

# The Voice of the Annuitant

Key considerations about the annuitant  
experience when de-risking a pension plan  
through a group annuity solution

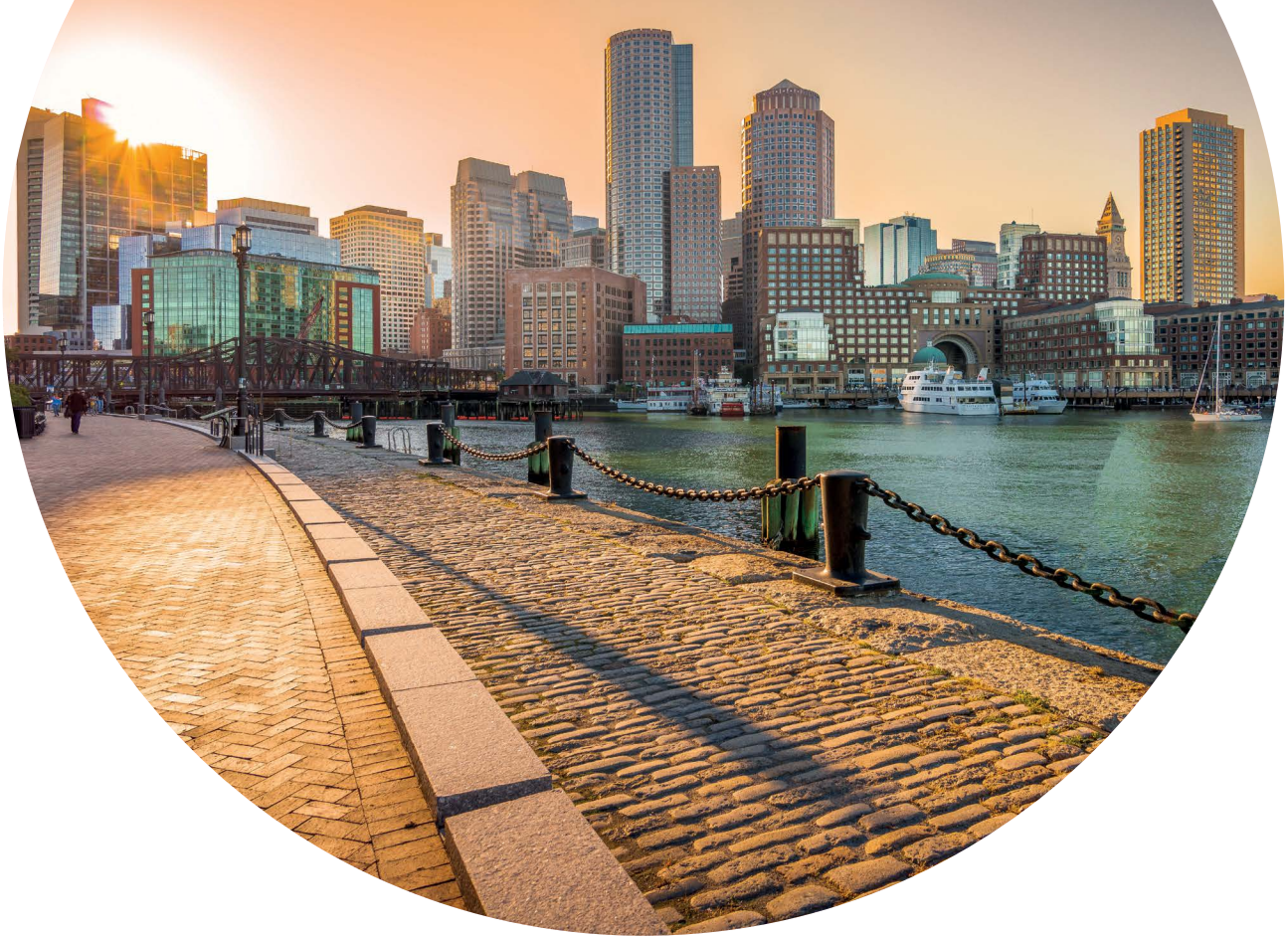
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## The Voice of the Annuitant

Employee preference for defined contribution (DC) plans coupled with the significant costs and risks associated with defined benefit (DB) plan sponsorship makes the path for many employers clear: offer a DC plan as the primary retirement savings benefit and explore ways to strategically manage, reduce, or eliminate the costs associated with the DB plan. Today, a key trend in managing pension costs and risks is through a pension risk transfer (PRT) transaction. With this solution, a group annuity contract is purchased from an insurance company that will guarantee the annuity payments as promised through the contract.

