



Benefits

in Focus



Annuity Purchases: A Win/Win Strategy

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2011 Webcast Series

Agenda

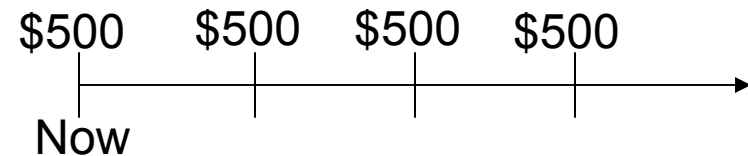
- How Annuities Apply to DB and DC Plans
- Cost/Benefit Analysis
- Annuity Products*
- Annuity Placement Process
- Conclusion and Q&A

*Guarantees associated with insurance product policies, contracts, and/or riders are based upon the claims paying ability of the issuing insurance company.

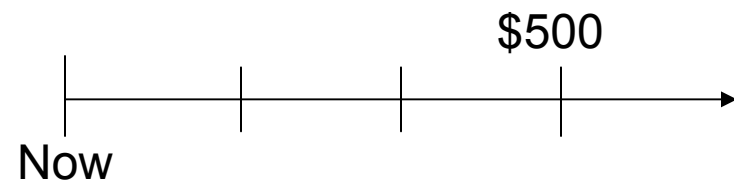
Annuities Provided by Insurance Carriers

- Annuity: a guaranteed stream of monthly income
 - Immediate or Deferred
 - Immediate: Payment starts now
 - Deferred: Payment starts later
 - Fixed or Variable
 - Fixed: Benefit stream is predetermined
 - Variable: Benefit stream is tied to market performance

- Example: Fixed Immediate



- Example: Fixed Deferred



Annuities Provided by Insurance Carriers

- Annuity purchase contract:
 - The contract that describes the transfer of participant benefit obligations from a plan sponsor (or an individual participant account balance) to an insurance carrier
- Non-Participating:
 - A contract type that specifies the insurance carrier (rather than the plan sponsor or participant) will bear all gains/losses realized by the contract

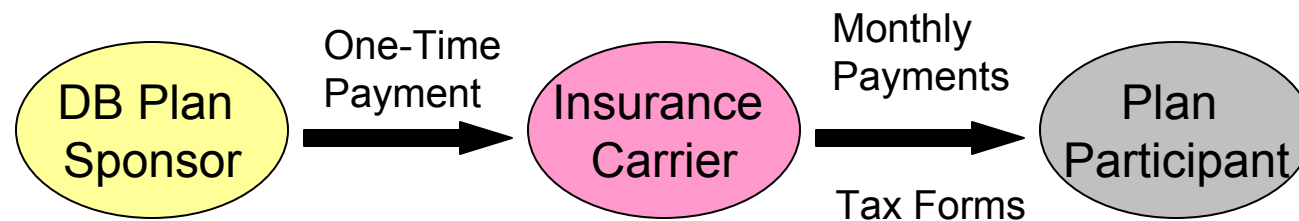
Annuities Provided by Insurance Carriers

- Annuity Options:
 - Duration: How long the payment will last
 - Lifetime or fixed time period
 - To who: Payments provided upon death of participant
 - Survivor benefits
 - Start date: Date monthly payments begin
 - Age 65
 - Amount: Choose monthly payment (DC only)
 - Based on account balance (\$100,000)
 - Based on monthly benefit (\$1,000)



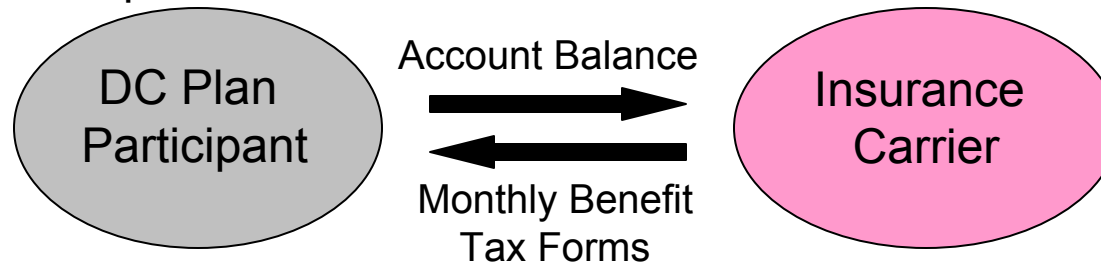
Defined Benefit (DB) Plans

- Purpose: Benefits to Plan Sponsor
 - Investment strategy for on-going plan
 - Obligation release strategy for terminating plan
- Both purposes reduce risk and plan liability
- No impact on plan participants
 - Continue to receive uninterrupted payment streams
 - Same deposit form (live check/direct deposit) and tax withholdings
 - Receive 1099 tax forms from insurance carrier instead of trustee



