



ACHIEVE GREATER CERTAINTY THROUGH PENSION DE-RISKING

STATE OF KANSAS

May 6, 2015



A PENSION LEADER

Since **1928** we have been an industry leader in providing integrated pension plan services to sponsors and participants, and have developed systems specifically for pension plan administration, which have the flexibility to accommodate the varied needs of clients. As the largest pension annuity insurer in the U.S.¹, we are a proven leader in our ability to administer payments of benefits to pension plan participants.

#1

WE ARE THE
LARGEST
MANAGER OF
U.S. PENSION
BUY-OUTS¹

\$109

BILLION
IN DEFINED
BENEFIT (DB)
ASSETS²

8th

LARGEST
INSTITUTIONAL
DB MONEY
MANAGER³

2nd

LARGEST
ACTIVE INSTITUTIONAL
MANAGER OF
DOMESTIC FIXED
INCOME³

24 of the 25

LARGEST
CORPORATE DB
PLANS⁴

¹ LIMRA Group Annuity Risk Transfer Survey, 2Q14.

² *Pensions & Investments* 2014 Annual Money Managers Directory, assets as of Dec. 31, 2013.

³ *Pensions & Investments* 2014 Top Money Manager List, May 2014. Ranked by total worldwide institutional assets under management, as of Dec. 31, 2013.

⁴ Based on U.S. Plan Sponsor rankings in *Pensions & Investments*, as of Sept. 30, 2013.



AGENDA

- I. The Pension Landscape is Changing
- II. Pension Risk Solutions and Economics
- III. How to Prepare



THE PENSION LANDSCAPE IS CHANGING



THE PENSION LANDSCAPE IS CHANGING

Volatility of funded status has led to a better understanding of risks associated with pension plans.

Change in accounting and regulatory practices has increased transparency for stakeholders.

There has been greater focus on longevity risk with the release of new mortality tables.

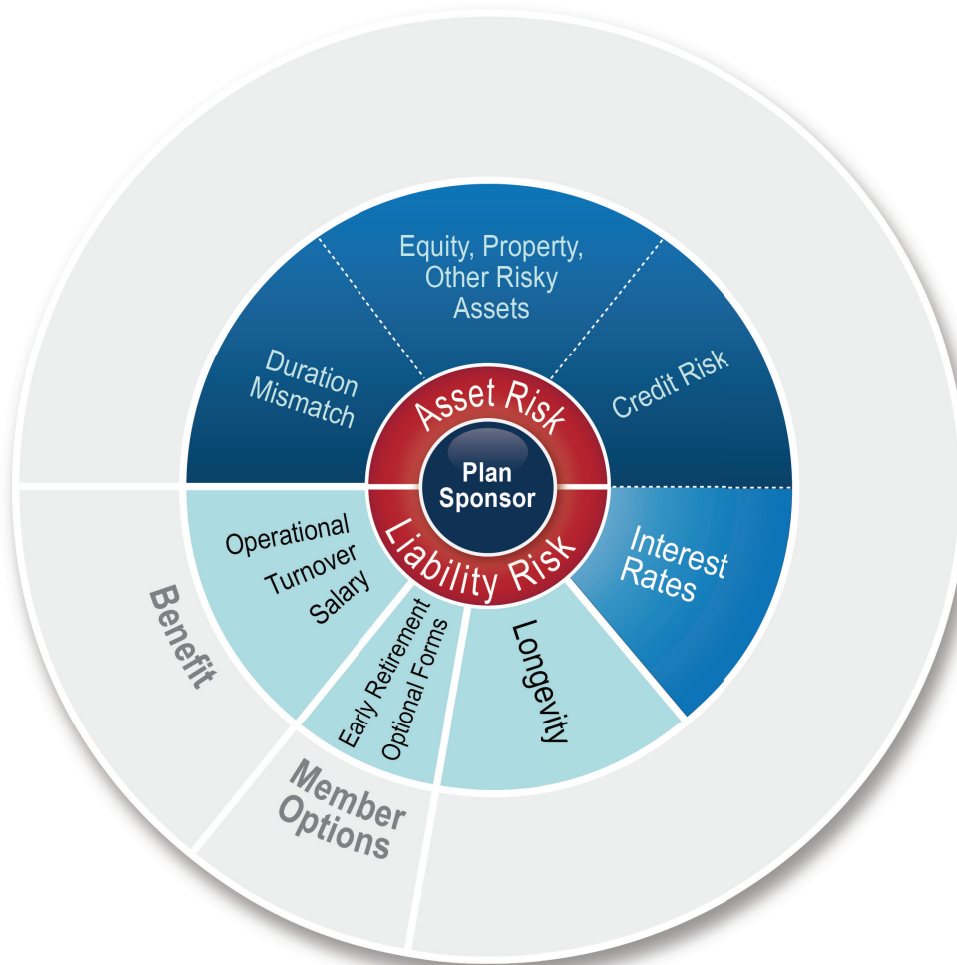
Increased awareness of true economic liability has changed the perception of transferring risk.

