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# Pension De-Risking: Overview

Pension de-risking is the term given to a transaction in which a sponsor of a defined benefit pension plan lessens the risks it faces in connection with sponsoring a plan.* These risks include ensuring it can continue to fund and manage the plan on behalf of its participants.

De-risking can be done in many ways. It typically involves plan participants who are no longer earning pension benefits, either because they have retired or left the company. Some employers choose to offer to "buy out" these participants with lump sum payments. The lump sum represents the accumulated value of their pension benefits. At the same time, some employers choose to purchase annuities, a life insurance product that provides a steady stream of income for life, from life insurance companies to fulfill the benefit owed under the plan. Often, employers will combine these strategies by offering a lump sum to participants before the annuities are purchased. In either case, the result is that -- following the transaction -- the plan has fewer remaining participants.

Some people refer to these transactions as "risk transfer," because the risk does not actually disappear, it just shifts from the pension plan to other parties. When a participant opts to receive a lump sum buy-out, risk shifts from the employer to the participant. The risks assumed by plan participants come in connection with managing money over a retirement that can last many years. Meanwhile, life insurers assume the risks associated with fulfilling the obligations to provide lifetime payments through annuities to plan participants that do not elect a lump sum payment from their pension plan.

A key question that commonly arises in de-risking arrangements is whether plan participants lose consumer protections when their employers turn to life insurers to fulfill their obligations. The answer to that question is "no."

An annuity purchased in a de-risking transaction retains the spousal protections from the plan and the protections from creditors. Instead of being insured by the Pension Benefit Guaranty Corporation (PBGC), participants receive the coverage under the state insurance system. Josh Gotbaum, former PBGC director, which insures private-sector defined benefit pension plans, has said that the state insurance system, with states' insurance guaranty association coverages, is at least as good as PBGC coverage, and that policy-makers should not be concerned about de-risking when it involves a private insurance company. He made those comments in testimony before the U.S. Department of Labor's ERISA Advisory Council on August 29, 2013.

Annuities, whether paid from the plan or from a private insurer, should be encouraged, because they provide more protection to the participants than lump sum payments.

**De-risking can also refer to various "in-plan" strategies, including various investment strategies that the employer can use to manage pension risk within the plan. For our purposes, we are not referring to in-plan de-risking strategies.*

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