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Current Highlights in Pensions 2015

25 November 2015
London

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Medically underwritten bulk annuities (MUBAs)

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The agenda

1. Introduction to medically underwritten bulk annuities (MUBAs)
2. A look at how MUBAs are used in practice, in particular “top slicing”
3. Market context and some case studies
4. Questions and comments

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What is a medically underwritten bulk annuity?

Medically underwritten bulk annuity = **Traditional bulk annuity (buy-in or buy-out)** + **Members' actual medical and lifestyle features captured in the premium**

A medically underwritten bulk annuity is practically identical to a traditional bulk annuity. The only difference is that additional underwriting information is sought

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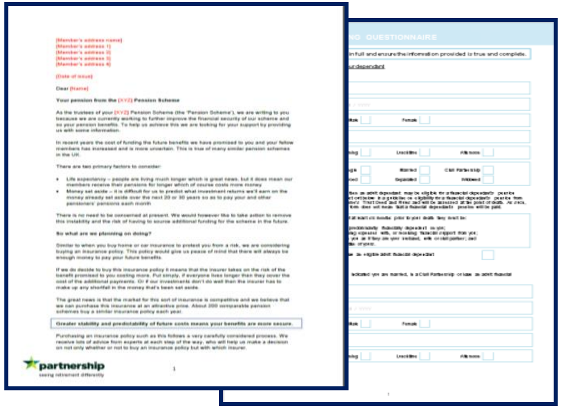
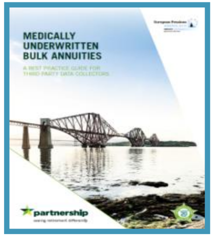
Collecting health and well-being information – maximising the response rate

Experience gained from over 60 underwriting exercises

- Inclusive language
- Clear and full rationale
- Everyday terminology
- Concise detail
- Direct call to action



- Improved look & format
- Improved spouse info
- One and two life form
- No change to questions
- Concise DPA wording



Best Practice Guide for Third Party Data Collectors (TPDCs)

A new TPDC is entering the market

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Medical underwriting in practice

40% by member

80% by liability

More than £1,500 pa

Short form issued to members

70%
Answer 'yes' to one or more question(1)

Follow up medical data might be sought

- GP Report, and/or
- Telephone interview

Underwritten, and classified as impaired
1
23% by member
45% by liability

30%
Answer 'no' to all questions

Underwritten, classified as not impaired
2
9% by member
19% by liability

60% by member

20% by liability

Less than £1,500pa(3)

Experience is that only c.20% of members don't respond(2)

Members with small benefit entitlements have a limited impact on the premium and so are typically not approached for underwriting information

Insured on non-underwritten terms
3
68% by member
36% by liability

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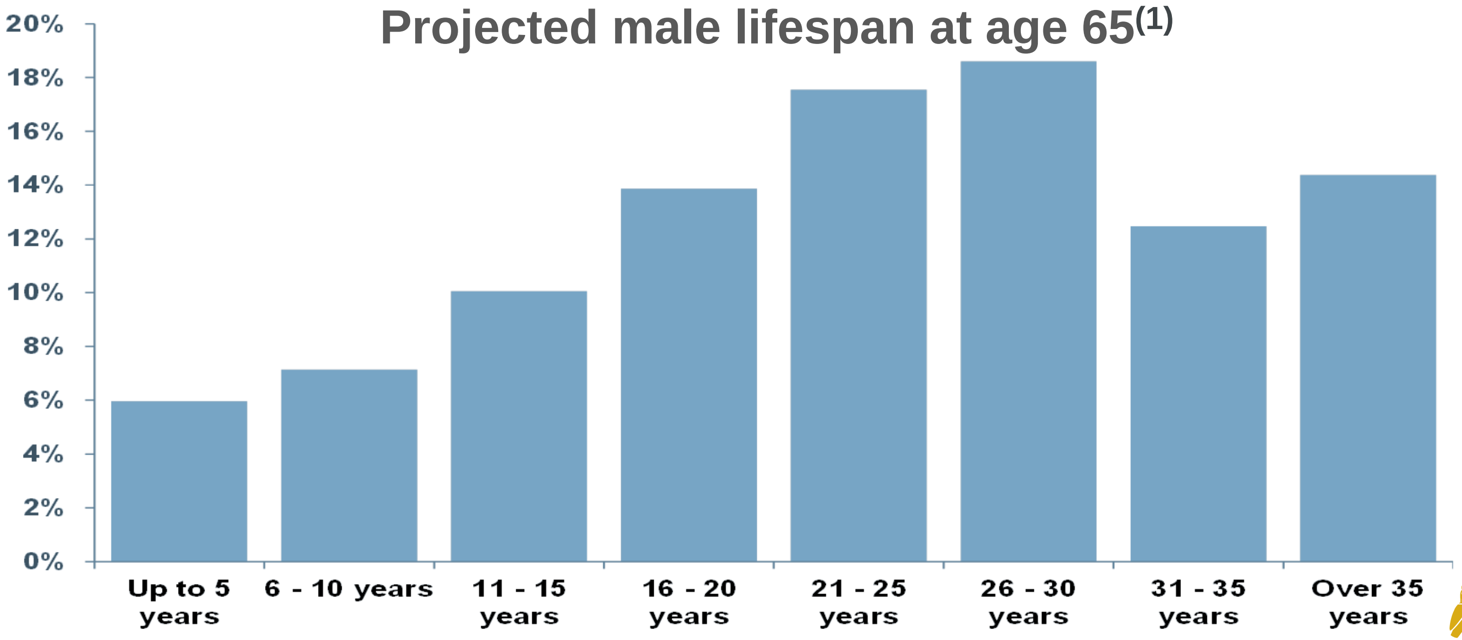
Increased data = increased confidence = less conservative = lower premium

