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A short introduction to longevity swaps and Q&A session

Martin Lockwood





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Agenda

- Introductions
- The “Problem” – Increasing Longevity
- What is a Longevity Swap?
- Sources of longevity business
- UK Longevity De-risking Solutions
- UK Longevity Swap Market
- Recent longevity market activity
- Developments in the Longevity Market
- How can I make transacting more likely?
- **Questions and Discussion**

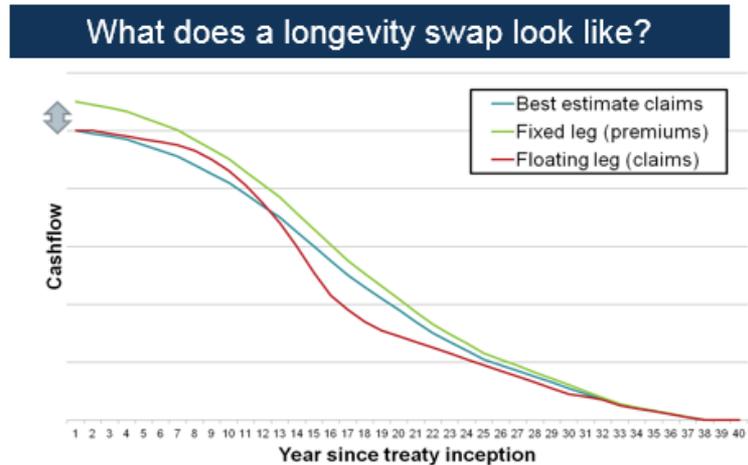
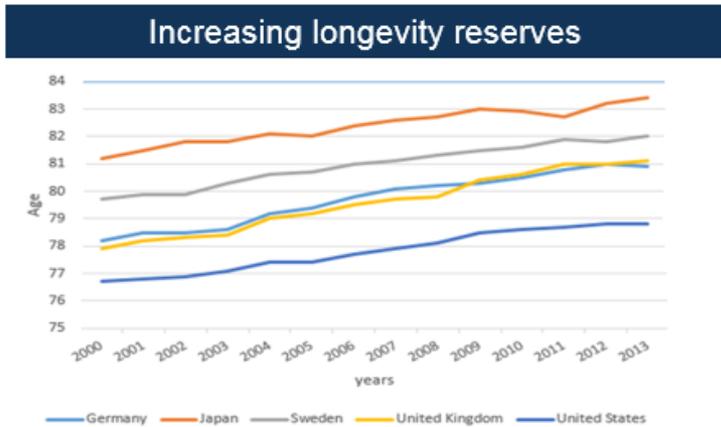