Defined Contribution (DC) Plans

- Purpose
 - For individuals - Protect against outliving retirement savings
 - For employers - Obligation release strategy for terminating plan
- Use funds from the following qualified plans:
 - 401(a) plan
 - 401(k) plan
 - 403(b) plan
 - 457 plan





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Benefits vs. Costs - DB Plan Sponsors

Benefits

- Reduction of plan liabilities and risk
- More consistent financial statements
- Plan fee reduction
- “First-mover” advantage
- USICG complies with DOL Bulletin 95-1
- USICG annuity knowledge

Costs

- Plan assets are reduced
- Insurance company pricing
- Liability settlement impacts on accounting reports
- Plan participant reaction



Benefits vs. Costs - DC Plan Participants

Benefits

- Retirement and investment education
- Protects current investment
- Tax deferral
- Potential pricing advantage over retail market
- USICG annuity knowledge

Costs

- Purchase is nonrefundable
- Insurance company pricing

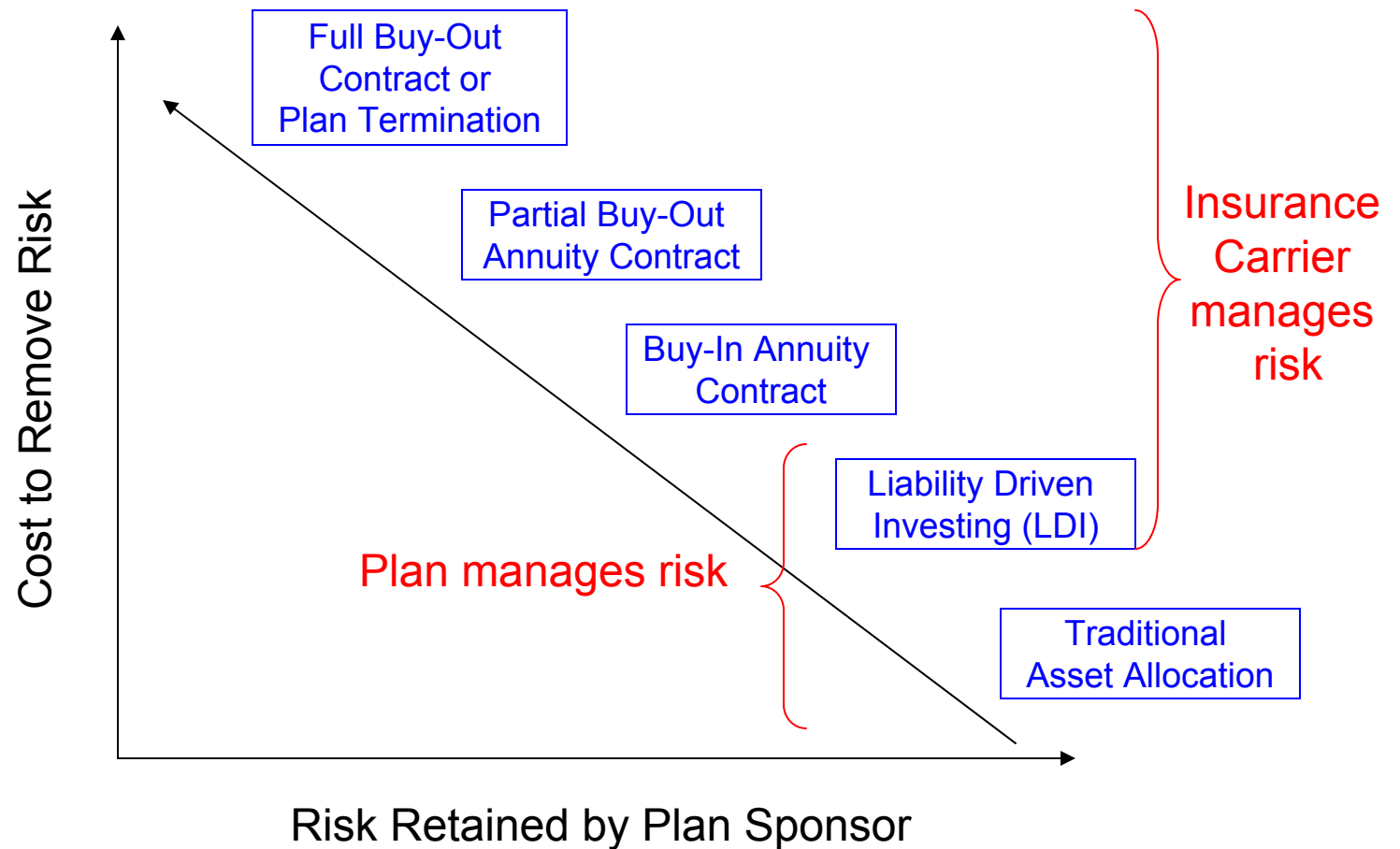


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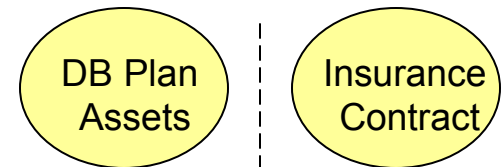
DB Plan Investment Strategies





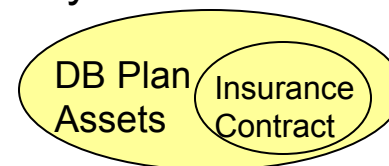
Annuity Buy-Out (Close-Out) Contract

- Most common contract type
 - DB and DC plans
 - Contract written for a group or an individual
- Non-Participating contract
 - One-time transfer DB liability or DC balance
 - Plan will no longer pay benefits or realize gains/losses
- DB ERISA plans must be funded at least 80% under PPA and may have settlement accounting