There is huge uncertainty around how long individuals are likely to live



Individuals = uncertainty

Small schemes = uncertainty

Large schemes = less uncertainty

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Increased data = increased confidence = less conservative = lower premium

Tony would like to buy car insurance.

He goes to an insurer and simply tells them:

"*I'm a 55 year old male who lives in WC1V 2AH and have a car worth £20,000*."

The insurer is cautious so as to protect their solvency position and profit. For all they know Tony is driving a Mitsubishi Evo, has an awful claims history and nine points on his license.

The result is a big premium.

Tony learns his lesson. He re-approaches the insurer:

"*I'm a 55 year old single male actuary, I drive a Ford Focus and have a normal driving record. For good measure here's my answer to another 250 rating factors*."

The result: fairer premiums which are, on average, lower across all consumers

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Increased data = increased confidence = less conservative = lower premium

The impact of medical underwriting

Bulk annuity cost

3. Capital / prudence	This is lower
2. Other eg expenses	No change
1. Best estimate claims ie pensions	On average, unchanged … … medical and lifestyle data results in a wider variation of best estimate claims between pension plans, but it is a "50/50" distribution

The way in which insurers set bulk annuity pricing is, of course, far more complex than illustrated here. And life expectancy is one of a few key "ingredients" to pricing

Nevertheless, there are sound reasons to expect that medically underwritten bulk annuities should on average lead to lower pricing, except for very large pension schemes

"…medically underwriting a BPA can offer schemes savings of about 10% – much more in certain cases – relative to the cost of conventional underwriting"
'A healthier way to de-risk', CASS and the Pensions Institute, February 2013

