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Annuity risk transfer sales soared in 2022, Limra says



There were 562 buy-out contracts last year, 34% higher than the number of sold in 2021 and breaking the previous record set in 2019.

March 1, 2023 *By Gregg Greenberg*



Surging interest rates and volatile stocks set the stage last year for the highest annual total for single premium buy-out sales ever recorded in the U.S.

According to a Limra survey of group annuity risk transfer sales released this week, total U.S. single premium buy-out sales totaled \$48.3 billion in 2022, up 42% from 2021 results.

The number of single premium buy-out contracts also hit a record. Limra reported there were 562 buy-out contracts, 34% higher than the number of contracts sold in 2021, breaking the previous record set in 2019 of 500 contracts sold.

A group **annuity** risk transfer product, such as a pension buy-out product, enables an employer to transfer all or a portion of its pension liability to an insurer. Companies can use such transactions to remove the liability from its balance sheet and reduce the volatility of its pension's funded status.

"Rising interest rates and equity market volatility" created an attractive environment for single premium buy-out sales in 2022," Mark Paracer, assistant research director for LIMRA annuity research, said in a **statement**.

Paracer added that while there were a couple of jumbo deals above \$1 billion in value, the record high number of contracts "suggests broad interest from plan sponsors of all sizes." He added that the higher interest rates improved plans' funding status, enabling more employers to "mitigate their risk through a pension risk transfer (PRT) solution."

Despite the impressive yearly tally, the study also showed that 2022 single premium buy-out sales slowed in the fourth quarter following record results in the third quarter. Single premium buy-out sales totaled \$7.2 billion, down 42% from prior year.

According to Limra's report, buy-out and buy-in sales in 2022 collectively were \$51.9 billion, which was 36% higher than in 2021, and set a new record for cumulative sales.

Taken all together, total group annuity assets totaled \$274 billion at the end of 2022, up 14% from 2021, Limra said. The \$234 billion in single premium buy-out assets represent 86% of the total PRT market assets, while single premium buy-in assets were \$6.7 billion at year-end, making up 2% of the market, LIMRA said.

"The cost of buying lifetime income has fallen both as a result of higher interest rates and increasing competition for insurance capital driven primarily by private equity firms," said Michael Finke, professor at the American College of Financial Services. "The permanent capital offered through these types of buyouts is particularly valued by private equity firms that believe they can achieve higher returns than traditional insurers."

"Just as consumers can now buy significantly more lifetime income per dollar, firms can offload lifetime income promises to retirees at a lower cost," Finke added.

This trend may also reflect companies accelerating their transitions from defined benefit plans to defined contributions due to the provisions in SECURE Act and, particularly, SECURE 2.0 Act.

“Now that these employers will have to cover permanent part-time employees, increase auto-enrollment, and provide lifetime income statements on their 401(k) programs, they may be all the more interested in having the liability for their legacy plans go away,” said Steve Parrish, co-director of the American College Center for Retirement Income. “They have a full plate to comply with the two SECURE Acts, so strategically they may want to jettison their past liabilities.”

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