- Protected Buy-Out uses a separate account



Annuity Buy-In Contract

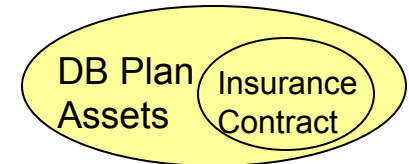
- New to the U.S., but well-established in Europe
- Assets remain in DB plan, but are transferred from current investments to the insurance carrier
 - Plan sponsor maintains both asset and liability values
 - No settlement accounting
- Non-Participating contract
- May be converted to a buy-out contract
 - Price guaranteed
- Contract is revocable
 - Most require 90-day notice
 - A charge may be applied for withdrawal of funds





Insured Liability Driven Investing Contract

- Ongoing DB plan strategy
 - Goal: Maintain funded status continuity
- Matches assets to liabilities based on a given yield curve and plan cash flows
- Assets are held in a commingled separate account
 - Value based on discount curve is guaranteed, despite curve movement and asset performance
 - Insurance carrier pays out monthly cash flows to sponsor, according to an adjustable cash flow stream
- Fees are billed and paid outside of the contract
- May be converted to a buy-out contract or liquidated





Annuity Product Scorecard

Contract Attributes	Contract Type		
	Buy-Out	Buy-In	Ins. LDI
Assets remain in Plan		X	X
Liability remains in Plan		X	X
Insurance Carrier administers benefits	X		
May require settlement accounting	X		
Requires plan funding \geq 80%	X		
Contract is revocable		X	X
Guarantees future buy-out pricing		X	
Premium based on yield curve			X
Available for DC plan participants	X		



