers a series of proactive activities that occur well before an agreement is even drafted—activities that benefit not only the plan sponsor and its retirees, but also Prudential itself.

When a bid comes in, Prudential creates a capacity report that identifies and examines all issues relative to the plan. The capacity report also provides a snapshot of Prudential’s capacity with respect to the requested timing of the transaction. It serves as a “playbook,” providing a list of critical items the plan sponsor may not have considered, and critical needs to be aware of. This consultative approach enables the sponsor to benefit from Prudential’s significant transactional experience in the market.

Leveraging knowledge gained from past proposals—including those where Prudential was not selected as the annuity provider—enables Prudential to provide plan sponsors with a sense of comfort in knowing that the level of preparedness is significant, and the amount of analysis is extensive.

A case in point is the transitional period that occurs between the issuance of the group annuity contract and the time the first annuity payment is made by the insurer. Prudential fills this void with several points of contact, keeping retirees aware and informed throughout, and helping instill a sense of confidence and reassurance. Prudential does this through a series of welcome letters, postcards, retiree websites and other communications, transcending its retiree administration from a purely operational approach, to one that considers the emotional side of the transaction and delivers exceptional service to those retirees being transitioned.

Prudential’s informational materials are designed to lessen the apprehension that often occurs when retirees learn the obligation for their monthly benefit payments has been transferred to an insurance company. The materials are written in a clear, straightforward manner that delivers the facts about Prudential, defined benefit plans, group annuity contracts, and safeguards and guarantees.

Retirees may also be anxious about losing Pension Benefit Guaranty Corporation protection as a result of the risk transfer transaction. Prudential addresses that anxiety with a website and brochures that highlight the features and protections inherent in group annuity contracts. The brochures speak to the strength of both Prudential and group annuities and compares them side-by-side to their defined benefit plan counterparts.
As reflected in Exhibit 4, in 2013 82% of annuitants newly transitioned to Prudential felt that the information they received in the mail from the insurer was very helpful (rated 8, 9 or 10). In 2014, the figure increased to 85%. When asked about the helpfulness of the transition information Prudential provided, 73% said it was very helpful in 2013, while 94% indicated the same in 2014. The retiree website also demonstrated heightened levels of retiree satisfaction by increasing 10%, as did the welcome kits, which achieved a 9% improvement.

**EXHIBIT 4:**
Helpfulness of Information Provided by Prudential (Rating of 8, 9 or 10)

<table>
<thead>
<tr>
<th>Service</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Received via Mail</td>
<td>82%</td>
<td>85%</td>
</tr>
<tr>
<td>Retiree Website</td>
<td>73%</td>
<td>83%</td>
</tr>
<tr>
<td>Transition Information</td>
<td>77%</td>
<td>94%</td>
</tr>
<tr>
<td>Welcome Kits</td>
<td>79%</td>
<td>88%</td>
</tr>
</tbody>
</table>


Prudential treats each potential transaction as a learning experience. The knowledge gleaned from these consultative interactions is leveraged to help future clients and prospects mitigate their risk and secure their employees’ retirement. Following are some key competencies of transaction readiness that Prudential has honed through the years, with the appropriate steps to be taken with regard to each.

**Regulatory readiness.** The insurer should be well prepared from a regulatory perspective. Its general and separate account group annuity contracts must be approved in the state of jurisdiction, and its standard immediate annuity certificate should be widely approved for use. The insurer’s forms should include sufficient flexibility so they can be modified to appropriately reflect the terms of most defined benefit plans. If a customized annuity contract and certificates are needed, the insurer should be able to quickly attain the necessary regulatory approvals, and manage the complex process of producing and delivering personalized certificates for each and every annuitant, regardless of where they may reside.

**Corporate readiness.** The insurer will have a well-established corporate committee-approval process that its pension risk transfer team has navigated many times. It should possess the ability to rapidly secure all necessary corporate approvals consistent with the transaction’s timing needs.
Independent fiduciary review. Insurers chosen for a pension risk transfer agreement should have experience successfully partnering with clients’ independent fiduciaries and advisors. Providing independent fiduciaries with the information required to thoroughly review the insurer and the transaction is essential.