As a supplement to our white paper *Key Benefits of a Pension Risk Transfer*, which includes content covering the financial considerations, this piece, the Voice of the Annuitant, focuses on key considerations when evaluating the annuitant experience and an insurer's ability to execute the payments due to annuitants. We'll share recommendations that aim to help plan sponsors and their consultants discern how well the annuitants – the DB plan participants who are transferred to the group annuity contract – will be served throughout the lifecycle of the annuity contract.



## Defined Benefit Plan Market disruption

Employers work hard to establish themselves in their market, they take pride in their business, and they understand it's the employees who deliver. With respect and care for their employees, and to recruit top talent, many employers offer lucrative benefits programs. For the Baby Boomer and Silent generations, a traditional pension plan was held in high regard. Today, and however unintentionally, the 401(k) plan – invented in 1981, is favored.

While the finer points of the impetus for this disruption are debated, most agree it's because 401(k) plans, which are defined contribution (DC) plans, are more appealing to employees today than defined benefit (DB) plans. For example, DB plan benefit structures that can favor older, tenured employees and lack of portability as undesirable features.<sup>1</sup> From an employer's perspective, the costs of a DC plan structure are easier to manage and DC plans are less risky when compared to a DB plan arrangement. Consequently, more and more plan sponsors are working to de-risk and unwind their DB plans, and frequently doing so by purchasing a group annuity contract.



## Key considerations when exploring a Pension Risk Transfer solution

When exploring a PRT solution and evaluating prospective PRT insurers' ability to satisfy the obligations of the group annuity contract, it's important to know that the Department of Labor (DOL) has outlined the fiduciary requirements for the selection of an annuity provider to which the plan intends to transfer pension benefit liabilities. DOL Interpretive Bulletin 95-1 (IB 95-1) describes a number of factors the fiduciary must consider when evaluating the annuity provider's claims paying ability and creditworthiness. Consequently, insurer financial strength ratings, generally, are key areas of focus in the insurer review process. However, it's important to note that IB 95-1 outlines additional considerations the fiduciary should take into account.

In an effort to satisfy the broader fiduciary requirements, a good first step when reviewing PRT insurers is to define, 'what does it mean to have the ability to satisfy a pension obligation through a group annuity solution?' The short answer is, 'it's more than the insurer's credit worthiness.'

An insurer's ability to make the payments it has guaranteed under its group annuity contract involves a combination of its financial ability to make the payments and the insurer's commitment and ability to sustain the costs of administering the group annuity contract including **completing all payments due to the annuitants** – all for the long term.

To uncover what it takes to satisfy the DOL's criteria for selecting an annuity provider more holistically than reviewing the insurers' financials, we'll answer the following questions and more:

- What is the profile of the annuitant customer and how does it differ from the profile of retirement plan participant customer?
- Given the annuitant profile, what are the appropriate and most effective means to serve the annuitant customer?
- What are the elements of an effective pension risk transfer transaction annuitant communication?
- How are the participants/annuitants served after the transition?
- And importantly, how can a plan sponsor, together with their pension consultant, efficiently evaluate annuitant service delivery and gain confidence that the insurer will effectively administer its payment obligations and make all payments due to the annuitants?



## The regulatory rationale

When reflecting on IB 95-1, it's important to note that it calls attention to an insurer's demonstrated ability to administer the payment of benefits, explaining, "it may also be in the interest of the participants and beneficiaries to choose a competing annuity [if] the annuity provider offering the safest available annuity is unable to demonstrate the ability to administer the payment of benefits to the participants and beneficiaries."<sup>2</sup>

With this point of clarification in mind, sponsors and their pension consultants should be certain to gain an understanding of an insurer's ability to properly administer the annuity, in addition to its financial ability to make the payments guaranteed, typically for the life of the annuitant. Moreover, effective communication is a key factor in successful annuity administration. It's essential that plan participants whose benefit payment obligation has been transferred to an insurer continue to be aware of the benefit, know how to access it, and have a positive experience when being served.

