FUNDfire

A Financial Times Service

New Consultant Targets Pension Risk Transfers

By Billy Nauman
January 30, 2013

Plan sponsors want to offload pension risk, but they often just don't know enough about how, and as a result can end up facing mountains of unexpected costs.

Yesterday, **Penbridge Advisors**, a consultancy specializing in risk transfers, opened its doors to capitalize on rising sponsor interest in reducing or eliminating pension liabilities.

At their core, pension risk transfers are simply a means to offload pension liabilities from a plan sponsor to an insurance company, as General Motors and Verizon famously did last year. But each individual risk transfer comes with its own unique, nuanced set of circumstances - making a one-size-fits-all solution practically impossible to implement.

Penbridge Advisors works with plan sponsors to illustrate all the options available, such as partial plan terminations, full annuitization and lump sums, and walks them through the costs and benefits of each scenario, according to co-founder Steve Keating. Penbridge's advice applies particularly to old-school defined benefit (DB) plans, which are increasingly being phased out in favor of defined contribution (DC) equivalents.

"If you decide to freeze the plan, it's good governance to know what the cost is to transfer it," Keating says. "We show what that bogey is, what hurdles they need to overcome to terminate it."

Pensions may already have access to similar advice through their investment consultants and actuaries, but Bradley Belt, senior managing director of the Milken Institute, a nonpartisan economic think tank and the former executive director of the Pension Benefit Guaranty Corp., says that Penbridge has an advantage because it has no vested interest in whether a plan sponsor ends up deciding to terminate or not.

"If you're stopping a pension plan you already have an actuarial firm and investment consultant that should be able to provide some guidance on what it costs," he says. "The issue is that it would be contrary to the business interest of either of those entities to enact the [risk] transfer because they would lose out on fees. That's not to say that those firms would not provide rock solid advice, but someone that doesn't have a vested interest would be well positioned."

Penbridge also has the advantage of knowing how the other side operates. The firm's other co-founder, Robert Goldbloom, previously served as head of U.S. pensions at AIG. And the consultant is able to leverage that experience to do a full underwriting analysis of a plan and show from an insurance perspective what a risk transfer will actually cost.

“With Goldbloom’s background at AIG, he knows how these things are priced from the perspective of an insurance company taking on that risk,” says Belt. “It seems like they’re as well positioned as anyone to provide these services.”

Keating says often times the accounting assumptions used by a plan sponsor to calculate a plan’s funding status are not in sync with the assumptions used by insurance companies that are looking to take on the risk. “We come in as a specialist advisor to help put that company in a better position so they don’t get to a point where they have an unnecessary surprise,” he says.

Penbridge, which spun off from asset manager database CAMRADATA, also provides a free database of risk transfer providers and products – obtained directly from the insurance companies themselves - allowing plan sponsors to familiarize themselves with the market, which itself is ever-changing. They also intend to offer advisory services directly to investment consultants to incorporate in-depth risk transfer information into those firms’ investment reporting.

“It’s a new market, so there’s new product innovation happening,” Keating says. “We have agreement with the insurance companies on proprietary information. That information [in our database] doesn’t exist anywhere else.”

So far business is good for Penbridge. Keating says it already has five clients on board, including two plan sponsors, two managers and one advisory firm, though he declined to identify them by name, and he expects that number to keep growing.

“There is a strong need for this. There’s an ongoing shift from DB to DC,” he says. “A lot [of plan sponsors] may not be ready today, but we want to put the information in their hands.”

Keating is not alone in his optimism, either. Glenn O’Brien, managing director responsible for pension risk transfer sales and client management activity at Prudential, also has high hopes for the market.

“Investor awareness has caught up that [defined benefit plans] are very large liabilities that can go out for 40 to 60 years. The risk to the participants and the company is not very rewarding to shareholders,” he explains. “Companies want to make sure the participants get paid, but at the same time [the pension] can drain off cash and operating income of a company … There are opportunities for companies to do these transactions cost effectively and other sponsors will find it attractive.”