Administrative readiness. When collaborating with an insurer, plan sponsors should seek a partner possessing a proven track record in defined benefit services and the administration of benefits for defined benefit retirees. Its benefit administration capabilities should ensure that the support provided to retirees is of the highest quality. The insurer must also be experienced in working with large organizations, and provide a proven approach to pension administration that delivers timely and accurate results to both plan sponsors and retirees.

Retiree readiness. Some leading pension risk transfer insurers provide retirees with informational kits that help them learn about and achieve comfort with the insurer, creating a positive first impression and enduring goodwill. For example, Prudential’s “welcome kits” include materials that are important to the retiree experience, such as personalized fact sheets, frequently asked questions, and the necessary forms the retiree may require, including beneficiary designation and electronic funds transfer forms. Insurers are also obligated by law to provide each retiree with an annuity certificate that guarantees the continuation of payments and describes relevant topics such as payment information, important dates and annuity facts.

“So far, they have done real good; notifying us of everything that’s going on, like the beneficiary papers, because we’ve never had those before and I really appreciate that. I would recommend them to other people.”

Serving as the Annuity Administrator

In some instances, for a variety of reasons, a pension risk transfer agreement will be divided among two or more insurance carriers, and the plan sponsor and its advisors may wish to identify the lead administrator capabilities of a particular insurer, including its ability to:

- Act as the lead administrator on either a temporary or permanent basis.
- Interact with and coordinate activities directly with the other insurance firms.
- Assure seamless coordination and uninterrupted streams of payments.
- Create a comprehensive service delivery plan that addresses all of the retirees’ needs.

The carrier chosen for such a role should have extensive experience serving as an annuity administrator when a case is split among two or more carriers. It should be agreeable to doing so either on a provisional or long-term basis; and its pension risk transfer team must be adept at closely collaborating with other insurance firms to guarantee flawless execution. What’s more, the lead administrator should offer expertise in developing a thorough service delivery plan that mitigates retirees’ concerns and addresses all of their questions to their complete satisfaction.

The responsibility for creating tailored communication packages also falls on the lead annuity administrator. These materials are intended to provide retirees with details about the transition, and should welcome them to the insurance firm, assuring them of the insurer’s commitment to delivering the information and support retirees need. The packages describe the insurer’s role as the annuity administrator, and direct retirees to the lead administrator as the single point of contact for the payment of their benefits, and for answers to any questions they may have.

In addition, the lead administrator works closely with the other insurance companies to produce and distribute a comprehensive annuity certificate package that contains certificates from each of the participating insurance firms. The annuity certificate package includes supporting information such as required state insurance notices, frequently asked questions, and information on the various ways to contact the lead administrator. The lead administrator is charged with providing all the information and support annuitants need regarding their annuity certificate packages.

Moreover, the lead administrator is responsible for sending all payments to retirees (including a payment on behalf of the other insurance carriers after these carriers have provided the proper funding), as well as determining the proper tax withholding and providing annual tax reporting to retirees for the total payments issued by the lead administrator—both on its behalf, and on behalf of the other insurance companies. The terms of the lead administrator’s obligations are set forth in an agreement between the lead administrator and the other insurance carriers.

Finally, the lead administrator also coordinates all activity between the insurance companies to ensure that proper funding is received, monthly reconciliations are provided, and the information required to support all recordkeeping and financial reporting needs is delivered.

“They seem to be doing a good job. I get my benefits when I am supposed to. They called and checked to make sure I am getting them all right.”

SECTION 5

Providing Proper Plan Governance

Many pension experts believe that when employing pension risk transfer strategies, plan sponsors should enlist the assistance of independent advisors to assist in plan governance, helping the plan sponsors fully understand the processes and accountabilities associated with a pension risk transfer transaction.