Additional considerations that have applied to corporate plans:

- Lump sums have been a cost effective way for corporations to reduce liabilities.
- Increased PBGC premiums have increased the cost to corporate plan sponsors.
- Increased investor awareness and focus on pension plans has distracted companies from their core business.
- Successful transactions (GM, Verizon, Motorola Solutions, Bristol-Myers Squibb) have laid the groundwork for other companies.



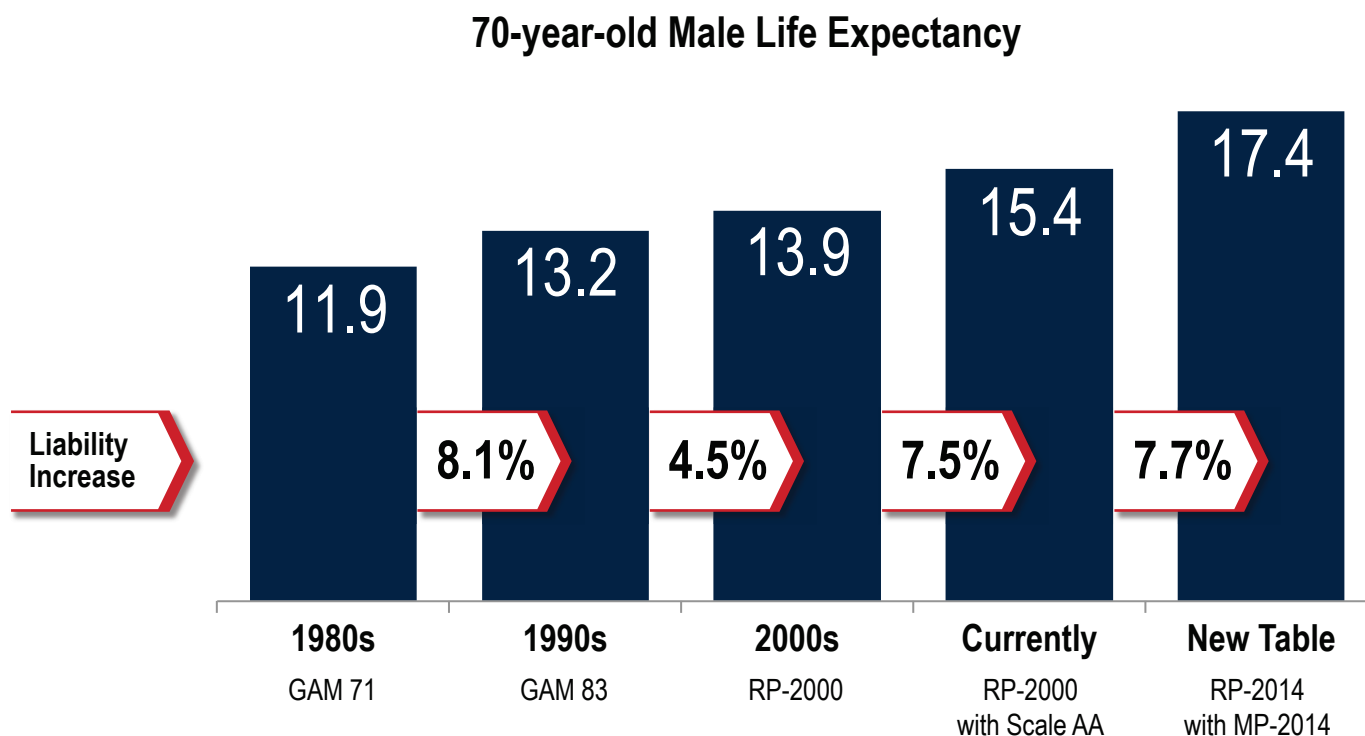
PLAN SPONSORS ARE SURROUNDED BY RISK





INCREASING LONGEVITY RISK

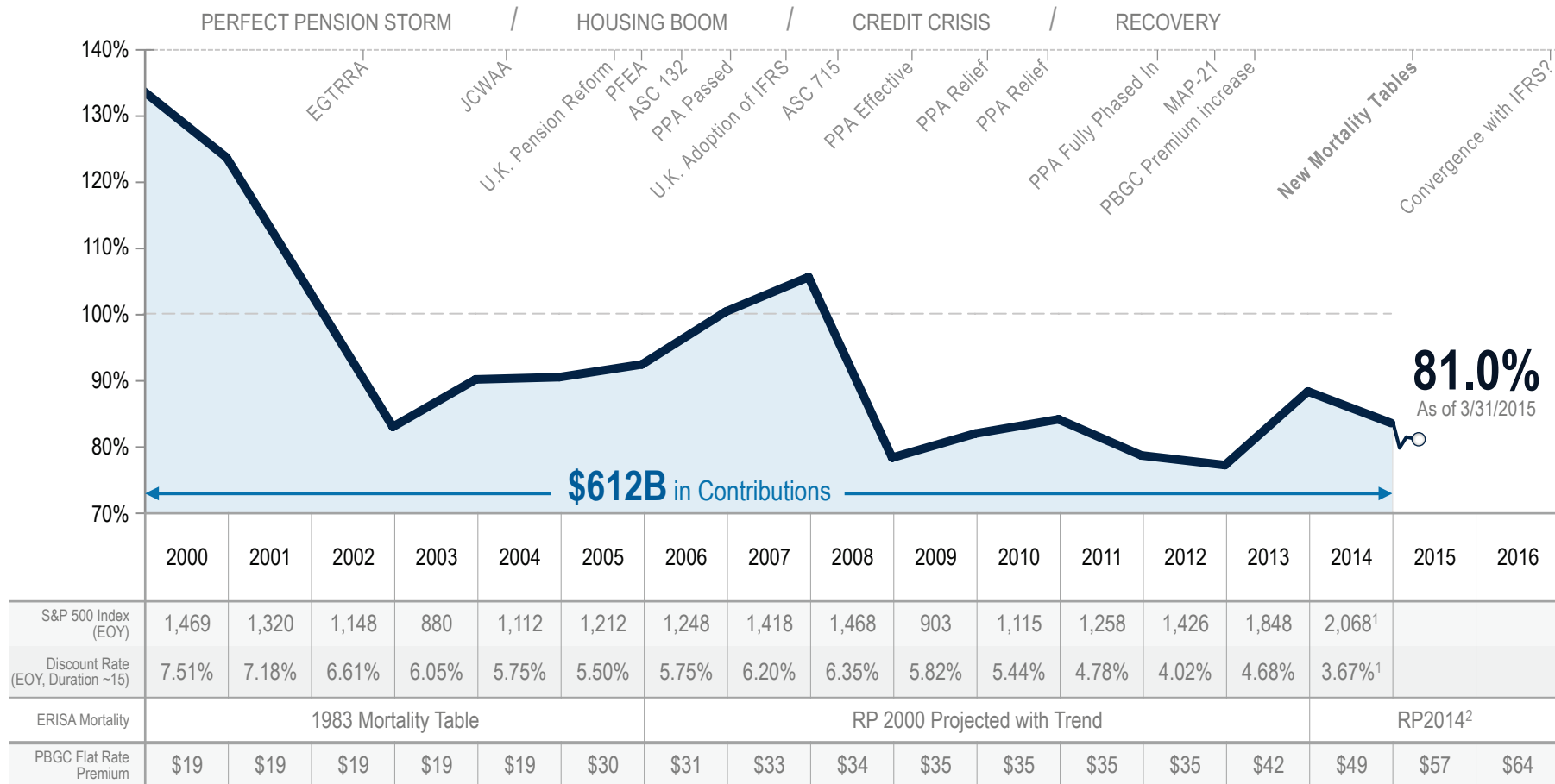
U.S. pension plan sponsors face increasing liability due to mortality table updates.