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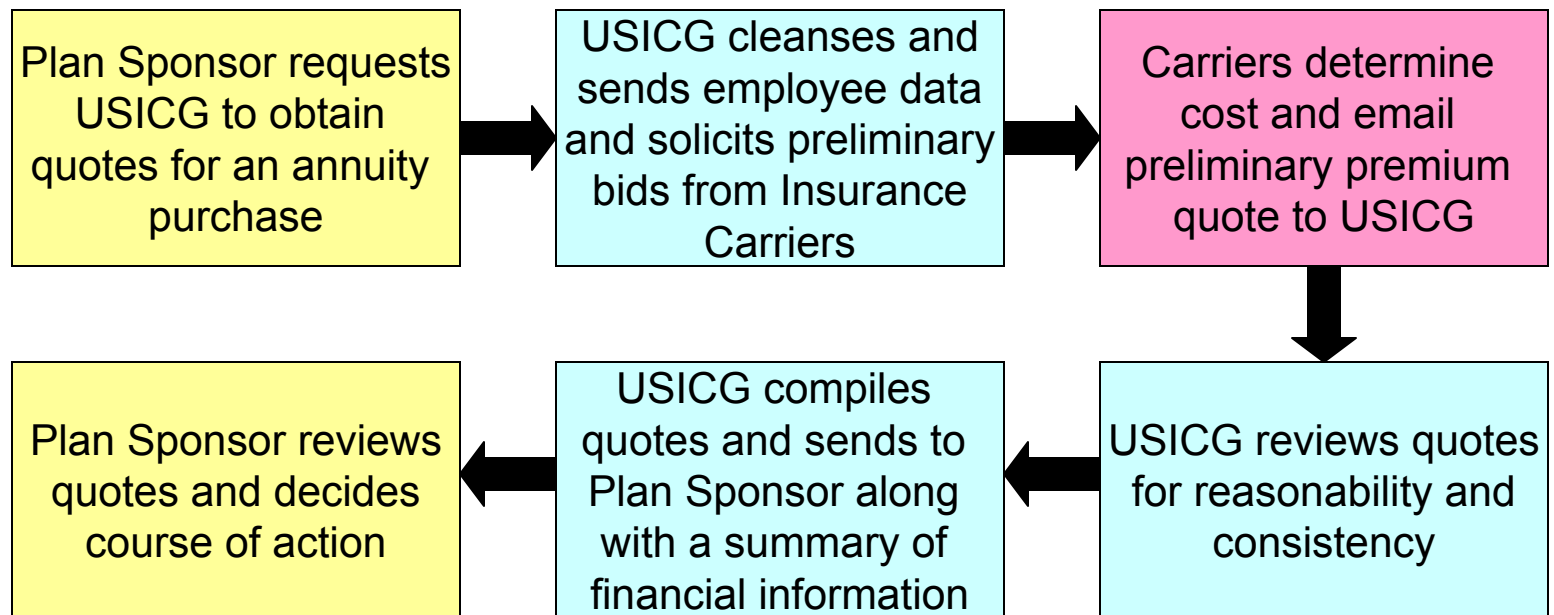
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Annuity Placement Process

- The Department of Labor (DOL), in Interpretive Bulletin 95-1, states that ERISA fiduciaries must choose the “safest available annuity” when buying a group annuity contract for a pension plan and can’t rely solely on insurance agency ratings
- USICG agents will compare all bids based on that day’s market conditions and the following DOL fiduciary factors:
 - The quality and diversification of the annuity provider’s investment portfolio
 - The size of the insurer relative to the proposed contract
 - The level of the insurer’s capital and surplus
 - The lines of business of the annuity provider and other indication of the insurer’s exposure to liability
 - The structure of the annuity contract and the guarantees supporting the annuities, such as the use of separate accounts
 - The availability of additional protection through state guaranty associations and the extent of their guarantees

