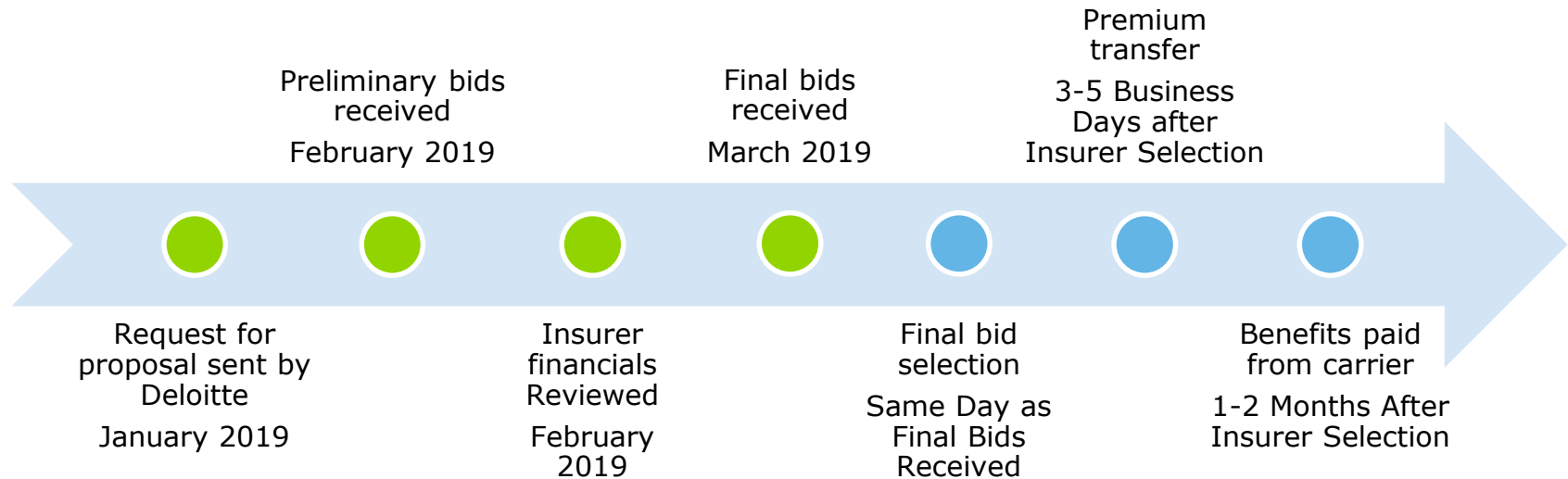


Annuity Purchase Background

Deloitte Consulting LLP

High-level Process Summary

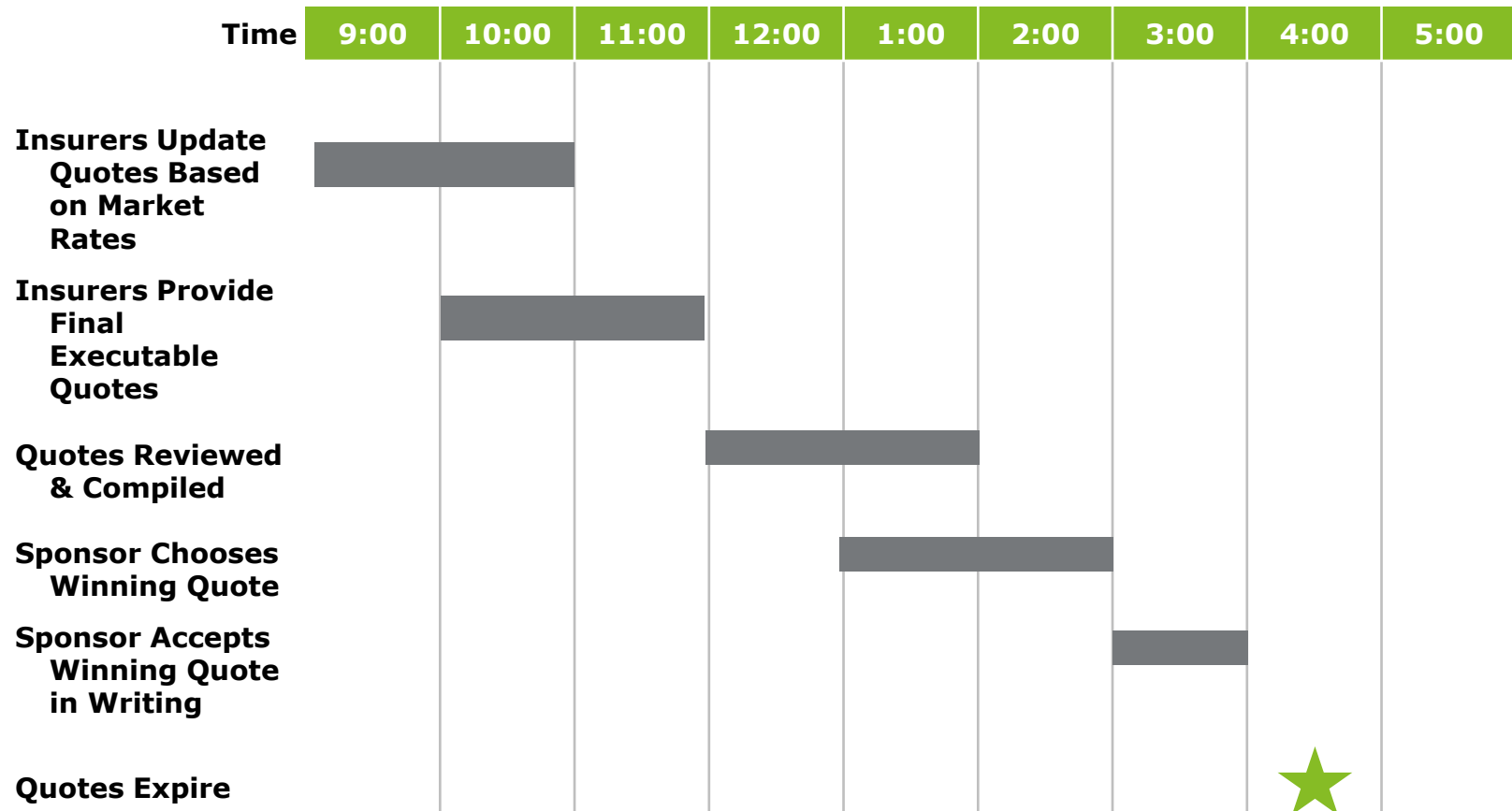
- The following shows a high level timeline for an annuity purchase assuming project commencement in January 2019.