The Department of Labor's (DOL) Interpretive Bulletin 95-1 recommends that plan fiduciaries perform an objective, thorough, and analytical search prior to selecting an annuity provider. DOL 95-1 guides fiduciary obligations with respect to pension risk transfer transactions where the fiduciary is to choose the safest available annuity based on the annuity provider's investment portfolio, size relative to the contract, level of surplus and capital, and the availability of additional protection through state guaranty associations.

The DOL also recommends that fiduciaries pay close attention to the annuity provider’s creditworthiness and claims-paying ability. In addition, the insurer’s experience and expertise at administering payments to retirees and beneficiaries must be evaluated, acknowledging the long period of time the annuity contract will remain in force. And because fiduciary decisions are made on behalf of plan participants, selecting an annuity provider is a critical fiduciary decision.

In some instances, the fiduciary may conclude that more than one provider is able to offer the safest available annuity. Also, it may be in the interest of participants for a fiduciary to purchase an annuity other than the safest available, if, for example, an annuity is determined to be marginally safer, but is disproportionately more expensive than competing annuities, or if the annuity issuer is less capable of providing the required administrative services.

Exhibit 5 illustrates how the perception of an insurer’s administrative services capabilities can improve significantly in a relatively short period of time. As Exhibit 5 shows, in 2013, 19% of retirees who were newly transitioned to Prudential and who use or had used another provider indicated that Prudential’s performance was better. A year later that figure had increased to 36%. The key drivers of this analysis include service experience (products and services, communications, and ease of doing business); brand perception (financially stable, gives me peace of mind, and strong brand image vs. other carriers); and overall relationship (understands and anticipates my needs).

EXHIBIT 5:
Perception of Prudential’s Administrative Services Capabilities vs. Other Annuity Providers

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
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<tr>
<td>Performance is Worse</td>
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<td>4%</td>
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<td>Performance is the Same</td>
<td>74%</td>
<td>60%</td>
</tr>
<tr>
<td>Performance is Better</td>
<td>19%</td>
<td>36%</td>
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SECTION 6

Securing Retiree Data

Protecting retiree data is one of the most important responsibilities that emerge from a pension risk transfer agreement. Through the course of these transactions, retirees are entrusting their personal information to insurers—it is imperative for the insurers to make certain that trust is deserved.

The insurer chosen for a pension risk transfer agreement must ensure that retiree data is absolutely secure as it transfers from the previous recordkeeper. Various control mechanisms should be in place within all of the insurer’s applications to ensure that the data is kept intact, data integrity is upheld, it remains completely confidential, and that it is only available to those associates who have a business need to access it.

Ensuring that retiree data cannot be saved to a personal computer or thumb drive is a vital component of this process. The insurer must commit to do everything it can to secure the data and not let it leave the confines of the insurer’s network and workplace, and that no retiree data is compromised before, during or after the transaction takes place.

Selected insurers should be proficient at establishing secure data transmission processes, and must be able to complete a comprehensive integrity review of all data elements. The ability to identify missing elements for the data load is essential. Delivering data load files with a summary of the data inconsistencies identified is also important. Control mechanisms must be in place to ensure all applications to safeguard data are intact.

Before the transaction occurs, the plan sponsor should begin organizing plan data by determining the best source of the transaction (i.e., actuarial data vs. administrative data). It should also analyze the general quality of the data relative to the insurer’s requirements.

At Prudential, a great deal of time and energy is applied to protecting the privacy of retirees. It’s very important to us that they feel secure, and it’s our goal to make sure that we protect their data as if it were our own.

“It’s the stability of Prudential in managing funds that makes it appealing. Any time someone else is controlling our assets, we like to believe that they are going to be around as long as we are around…”

A Continuous Improvement Mindset

Those insurers selected for a pension risk transfer agreement might consider having representatives from the plan sponsor or its retiree associations speak with the insurers’ pension risk transfer teams about the plan sponsor’s corporate climate, culture and communications style.