It's also important to note that plan participants are accustomed to a certain level of service and convenience from their pension plan administrator. Ensuring that service levels from the insurer will meet or exceed current standards for these individuals as annuity customers of the insurer can go a long way in ensuring a seamless transition and annuitant satisfaction.

So, what's next? Let's gain a deeper understanding of the PRT annuitant customer.



## The annuitant profile

In today's world many services are available at the tip of our fingers and the financial services market is no exception. Even so, technology is not a one size fits all solution. Getting to know your customers and understanding where to meet them are essential steps when designing service delivery models.

Given many defined benefits (DB) plans are served in conjunction with a defined contribution (DC) plan, the services for these plans generally impact a broad array of age groups who interact with service providers differently – from fully digital to not digitally at all. However, many pension plan sponsors that explore group annuity solutions have frozen their DB plans to new entrants years or even decades before. Therefore, most of the participants involved in a pension risk transfer transaction lean towards the Baby Boomer and the Silent generations, many of whom have distinct service needs. These distinct needs should be considered in the pension risk transfer market.

Based upon a review of MassMutual's PRT annuitant population, for example, the Boomer and Silent generations account for 95% of the customer base.<sup>3</sup> In contrast to a Pew study administered in April 2021 indicating that "roughly two-thirds of adults 75 and older fall into the group having lower tech readiness – that is, they either have little or no confidence in their ability to use their devices" at the time, a 2024 Pew study showed that now 90% of Americans indicate they own a smartphone and over 75% of Americans aged 65 and up own smart phones. (Fig. 2) Albeit, regardless of income or location – urban to rural, the lowest technology usage is among those aged 65 and over."<sup>4,5</sup>

Generation	Years Born
Gen Alpha	2013-2025
Generation Z	1995-2012
Millennial	1980-1995
Gen X	1965-1979
Baby Boomer	1946-1964
Silent	Before 1946

Source: USCLibraries Research Guides, Demographics, Age Groups August 15, 2024 <https://libguides.usc.edu/busdem/age>

Many retirement plan recordkeepers for DB/DC plans typically rely heavily on digital services. It's an acceptable and effective approach for many in this digital era. Nonetheless, digital adoption is not at 100% and it's our duty to serve all.

Given such plan design and administration considerations paired with the diverse needs of the generations typically covered by frozen DB plans, digital services may not be the most effective means of service delivery method for this group of customers. Call centers and paper-based communications, typically, are necessary components of an effective service delivery model for this segment of employees. This means that the service and communication delivery model for a PRT insurer will and should look different than the service delivery models of a retirement plan services record keeper.

Even so, the service preferences do not rule out the use of digital services by any means, given the large increase in the Boomer population who now own a smart phone and show signs of engaging digitally. For example, MassMutual has noted success driving digital adoption among this population for key services. Specifically, online benefit estimates are a top utilized function in MassMutual's experience.<sup>3</sup>

In any case, insurers need to understand how their customers engage when designing their service delivery strategy. Plan sponsors and their consultants need to understand this too, when they are evaluating annuity insurer service delivery models.