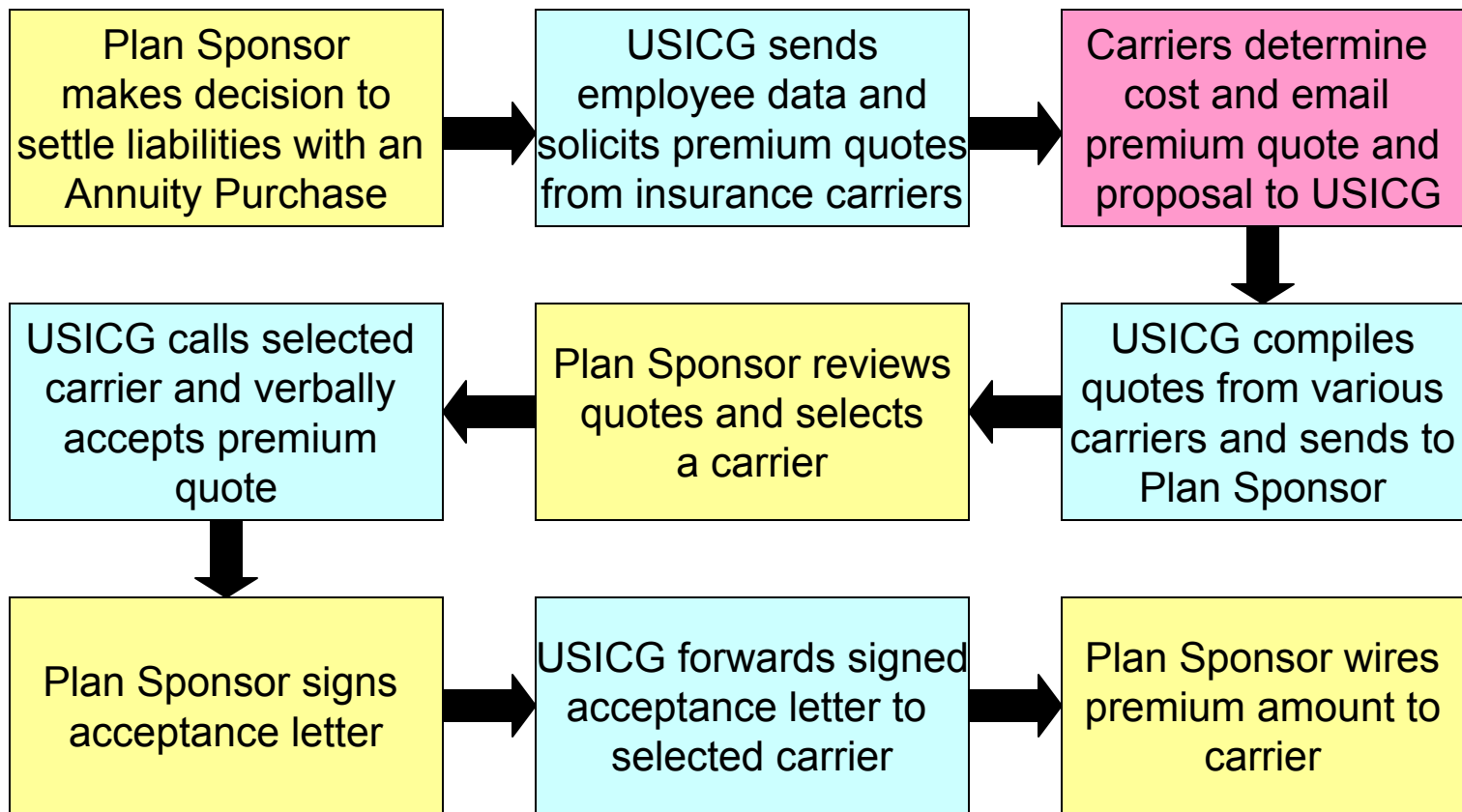
Annuity Placement Process

Step by Step Guide: Preliminary Actions



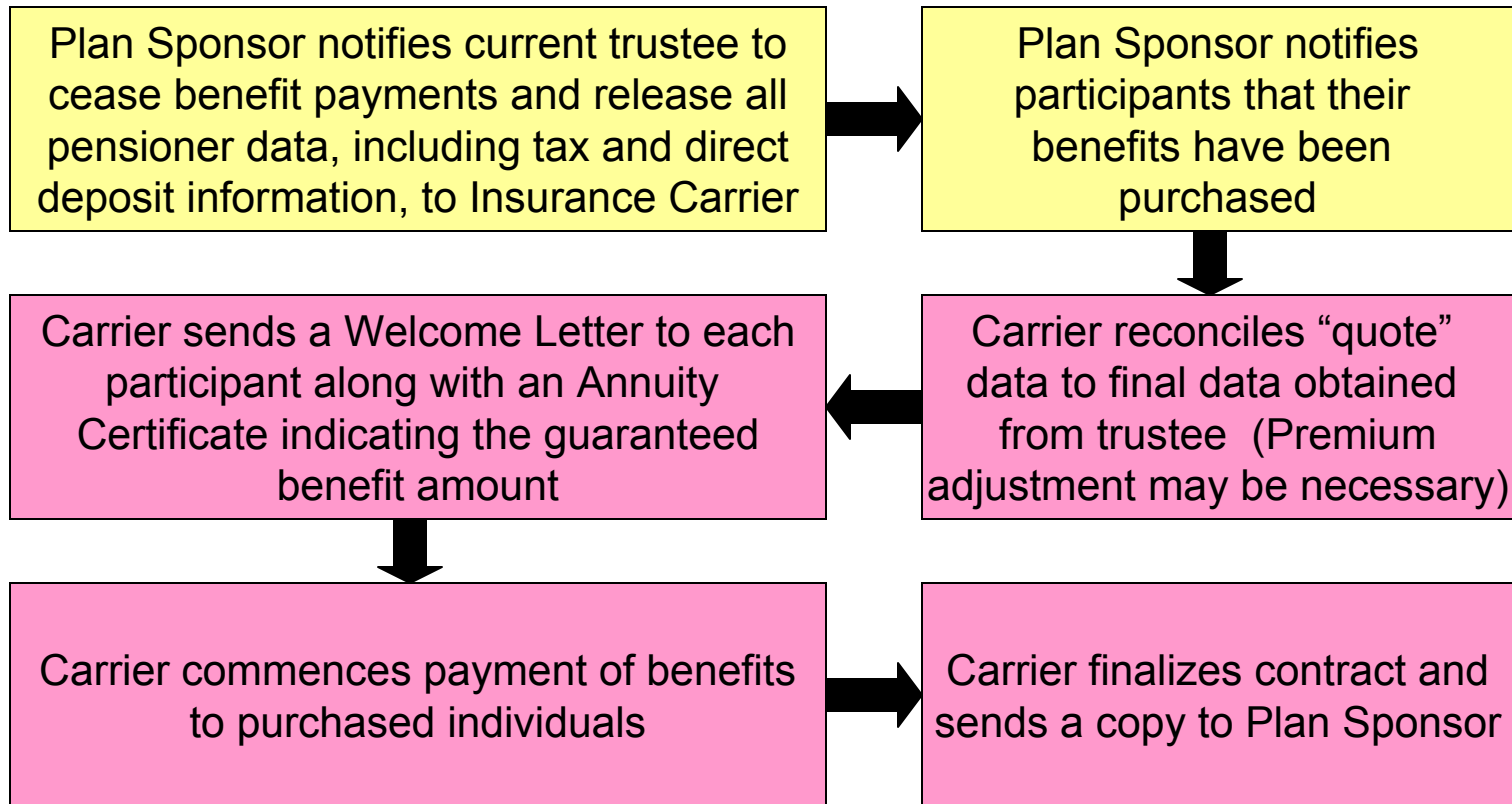
Annuity Placement Process

Step by Step Guide: Contract Initiation



Annuity Placement Process

Step by Step Guide: Contract Completion



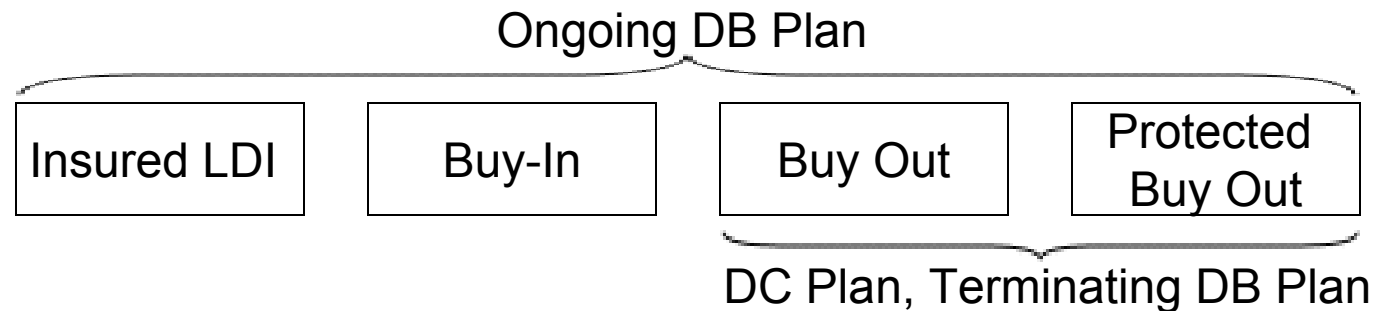


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Conclusion

- Annuity purchases benefit both DB and DC plans and participants through risk reduction
- Many products are now available to complement DB investment strategies



- USI Consulting Group can assist plan sponsors and individuals with the annuity purchase process
- Questions? Please contact your USI Consulting Group consultant or send an email to information@usicg.com