- A typical annuity purchases takes 1-2 months to complete insurer selection, followed by another 1-2 months for the administrative changeover



Sample Final Bid Day

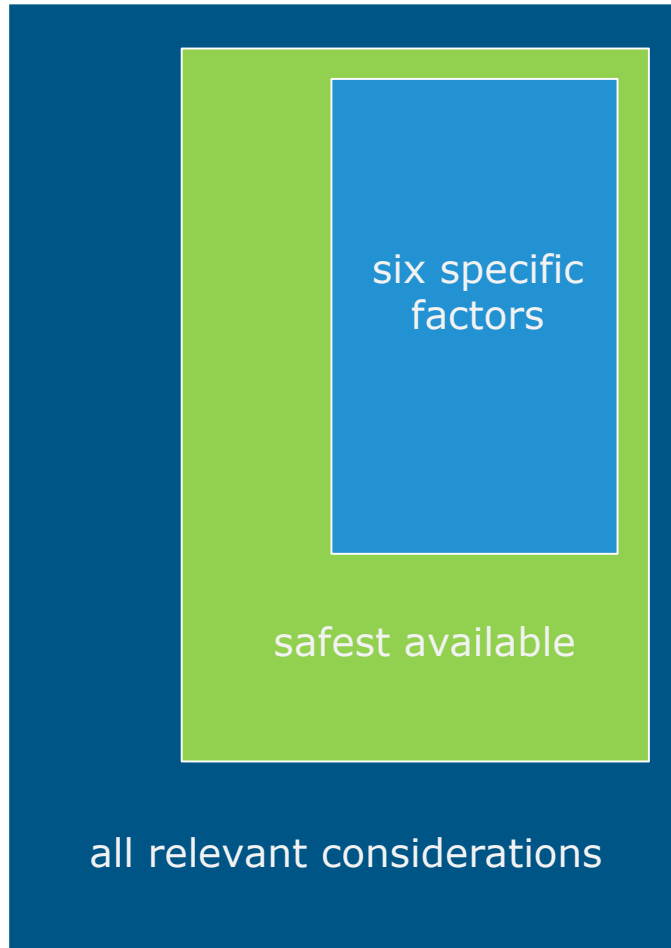
The final bid day is a quick process, so it is important that 95-1 concerns are answered prior to this date.

