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## Employer sponsored benefits – the impact on the wider life market.

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### Market leading protection via auto-enrolment

Default cover of:

- Life cover of up to 354,000 sum assured
  - TPD cover of up to 354,000 sum assured
  - IP cover of 36,000 benefit p.a.
- ....for all employees in the pension scheme
- With no medical underwriting or health statements
  - At no explicit cost to the employee
  - Cover until retirement

Is this a vision of the future for the UK?



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## Agenda

- History of UK protection market
- Australian superannuation schemes
  - Protection cover
  - Growth of market
- Auto-enrolment in the UK
  - Simple products
  - Growth opportunities for GR business
- Workplace – the way forward?
- Questions



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## UK Protection market

Historically.....

### Traditional GR market

Group Risk  
 • Life  
 • IP  
 • CI  
 Employer funded  
 Part of benefits  
 package

Group  
voluntary  
cover

Business protection  
& Keyman cover

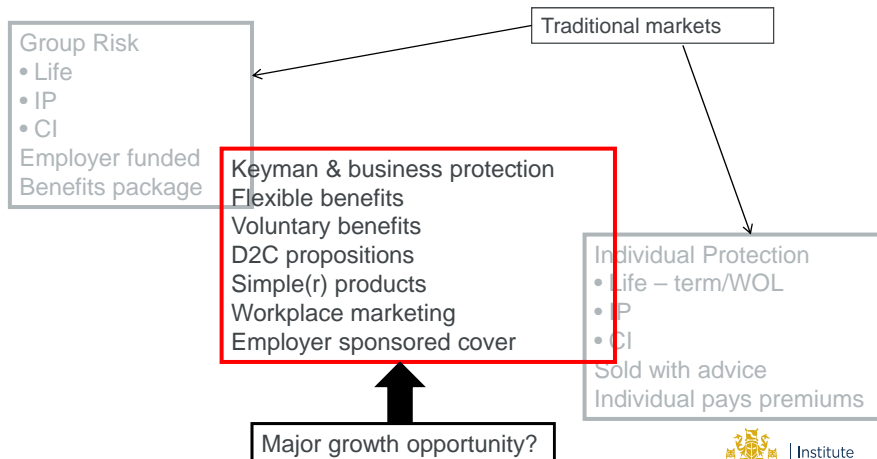
### Traditional individual market

Individual Protection  
 • Life – term/WOL  
 • IP  
 • CI  
 Sold with advice  
 Individual pays premiums



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## But times have changed



## Australia – a relevant case study

A brief history.....

- Compulsory employer pension contributions introduced via legislation from Keating Govt. in 1992
- Initial contribution rate was 3% (employer)
- Current contribution rate ("Superannuation Guarantee") is 9.25% (employer), but recent legislation will increase this to 12% by 2020 (via a series of annual increases)
- Employees can sacrifice salary to top up cover (optional)
- Employees are offered access to a range of Super funds; cover is portable and not explicitly tied to the employer
- "MySuper" legislation requires funds to have clear insurance and investment strategy for default segment of scheme

## Addition of protection benefits

- Insurance benefits added in mid/late 1990's
- Initially a default level of life cover was offered
- TPD and IP cover subsequently added
- Offering default life/TPD cover became compulsory in 2005, but funds typically already offering life, TPD & IP cover by that stage
- Super Funds now actively competing on protection benefits offered
- Super Funds are purchasers of protection benefits; subject to regular tender (and insurers then tender for reinsurance)
- Material growth in GR market (see later)
- Top 5 insurers have nearly 80% of market
- Typical cost of insurance benefits < 0.5% salary



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## Insurance benefits – more details

- Benefits expressed in units, with value of each unit related to age
- Typical unit values for Group Life cover:
  - Age 25 – \$55,000
  - Age 35 – \$48,000
  - Age 45 – \$26,000
  - Age 55 - \$9,000
- Default cover 3 units for most employees
- Matching amounts of TPD cover
- LS cover makes up around 70% of market

Note: £1 = \$1.7 Aus



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## Insurance benefits – more details (2)

