



2022 Retirement System Changes: New Athene Annuity and Life Company Contract FAQ

Revised: 6/14/22

1. What are the changes?

The Red Cross has purchased a new group annuity contract from Athene Annuity and Life Company to honor obligations to pension recipients whose monthly gross payments from the Red Cross Retirement System portion of their benefit are \$1600 or less and who began receiving these benefits on or before January 1, 2022.

2. How many retirees are affected?

This change affects about 6500 retirees and reduces the number of retirees still receiving all or a portion of their benefit from the Retirement System through the State Street Bank to about 1900. Most Red Cross retirees who did not opt for a “lump sum” settlement when they became eligible for their benefit are now receiving it from an annuity company.

3. Will the benefit amount for affected retirees change?

The Red Cross communications states that there will be no changes to the gross amount or timing of monthly pension payments.

4. How is the change being communicated?

The Red Cross mailed a Notice of the change on June 1, 2022 to all affected retirees and Athene pledged to provide them with a Welcome Packet by mid-June. Each communication contains a detailed FAQ section. Affected retirees should review these documents carefully and share them with family members or others assisting them with financial matters.

5. What if affected retirees have questions?

- Athene can be reached at 833-480-8672 and has a web portal at <http://UPointHR.com/athene>. (The first time you go online, you’ll need to register following the instructions provided.) Athene will require a Personal Identification Number (PIN) before speaking with you about your account; details for setting up your PIN are included in the Athene Welcome Packet.
- The Red Cross Benefits Service Center (877-860-7526) is also prepared to assist retirees during the transition to Athene.
- The Retiree Association’s helpline, the Retiree Connection (202-303-8779) or at ARCRA@redcross.org is also available to help retirees navigate the change.

6. Will the elections made for the Retirement System be passed along to Athene?

Yes; the personal info for affected retirees including mailing address, direct deposit info and tax withholding choices of those affected have been conveyed to Athene. The Athene Welcome Packet will include a Data Verification form for retirees wishing to make changes. Athene has also received information regarding the retiree’s original election relative to survivor benefits which remain in force.

7. Why is this change being made?

The Red Cross communication states, in part, that the purchase of a group annuity is the best way to “secure pension benefits for retirees and beneficiaries, maintain a healthy plan for future retirees, and minimize costs and future risks. The change allows the Red Cross to focus more on delivering the mission rather than on payment and administration of pension benefits.”

Previous ARCRA publications have noted that there has been a pronounced trend to switch retirement benefits from company-sponsored pension plans to insurance company annuities. It is expensive to do this and it may or may not save a company money in the long run. But these contracts do have the effect of removing large liabilities and expenses from a company’s balance sheet and also removes uncertainty about future pension

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costs. It does not mean that the company's pension fund is unstable; in fact Red Cross pension liabilities are 101% funded and, for many years, the fund has been better funded than the average pension plan.

8. Are other benefits affected?

A small number of retirees qualified for and are receiving Retiree Medical benefits including a monthly payment to offset health care premiums, a life insurance policy and access to dental insurance. In general, these benefits are not affected.

About 200 retirees are buying dental coverage through the Red Cross and, if they are among the 6500 affected, will no longer have their premium payments deducted from their retirement benefit. Instead they will receive an invoice from Alight, the Red Cross benefits partner, around the 10th of each month. There is an automatic payment setup option on the Benefits Service Center portal (<http://digital.alight.com/redcross>) for retirees who prefer it.

9. Will affected retirees continue to be supported by the Benefits Service Center (BSC)?

Although the BSC will no longer be the first option for help related to pension benefits paid by Athene, affected retirees may still track, if they have them, their 401k (Savings Plan) accounts and Retiree Medical benefits at <http://digital.alight.com/redcross> or by phoning the BSC.

