

Transferring Trust

UNDERSTANDING PENSION SECURITY

Prudential

Pension benefits are a vital part of the resources that some retirees depend on for income during retirement. A transfer of the obligation to pay benefits from a pension plan to an insurer under a group annuity contract is one way to secure the payment of benefits.

Still, it's understandable that some retirees have questions when they learn that the obligation to pay benefits is transferring from the pension plan of a former employer to an insurer. For your consideration, here is information about pension plans and insurers that may be useful in understanding the security of retirement benefit payments.

In many instances, life insurance companies are well suited to manage the obligation to pay benefits. Striving to secure payments is what annuity insurers are designed to do.

Group annuity contracts are financial products that provide regular income payments to people, usually after they retire, for life or for a set period. They help ensure a steady income during retirement.

Funding lifetime income

Both pension plans and insurance companies make promises to provide income to retirees for as long as they live. Pension plans are funded through employer contributions and investment earnings. When the responsibility to pay benefits is transferred to an insurance company, a premium is paid from the plan's trust to the insurer. In both systems, the assets are invested.

What does asset allocation have to do with securing lifetime income?

Plenty! Asset allocation is the strategy of spreading investments across different asset types, like stocks and bonds, to balance risk and return.

Types of investment options



Fixed income investments are assets like bonds that provide a steady return over time and are generally lower risk.



Equities or stocks represent ownership in a company and can offer higher returns, but also come with higher risk due to market fluctuations.



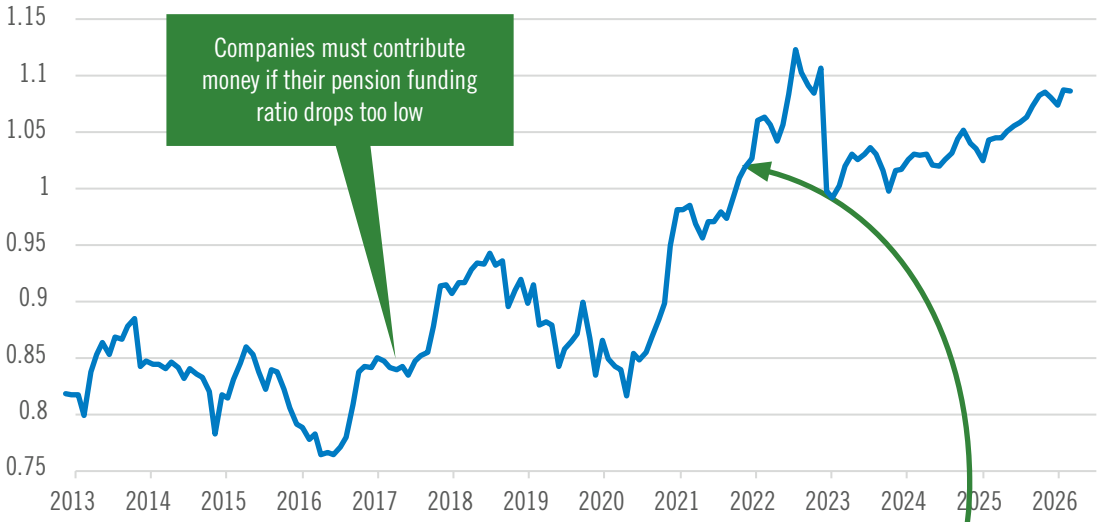
Other assets include alternatives, such as private equity, private credit, and real estate that may offer higher returns and have varying levels of risk, but are less transparent and less liquid than public assets. Generally, assets that are less liquid make sense for longer-term obligations, like pension plans. However, if an economic event requires the owner to sell assets for cash, it may be hard to find an opportunity to do so.

The investments that pension plans use to pay benefits are exposed to varying levels of risk. Over time, prudent asset allocation has moved to reduce risk, however, returns on pension assets can swing widely[1], as shown in the chart on the next page.