- Value of each unit varies by occupation class
- Values on previous slide doubled for lower risk/professional occupations
- Options to increase cover:
  - On joining – can increase to max of \$1.5 M with no evidence of health or underwriting
  - Lifestyle events (marriage, childbirth, new mortgage) – can increase by up to \$500,000 with no evidence of health or u/w
  - Increase at any time subject to u/w, with no limit on life cover and \$1.5 M max TPD cover



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## Insurance benefits – yet more details (3)

- Terminal illness benefit also provided
- Number of units of cover is fixed at date of joining
- Occ class is assumed to be “standard”, up to employee to demonstrate low risk/professional to get extra cover
- TPD definition quite complex; one of:
  - Loss of 2 limbs or sight
  - “Any occ” definition after 3 months absence if disability permanent
  - Suffering from specified serious illnesses
  - 2 out of 5 ADW’s (mobility, vision, lifting, etc)



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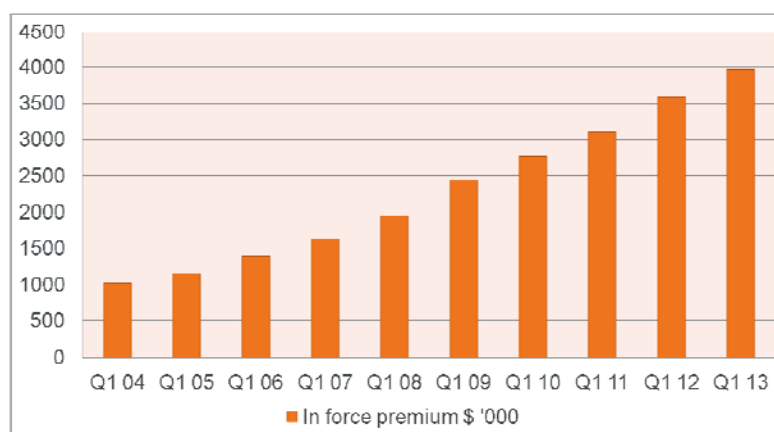
## Insurance benefits – income protection

- IP cover on similar basis – units of \$500 benefit p.m.
- Default units vary by age:
  - Age 25 to 50 – 6 units
  - Age 50 to 54 – 5 units
  - Age 55 to 64 – 4 units
- Benefit payable for 2 years; 30 or 60 day waiting period
- Up to \$20k p.m. available at outset, no u/w, max 85% salary
- Increase up to \$20k p.m. on lifestyle event
- Increase to max of \$50k p.m. available with u/w
- IP cover approx 30% of market (60% of IP cover is on a short term benefit basis – 2 years)



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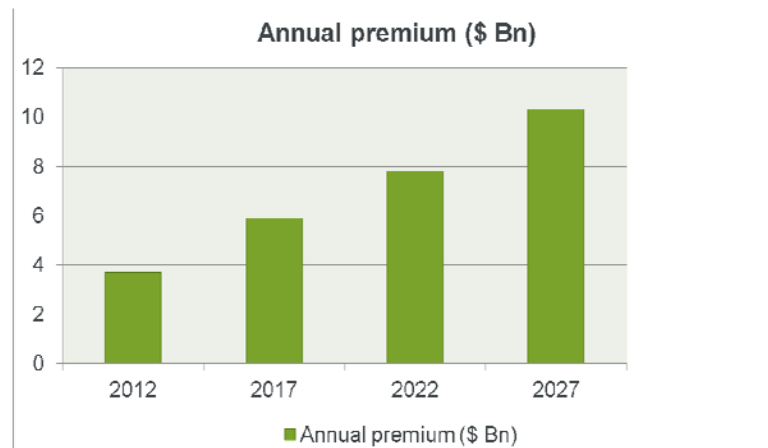
## Australian Group Risk Market – steady growth



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Source: Plan for Life, Actuaries & Researchers

## Projected – further growth for Group Risk



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Source: Munich Re

## All that glitters.....!

- Large growing market attracts insurers
- Large opportunities attract price competition
- Competition also encourages proposition enhancement  
(= more generous benefits – especially TPD & IP)
- Price competition and generous benefits = ?

So....

- Insurer & reinsurer losses
- Price corrections (= increases!)
- Proposition redesign?