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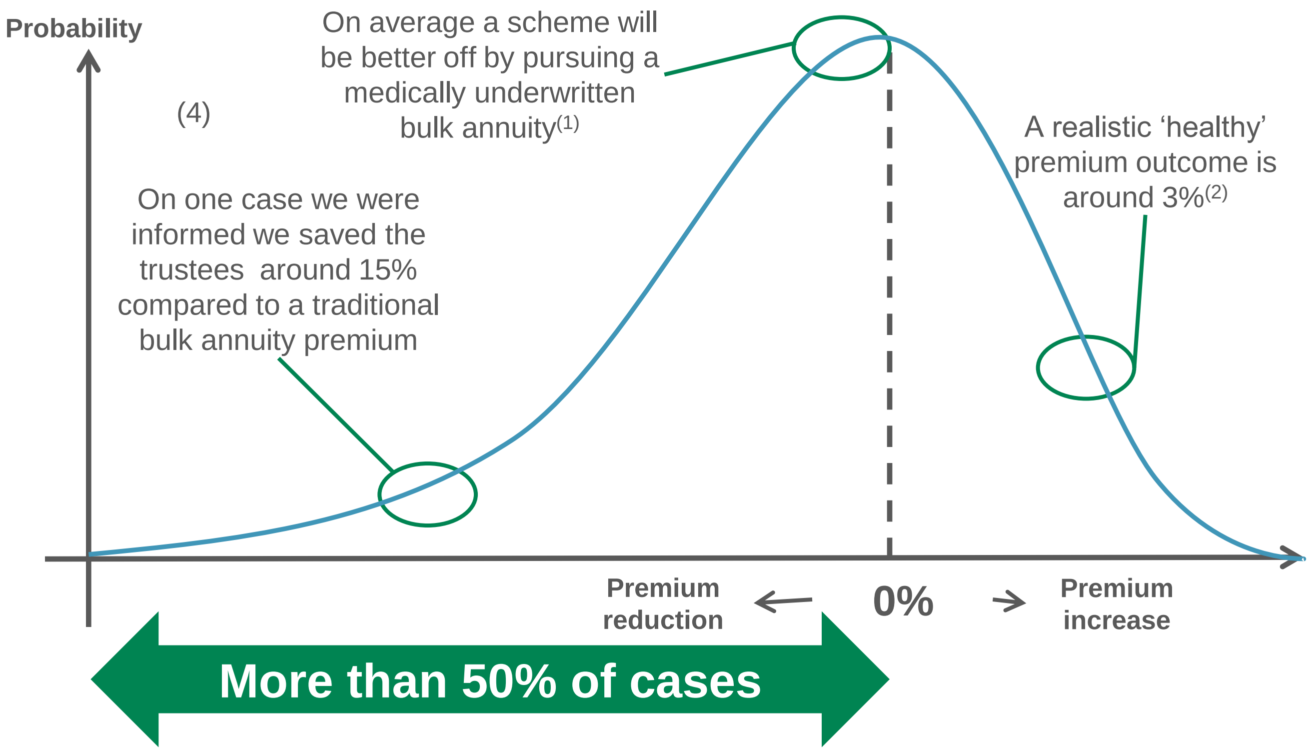
Increased data = increased confidence = less conservative = lower premium



EXPERIENCE SUPPORTS THIS[3]

"Yields that are as much as 0.5%, and in some cases even 1.0%, better than gilts."

AON Hewitt, June 2015

"Often over 5% cheaper than traditional buy-ins"

Hymans Robertson, April 2015

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Top end postcodes can be deceiving …
… "top slicing" is also adding to premium volumes

For large liability members a postcode can offer limited insight on life expectancy

By collecting medical and lifestyle data insurers can offer sharper pricing

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All schemes can use top slicing, even the largest

Why top slice?

1. Concentration of benefits drives risk within a scheme = tackle **a primary risk**
2. The benefits of underwriting are more pronounced = **big potential upside** with (probably) limited downside
3. Technical provision **assumptions can be prudent** for these members = release tied up funding
4. Experience shows a real possibility of **transacting below technical provisions** = tackle risk and improve funding
5. **High response rates** can be expected as data collection would be targeted to what should be highly engaged members

Less than £10 million ⟷ **Scheme range** ⟷ **Over £1 billion**

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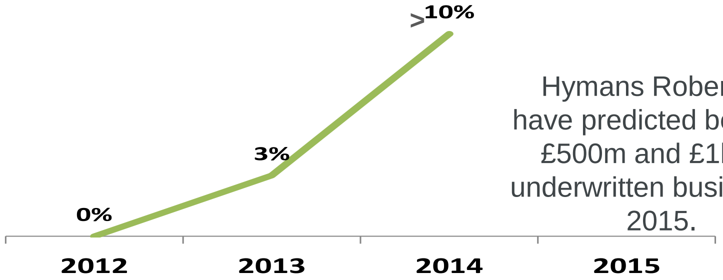
Medically underwritten bulk annuities here to stay

- >10% of the sub £100m deal market was underwritten in 2014, continuing an exponential pattern of growth
- The first case over £100m was transacted in December 2014

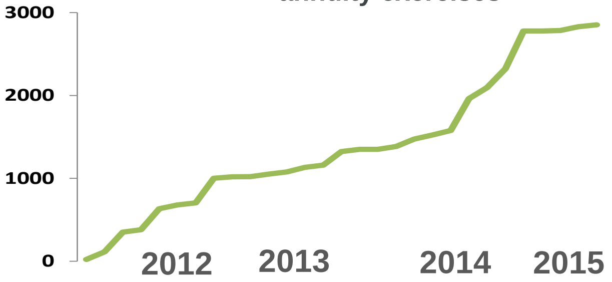
Percentage of sub £100 million size bulk annuities that were medically underwritten



Hymans Robertson have predicted between £500m and £1bn of underwritten business in 2015.

