

# The Different Flavors of Pension Risk Transfer: Buy-Ins vs Buy-Outs



Gallagher



# Executive Summary

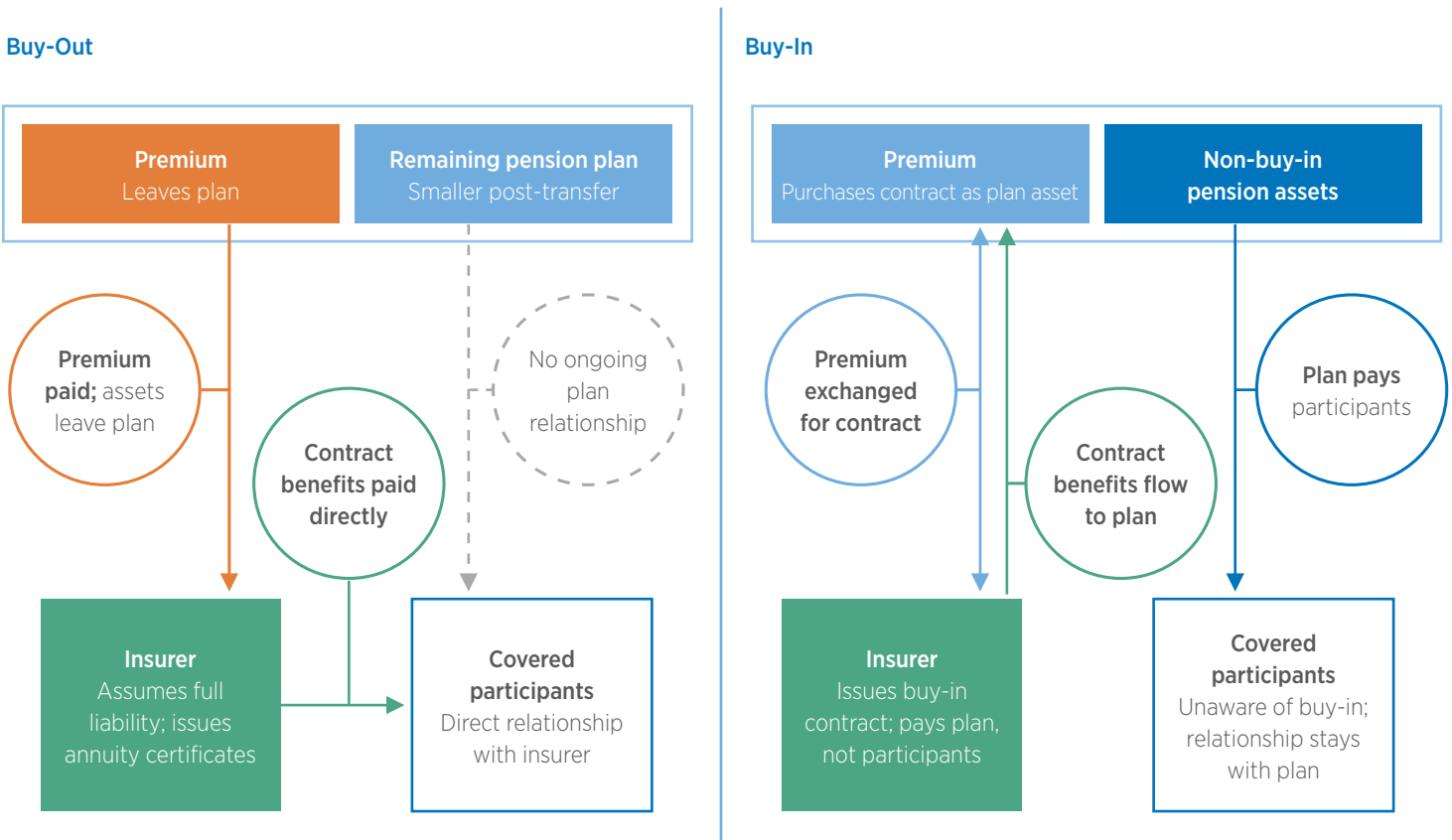
Pension Risk Transfer (PRT) has established itself as an incredibly important tool in the pension risk management toolkit, enabling plan sponsors to effectively manage pension liabilities and reduce financial risk. Historically, PRT was almost exclusively attained through group annuity buy-outs, which remain the dominant strategy. However, in recent years, group annuity buy-ins have garnered increased attention.