FUNDED STATUS ROLLERCOASTER

Pensions have made the round trip twice in recent years.



Source: Milliman 100 Pension Funding Index; total contributions from the Milliman 2015 Corporate Pension Funding Study.

¹ As of 3/31/2015

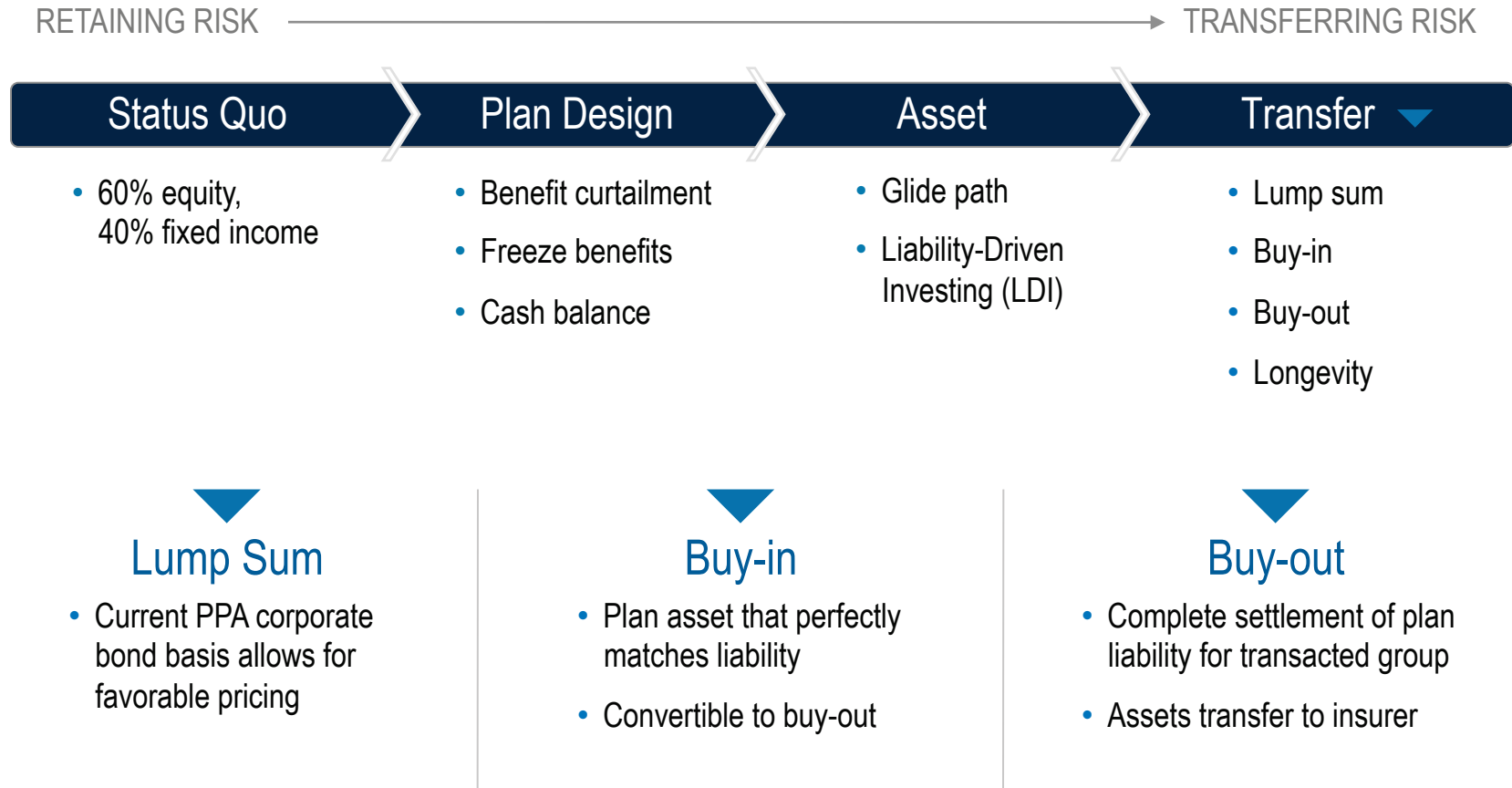
² New mortality table expected to be effective by 2017.



