



Pension Risk Transfers CFO Research

August 2017

ABOUT THE SURVEY

This year marks the seventh annual survey that CFO Research has conducted in cooperation with Prudential Financial, Inc. These surveys provide insights into senior finance executives' current thinking about their companies' retirement and benefits programs.

As part of this year's survey, 80 senior finance executives were asked questions that were specifically focused on pension risk transfer. Among executives whose companies have already purchased a group annuity for their pension plan, we aimed to shed light on the reasons they did so, and to gauge their level of satisfaction after having completed a pension risk transfer. Among executives whose companies have not yet executed a pension risk transfer, we aimed to gauge their knowledge of these instruments and the various economic and tax-related issues that might influence attitudes and plans for future agreements.

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The first five questions (and answers) are aimed at senior finance executives whose companies have **ALREADY COMPLETED** a pension risk transfer.

| 1. What were the most important factors in your organization's decision to pursue a group annuity purchase? (Please choose up to three.) | Answer Frequency |
|--|------------------|
| Desire to manage the total costs of the organization's pension plan | 33% |
| Desire to mitigate the impact of changing actuarial mortality assumptions, including potential future changes | 33% |
| Desire to mitigate the impact of rising PBGC premiums, including potential future increases | 33% |
| Desire to reduce the pension plan's asset-related volatility | 31% |
| Desire to focus the organization on its core business (rather than on pension issues) | 25% |
| Desire to reduce the number of smaller-benefit payments being made | 25% |
| Don't know | 8% |

| 4. I believe that my organization's pension beneficiaries who have been affected by a group annuity purchase are content to receive their pension payments from an insurance company. | Answer Frequency* |
|---|-------------------|
| Strongly agree | 25% |
| Agree | 56% |
| Disagree | 17% |
| Strongly disagree | 3% |

| 2. My organization is completely satisfied with all aspects of our group annuity purchase. | Answer Frequency* |
|--|-------------------|
| Strongly agree | 28% |
| Agree | 56% |
| Disagree | 11% |
| Strongly disagree | 3% |
| Don't know | 3% |

| 3. My organization is very likely to shift additional DB liabilities to an insurer via a group annuity purchase. | Answer Frequency* |
|--|-------------------|
| Strongly agree | 22% |
| Agree | 50% |
| Disagree | 14% |
| Strongly disagree | 8% |
| Does not apply - all DB liabilities have been shifted | 3% |
| Don't know | 3% |

| 5. I believe that our decision to transfer liability via a group annuity purchase helps us keep our benefits promise to our employees and offers them greater retirement security in the long run. | Answer Frequency* |
|--|-------------------|
| Strongly agree | 34% |
| Agree | 51% |
| Disagree | 6% |
| Strongly disagree | 9% |

*Percentages may not total 100% due to rounding.

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The next ten questions (and answers) are aimed at senior finance executives whose companies **HAVE NOT COMPLETED** a pension risk transfer.

| 1. Within the next two years, how likely is your organization to purchase a group annuity for any portion of its DB plan beneficiaries? | Answer Frequency* |
|---|-------------------|
| Very likely | 2% |
| Likely | 18% |
| Unlikely | 27% |
| Very unlikely | 43% |
| Don't know | 9% |

| 2. During the past year, with whom has your organization discussed DB liability transfer via a group annuity purchase? (Please choose all that apply.) | Answer Frequency |
|--|------------------|
| Accounting firm | 8% |
| Actuarial firm | 16% |
| Board of Directors | 16% |
| Consultant | 19% |
| Insurer | 5% |
| Investment bank | 0% |
| Law firm | 14% |
| Pension committee | 19% |
| None - Have not discussed with anyone | 51% |

| 3. If corporate tax reform enables your organization to repatriate profits held overseas, which of the following strategies is your organization most likely to execute using some or all of these funds? | Answer Frequency* |
|---|-------------------|
| Increase funding of the DB plan and leave the asset mix as is | 7% |
| Increase funding of the DB plan and lock it down with a liability-driven investment strategy or a longevity hedge | 5% |
| Increase funding of the DB pension and execute a full or partial liability transfer via a group annuity | 9% |
| Execute another pension strategy | 2% |
| Execute another strategy unrelated to pensions | 19% |
| Don't know | 58% |

| 4. If tax reform lowers corporate tax rates in 2018 and beyond, my organization is very likely to increase DB plan funding this year due to the ability to take a higher deduction. | Answer Frequency* |
|---|-------------------|
| Strongly agree | 23% |
| Agree | 32% |
| Disagree | 29% |
| Strongly disagree | 16% |