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## UK Group Risk market

Group Life:

- £1 bn AP, 8 million lives, 48,000 schemes

Group IP:

- £0.5 bn AP, 2 million lives, 17,000 schemes

Auto-enrolment:

- Target 11 million lives
- “opt out” 8% so far (20%-30% originally expected)

**Question** – how many markets have a realistic chance to double in size?



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## A massive amount of change- a massive amount to cover!

Focus today is:

- Automatic enrolment - threat or opportunity?
- Simple products – help or hinder the market?

Not forgetting:

- RDR
- Welfare Reform

Putting this all together is this the “Perfect Storm” for Group Risk and the Protection Market in general?



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## Are simple products and automatic enrolment more aligned than we think?

- Simple Income Replacement initiative
- 2001-2012 Stakeholder Pensions
- Automatic Enrolment as Stakeholder Pension replacement
- Consumer demand for 'income replacement' not established
- Complexity of State Benefits and taxation
- So will 'income replacement' become compulsory/voluntary, opt in products?

"A senior DWP figure speaking at last month's Conservative Party conference is reported to have opened the door to introducing auto-enrolment for income protection by calling on the industry to make its case to Government."

Source-Corporate Adviser 04/10/13



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## Simple products update: we have configured the product but will it work in the 'real world' of the workplace?

- Insurers already offering voluntary / worksite marketing
- Business case for launch of simple IR?
- Our customer is the employer
- Segmental marketing for individuals
- Compulsion/opt in enables us to build a business case
- ABI and GRiD need to lobby hard!



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## Automatic enrolment provides an extension and rebasing opportunity for existing schemes:

- **Option 1: Extend as is!**

Current pension scheme member benefits e.g. 4x death benefit are extended to AE employees so all are on 4x. Rates of benefit can reduce if new pension members are younger (albeit more benefit will be covered and premiums will increase).

- **Option 2: Extend but reduce!**

Current pension scheme member benefits e.g. 4x death benefit are limited for AE employees who could be on 1x.

- **Option 3: Extend but limit access (objective is to not close scheme)!**

Current pension scheme member benefits e.g. 4x death benefit are extended to AE employees but with a sub category e.g. all new AE employees who have completed 1 or 2 years service. This will keep the scheme open and limit the impact of a closed, ageing scheme as this will both restrict market review potential and avoid a guaranteed increasing cost to the employer.

- **Option 4: Use budget to review employee benefits (flatten?)**

Current pension scheme member benefits will have a current budget and some employers may want to cover all employees for the same money/small additional cost. Whilst existing benefit loss/change will have to go through a full consultation process (always review the benefits communication paperwork and TUPE obligations), this could be an employer strategy to diversify product choices (specifically income protection and critical illness) whilst providing less 'rich' benefits for a few. Death in Service Pensions will most likely be the first casualty in this review which as a product is becoming unaffordable in a period of such low interest rates (as well as hard to understand and therefore appreciate for the majority of people).

The Group Risk Market will grow by premiums and people – but will it grow by employer numbers too - that is the question?



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## Existing Group Risk schemes are growing

25% of Canada Life's 2013 New Business is from scheme expansion compared to 10% in 2012\*

Product	Lives pre & post AE	Rate pre AE	Annual premium pre AE	Rate post AE	Annual premium post AE	Additional annual premium
Group Life	1,200 to 5,000	£1.268	£205k	£1.207	£430k	£225k
Group Life	4,600 to 9,700	£1.544	£804k	£1.518	£957k	£153k

- Will SME appetite be the same for Existing Business growth? We hope so!
- But with approximately 50% of schemes being pension linked can we cope with approximately 34,000 employer requests for support?

Source: Illustrations based on Canada Life new business quotes from existing 01/09/12

\* Canada Life On Risk Book 2013



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## Staging dates for sub 250 lives commence 01/02/14 so work is needed now!

