



# BFMC Pension Plan

---

Pension Risk Transfer Analysis

March 7, 2024

# Agenda

- PRT Background and Process
- Cost Analysis
- Benefit Protections



# Background and Process

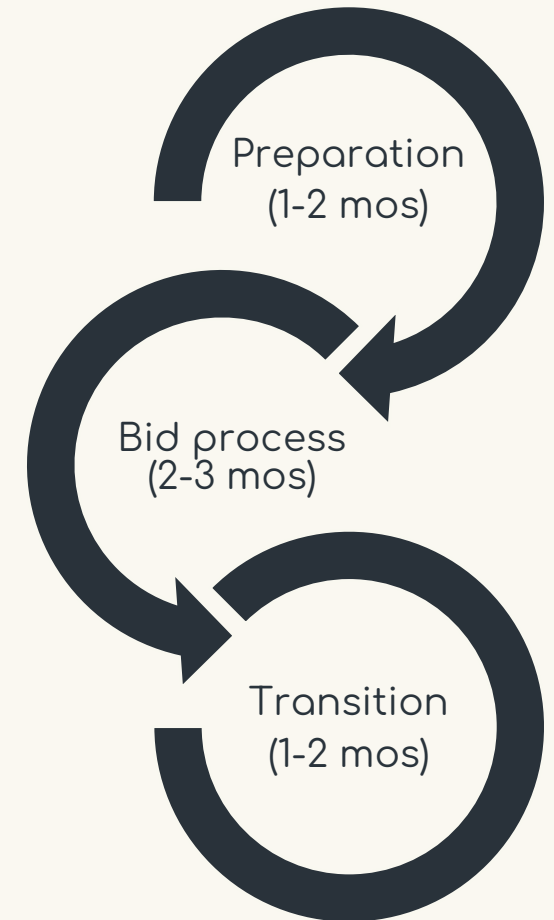
---

# What is PRT?

- The pension plan must pay benefits that could last for decades
- This obligation can be transferred to a life insurance company in exchange for a one-time fee (or “single premium”)
  - Plan sponsor purchases a “group annuity contract” from the insurer
  - Participants covered under the contract are no longer part of the Plan
  - Insurer assumes responsibility for all future benefits for these participants
- This product — a single-premium group annuity contract replicating pension benefits — is referred to by insurance companies as “Pension Risk Transfer” (or “PRT”)

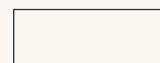
# Process

- PRT generally takes 5-7 months from planning stage to completion
- Preparation includes participant data clean up and summary of plan provisions for insurer
- Bid process is the main phase; about 20 insurers solicited for bids, fiduciary due diligence is completed; on “selection day,” final bids are received in AM and sales agreement is signed by EOD, with payment made a few days later
- During transition, full participant data is shared, participants are notified, and precise contract language is finalized; insurer usually assumes payment responsibility 45-60 days after selection



# Insurers in the Market

Small Market	Mid Market	Large Market
American National	Fidelity & Guaranty	Athene
CUNA	Legal & General	Corebridge
Midland National	Nationwide	MassMutual
Mutual of America	New York Life	MetLife
Mutual of Omaha	OneAmerica	Principal
Western-Southern	Pacific Life	Prudential
	Securian	Global Atlantic
		RGA



Retirees and deferred lives



Retirees only

# Fiduciary Considerations

- Selecting the insurer is a fiduciary responsibility
- Selection is irrevocable so the standard is generally stricter than “normal” fiduciary requirements
- DOL provides guidance in the form of Interpretive Bulletin 95-1
  - BMFC is not an ERISA plan and is not subject to DOL requirements; however, the framework is a valuable tool for the pension committee