### TECHNOLOGY USAGE BY AGE GROUP

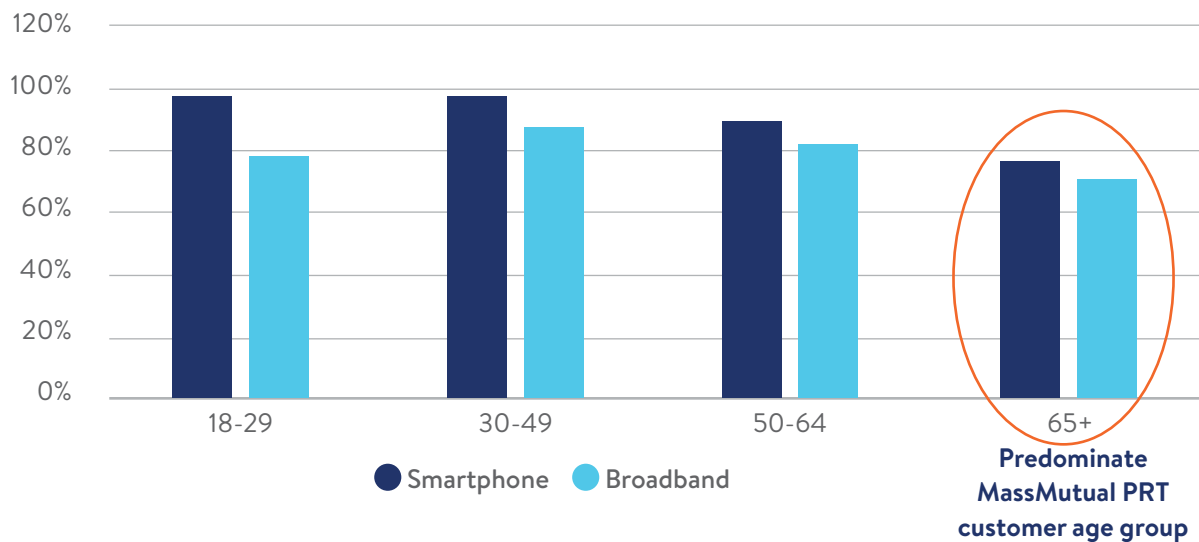


Figure 2: Technology Use by Age Group, Percentage US Adults Source: Americans' Use of Mobile Technology and Home Broadband, January 31, 2024, <https://www.pewresearch.org/internet/2024/01/31/americans-use-of-mobile-technology-and-home-broadband/>





## Quality service delivery

With a better understanding of how insurers should engage with annuitants, plan sponsors, together with their consultants, are in a better position to evaluate service delivery models. Still, questions remain.

Is one service delivery model better than the other, or just different? Which suits the unique needs for your plan participants? While the answers will vary for each situation, the following considerations can help sponsors and their consultants identify which solutions are the right fit.

### Ownership or outsourcing

Gaining an understanding if the insurer has a proprietary group annuity service delivery, or if they outsource administration can be telling. If outsourced, to whom and what information is available about the vendor? How long has the arrangement been in place? What is the business rationale for outsourcing the administration? Might the vendor be replaced, and if so, when, and what is the impact to the annuitants?

In either case, ownership or outsourcing, the questions noted herein apply. However, the answers on how service quality is ensured, and more, may differ.

### A Foundation built on trust

Insurers in the PRT space administer volumes of pension risk transfer annuity obligations as a normal course of business. With this experience, each insurer should be able to share their framework that aims to ensure a seamless transition and overall successful annuitant experience. Generally, the insurer should note how their process aims to deeply understand the plan sponsor's situation, the needs of the participant population, and offer solutions accordingly.

At MassMutual, we believe that building a relationship between the insurer and its new customers – the annuitants, early on is key. To get off on the right foot, we believe the initial communication packages should:

- Inform the annuitants about the new arrangement for delivery of their retirement benefit
- Invite annuitants to register for service options that will start to build the new relationship between the annuitant and the insurer
- Align with plan sponsor goals, and
- Instill confidence in the transaction and the insurer.

To help determine the best approach for a given situation, the insurer should ask for more than just the demographic information that is typically requested - date of birth, sex, date of hire, address, etc. Additional consultation should focus on how the plan sponsor currently communicates to the affected participants. For example, is digital adoption high or are the communications still predominately paper-based? Are email addresses available? Can transition communications be customized? What are the call center volumes?

With the right data and a deeper understanding of how participants are accustomed to receiving communications and being served, an insurer can partner with the plan sponsor and their consultant to create an effective communication plan tailored to the needs of the affected participants.

Through the communication program, the insurer lays the foundation for a strong relationship with the annuitants and a seamless transition. Importantly, an effective communication program can assure retirees that their retirement income is in good hands and they will continue to receive their pension payments. In addition to informing and educating participants from the start, a well-executed communication program can help reconnect with deferred participants who are no longer employed by the sponsor.

After the transition, the insurer should communicate their services and capabilities regularly. As we'll discuss later, there are a few ways insurers engage with the annuitants on an on-going basis. Keeping annuitants abreast of where and how to access their benefit is both an essential and perennial task.