In 2024, buy-in premiums represented only 7% of the total PRT market. Meanwhile, in 2025, buy-in premiums made up over 35% of the PRT market. It's important to note that premium comparisons can be skewed by a few very large transactions; while buy-in premiums were over 35% of the market in 2025, buy-in contracts (i.e., the number of buy-in transactions) made up less than 3% of the overall number of PRT contracts\*. Buy-outs continue to outpace buy-ins in total premiums and contracts, maintaining their position as the preferred strategy for many sponsors. Buy-outs offer comprehensive risk transfer and balance sheet reduction, as well as PBGC premium savings and administrative relief, making them the go-to option for those seeking to fully offload pension liabilities.

While buy-ins have gained traction, their trade-offs may outweigh their merits in many circumstances. This article explores the mechanics of buy-ins and buy-outs, the key differences between the two strategies, recent trends in their adoption and situations where a buy-in might be preferable.

## Understanding buy-ins and buy-outs: mechanics and distinctions

Both buy-ins and buy-outs involve the purchase of a group annuity contract from a life insurance company, transferring financial responsibility for pension liabilities. However, the execution and implications of these transactions differ significantly.



\*Source: U.S. Group Annuity Risk Transfer Sales Survey, LIMRA, Dec 2025

## Group annuity buy-outs

A buy-out represents a complete transfer of liabilities for the covered participants from the pension plan to the insurer. Once the buy-out is executed, the plan sponsor no longer bears any financial or operational responsibility for the benefits covered by the contract. The insurer assumes full liability for paying benefits directly to participants. This approach eliminates administrative burdens and Pension Benefit Guaranty Corporation (PBGC) premiums for the participants who were transferred, thus simplifying plan management and reducing cost. It is important to note that buy-outs may trigger settlement accounting under US GAAP, which could have a material impact on the sponsor's financial statements. Buy-outs are often the last step of a plan termination process, and they can also be used to permanently remove liabilities for a specific group of participants, such as retirees.



## Group annuity buy-ins

A buy-in, by contrast, is an annuity contract purchased by the pension plan that remains an asset of the plan unless and until it is converted to a buy-out (which can be done at any time for no additional premium). The plan continues to be responsible for making payments to participants, but the insurer effectively provides reimbursement by making the benefit payments at the same level directly to the plan. Unlike a buy-out, the plan sponsor retains responsibility for participants and the plan administration. Buy-ins are often used as a strategic risk management tool, particularly in advance of a plan termination, to provide clarity around annuity pricing and act as a near-perfect hedge for liabilities by removing mortality and market risk.

However, buy-ins add some complexity to plan management, as the sponsor must continue to administer the plan while coordinating with the insurer. Additionally, PBGC premiums continue to apply for plans covered by PBGC, and the pool of insurers willing to offer buy-ins is currently narrower than for buy-outs. In the unlikely event the insurance company fails and does not meet its obligations under the buy-in contract, the plan will still be responsible for making payments to participants that were covered under the buy-in contract.

Small market transactions, in particular, may face challenges in placing a buy-in because most insurers who offer buy-ins tend to bid only on larger transactions. However, this barrier has been diminishing. Compared to a year ago, more insurers are engaging with smaller transactions, and we are aware of several buy-ins below \$30 million that have been successfully placed. This trend reflects a growing interest in expanding the buy-in market to accommodate smaller plan sponsors.

It is also generally thought that buy-in premiums are more expensive than buy-out premiums. While it is difficult to prove this definitively (since comparable buy-in and buy-out quotes for the same transaction are rarely obtained), economic reasoning suggests that buy-ins should cost more. This is because buy-ins provide the plan sponsor with additional optionality, including the ability to convert the buy-in to a buy-out at any time, surrender the buy-in and receive the contract value, or maintain the buy-in indefinitely. This flexibility comes at a premium, making buy-ins a potentially costlier option.

While buy-ins offer flexibility and strategic advantages, they do not provide the same level of administrative relief or cost savings as buy-outs.