Introduction

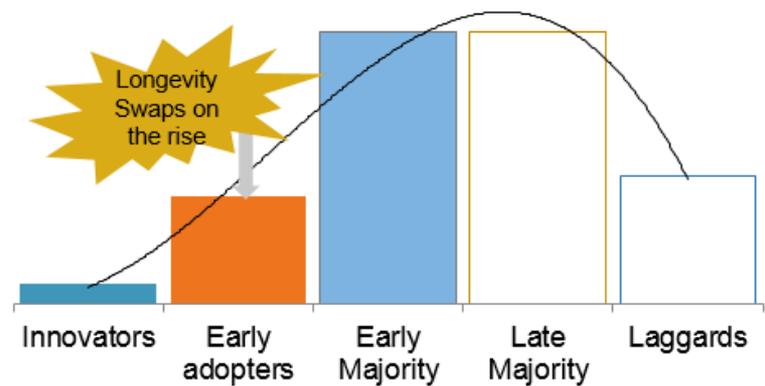
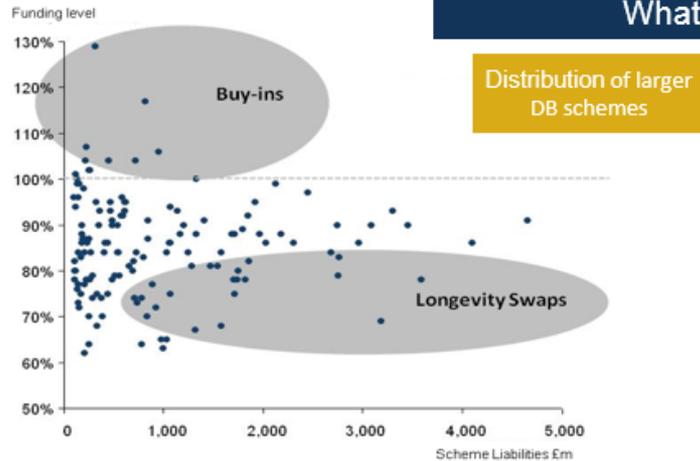
- Martin Lockwood - Head of Longevity Munich Re
- Joined Munich Re in 2011 as specialist in annuities, defined benefits and longevity swaps and has since overseen the execution of a number of longevity transactions
- Before Munich Re, Martin had already accrued a wealth of experience at Prudential, where he managed the £1bn transfers of the Scottish Life, Phoenix and Royal London back book deals – which included overseeing the Part VII transfers. He also supervised the accompanying arrangements and signing of a vesting deal with a number of insurers and banks. He also spent some time overseeing transactions in the defined benefit arena



The “Problem” – Increasing Longevity



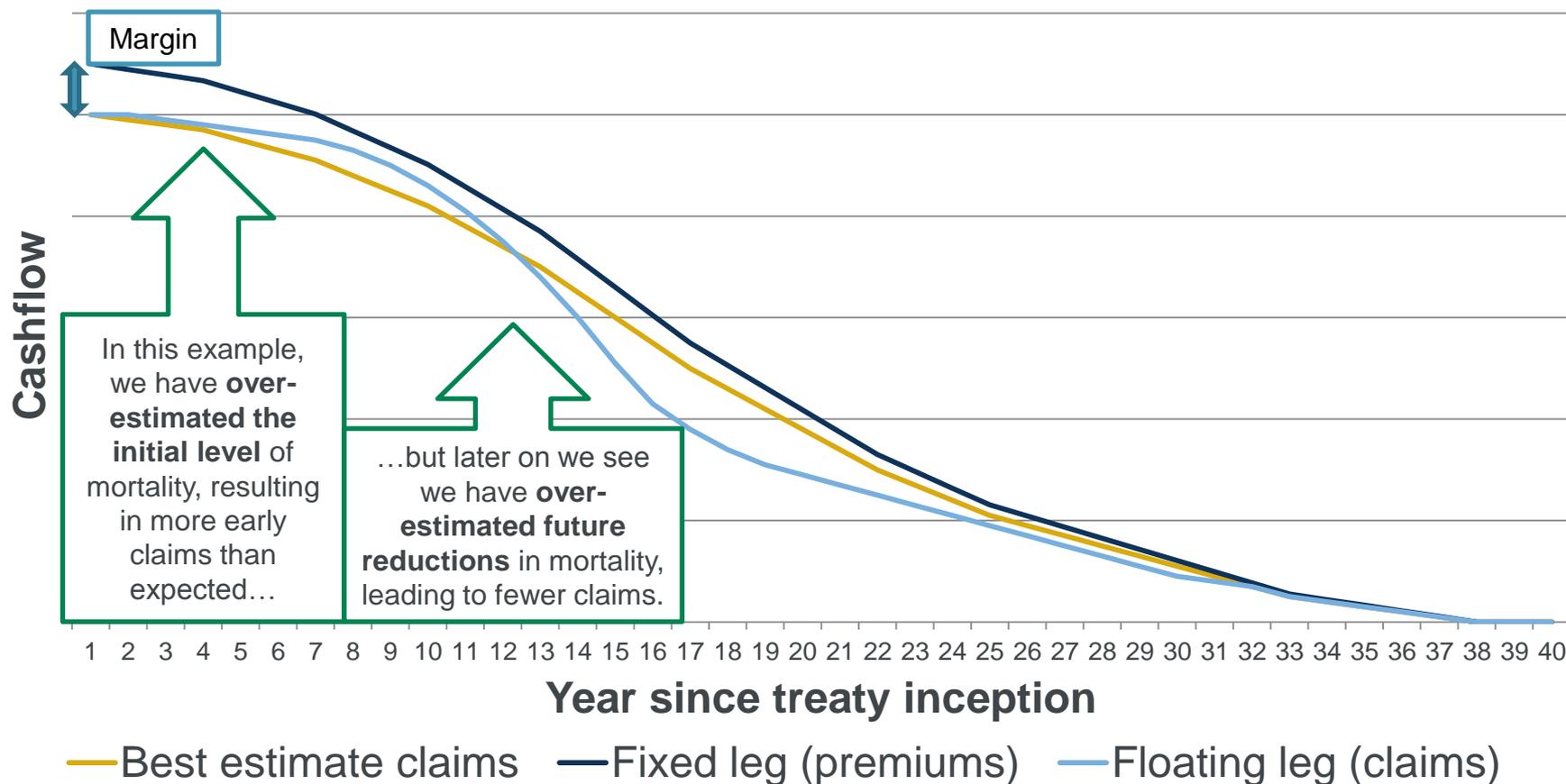
What about the future?