This can help dramatically improve the way the insurer communicates with retirees and their beneficiaries. The insurer should also demonstrate that it performs frequent evaluations and provides constructive feedback to ensure its employees meet or exceed ongoing service expectations. An insurer selected for pension risk transfer should have conducted extensive retiree experience research, and should have leveraged the findings to improve its transition capabilities.

Partnering with an insurer that has executed several pension risk transfer transactions is also a recommended approach. Insurers with this experience can leverage the knowledge gained from these transactions to better serve all future clients, regardless of size. Understanding what retirees are concerned about and proactively addressing those concerns further distinguishes exceptional service delivery from purely operational capability. For example, Prudential conducts annual plan sponsor and retiree surveys to gauge the service delivery experience of existing customers as well as the overall risk transfer experience of newly transitioned plan sponsors and retirees. We then apply those findings with a continuous improvement mindset for the benefit of all current and future customers.

Exhibit 6 shows how retirees’ perception of Prudential’s service delivery capabilities, when compared to their first choice in service providers, improves with time. In 2013, 16% of annuitants who were newly transitioned to Prudential indicated Prudential’s service was better than that of their first choice of service providers (across all industries). A year later that figure had increased to 20%. The key drivers of this analysis include service experience (products and services, communications, and ease of doing business); brand perception (financially stable, gives me peace of mind, and strong brand image vs. other carriers); and overall relationship (understands and anticipates my needs).

EXHIBIT 6:
Prudential’s Service Compared to Top Service Company

With regard to staffing, employees should be hired with a mindset consistent with the insurer’s core values and commitment to its customers. These employees must be trained to meet the unique needs of the retirees, and empowered to contribute to a culture of continuous improvement. Compensating them on how they deliver the services that enable the insurer to honor its commitments to retirees is also a critical component of exceptional service delivery.

Call centers should be equipped with call monitoring technology to ensure retirees are receiving quality service. Plan sponsors may wish to conduct surveys, and the feedback they receive can be used to gauge performance and satisfaction with service levels. Relationship managers should periodically reach out to plan sponsors and inquire about their satisfaction with the service they are receiving.

Additionally, keeping plan sponsors abreast of developments throughout the course of the transaction helps ensure continuous improvement. Informing them of the metrics of the transaction can further separate exceptional service delivery from purely operational capability, particularly in cases of partial pension plan termination.

Insurers that do all these things and do them well are demonstrating the necessary capacity and ability to provide the highest levels of service excellence in pension risk transfer arrangements. Leveraging their positions as leading retirement recordkeepers, these insurers provide call center and operational resources from across their businesses to ensure flexibility and effectiveness in managing the higher administrative volume that is inherent in pension risk transfer transactions.

“I would highly recommend pension risk transfer.”

CONCLUSION

Regardless of whether a pension risk transfer transaction is imminent, a few years in the future, or simply a consideration, there are specific actions plan sponsors can take to make certain the transaction goes seamlessly, if and when a buy-out solution is implemented. Plan sponsors can begin today by ensuring their data and governance processes are in good order, and by conducting initial high-level feasibility assessments of potential risk transfer transactions.

With the escalating costs of maintaining a defined benefit pension plan—combined with ongoing market volatility, uncertain funded status, and the headlines surrounding several high-profile transactions—plan sponsors may find their boards of directors enthusiastic about understanding the benefits of executing a pension buy-out solution, as well as the processes and actions that are required.

Most importantly, the plan sponsor should partner with an insurer that has demonstrated the ability to onboard large groups of retirees seamlessly, and to provide those retirees with an exceptional experience before, during and after the transition.

From an insurer’s perspective, superior levels of client satisfaction can only be achieved after first developing an intimate understanding of each client’s unique needs and objectives. Leading insurers in the pension risk transfer space offer a comprehensive range of services that are designed to meet the needs of plan sponsors seeking assistance with administration to and through the completion of a pension risk transfer transaction. Those insurers with long histories of providing defined benefit pension plan services—and those featuring support staff with demonstrated expertise—will continue to stand apart from the crowd in the pension risk transfer marketplace.