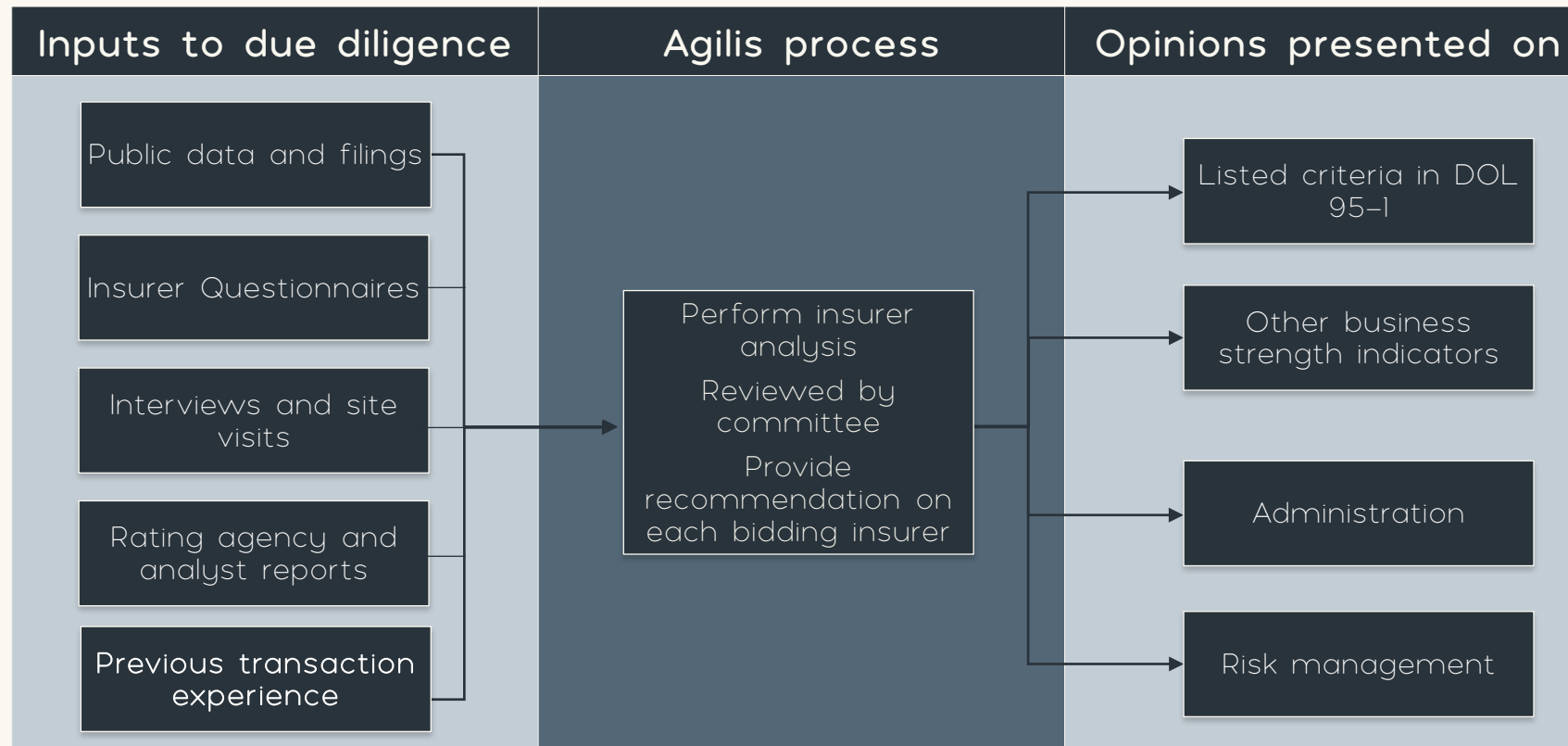
# Insurer Due Diligence

## DOL interpretive bulletin 95-1

- The selection of an annuity provider is a fiduciary decision governed by ERISA
  - Fiduciaries must conduct an objective, thorough, and analytical search
  - Must evaluate a number of factors relating to an annuity provider's claims paying ability and creditworthiness
  - Reliance on ratings provided by insurance ratings services is not sufficient to meet this requirement
- Considerations for selecting the safest available annuity provider must include:
  1. Quality and diversification of the provider's investment portfolio
  2. Size of the insurer relative to the proposed contract
  3. The level of the insurer's capital and surplus
  4. The lines of business of the annuity provider and other indications of an insurer's exposure to liability
  5. The structure of the contract and guarantees supporting the annuities
  6. The availability of additional protection through state guaranty associations
- Other safety-related factors as well as administration capabilities are important
- "A fiduciary may conclude, after conducting an appropriate search, that more than one annuity provider is able to offer the safest annuity available."