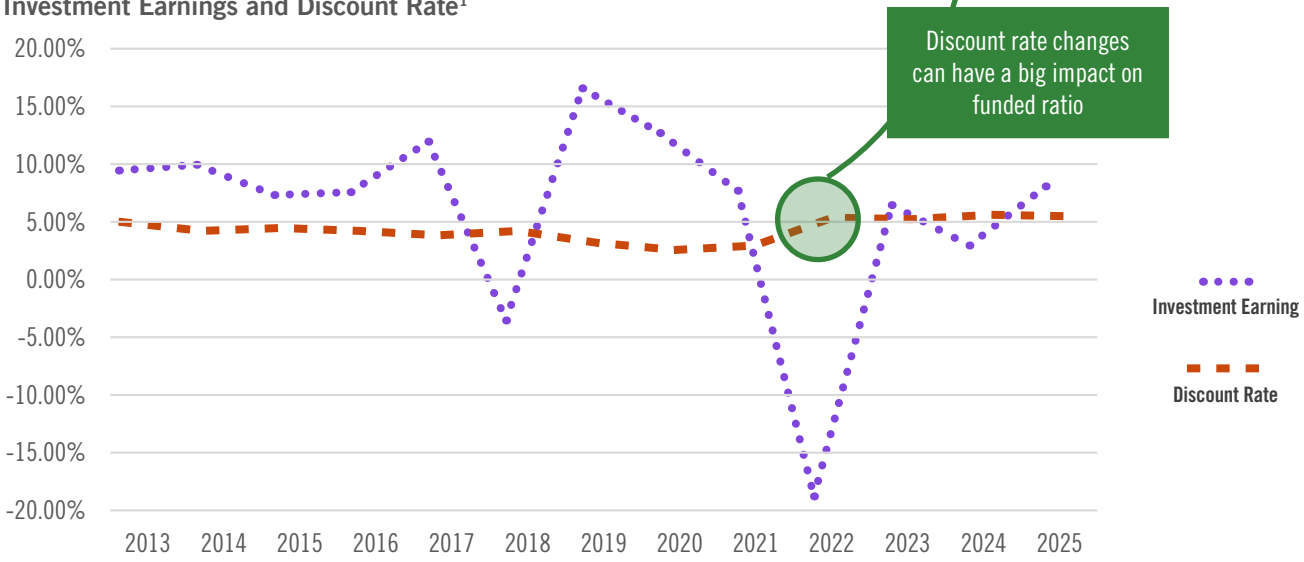
Pension plan funding volatility

Funding volatility can make it difficult for an employer to continue to maintain a plan. The average funded ratio of the 100 largest pension plans in the U.S. has been volatile in the past, but has improved over recent years. The improvement is partially due to the increased discount rate, applying downward pressure on liabilities, so the funded ratio has improved significantly.[1]

Funded ratio of the 100 largest pension plans in the U.S.[1]



Investment Earnings and Discount Rate[1]



The **funded ratio** measures how the total assets compare to total liabilities. For example, a ratio greater than one indicates that a company has more assets than liabilities, which is essential for financial stability.

When poor asset returns reduce a plan's funded ratio, the employer may need to contribute additional cash to the fund to avoid failure.

Investment earnings are the returns that plan assets generate. If investment earnings are negative, the pension plan could be losing money.

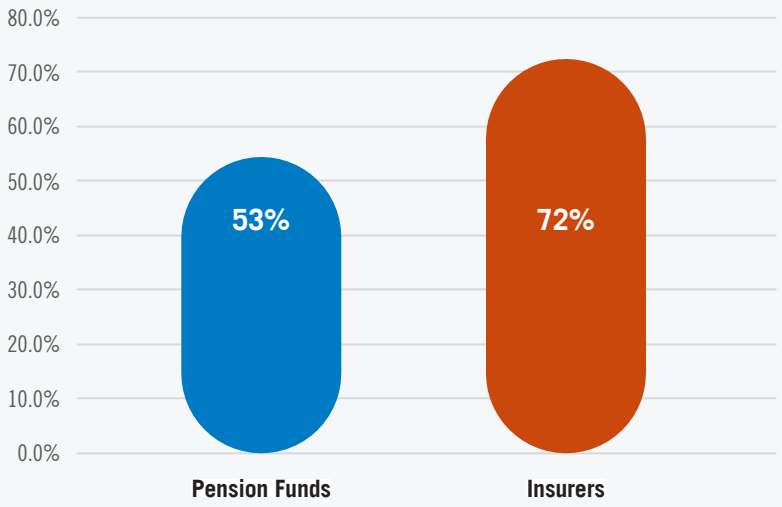
The **discount rate** is used to calculate the present value of future liabilities. It helps determine how much money will be needed to cover future expenses, influencing the financial health of the pension plan.