10. Will those affected continue to receive a 1% Retirement Allowance Increase?

Yes; retirees currently receiving a 1% annual Retirement Allowance Increase will continue to receive this adjustment from Athene. (This benefit applies only to the portion of their benefit earned prior to July 1, 2005.)

11. Will retirees continue to receive monthly notifications of their benefit direct deposits?

Athene will not provide a monthly paper "Advice of Deposit" and encouraged benefit recipients to visit www.lifeatworkportal.com/athene, click on "Annuity" and confirm deposit under Payment Information.

12. Has the Red Cross purchased annuity contracts in the past?

Yes. In 2017, the Red Cross purchased an annuity contract from Athene for retirees whose gross monthly payments from the Retirement System portion of their benefit was \$500 or less and who began receiving benefits on or before July 1, 2016, affecting about 10,800 retirees. At that time, changes were also made to the administration of annuity contracts with Aetna and John Hancock that had been purchased in 1989, affecting about 5200 retirees; payments were no longer be combined in one monthly payment by State Street Bank. (2275 of the 6500 benefit recipients are already receiving a portion of their benefits from John Hancock.)

13. Why was Athene selected?

The Red Cross communication states that "Athene was selected by the Plan's fiduciaries – with the advice of State Street Global Advisors, an independent fiduciary – following a rigorous evaluation process. The selection was based on many factors, including the insurance company's financial strength and rating, its ability to securely administer plan payments, and its customer service capabilities."

14. Will the pension benefit for affected retirees continue to be insured?

The pension benefit for the 1900 retirees who will continue to receive their benefit from the Red Cross Retirement System is protected by the **Pension Benefit Guaranty Corporation (PBGC)**. If the Red Cross goes bankrupt or dissolves, the PBGC would step in and continue the Retirement System portion of benefit payments, subject to certain ceilings. When Athene takes over payments, your benefit will be protected by the State Guaranty Association in the state where you live. The initial notice from the Red Cross includes additional detail including a "**Notice of State Guaranty Association Coverage of Annuities**".

15. Has my risk increased?

As noted above, Athene was selected because of their excellent financial condition and historical performance and they are contractually obligated to honor the pension obligations transferred to them. According to the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), in the aftermath of the 2008 financial crisis, no operating annuity issuers failed. By comparison, 931 single-employer pension plans

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failed during that period, affecting over 560,000 pension plan participants. It is worth noting that Aetna and John Hancock have been paying all or a part of the pension benefits for many Red Cross retirees since 1989 and Athene itself has honored a similar annuity contract since 2017.

16. What level of protection is provided by the State Guaranty Associations?

The state-level guarantees are themselves robust. According to the NOLHGA website, in the unlikely event of an annuity failure, most states assure payment of benefits up to a limit of “net present value” of \$250,000. Ten states are higher: Connecticut, New Jersey, New York and Washington have limits of \$500,000. Arkansas, the District of Columbia, Georgia, North Carolina, Oklahoma and South Carolina are at \$300,000. One jurisdiction, the territory of Puerto Rico, is lower, at \$100,000. Additionally, and unlike the PBGC, states can go above the limits in their payouts, by capturing the remaining assets of an annuity in the event of a failure.

“Net present value” (NPV) is a finance term which refers to what someone would pay today, at a given interest rate, to receive a stream of payments into the future. Think of it as analogous to a loan: if you borrow \$250,000 for 20 years at 5% interest, you will pay \$396,000 over the life of the loan. It works the same way in reverse: the NPV of \$396,000 in payouts over 20 years at 5% interest would be \$250,000.

It should be noted that when pension benefits totaling no more than \$500 a month had been annuitized in 2017, there was virtually no chance that a retiree would hit the limit for their state – they simply could not live long enough for their benefit to get to a NPV of \$250,000. Now that benefits up to \$1,600 a month have been annuitized, it becomes statistically possible for someone to reach the limit. But for this to happen, the annuity provider would have to fail; highly unlikely; and the person would still have to live a very long time after the failure.

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