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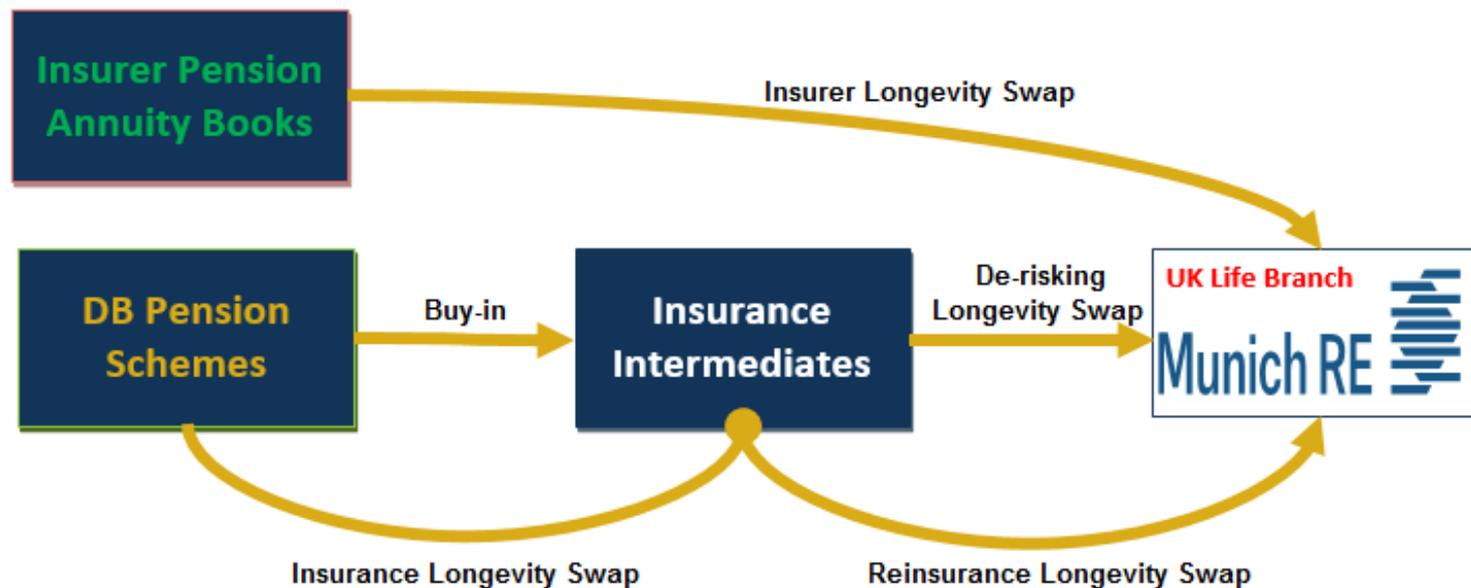
What is a Longevity Swap?

