From: Jim Odle 10/14/2018
To: NRLN DuPont Retirees Chapter Members
Subject: Pension Plan De-risking

By now, I hope that you have read Paul Kende's most recent email on DuPont Pension Plan Funding Status dated October 1. If not, it can be found below.

Several DRC members have replied and asked if DowDuPont (or the SpinCos) might transfer the DuPont Pension Plan to an insurance company (sometimes referred to as de-risking). Verizon and General Motors, for example, have done this with a portion of their pension plans which they transferred to the Prudential Insurance Company. With this approach, the insurance company would provide a lifetime annuity to pension plan participants. The downside for pensioners is that an insurance company annuity is not protected by PBGC guaranteed benefits. While it is not unheard of for an insurance company to fail, it is rare. Insurance companies are highly regulated by the states and they do require more than 100% funding before taking over a pension plan. I did talk to a VP at Prudential who told me that they are very conservative in determining how much funding they would need in order to take over a pension. In any case, most states do have insurance associations, which pool their risk to back each other up and provide some annuity protection against default. However, the guaranteed amounts vary by state and range from $100,000 to $500,000 lifetime benefits; for most pensioners this is less than PBGC guaranteed benefits. For example, Delaware’s $250,000 maximum lifetime payout would be used to supplement funds recovered from the failed annuity. In many cases annuitants would continue to receive their full benefit. In my discussion with the head of Delaware's insurance agency I was told that no one in Delaware had ever suffered a loss from a failed annuity. Of course, it would also be good if the original Sponsor would also purchase a secondary insurance policy to cover the risk of default by the primary one, although I have not heard of a company buying secondary insurance.

An insurance company would be unlikely to take over a plan unless it is more than fully funded on a conservative (low discount rate) basis, which would require several billion dollars for the DuPont Pension Plan. We do not know what DowDuPont is considering, or what the SpinCos may do in the future, but we do not have any reason to think that management is currently planning on de-risking through an insurance company buyout.

Please feel free to contact us with any questions or comments.

Best Regards
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