£5m £93m £400m plus ?

Number of lives medically underwritten to date for bulk annuity exercises



60 underwriting exercises

3,000 lives underwritten

Over 40 transactions to date covering upwards of £800m of premium

Four insurers quoting, with three having transacted medically underwritten deals

Over 95% of processes are now undertaken via a common data collection process

93% of underwritten bulk annuities over 2013 and 2014 ended in successful insurer selection[(1)]

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Case study - Taylor Wimpey Pension Scheme

Largest medically underwritten bulk annuity to date
This landmark transaction, the largest ever medically underwritten bulk annuity in the UK, significantly raises the threshold of deal and pension scheme sizes that had previously been assumed to be suitable for medical underwriting

Date	December 2014
Deal size	£206 million – 99 members
Background	The trustees targeted the concentration risk from the liabilities of the 99 largest pensioners Average pension size > £50,000 per annum
Process	The trustees went straight down the medically underwritten route – a traditionally priced bulk annuity was discounted early on. Four insurers were involved
Outcome	The pensioners did not have an untypical distribution of health conditions for a top end socio-economic group. Trustees transacted at a figure £9.4m below their technical provisions Implication - medical underwriting saved considerably more than £9.4m against the estimated cost of a traditional bulk annuity

Hedged longevity concentration risk

+

Improved the funding of the scheme

Taylor Wimpey


New Model Adviser
PARTNERSHIP WINS £206M BULK ANNUITY DEAL

Source: New Model Adviser, 08.12.2014


money marketing
PARTNERSHIP IN RECORD ENHANCED BULK ANNUITY DEAL

Source: Money Marketing, 08.12.2014


PENSIONSAge
PARTNERSHIP SECURES UK'S LARGEST MEDICALLY UNDERWRITTEN BULK ANNUITY DEAL

Source: Pensions Age, 08.12.2014

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Case study - Kuwait Petroleum Services

Full scheme de-risking – largest medically underwritten full scheme buy-out to date
In May 2015, Partnership announced a £42 million medically underwritten bulk annuity with the trustees of the Kuwait Petroleum Services Company Limited Pension Scheme. This transaction is the largest full scheme medically underwritten buy-out in the UK to date.

Date	May 2015
Deal size	£42m – 34 members
Background	The trustees wished to buy-out the remaining 34 members of their UK legacy scheme. Average pension size of over £50,000, including three deferred pensioners aged over 60.
Process	Competitive process via AON AHEAD's data collection platform. A 90% response rate was achieved with all participating members undertaking a tele-interview and having a GP report requested where the initial underwriting form indicated an impairment.
Outcome	Partnership were selected having delivered the most competitive price following a beauty parade. The lead adviser on the deal stated that the trustees saved around 10% compared to the cost of a traditional bulk annuity policy – equivalent to a discount rate of Gilts + 90 basis points.[(1)]

Professional Pensions

Kuwait Petroleum scheme agrees £42.3m enhanced bulk annuity deal

Professional Pensions, 11.06.2015

PENSIONS Age
The leading pensions magazine

The deal is the largest full scheme medically underwritten bulk annuity

Pensions Age, 11.06.2015

ACTUARIAL POST
FOR THE MODERN ACTUARY

Aon Hewitt advise KPSCPS on bulk annuity with Partnership

Actuarial Post, 11.06.2015

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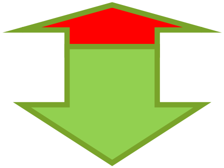
(1) Aon Hewitt's press release on the transaction and subsequent market reports

To summarise – medically underwritten bulk annuities mean:

Greater variation of premium

Medical underwriting doesn't rely on proxies for health status e.g. postcode and pension size

Health and lifestyle data means there is less simplification and so there is a reduced 'cross subsidies' between schemes



Some schemes pay less, others pay more

A healthy scheme may pay slightly more than traditional pricing

Whilst an average scheme or scheme in poor health will probably pay less

Lower premiums, on average

Increased data means increased confidence

Increased confidence means insurers are less conservative

Less conservative means a lower premium

Pensioners with large pensions

Traditional pricing is more prudent for members with large benefit entitlements in top-end postcodes

Medical and lifestyle data means tailored pricing

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Conclusion

1. Introduced medically underwritten bulk annuities (MUBAs)
2. Looked at how MUBAs are used in practice, and explained top slicing
3. Gave the market context and some case studies
4. Any questions or comments?

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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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