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| 5. If tax reform lowers corporate tax rates, my organization is very likely to use the tax savings to increase funding of the DB pension and execute a full or partial liability transfer via a group annuity. | Answer Frequency* |
|---|--------------------------|
| Strongly agree | 10% |
| Agree | 30% |
| Disagree | 40% |
| Strongly disagree | 20% |

| 8. The recent change in actuarial mortality assumptions (and the prospect of further changes) makes it much more likely that my company will consider a group annuity purchase in the near term. | Answer Frequency* |
|---|--------------------------|
| Strongly agree | 3% |
| Agree | 30% |
| Disagree | 49% |
| Strongly disagree | 18% |

| 6. The increase in interest rates from a year ago (and the prospect of further increases) makes it much more likely that my company will consider a group annuity purchase in the near term. | Answer Frequency* |
|---|--------------------------|
| Strongly agree | 6% |
| Agree | 22% |
| Disagree | 50% |
| Strongly disagree | 22% |

| 9. If my organization decided to execute a group annuity purchase, we would likely borrow funds or issue debt to more fully fund the plan prior to transferring liabilities. | Answer Frequency* |
|---|--------------------------|
| Strongly agree | 3% |
| Agree | 15% |
| Disagree | 39% |
| Strongly disagree | 42% |

| 7. The recent rise in PBGC premiums (and the prospect of further increases) makes it much more likely that my company will consider a group annuity purchase in the near term. | Answer Frequency* |
|---|--------------------------|
| Strongly agree | 7% |
| Agree | 29% |
| Disagree | 39% |
| Strongly disagree | 26% |

| 10. If my organization decided to execute a group annuity purchase, we would likely begin with a partial liability transfer and then follow with the purchase of additional annuities over time. | Answer Frequency* |
|---|--------------------------|
| Strongly agree | 6% |
| Agree | 36% |
| Disagree | 39% |
| Strongly disagree | 18% |

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METHODOLOGY

CFO Research gathered survey responses from 80 senior finance executives working in a variety of industries. All respondents work for organizations that offer defined benefit (DB) pension plans for their current or former employees.

| Percentage of respondents whose organizations have completed a pension risk transfer agreement for some or all of their company's defined benefit (DB) pension plan liabilities (and the percentage of survey respondents who have not done so). | Answer Frequency |
|--|------------------|
| Have completed PRT | 45% |
| Have not completed PRT | 55% |

| Titles of respondents | Answer Frequency* |
|--|-------------------|
| Chief financial officer | 24% |
| CEO or managing director | 8% |
| EVP or SVP of finance | 4% |
| VP of finance | 13% |
| Director of finance | 23% |
| Controller | 16% |
| Treasurer | 4% |
| Senior risk officer | 5% |
| Other senior finance or benefits title | 5% |

| Industries of Respondents | Answer Frequency* |
|---|-------------------|
| Aerospace/Defense | 1% |
| Auto/Industrial/Manufacturing | 11% |
| Business/Professional services | 9% |
| Chemicals | 6% |
| Construction | 4% |
| Education | 3% |
| Energy/Utilities | 3% |
| Financial services/Real estate | 13% |
| Food/Beverages/Consumer packaged goods | 6% |
| Hardware/Software/Networking | 4% |
| Health care | 4% |
| Insurance | 5% |
| Media/Entertainment/Travel/Leisure | 1% |
| Nonprofit | 9% |
| Pharmaceuticals/Biotechnology/ Life sciences | 3% |
| Telecommunications | 1% |
| Transportation/Warehousing | 3% |
| Wholesale/Retail trade | 3% |
| Other | 14% |

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