# Insurer Due Diligence



We use information from public and private sources to analyze the insurers. In addition to the listed criteria in DOL 95-1, we look at other considerations that impact business strength and to risks that could impact an insurer's ability to fulfill obligations and to give a fuller picture regarding the long-term strength of the insurance companies.



# Estimated Cost Analysis

---

# Anticipated Cost

Pricing Scenario	Anticipated Cost
“Better” annuity pricing	\$40,700,000
“Base Case” annuity pricing	\$41,600,000
“Worse” annuity pricing	\$42,500,000

Estimated premium for plan shown above, based on a hypothetical purchase on February 1, 2024. Basis for estimates, including data, assumptions, plan provisions, and pricing scenarios described in the appendix.

# Commentary on Anticipated Cost

- Pay status: in pay
  - Participants currently receiving benefits generally receive “fair” pricing compared to liability estimates
  - The large majority of participants are “in pay”
- Pay status: deferred
  - Participants who are not yet receiving their benefits, generally receive less favorable pricing due to additional risk/uncertainty and administrative complexity
  - We recommend considering a “window” for deferred participants to receive their benefit as a single-sum payment in advance of an annuity purchase

## Commentary on Anticipated Cost

PRT Premiums are unknowable in advance but can be estimated reasonably well (especially for participants already receiving benefits) using appropriate mortality tables and high-quality (AA) corporate bond yields.

Variability remains with the pricing, and we won't know the actual cost until selection day. Precise assumptions and risk tolerances will impact pricing, but by far the biggest source of volatility is the yield on investment-grade fixed income.

# Commentary on Anticipated Cost – Risks

- Annuity pricing risk: interest rates and credit spreads
  - PRT pricing is very sensitive to the interest rate and credit spread (collectively the “yield”) environment; this plan has “duration” ~10, meaning a 1% change in yield causes a ~10% change in PRT price
  - January 31 rate was ~4.90%, has ranged 4.7% - 6.0% in 4 months prior
- Asset/Liability Matching (“ALM”) Risk
  - Assets are invested roughly 60/40 in equities/fixed income; this portfolio can change in value quickly, and would not be highly correlated with PRT price
  - “Nightmare scenario”: yields and equity prices fall at the same time

# Commentary on Anticipated Cost – Risk Mitigation

- Risk Mitigation through Investments
  - PRT Pricing moves in tandem with the price of investment-grade fixed income with similar duration to the liabilities
  - If the plan's assets are invested in such securities, then PRT pricing volatility will be matched by asset volatility – both ALM risk and Interest Rate/Credit Spread risk can be mitigated
- Agilis is available to provide investment services or work with your current investment advisor through the annuity placement



# Benefit Protections

---



## Benefit Protections

Insurance companies are highly regulated financial entities, required to hold significant capital reserves above and beyond what they expect to pay out to policyholders.

The fiduciary process described earlier is designed to provide a high level of security to participants, ensuring that the likelihood of failure of the selected insurer is very low. In that unlikely event, there are additional protections provided to participants.