Illustrative Timeline



DOL IB 95-1 Hierarchy

DOL IB 95-1 is the guidance for plan fiduciaries for selecting an insurer and the annuity contract structure.



Department of Labor Interpretive Bulletin 95-1, issued in 1995, is still the most specific regulatory guidance for these transactions.

IB 95-1 lists **six specific factors** which must be considered, among other things:

- Quality and diversification of investment portfolio
- Size of insurer relative to size of proposed contract
- Level of insurer's capital and surplus
- Insurer's lines of business and other liability exposures
- Structure of contract and any supporting guarantees (i.e. Separate Account structures)
- Extent of guarantees provided by state guaranty associations

To obtain the **safest available** annuity, there are "other things" which a prudent expert today should consider, e.g.:

- Earnings and profitability
- ALM and other risk management practices
- Other sources of financial support

Other **relevant considerations**, beyond "safest available" criteria, may be in plan participants' best interest:

- Administration capabilities of insurer
- Additional benefits provided under contract, if applicable

95-1 Analysis Sample Executive Summary

The following highlights a few of the factors that need to be considered during the due diligence process for a number of the major insurers who participate in the Pension Risk Transfer Group Annuity Buyout Market:

- As each insurer is subject to the same regulatory requirements, the insurers may appear similar when comparing a number of factors. Additionally, as the insurers must be reviewed according to the 95-1 criteria, there is a high bar to entering this market.
- As part of the 95-1 analysis, the plan sponsor would need to review the following factors (plus a number of others in greater detail) when selecting an insurer.

Factors to Consider					
Insurer	S&P/A.M. Best Credit Rating	% of Assets Invested in NAIC Class 3-6	General Account Invested Assets (\$M)	Risk Based Capital Ratio	Account Structure
American General	A+/A	6%	\$151,003	512%	General Account
American United Life	AA-/A+	4%	\$11,477	450%	General Account
Legal & General	AA-/A+	8%	\$2,012	484%	General Account
Mass Mutual	A+/A++	8%	\$164,086	500%	General Account
Met Life	AA-/A+	9%	\$263,751	471%	General Account
Minnesota Life	AA-/A+	3%	\$475	672%	General Account
Pacific Life	AA-/A+	5%	\$61,131	632%	General Account
Principal	A+/A+	8%	\$66,057	431%	General Account
Prudential	A+/A+	6%	\$122,111	484%	General Account
United of Omaha	AA-/A+	5%	\$16,805	397%	General Account
Western & Southern	AA/A+	8%	\$12,461	453%	General Account

Administration

Other than Financial Strength, Benefits Administration Service an Important Factor in the Fiduciary Selection of an Annuity Provider

Service Element	Why It's Important	Key Considerations
Set up	Plan participants should not experience disruption, inconvenience or angst when the responsibility for administering their pension benefits transitions to the insurer	<ul style="list-style-type: none"> • Communications • Coordination • Resources • Project Management
Call Center	Plan participants should receive convenient, knowledgeable, efficient and courteous customer service	<ul style="list-style-type: none"> • Accommodation • Responsiveness • Staff Experience • Customer Satisfaction
Procedures & Standards	Plan participants should receive accurate, fair and consistent treatment. There should be confidence that the insurer can deliver the services it promises.	<ul style="list-style-type: none"> • Procedures Manual • Performance Standards, Statistics • Breadth of Services • Complaint Log Maintenance
Versatility	Plan participants should not suffer a loss of accuracy or convenience due to the uniqueness of their plan's benefit structures or procedures	<ul style="list-style-type: none"> • Breadth of Experience • Operational Flexibility • Exception Procedures
Systems	Good systems accommodate excellence in all of the above. They should be reliable and should protect sensitive information	<ul style="list-style-type: none"> • Functional Integration • Systems Flexibility • Back-up / Disaster Recovery • Cybersecurity



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