- Exchange of Cashflows



Sources of longevity business

LONGEVITY RISK SOURCES



UK Longevity De-risking Solutions

De-risking Solutions	Matching principle	Changing Benefits	Transfer Longevity Risk	Transfer Asset Risk	Transfer Liability for Pensioners
Liability driven investments	✓	✗	✗	✗	✗
Liability management	✗	✓	✗	✗	✗
Insured Solutions					
Longevity transactions	✓	✗	✓	✗	✗
Buy-in	✓	✗	✓	✓	✗
Buy-out	✓	✗	✓	✓	✓



The UK longevity market

Insurance Intermediaries



Legal & General

PENSION INSURANCE CORPORATION

Goldman Sachs

PRUDENTIAL

ZURICH

Employee Benefit Consultants



AON Hewitt

TOWERS WATSON

MERCER

HYMANS ROBERTSON

LCP INSIGHT CLARITY ADVICE

Reinsurers



RGAR[®]

SCOR

Swiss Re

PACIFIC LIFE

hannover re[®]

challenger

Munich RE



Recent longevity market activity

Year	Pension Longevity Swaps (With a pension scheme)	Buyout Insurer Longevity Swaps (With a specialist insurer)	Annuity Insurer Longevity Swaps (With an annuity provider)	Pension Buy-ins / Buy-out (Scheme to specialist insurer)	International longevity swaps
2009	£3.8bn	£1.1bn	£0.4bn	£3.7bn	
2010	£3.0bn	£2.1bn	£2.5bn	£5.2bn	£0.05bn
2011	£6.0bn		£4.1bn	£5.2bn	
2012	£3.2bn	£1.8bn	£6.5bn	£4.5bn	€0.6bn
2013	£8.1bn	£2.0bn	£0.1bn	£7.2bn	€0.1bn
2014	£23.9bn*	£4.9bn	£5.1bn	£13.2bn	£0.8bn
Provisional 2015	£9.7bn	£5.6bn	£12.3bn	£3.5bn	£3.5bn

* Includes £16bn - BT deal

Source: Munich Re: UKLB internal database as at Jan-2016



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Developments in the Longevity Market

Enhanced Annuities

- Specialist Enhanced Annuity providers better rates for individuals with certain diseases and medical conditions.
- Accounted for @ £1bn of buy ins in 2015.
- Most common ailment is Diabetes
- Starting to become a main stream option in the DB Pension Scheme de-risking market. Implications uncertain

Deferred Pension Scheme Members

- Deferred members have a pension entitlement but have not yet retired
- Approximately 50% of Pension Liabilities relate to “Deferreds”
- Complications:
 - When will the member retire?
 - What will their pension be?
 - How much Tax Free Cash will they take? [max 25%]
 - Pension regulation changes
- Potential Solutions
 - De-risk upon crystallisation of benefits (time delay)
 - De-risk now (cost & uncertainty)



So how can I make transacting more likely?

Be prepared before you tender for quotes
– have your data “fit for purpose”

Keep it simple

Be realistic – transactions are 95% about “price”

Avoid spending time and money on “last fad” solutions

Think carefully about the role of the deal advisors

Be prepared to negotiate and compromise



Summary

The “Problem” – Increasing Longevity



The “Opportunity” – Longevity Solutions



UK Longevity De-risking Solutions



Longevity Swaps



UK Longevity Swap Market



Developments in the Longevity Market



Questions & Discussion

