



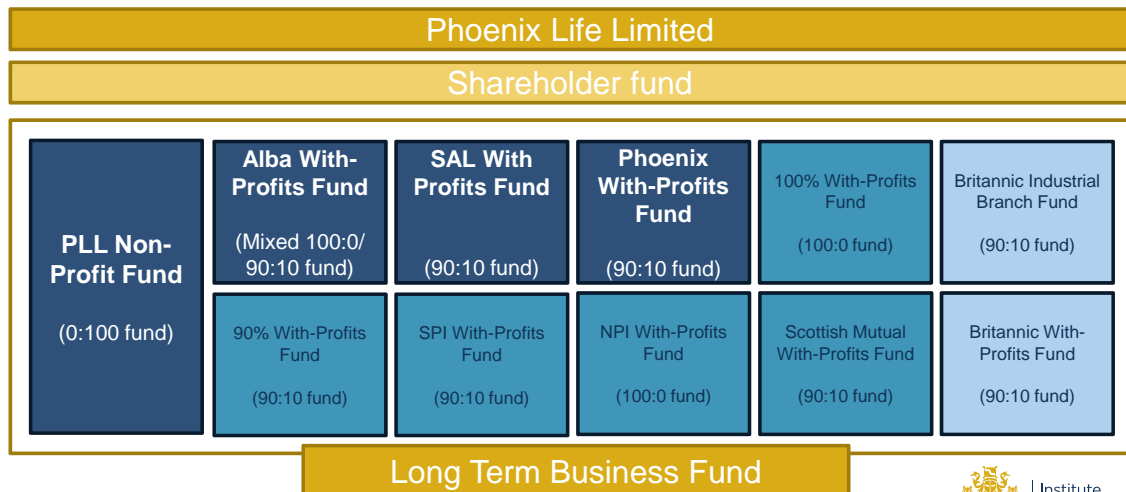
Institute and Faculty of Actuaries

## A3: Annuity portfolio reallocations: a case study

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23 November 2017

### Background



13 November 2017

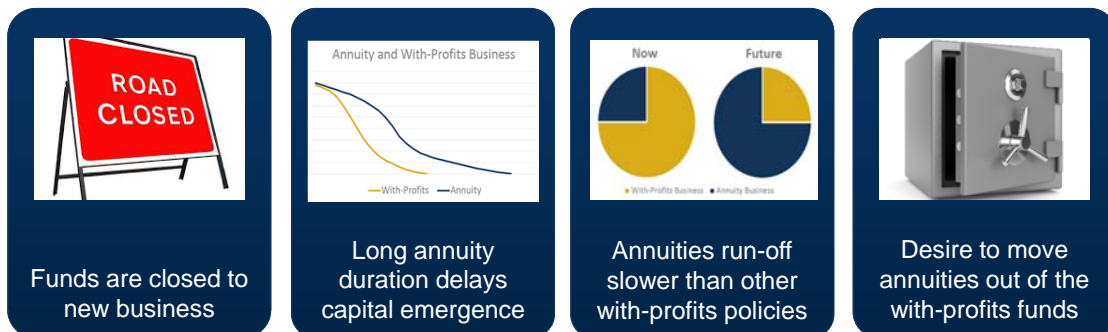
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## Background (continued)

### Long-standing annuity risk removal programme



## With Profit Fund Perspective



## Shareholder Perspective

Why did the Phoenix shareholder want to purchase the annuities?



Appetite for annuity business



Support with-profits funds

And more recently...



Intention to compete in bulk annuity market



## Why not do another external transaction?

Ruled out owing to...



Non-standard nature of remaining annuities



Unusual Scheme A mortality characteristics



Part VII likely to be disproportionately expensive



Increased complexity from overseas business



## The Approach Taken



Best Estimate Liabilities at half-year 2015:  
 Alba: c£120m    SAL: c£110m    PWP: c£260



## Objectives of my review

Do the terms of the proposed reallocation...

- ?

...satisfy the 2009 PLL Scheme?

Premium vs. risks
  
- ?

...satisfy the PPFMs?

'on commercial terms'
  
- ?

...appear attractive relative to the market?

Consider costs and uncertainties



## Bottom-up analysis

### Assessment of

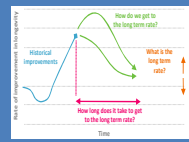
1. Asset mix and yield assumption



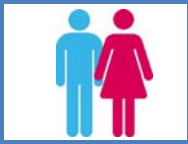
2. Baseline mortality assumptions



3. Mortality improvement assumptions



4. Proportion married assumptions



5. Expense assumptions



6. Profit and capital loadings



## Bottom-up analysis

- ✓ Mortality improvements
- ✓ Policy expenses
- ✓ Investment expenses
- ✓ Asset mix
- ✓ Risk & capital in pricing

- ⚠ Baseline mortality
- ⚠ Proportion married

PLAs and Scheme B – no data

Scheme A: very heavy mortality experience...  
...but modelled priors light by comparison



## Top-down analysis

### Assessment of

1. Consistency with new business pricing



2. Expected profit levels



3. Range of market prices available within the market



## Conclusions



2009 PLL Scheme



PPFMs



Attractive vs. market

## Market Volatility



Material fall in yields during the first half of 2016



Shareholder agreed to reduce returns



Brexit caused yields to fall further



Confirmed pricing was still within fair market range



**Questions**

**Comments**

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