PAYE Scheme Size (No. of lives)	Staging Date	Pension Linked GLA Schemes	Pension Linked GLA Premiums
240-249	01/02/14	0.3%	0.8%
160-239	01/04/14	3.8%	6.2%
90-159	01/05/14	5.5%	6.2%
50-89	1/7/14 – 1/4/15	8.4%	5.8%
Under 50 lives	1/6/15 - 1/4/17	33.9%	10.3%

Automatic Enrolment dates for sub 250 lives

52% of our group life schemes (representing 29% of our premiums) <250 lives segment is pension linked

We are resourcing up to maintain our market-leading\* service excellence as each scheme is being consulted on

If this is our issue, have you quantified the work that Group Risk teams need to be doing to consult on all pension-linked schemes?

Source: Canada Life Existing Business Portfolio May 2013  
\* ORC survey 2013 (number one provider for service for the fifth consecutive year)

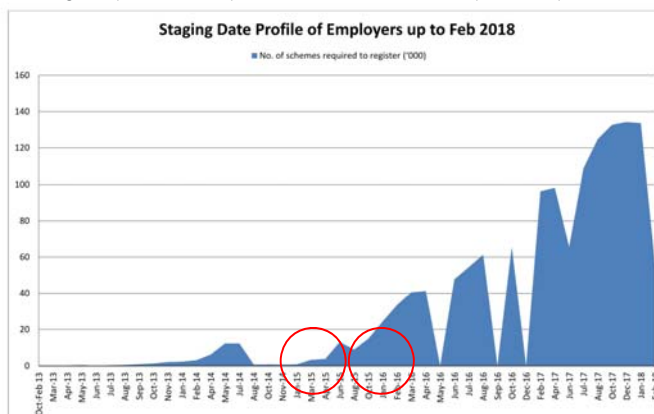


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## New Business - the opportunity for new to Group Risk schemes- starts on 01/02/14 - sub 250 ees

1.2m employers, representing 7.3m employees are in the sub 49 employee segment (small and micro) start to be enrolled in June 2015 (Source: CII)



Sources: The Pensions Regulator, CII and DWP

- Over 8,000 employers (employing over 15 million employees) will pass automatic enrolment staging dates by February 2014

- By 2018, 1.35m employers are required to have completed automatic enrolment

- Over 6 million further employees will be picked up by small/medium businesses (< 250 employees) after this date



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## A focus on budget options and value messages will enhance the likelihood of employer take up in this segment rather than 'high end' designs

Group Life	£ per employee	Group Critical Illness	£ per employee	Group Income Protection	£ per employee	Total package cost
* £10k Benefit	£17	* £10k benefit for core illnesses	£48	* 50% - 'ESA+WRAC' * 26 week deferred period * 2 year limited payment	£65	<b>£10,905 or £130 p.a. per employee</b>
* 4x salary	£230	* 2x salary * Core + Additional conditions	£321	* 75% - 'ESA+WRAC' * 7% PSC's * Employer NIC's * 13 week deferred period * 5 year limited payment * 2x salary capital option	£375	<b>£77,763 or £926 p.a. per employee</b>

\* The value of the EAP and Best Drs Service alone is £4,620. Assuming 24% Corporation Tax the net cost after this has been removed is only £3,668!

Notes: Quotes are based on 84 employees that are office based and located in London with an average salary of £35,000 for 79 staff and £82,500 for 5 directors. Quoted at 1<sup>st</sup> Oct 2012.  
Sources: Canada Life '5 Quote Model' and Added Value Calculator



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## When talking Automatic Enrolment pensions the opportunity to talk GIP is there - the two products are complementary

- Pension contributions can be covered under GIP-remember waiver of premium/contribution?
- Limited benefit payment plans act as a buffer between employment and ill health retirement
- Full term GIP schemes provide an income in working life and also the planned income in retirement where pension contributions are covered
- Limited term + lump sum can boost pension provision for impaired life annuity purchase

When do you need most income?

When you have most debt - i.e. in working life.



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**In short term existing scheme business and concerted new business adviser efforts will support Group Risk Market growth-but what about the future and overseas:**

- Who will be offering workplace protection advice?
- Pension scheme providers that do not offer group risk - will they partner?
- Large funds becoming the purchaser of risk and health benefits rather than employers?
- In Sweden clarity between State and Private Sector on income replacement is needed in UK
- Australian model GIP issues – when (if) it goes wrong....



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**Questions**

**Comments**

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

The views expressed in this presentation are those of the presenter.



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