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MetLife’s Benefit Payment Problem: A Failure of Due Diligence?

By Warren S. Hersch December 20, 2017

MetLife's headquarters in New York City.

MetLife’s disclosure that it has failed to pay retirement benefits to an estimated 30,000 group annuitants has prompted serious questions respecting potential fallout from the news. And the concerns being raised aren’t just about regulatory scrutiny of the oversight.

At issue is a potential industry-wide problem among life-annuity carriers — **Athene**, **MassMutual,** **OneAmerica**, **Principal**, **Prudential**, among others — that buy out defined benefit pension plans. In their rush to cash in on an expanding market, many may not have exercised adequate due diligence in verifying current information on participants in DB plans they acquired and funded through the sale of a group annuity to the offloading plan sponsor.

For MetLife, the failure could potentially have been avoided by posing the right questions about former and relocated employees who had future claims on pension plan obligations.

“If MetLife didn’t ask the right questions, they might not have gotten the information they needed to avoid their current problem,” says **Novarica** senior VP of research and consulting **Rob McIsaac,** speculating on the possible reasons for the non-payments. "Barring an operational breakdown, it seems likely that MetLife is dealing with a data quality issue.”

Enter the States

And one that could have regulatory consequences. On Monday, Massachusetts Secretary of State **William Galvin** announced he was launching an investigation into the non-payments. As reported in *Reuters*, **Maria Vullo**, superintendent of New York's **Department of Financial Services**, said her agency intends to "work with MetLife to remediate the issue" and ensure that "outstanding pension obligations are fulfilled."

Rob McIsaac, a senior VP of research and consulting at Novarica

The DFS did not respond to questions e-mailed by *Life Annuity Specialist* inquiring into the scope of its examination. Other influential state insurance departments, including those of California, Connecticut and Iowa, also did not reply before press time about their respective interests in launching separate investigations.

Much apart from regulatory scrutiny is at stake for MetLife. In addition to a fourth quarter charged against earnings (estimated by analysts at between $200 million and $1 billion) the New York-based behemoth could face class action lawsuits by annuitants seeking additional compensation.

MetLife also faces reputational risk: the prospect of reduced business with companies, among them Fortune 500 firms, looking to jettison costly pension plans to an insurer. If MetLife is perceived as a less than reliable partner, these companies could turn to any of a dozen-plus other insurers active in the burgeoning pension buyout space.

Single-premium pension risk transfer transactions totaled $6.4 billion in the third quarter of 2017, a 7% rise from the same three-month period in 2016, according to **LIMRA**. For the first nine months of 2017, life-annuity carriers generated $11.9 billion from 227 group annuity sales, a robust 47% increase over the total recorded for the first three quarters of 2016.

This multi-billion dollar market is one that MetLife is keen to boost its share of, not least because the carrier has staked its future on employee benefits following its spin-off of individual product lines to the now independent **Brighthouse Financial**. No surprise then, that MetLife is taking proactive steps, including investments in digital technology, to track down group annuitants owed payments.

Precisely what "enhanced techniques" MetLife is instituting to rectify the operational failure, and guard against a repeat, were not detailed by a spokesperson in a press statement on the non-payments. The insurer was no more forthcoming on the subject in a conference call last week with analysts regarding its 2018 outlook.

Getting Back on Track

The digital initiative might suggest that technology (or lack thereof) was also a factor from the get-go. But the root cause, says McIsaac, could actually have been about process: not taking appropriate steps to ensuring that all defined benefit plan participants are properly accounted for at the time of a pension buyout.

Such accounting is easy enough in respect to current employees and recent retirees receiving benefits. The problem, McIsaac suggests, is in identifying former employees who left their companies well before retirement age and, being vested in the plan, had a claim on future payments. Locating these "vested terminators" is particularly challenging in cases where the future retirees relocated and haven't alerted their former employer to their whereabouts.

"When MetLife acquired pension liabilities of **Sears** and other corporations, one would suspect there were classes of ex-employees whose current information didn't transition from wherever their records were being kept — most likely the employer — to MetLife," says McIsaac. "And if MetLife didn't flag and update out-of-date records for these workers at or about the time of the pension buyout, then this suggests a breakdown in due diligence."

The need for such record-vetting, he adds, would have been greater where data on ex-employees was "corrupted," "distorted" or otherwise mismanaged by a company absorbing the liabilities of another during a merger or acquisition. Also, an outside firm charged with maintaining records on employees may have failed to uphold its end of the bargain.

Regardless, ultimate responsibility for fulfilling payments to retirees now rests squarely with MetLife — responsibility the insurer has now owned up to. Still unclear from MetLife's statements and recent reporting, says McIsaac, is whether the insurer identified the issue on its own or if a former employee entitled to payments alerted the company to it.

Either way, the company has a problem of its own making, and one presumably that (the current investments notwithstanding) has not required significant technology upgrades to identify, track and service future pension claimants.

Indeed, notes McIsaac, life-annuity carriers engaged in the pension buyout space undertook major overhauls of IT systems within the past decade after failing to comply with state laws respecting unclaimed property, notably undistributed death benefit proceeds owed to beneficiaries of individual and group life insurance policies. The issue prompted carriers to invest in new claims processing systems and to better scrub data of outdated information. Capabilities resulting from these IT improvements, says McIsaac, could easily be applied to databases for payments owed to future pension plan claimants.

To boot, he adds, many of the players have decades-long experience managing large defined benefit plans; their entrée into the pension buyout market simply entailed scaling up existing systems to manage "more lives" (the group annuitants).

That experience, McIsaac observes, extends also to a deep understanding of rules distinguishing defined contribution plans, like 401(k)s, from defined benefit plans. Whereas, for example, record-keepers must continuously maintain current records on DC plan participants, the requirement regarding DB plan participants only applies at the time of claim.

Limiting the Damage

What now for MetLife? McIsaac says top executives need to thoroughly review and revise processes and procedures invoked during a pension buyout to avoid a repeat occurrence. The carrier's leveraging of technology to make good on payments owed group annuitants may address the problem it has, but the ultimate fix is about getting the due diligence right.

That's a lesson that other carriers active in the group annuity market avoid at their peril.

"If I were a top executive at another carrier, I'd be asking myself questions now," he says. "Do I have systems and procedures in place to ensure I'm not unexpectedly blindsided in the future? Are there other issues I might not have thought of? In the final analysis, this exercise is about ensuring the data you have is high-quality, clean and current."

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