Do pension buyouts help or hurt employees (retirees)?

How do pension buyouts impact the financial security of employees and retirees, and what factors determine whether a buyout benefits or harms plan participants in different corporate contexts?

As companies increasingly seek to transfer pension liabilities through buyouts, questions arise regarding the financial security of employees and retirees affected by these transactions. In this study, Shi and colleagues assess whether pension buyouts help or hurt plan participants by examining expected pension default losses before and after buyouts. They use a stochastic model calibrated with market data to evaluate risk factors influencing financial outcomes.

Their findings suggest that retirees who receive annuities from insurance companies after a pension buyout often face increased financial risk. Even though insurance companies typically have lower default risks, state guarantee associations, which insure annuity payments, usually provide lower coverage than the Pension Benefit Guaranty Corporation (PBGC), the federal agency responsible for insuring corporate pensions. As a result, many retirees face higher benefit insecurity compared to their original plans.

For employees still covered by a pension plan after a buyout, outcomes are more varied. The extent to which they benefit or suffer depends on their employer's financial stability, the funding status of the remaining pension plan. Some employees experience reduced financial security, while others may benefit if the buyout strengthens their employer's overall financial position.

The study underscores the importance of regulatory cooperation between the PBGC and state insurance bodies to better protect pension participants and ensure that pension buyouts do not lead to unintended financial losses.

MAJOR TAKEAWAYS:

- State guarantee associations provide weaker protection than the PBGC, leading to greater expected pension default losses for retirees covered by annuities.
- Outcomes depend on employer financial health, pension funding status.
- Coordination between the PBGC and state regulators is necessary to protect retirees and employees from unintended financial harm following pension buyouts.

WHO NEEDS TO KNOW:

- Corporate Executives
- Policymakers
- Employees and Retirees

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