## Benefit Protections

After purchase, benefits provided by the selected life insurance company are backstopped by the “State Guaranty Associations”

### State Guaranty Associations (“SGAs”)

- Created to protect policyholders in each state in case of insurance company failure
- Generally, participants are covered by the Association in their state of residence

# Benefit Protections

## State Guaranty Associations (“SGAs”) (continued):

- All licensed insurance companies are required to be members of these associations
- Maximum guaranty amounts vary, but are generally no lower than \$250,000 of present value
  - CA covers the lesser of i) 80% of present value or ii) \$250,000
  - PR covers up to \$100,000
  - NJ covers up to \$100,000 for deferred annuitants but up to \$500,000 for in-pay annuitants
  - FL guaranty limit is \$300,000

## Benefit Protections

### State Guaranty Associations (“SGAs”) (continued):

- The SGA will provide benefits up to the stated limit based on the state of domicile for the participant
- Insurance assets will generally cover a large portion of any benefit above the SGA limit
- The limit is also inclusive of all policies that a policy holder has with the specific insurer

## Benefit Protections

State Guaranty Associations may pay benefits directly, or transfer to another financially viable insurer

Since advent of State Guaranty Associations in early 1980s, nobody has lost money from insurance company failure up to limits of guaranty.

# Appendix

---

# Data, Assumptions, Methods, Plan Provisions

- Census data as of 1/1/2024 provided by BPAS
  - 3% annual COLA applied on July 1 of each year
- Pub-2010 General Mortality, Projection Scale MP-2021
- 1/31/2024 FTSE Pension Discount Curve
  - Effective annuity purchase rate of 4.90%
- Loads applied to liability to reflect insurer pricing as follows:

Scenario	Better	Base Case	Worse
In-pay participants	-2%	0%	2%
Deferred participants	5%	10%	15%

# Use of Models

Agilis utilizes valuation software licensed from a third party to perform actuarial valuations. This software includes flexibility to model plan specific populations and benefit designs based on various model inputs such as the data, assumptions, and plan provisions referred to in this presentation. There is a possibility of inconsistencies among assumptions used in the valuation software model due to assumptions that are required to be used by law. This valuation software was used to calculate the liabilities shown in this presentation in order to meet the intended purposes listed under the Actuarial Certification slide.

In addition, the FTSE Pension Discount Curve model has been relied upon for determining the Plan's estimated liability on an economic and annuity purchase basis.

Agilis is not aware of material limitations that would prevent the models listed above from being suitable for their intended purposes.



# Actuarial Certification

This annuity purchase analysis was prepared for Southeast Volusia Hospital District for the purpose of illustrating the potential cost to transfer liabilities to an insurer through an annuity purchase. This analysis should not be relied upon for any other purpose or by any other party.

The analysis relies upon certain measurements of the Plan's financial status based on a single point in time. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural options of the methodology used for these measurements; and changes in plan provisions or applicable law.

To complete this analysis, Agilis has relied upon participant and asset data provided by the plan administrator. We have reviewed this data for reasonableness but have not audited the data provided. Agilis is not aware of any relationship or interest which directly or indirectly would create a conflict of interest or impair the objectivity of our work.

This analysis has been conducted in accordance with generally accepted actuarial principles and practices.

The undersigned credentialed actuary is available to answer questions regarding this presentation and meets the requirements of the Qualification Standards set forth by the American Academy of Actuaries to render a statement of actuarial opinion.

A handwritten signature in dark red ink, reading 'Joseph C. Anzalone'.

Joseph Anzalone  
Fellow, Society of Actuaries (FSA)  
Enrolled Actuary (EA) No. 23-07813  
Fellow, Conference of Consulting Actuaries (FCA)  
Chartered Financial Analyst (CFA)



# Important performance and legal information

**CONFIDENTIAL INFORMATION:** The information herein has been provided solely to the addressee in connection with a presentation by Agilis Partners LLC on condition that it not be shared, copied, circulated or otherwise disclosed to any person without the express consent of Agilis Partners LLC.

**INVESTMENT ADVISOR:** Investment advisory services are provided by **Agilis Partners LLC**, an investment advisor registered with the US Securities and Exchange Commission.

**PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE RESULTS**

Issued by **Agilis Partners LLC**  
130 Turner Street, Building 3, Suite 510, Waltham, MA 02453  
Telephone: 781-373-6900  
Fax: 781-373-6902  
Email: [info@agilis.llc](mailto:info@agilis.llc)