PENSION RISK SOLUTIONS AND ECONOMICS



RISK RETENTION vs. RISK TRANSFER



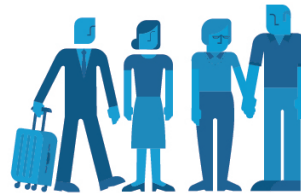


BUY-IN

Plan investment matches liability.



- Insurer makes guaranteed payments to plan
- Insurer covers investment and longevity risk
- Does not reduce funded status or trigger settlement accounting (if corporate)
- Convertible to buy-out at any time
- Retain administrative and PBGC costs (if corporate)



BUY-OUT

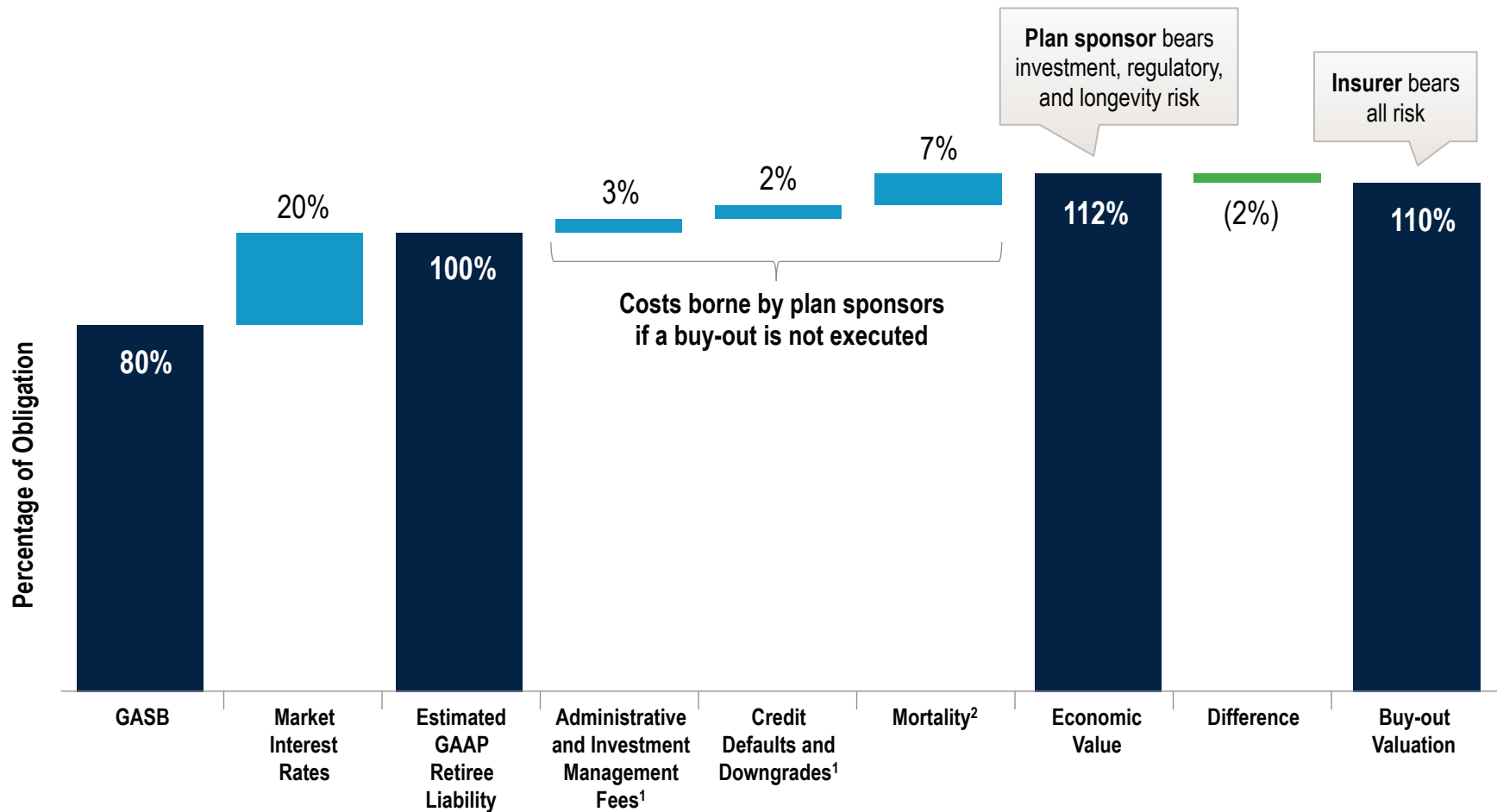
Complete settlement of plan liability.



- Insurer makes guaranteed payments to participants
- Insurer covers investment and longevity risk
- May reduce funded status and trigger settlement accounting (if corporate)
- Irrevocable
- Eliminate all costs



EVALUATING A RETIREE PENSION BUY-OUT



¹ Obligations are discounted using rates unadjusted for investment management fees and the risk of credit defaults and migrations. These are estimated at 30 and 24 basis points per annum, respectively.

² This exhibit reflects a change in the mortality basis from the RP2000 Healthy Annuitant Table with Scale AA to the RP-2014 mortality table with MP-2014.

