The Buy-In Breakthrough: Reimagining Annuities as a New Asset Class for Public and Multiemployer Pension Plans

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For decades, the institutional retirement lexicon has treated "Pension Risk Transfer" (PRT) and "Pension Exit Strategy" as virtually synonymous. In the single-employer corporate sector, the playbook is well-established: a sponsor purchases a group annuity contract, hands over administration to an insurance company, transferring a slice of liabilities via an annuity buyout and shrinks the pension plan's overall footprint. The financial and de-risking advantages to the single-employer corporate sponsor are undeniable.

For public sector and multiemployer defined benefit (DB) pension plans, however, this playbook has historically fallen flat. These plans operate under completely different structural, legal and political realities. They are managed for perpetuity; their trustees are deeply committed to maintaining asset scale to support future generations, and they have not desired to simply offload participants or dismantle their funds.

But a quiet evolution in the fixed-income landscape is challenging this binary view of risk management. By pivoting from a buyout mindset to an annuity buy-in framework, public and multiemployer plans can consider a group annuity contract not only as an exit strategy, but as a specialized institutional asset class that may provide a distinct risk-return profile.

The Yield Opportunity: Differentiating Buy-Ins From Traditional Fixed Income

At its core, a pension buy-in is a group insurance policy purchased by the pension plan that functions as a liability-matching investment. The pension plan continues to pay a monthly stream of benefits directly to the covered annuitants and then collects this same amount from the insurance company as reimbursement under the buy-in policy. The key differentiator is that the group annuity contract remains inside the pension plan's trust, and the retirees remain participants of the pension plan.

One potential advantage of a buy-in is its distinctive yield profile, although plans must also evaluate insurer credit risk, liquidity considerations and governance implications. Traditional fixed-income portfolios held by public and multiemployer pension plans are thoughtfully constructed to balance liquidity, return, diversification and policy objectives. Investment advisors today utilize a broad opportunity set — including public and private credit, structured securities and long-duration assets to meet these goals.

However, even highly sophisticated fixed-income portfolios are generally built using individual securities or pooled vehicles that do not fully replicate the exact timing, duration and longevity-contingent nature of pension liabilities. Trustees can do better to help further mitigate risk. Traditional fixed-income portfolios held by public and multiemployer pension plans are often constrained by liquidity needs, investment policy statements and the practical challenges of sourcing bonds that fit the overall investment strategy.

Life insurance companies operate under a different framework, with the ability to aggregate very large pools of liabilities and construct portfolios specifically designed to match predictable, long-duration liability streams. Their investment strategies — often including private placements, commercial mortgages and infrastructure debt — are aligned to support guaranteed benefit payments over decades. Even with the different framework, thorough due diligence on the insurer issuing the buy-in is still a fiduciary best practice, like any other investment under consideration for the portfolio.

The distinction is not one of capability, but of structure: insurers can integrate asset sourcing, liability underwriting and risk pooling into a single pricing mechanism tied directly to a defined population of retirees.

Buy-ins are not simply another strategy to add to the fixed-income allocation — they are **liability-replicating instruments**. While bonds can match duration, they cannot match the uncertainty of human longevity. A buy-in uniquely converts that uncertainty into a guaranteed cash flow, creating an economic hedge that traditional fixed income cannot fully replicate.

Enhancing Benefit Security Without Eroding Asset Scale

For trustees of public and multiemployer pension plans, two primary mandates coexist: maximizing benefit security for participants and maintaining the critical mass of the fund's asset base.

A traditional buyout solves the first mandate but violates the second by physically removing assets from the trust, reducing the absolute size of the portfolio. This erosion of asset size can trigger several negative downstream effects:

1. It reduces the absolute dollar amount available to generate compounding returns in growth assets (e.g., public equities).
2. It can increase the plan's overhead and administrative expense ratios relative to total assets.
3. In multiemployer plans, a shrinking pension plan and supporting asset base could cause concern among participating employers and unions.

The buy-in model addresses both mandates without compromise. Because the buy-in contract is held as an asset in the pension plan, the total asset size of the portfolio is not eroded.

Instead, a volatile, liability-mismatched slice of the portfolio is converted into a stable, liability-matched contract. The benefit security for retirees is elevated* and backed by the pension trust and the capital reserves of a heavily regulated life insurance company, while for private pension plans the backstop of PBGC guarantees also remain in place. Meanwhile, the pension plan's remaining growth portfolio continues to operate at full scale, with reduced exposure to near-term benefit payment liquidity needs. In addition, the buy-in removes the longevity risk associated with the liabilities that are involved in the buy-in contract, thus reducing risk for the plan sponsor.

Keeping Ties to Retirees

Another benefit to the buy-in as an asset class is the tie between the sponsoring entity and the retiree. While many corporate-sponsored plans are content to transfer the administration of their retiree benefits to an insurance company as part of a buyout, multiemployer and public sector funds often see this as a significant downside. The relationship between the plan and the retiree is typically deeply valued by the retiree, their union, and the participating employer or government entity.

The loss of that relationship is understandably a potential barrier even when buyouts might otherwise be appealing.

This barrier does not apply to buy-ins. Because the buy-in contract is a plan asset and the participants remain in the plan, the monthly pension checks still originate from the pension plan, even though they are ultimately funded by the insurer. Retirees experience no change in their relationship with the plan or how they receive their benefits.

* "2025 Pension Risk Transfer Report," *National Organization of Life & Health Insurance Guaranty Associations*, 2025.

De-Risking the Cash Flow, Not the Mission

Public and multiemployer plans are perpetually exposed to "cash flow risk" — the operational hazard of being forced to liquidate assets during a market downturn to meet monthly benefit payments.

By utilizing buy-ins as a part of the fixed-income portfolio, trustees can effectively hedge a portion of their monthly cash requirements. If a pension plan uses a buy-in to cover its current retiree population, that segment of the pension plan's liability is functionally automated. The insurer's monthly cash injection from the insurance provider directly offsets the retiree cash outflow.

This gives immense tactical flexibility. Growth assets can remain invested through volatile market cycles and required holding periods, reducing the potential threat of forced selling at depressed valuations or during periods of restriction.

A New Paradigm for Trustees

The institutional pension plan space must evolve past the idea that de-risking requires downsizing. For public and multiemployer defined benefit plans, longevity risk and asset volatility are permanent fixtures. Investing a portion of the fixed-income portfolio in buy-ins will not only lock in current yields, it can also simultaneously insure participant benefits are no longer a contradictory goal.

Trustees may improve structural yield premiums, protect their funds against the unpredictability of human longevity, and preserve the institutional scale of their portfolios.