



Timely Arguments for Utilizing Single Premium Annuity Contracts

In the current economic crisis, there are many good reasons for purchasing annuity contracts to cover defined benefit pension plan liabilities. Benefits accrued for current retirees or former employees terminated with vested benefits can be secured through group annuities. New contributions to the plan under the Pension Protection Act ("PPA") funding requirements can be protected from market risk by using them to purchase annuities for designated plan participants. Below are some of these good reasons:

Secure investment option in uncertain times

Where should plan assets be safely invested? Stocks, bonds, cash? Where should new contributions to meet contribution requirements or increase funding levels be invested?

Assets used to purchase single premium annuity contracts can permanently transfer liabilities to an insurance company. In selecting an insurance carrier it is the duty of the ERISA fiduciaries to select the "safest available annuity" as outlined by the Department of Labor's ("DOL") Interpretive Bulletin 95-1. Many insurers continue to demonstrate that they can provide annuities that satisfy DOL guidelines. These guidelines focus on the financial security of the annuity providers. State insurance departments monitor and regulate insurance activity within each state. State insurance guaranty associations provide guaranteed coverage for annuity benefits of at least \$100,000 in cash value, up to \$500,000 per contract owner in some states such as Connecticut. Most states cover at least \$300,000 per participant.

Favorable investment returns

Insurance carriers have been using interest rates of 6% to 6 1/2% for durations of 8 to 14 years in pricing annuities offered in the beginning of November 2008. These fixed income guaranteed rates are very favorable compared to other alternative investments and are the highest we have seen in the last five years. This means lower premiums are available to the plan sponsor.

Favorable interest rates in comparison with plan liability discount rates

Discount rates used to value plan liabilities for pension plan funding and accounting at the beginning of 2008 were approximately 6%. Purchasing annuities at the current prevailing rates could produce gains or minimize losses in the value of current liabilities and could increase plan funded ratios.

Plan liabilities permanently transferred from balance sheet

Plan assets used to purchase annuities to settle the accrued benefit liability for retirees or terminated vested participants would reduce the plan's liabilities. Risks associated with longevity and future administrative expenses are transferred to the carrier. PBGC premiums will no longer be paid on annuitized participants. The plan's actuary can evaluate the impact of the annuity purchase on pension expense under the FASB rules. Smaller settlements that are deemed "de minimis" will have no accounting impact. This would often be the case for the majority of any new pension deposits that are annuitized.

Client U·P·D·A·T·E

At USI Consulting Group, we are pleased to offer our clients the opportunity to purchase single premium annuity contracts through a menu of quality insurance carriers. This service is ideal for clients interested in transferring the liability associated with their pension plan to an insurance company. The reasons for such a transaction, many of which are discussed above, are unique to each client. Our actuaries and annuity product consultants are trained to assist each client on the merits and/or limitations of a single premium annuity purchase for their specific case. USI will assist during the bidding and selection process and help secure the most competitive bid from a qualified insurance carrier.

The information in this Update is meant for general informational purposes only and is not intended as legal or tax advice.

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