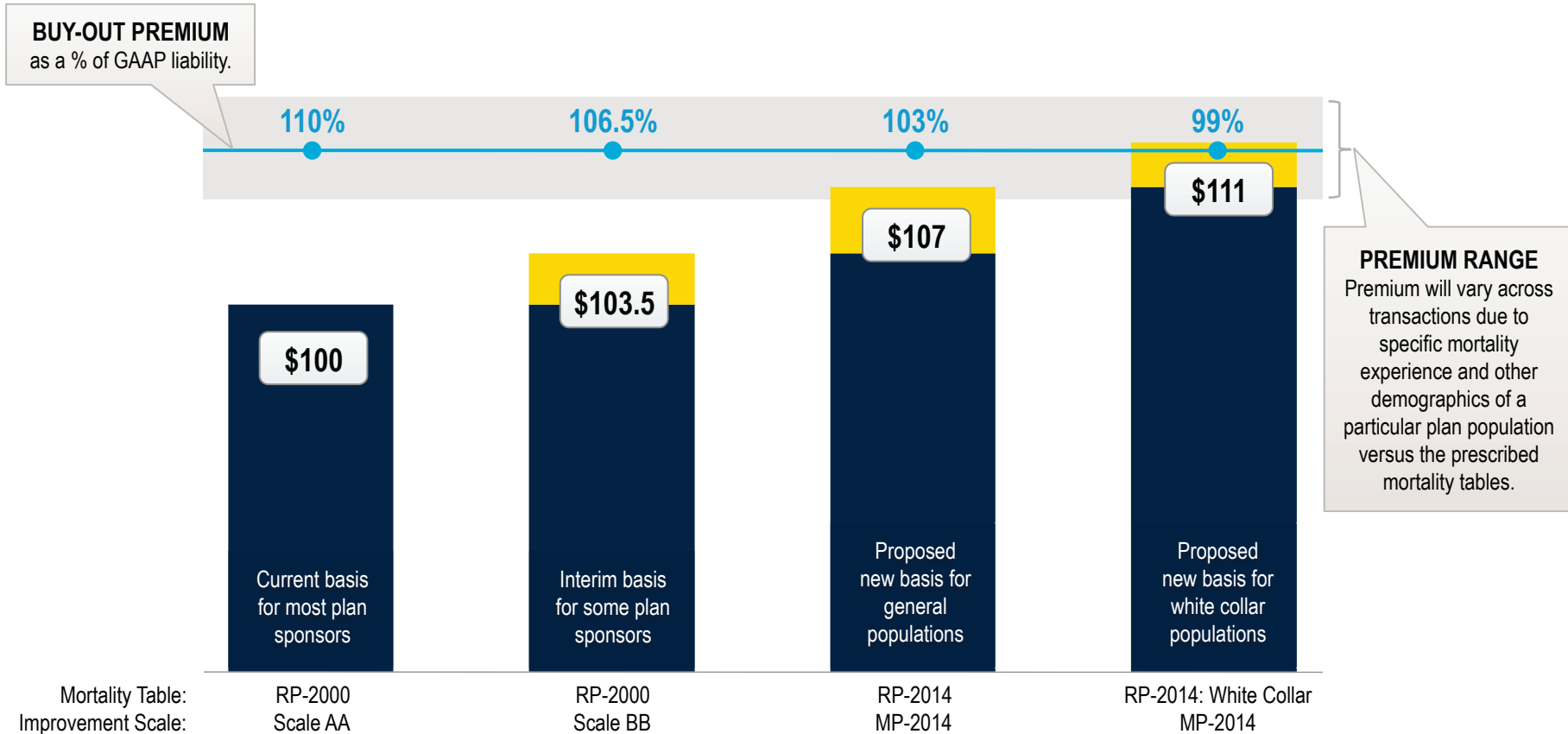
Pricing is indicative and provided for discussion purposes only. Percentages represent present value of estimated future costs.

Pricing is subject to change per market conditions and specific client demographic information.



RETIREE BUY-OUT PREMIUM VS. ACCOUNTING LIABILITY

Adjusting for Mortality Basis





HOW TO PREPARE



CONSIDERATIONS FOR TRANSACTION READINESS

1 Financial Assessment

- Understand economic liability
- Indicative buy-in / buy-out pricing (full plan or partial liability segment)
- Compare product features

2 Operational Readiness

- Clean data
- Unwind / reallocate illiquid assets

3 Stakeholder Analysis

- Consider key constituents
 - Sponsoring entity
 - Union
 - Tax payers
 - Participants
- Creation of task force?



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The Milliman 100 Pension Funding Index projects the funded status for pension plans included in the annual Milliman study of the 100 largest defined benefit plans sponsored by U.S. public companies, reflecting the impact of market returns and interest rate changes on pension funded status, utilizing the actual reported asset values, liabilities, and asset allocations of the companies' pension plans.

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