In 2013, the average allocation to fixed income assets across the 100 largest pension plans in the U.S. was 38.64%.[1] The move towards a more conservative approach has pushed that to 53%[1] in 2025.

In contrast, at the end of 2025, the top 10 Pension Risk Transfer (PRT) insurance companies dedicated 71%[2] of their portfolios to these types of assets.

This conservative allocation aligns with their focus on long-term financial stability for these insurance companies.

Average Fixed Income Allocations (2025)[1, 2]



The chart shows the average allocation to fixed income assets for the 100 largest U.S. pension plans compared to the 10 largest life insurers active in the PRT market.



Differences between pension plans and life insurance companies

Pension plans are similar to life insurance companies in that they both have to manage funds that are intended to pay obligations that may be due far into the future. However, there are several key differences that we highlight in the chart below.

	Pension Plans	Insurance Companies
Primary focus of the company	A pension plan is run by a company that typically does something other than managing the payment of long-term financial promises.	Life insurance companies are built specifically to manage and pay long-term financial promises, often using risks associated products like life insurance (people dying sooner than expected) and annuities (people living longer than expected) to balance out.
Funding requirements	Under ERISA and the Pension Protection Act of 2006, single-employer pension plans are allowed to maintain a funded deficit, meaning they're allowed to hold assets less than the present value of their total benefit obligations.	Insurers are required to maintain investments with values that surpass their liabilities at all times, and the assets themselves are heavily regulated and closely monitored.
Risk management and offsetting	No requirement to hold assets above their liabilities or hold money in reserve against investment and longevity risks (how long people live) associated with their obligations. When investments return less than expected or people live longer than expected, employers must contribute additional cash to prevent plan failure.	Not only must insurers hold assets in reserve above their liabilities, but they also need to allocate risk-based capital (RBC), held against the investment and longevity risks associated with their obligations. So if investments don't meet performance expectations, or people live longer than accounted for, there's no shortfall.
Asset risk reserve requirements	Pension plans have wide discretion in their asset allocation and they are not subject to any additional funding requirements for holding riskier assets.	RBC rules also establish a minimum regulatory capital standard that's unique to each life insurer, based on their exposure to the many kinds of risks associated with managing long-term financial obligations. So, if an insurance company is holding riskier assets against liabilities, they must hold higher reserves to protect against those risks.
Cashflow testing	Cash flow testing to see how pension plans perform under stress scenarios, such as recessions or rapid supply chain disruptions, is not required.	The reserves—as well as the assets backing those reserves—of insurance companies undergo annual cash flow testing under specific economic scenarios determined by regulators.
Guaranty association	The Pension Benefit Guaranty Corporation (PBGC) is a federal agency founded in 1974. It protects the retirement benefits of private sector workers.	State guaranty associations in every state, plus Puerto Rico and the District of Columbia, work with insurance regulators to protect benefits promised by insurance companies.
Failure rate	As of November 2023, the PBGC estimates servicing over 900,000 people from over 5,000 failed pension plans.	Since 1975, just 252 insurance companies have failed. Only one—Executive Life Insurance Company in 1991—was considered to be significant.[3, 4]

Retiring with confidence

The transfer of retirement benefit payment responsibilities from a pension plan to an insurance company has the potential to provide retirees with enhanced income security through stricter regulations and conservative investment practices, but can also help a plan sponsor focus on its primary business.

This strategic move helps ensure that retirees can enjoy retirement with confidence knowing their retirement benefits are provided under a group annuity contract issued by an insurance company, and that their income is managed by specialists in long-term financial obligations.



Prudential was founded over 150 years ago in 1875.

The company has been protecting the life's work of retirees through group annuity contracts since 1928. For nearly 100 years, Prudential has been a Rock Solid company retirees rely on.

[1] Milliman 100 Annual Pension Funding Studies, years 2014 – 2026.

[2] Company Annual Reports as of December 31, 2026.

[3] Insurance Company Failures Threaten Retirement Income, Government Accounting Office, June 27, https://www.gao.gov/assets/t-hrd-91-41.pdf, 1991 (Accessed October 15, 2026).

[4] National Organization of Life & Health Guaranty Associations, https://nolhga.com/policyholders/insolvent-insurance-companies/#sort, (Accessed October 15, 2026).

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