## Phone a friend

As noted earlier, many PRT annuitants do not prefer self-service. Therefore, an effective call center support model is essential to successful group annuity administration. It's important to realize that some insurers support participants through call centers created for other needs such as retirement savings plans, individual annuities or employee benefits. However, PRT participants have specific needs, especially those who are already begun receiving their benefit payments and are typically accustomed to more personalized service capabilities.

Each group annuity contract is tailored to the terms of the plan that purchased the benefits, offering different benefit options. Call center reps need to know the details of each contract the insurer has issued to enable clear communication, quality service, and first call resolution. Therefore, it's important for the plan sponsor and their consultant to understand what products are being supported by the insurer's call center. Some specifics to inquire about include staff training processes, hours of operation, and headcount. In addition, ask if certain call center employees specialize in PRT, and if so, how many.

## The digital journey

While many annuitants are reluctant to engage digitally, others are accustomed to having financial services available at the tips of their fingers. Many customers who engage digitally are increasingly relying on technology and electronic access to manage their financial matters and facilitate transactions safely in recent years. In addition to offering convenient access, digital service delivery is sustainable. By reducing the use of paper, digital services, generally, are better for the environment. The trick for insurers is creating digital capabilities that make annuitant access simple, secure, and sustainable.

To make access simple, many insurers offer benefit information and a variety of capabilities digitally. In addition, digital experiences can be personalized based on the annuitant's status, date of birth, and other data points. For example, if an annuitant has not yet begun receiving benefit payments, the digital experience may provide the ability to calculate estimates for the different forms of benefit available tailored to the specific annuitant. Direct deposit information, tax forms, or a downloadable verification of income letter may be available to annuitants in pay status. Annuitants of all status types should be able to notify the insurer of a change of address electronically. Conversely, transactions for which the annuitant is not eligible will not be made available. Such programming helps make engaging digitally intuitive and easy for the annuitant customer.



Once simple access is developed, it must be delivered securely. The insurer providing annuity payments should be able to demonstrate continuous investments in tools, resources and personnel that help keep the commitment to security. The information security team needs to monitor risk factors every day so that personal data, and the systems that manage it, are safe. Further, the insurer should be able to provide the sponsor with a written description of its cybersecurity program. Because technology is evolving all the time, it's essential to ask what service capabilities an insurer has today, what they are planning for tomorrow, and how they are keeping information and access secure.

## Annuitant engagement and satisfaction

As mentioned earlier, promoting and communicating administrative capabilities to the annuitants on a regular basis is key. Annuitant service providers need to stay in front of their customers, reminding them of access points, service capabilities and the ability to meet their service needs, and to remind them of their benefits. In addition, many service providers regularly survey annuity customers to determine their level of satisfaction with service interactions.

Insurers can compare their quality of service to established, independent benchmarks. While satisfaction can be measured in a variety of ways, the key is to understand that the insurer has a process and what the process is. One way to measure customer satisfaction is through the use of a net promoter score (NPS). Generally, achieving an NPS of 50% or more is considered a sound benchmark.<sup>6</sup>

Sponsors and their consultants may also wish to ask insurers how they measure engagement. What percentage of annuitants served have registered for their account online or otherwise reached out to the insurer? What online services are most utilized - address changes, benefit calculations, etc.? These measurement tools can be leading indicators of an insurer's commitment and ability to serve the annuitant.



## A look ahead

As evidenced by sales reports, the industry has experienced strong growth in recent years and we expect that trajectory to continue. Sales of group annuity buy-outs offered through insurance companies reached \$41 billion in 2023 among 763 transactions, 28% more than the \$29.9B figure achieved in 2019 per the quarterly LIMRA Secure Retirement Institute fourth quarter Group Annuity Risk Transfer Summary Reports (GART).<sup>7</sup>

In the current environment, we believe the following factors will continue to drive PRT sales growth:

- A pension risk transfer solution is currently the only way to fully unwind a pension plan under current law,
- Insurers have the expertise to make long-term commitments, and
- Historically high market growth is giving lift to funded status ratios.

Meanwhile, plan sponsors will continue to gain a deeper level of knowledge and experience with group annuity products, which we expect will drive demand for service models tailored to the unique needs of the PRT annuitant customer.