The most effective partners for pension risk transfer are the insurers that transcend baseline objectives and operational effectiveness. These insurers provide a holistic experience that begins well before, and ends long after, the transition has taken place. They have shed the operational lens and commit themselves to creating a consultative partnership that culminates in an exceptional service delivery experience for all parties involved.

For more information about the importance of the customer experience, please visit pensionrisk.prudential.com.

“Since they switched over my pension, it has been positive.”
## Prudential Retirement at a Glance

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<td><strong>Provided by Prudential Retirement as of DECEMBER 31, 2014</strong></td>
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## About Prudential

Prudential is the established leader in financial, systems and human resources capacity—so much so that we were able to onboard more than 150,000 General Motors and Verizon retirees in a compressed time frame without missing a single benefit payment.

We welcome new clients to Prudential with exceptional, flawless service that creates a unique, market-leading experience. Prudential’s ability to onboard and administer a vast number of annuitants, seamlessly and without payment interruption, is unsurpassed.

Prudential’s Service Delivery Team is the most proficient and accomplished in the industry. We honed our ability to welcome individuals to Prudential through four large and complex pension risk transfer transactions, as well as 38 smaller—but equally important—agreements.
Prudential has used its scale and experience to create an award-winning service delivery capability.

**COMMITMENT** Knowing the importance of communication, we create a straightforward experience that occurs in print, online and by phone. We work tirelessly to ensure the transition is simple and that annuitants’ questions and concerns are addressed every step of the way. We are absolutely focused on delivering the information and support annuitants need.

**REASSURANCE** Our approach highlights Prudential’s long history of pension plan expertise, bolstering annuitants’ trust that their benefit payments are safe and secure. We make it clear that Prudential is honored and committed to providing their payments seamlessly and without any interruption.

**SUPPORT** Annuitants are supported by a toll-free call center staffed by specially trained representatives who are available Monday through Friday, from 8 a.m. to 9 p.m. ET, including a toll-free number for the hearing impaired. Prudential also provides an annuitant website, which includes both educational and transaction pages.

**EXPERTISE** Prudential is experienced at paying retirement benefits and has been providing pension plan services for nearly 90 years. Our dedicated staff and state-of-the-art payment system disburses nearly 10 million benefit payments annually, representing more than $9 billion in total annual defined benefit payments.

**LEADERSHIP** Prudential’s leadership position in the group annuity marketplace enables us to deliver cost-effective, scalable service solutions that benefit all of our clients, regardless of size. We are experienced at paying retirement benefits and have been providing pension plan services since 1923.

**INNOVATION** Prudential has been at the forefront of the industry’s most innovative service solutions. We are committed to providing an exceptional client experience and have invested in our operational and administrative infrastructure to deliver the highest level of service.

**RECOGNITION** We are honored that *Chief Investment Officer* magazine has presented Prudential with the Industry Innovation Award for four consecutive years, and that the League of American Communications Professionals (LACP) has recognized our annuitant communication materials as being among the best in the industry.

We believe that superior levels of customer satisfaction can only be achieved after first developing an understanding of each client’s unique needs. We have a long history of providing defined benefit pension plan services supported by a staff with market-tested expertise.
Prudential’s Traditional Buy-out is a group annuity contract issued by The Prudential Insurance Company of America (PICA), Newark, NJ 07102. Amounts contributed are deposited in PICA’s general account. Any payment obligations or guarantees are contingent on the claims-paying ability of PICA.

Prudential’s Portfolio Protected Buy-out and Prudential’s Portfolio Protected Buy-in are group annuity contracts issued by The Prudential Insurance Company of America (PICA), Newark, NJ 07102. Amounts contributed to the contracts are deposited in a separate account established by PICA. Payment obligations specified in the group annuity contracts are insurance claims supported by the assets in the separate account and, if such assets are not sufficient, by the full faith and credit of PICA.

Any reference to the terms partner or partnership is not intended to create or imply any legal relationship between Prudential Retirement Insurance and Annuity Company or its affiliates and any advisor or consultant.

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