## Key differences between buy-ins and buy-outs

The differences between buy-ins and buy-outs can be summarized across several key dimensions:

Aspect	Buy-In	Buy-Out
<b>Ownership of liabilities</b>	Retained by the pension plan	Fully transferred to the insurer
<b>Participant experience</b>	Payments continue from the plan; participants will generally not notice any change	Participants notified of transfer; payments and contact info change
<b>Administrative burden</b>	Plan sponsor retains	No longer with plan for covered participants; transferred to insurer
<b>PBGC premiums</b>	PBGC premiums continue to apply	PBGC premiums eliminated for transferred liabilities
<b>Settlement accounting</b>	Not triggered	May be triggered, impacting financial statements
<b>Insurer universe</b>	Limited, but growing, pool of insurers willing to offer buy-ins	Broader pool of insurers available
<b>Premium pricing</b>	Potentially higher than a buy-out for the same population	Potentially lower than balance sheet liability depending on demographics of covered participants
<b>Cost savings</b>	No savings on administrative costs or PBGC premiums	Savings on administrative costs and PBGC premiums
<b>Complexity</b>	Adds some complexity to plan management	Simplifies plan management
<b>Insurer counterparty risk</b>	Nonzero. If insurer fails, the buy-in contract may not provide the full level of benefits promised (this risk is particularly small if the buy-in period is limited in duration)	None directly
<b>Litigation risk referencing annuity purchase</b>	Likely more limited than for buy-outs given the transaction is effectively an asset allocation decision	Nonzero, particularly for large cases. A number of suits were filed in 2024 and 2025 involving transactions over \$1 billion. Many have been dismissed

## Trends in buy-ins and buy-outs

Recent data highlights the growing popularity of buy-ins, though buy-outs remain the dominant PRT strategy. According to LIMRA's U.S. Group Annuity Risk Transfer Sales Survey, single-premium buy-in sales in 2025, totaled \$17.5 billion, up 36% from the prior year, on 17 transactions. Despite this growth, buy-outs continue to account for the majority of PRT premiums and the vast majority of individual PRT transactions. In the same period single-premium buy-out sales totaled over \$31 billion in premiums on 663 transactions.

The increased attention on buy-ins may be outsized relative to their merits. While buy-ins offer strategic advantages in specific scenarios, they come with trade-offs, including ongoing administrative responsibilities, continued PBGC premiums and limited insurer options. The increase in buy-in sales could reflect a growing awareness of their potential as a preparatory step for plan termination or as a targeted risk management tool. However, for many sponsors, the comprehensive risk transfer and administrative relief provided by buy-outs make them the more attractive option.



## Hypothetical examples: When a buy-in might be advantageous

### Example 1: Preparing for plan termination

A plan sponsor believes their pension plan is sufficiently well funded to terminate without additional contributions but wants to confirm this before initiating the termination process. By executing a buy-in, the sponsor gains clarity around annuity pricing and helps achieve a more precise hedge than traditional capital market strategies. This allows the sponsor to confidently proceed with plan termination, knowing the liabilities are accurately priced.

**Drawbacks and alternatives:** While a buy-in provides clarity, it adds complexity to plan management and does not eliminate PBGC premiums. An alternative approach might involve liability-driven investing (LDI) to hedge liabilities, followed by a buy-out at the end of the termination process. This approach could help achieve similar outcomes while simplifying plan management and reducing overall cost, but it would forego the certainty realized by the buy-in.

### Example 2: Partial risk reduction

A sponsor wants to reduce risk for a portion of the pension population but finds a full buy-out unattractive due to settlement accounting, litigation concerns or the desire to maintain relationships with retirees. A buy-in allows the sponsor to hedge liabilities for the targeted population while retaining control of the plan and avoiding settlement accounting.

**Drawbacks and alternatives:** While a buy-in avoids settlement accounting, it does not eliminate administrative burdens or PBGC premiums before conversion to buy-out. This might be suitable for plans that do not pay PBGC premiums and who wish to retain their relationship with their retirees. An alternative approach for a sponsor looking to avoid settlement accounting would be to structure a buy-in transaction that would allow for conversion to buy-out in tranches, each of which would remain below the settlement threshold.

## Conclusion

Group annuity buy-ins and buy-outs are powerful tools for pension risk transfer, each with distinct mechanics and implications. While buy-ins have gained popularity recently, buy-outs remain the preferred choice for most plan sponsors due to their ability to fully transfer liabilities and simplify plan management. Sponsors considering PRT should carefully evaluate the trade-offs of each approach and consult with knowledgeable advisors to determine the appropriate strategy for their organization.

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