Consequently, there's no doubt PRT insurers will continue to work diligently to maintain their financial strength, offer annuity solutions tailored to the plan sponsor's needs, and design service delivery models for the distinct needs of the PRT annuitant population.



## Bringing it all together

Given we expect continued growth in the PRT market, we believe it's essential plan sponsors together with their pension consultants kick the tires on an insurers administrative services in addition to reviewing insurers financials when evaluating group annuity contract choices. In our view, it's crucial that the insurer demonstrates a commitment to satisfying its obligations to the annuitants for the long-term – including both its financial ability to satisfy the claims and its ability to administer the payments regularly for the life of the annuitants and their beneficiaries.

We've included a **Key Questions When Evaluating Insurers' Annuitant Services** listing at the end of this document to assist plan sponsors and their consultants in reviewing their PRT insurer evaluation criteria.



## About MassMutual

At MassMutual, we offer plan sponsors and intermediaries confidence by helping ensure their fiduciary duties and pension obligations are satisfied. As a mutual company run for the benefit of its participating Policyowners, we offer confidence through our enduring **financial strength**, our annuity solutions expertise, and our passion for helping people secure their future and protect the ones they love.

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To learn more about how MassMutual can assist with your pension risk transfer needs, visit us at [www.institutional.MassMutual.com/pension-risk-transfer](http://www.institutional.MassMutual.com/pension-risk-transfer) or contact us at [pensionrisktransfer@MassMutual.com](mailto:pensionrisktransfer@MassMutual.com).

For more information about how MassMutual protects customer information, please visit us at [www.MassMutual.com/legal/cyber-security](http://www.MassMutual.com/legal/cyber-security).

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## Key Questions When Evaluating Insurers' Annuitant Services

With a better understanding of what to consider, here is a list of questions aimed to help sponsors and their pension risk transfer consultants vet how the insurer intends to support the annuitants.

1. Does the insurer provide annuity services in-house, or is administration outsourced?
2. What does the insurer's vision of success look like and how is success measured?
3. Through which channels does the insurer intend to deliver services to annuitants – digitally, via phone, paper-based communications?
4. How are service capabilities communicated to annuitants and how frequently? Request sample communication plans and related communications samples.
5. What levels of benefit information access and transaction capabilities does the insurer's digital platform provide annuitants?
6. How much does the insurer invest in its digital service capabilities/technology annually?
7. When was the last significant group annuity services technology upgrade?
8. Does the insurer have a documented process to manage cyber risk? Request a copy.
9. Are call center representatives trained to understand the benefits offered under each PRT group annuity contract? Request a description.
10. How are quality administration and service delivery measured and ensured? Request a sample documentation such as a SOC2 report or a copy of the insurer's business recovery protocols to understand what protocols are in place in the event of a crisis.

<sup>1</sup> EMPARION, Defined Benefit Plans: Rules, Pros, and Cons + FAQs, Paul Sundin, CPA (February 17, 2024)

<https://www.emparion.com/defined-benefit-plan-vs-401k-plan>

<sup>2</sup> 29 CFR § 2509.95-1 - Interpretive bulletin relating to the fiduciary standards under ERISA when selecting an annuity provider for a defined benefit pension plan (July 1, 2016)

<https://www.govinfo.gov/content/pkg/CFR-2016-title29-vol9/pdf/CFR-2016-title29-vol9-sec2509-95-1.pdf>

<sup>3</sup> MassMutual proprietary reporting. As of August 30, 2024.

<sup>4</sup> PEW Research Center, “The Internet and The Pandemic” (Sept. 1, 2021) <https://www.pewresearch.org/internet/2021/09/01/the-internet-and-the-pandemic/>

<sup>5</sup> PEW Research Center, “Americans’s use of mobile technology and home broadband” (January 31, 2024)

<https://www.pewresearch.org/internet/2024/01/31/americans-use-of-mobile-technology-and-home-broadband/>

<sup>6</sup> Retently, “What is a good net promoter score? (2024 NPS Benchmark) (March 29, 2024)

<https://www.retently.com/blog/good-net-promoter-score/>

<sup>7</sup> LIMRA Secure Retirement Institute, Group Annuity Risk Transfer Survey (2019, 4th Quarter and 2023 4th Quarter Reports)

