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Innovations in DB De-risking; medically underwritten bulk annuities

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Current Highlights in Pensions
November 2013

11 November 2013



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Agenda

1. Enhanced/impaired individual annuity market - background
2. Medically underwritten bulk annuities
 - What are they?
 - Which schemes can benefit?
 - Process
 - Pros and Cons
 - Savings
 - Case studies

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Quick Question...

Both had a £100K pension pot at retirement but who got the bigger pension.....?




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£6,951



£5,954

Health or Lifestyle condition diagnosed within the last 6 months	Partnership uplift rate*
Cancer	73.5%
Type 1 Diabetes	19.5%
Heart Attack	18.0%
Smoker	17.9%

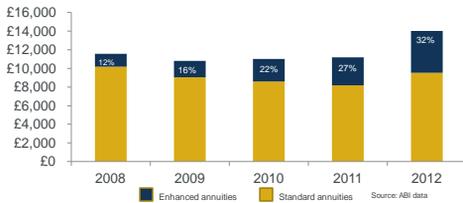
* Sample rates based on partnership assessment of severity of existing conditions compared with the best standard rate available as at the 12th March 2013. Actual rates can vary and will depend on individual circumstances. For illustration purposes only.



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Growth in the Annuity market

Total Annuity Sales (Standard & Enhanced) across the market in £M



More than 50% of people at retirement could qualify for an enhanced annuity
Source: Partnership & Oliver Wyman research

	Overall growth rate p.a (2008 – 2012)
Enhanced annuities	35%
Total annuities	5%



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Medically underwritten bulk annuities; What, why, how...

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Every scheme paying an average price...



.....but there's no such thing as an average scheme



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Underwritten buy-ins – what are they?

- Traditional buy-ins
 - priced based on relatively limited information on pensioners covered (age, sex, amount of pension, postcode, occupation, industry etc.)
- Underwritten buy-ins
 - potentially greater level of understanding of the expected longevity for scheme members within the pensioner population being insured
- Underwritten buy-ins look to obtain additional information on members' health and lifestyle (from the pensioners); currently for pensioners only
- Just like a traditional buy-in, they can be converted to individual policies
- Insurers able to provide underwritten buy-ins:
 - ★ **partnership** **justretirement** **Legal & General** **AVIVA**
- They cover all pensioner members (no "cherry-picking" of just unhealthy lives) or potentially sub-sets of pensioner members



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What schemes are more likely to benefit?

- Smaller schemes with up to 300-400 pensioners
- Schemes with skewed distribution of liabilities (a small number make up a large proportion of the total liabilities)
- Schemes where Trustees (and sponsor) know many of the pensioners and have personal insight into incidence and severity of impairments
- Exec schemes that contain small number of high value liabilities
- Schemes where pension scheme membership could have been mixed blue and white collar, but ended up disproportionately blue collar
- Schemes with high levels of ill health early retirements
- Can work for sub-sets of larger pensioner populations (beware anti-selection issues)



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The Pro's and Con's of this approach

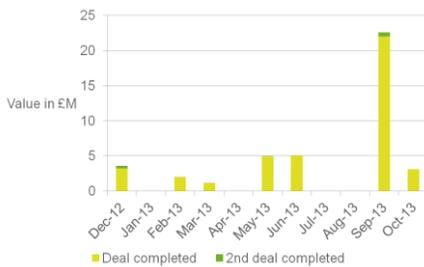
- Pro's
 - Can allow a scheme to achieve a better price than that through a "conventional" quote
 - May facilitate a transaction at a figure below Technical Provisions
 - Provides the trustees with insight into the scheme's longevity risk
 - Can aid data cleansing
- Con's
 - The exercise could uncover a healthier population of pensioners than expected (or hoped for.....!); adverse impact on valuation assumptions
 - Some insurers may quote a higher premium for a conventional quote following an u/w exercise
 - Poor response rate to health information request could negate the value of the exercise



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Deals done to date



Source: Partnership sales

For illustration purposes only



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Press coverage



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Partnership's approach to medical underwriting so far

A solution has been developed to overcome the barrier of collecting medical evidence from people who have no incentive to provide it

- Simple yes/no questions
- Branching questions can be added for more detail & better rates
- Additional / replacement questions can be added in to reflect scheme specific health profile
- Greater level of detail can lead to more members qualifying
- To establish likely viability, it may be possible to carry out some scheme profiling prior to an exercise commencing
- Response rates exceed what you might expect



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Collecting the medical evidence

Scheme Underwriting MI

Response Rates	
No. members that were asked to complete a medical questionnaire	704
No. members that completed & returned the questionnaire	526
Total overall response rate	75%
No. schemes where 100% response rate was achieved	10

Completion Rates	
No. schemes that have carried out an u/w exercise*	18
Schemes that have so far transacted with Partnership**	8
Conversion rate	44%

Source: Partnership experience

*excludes schemes where underwriting is currently in progress
**negotiations on-going with some of the remaining 10



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Quotation process – multi insurer approach

- Two options for trustees to choose from
 - Health questionnaire with targeted GP reports
 - Health questionnaire with telephone interviews
- Positioning letter from trustees enclosing "Common" health questionnaire sent to pensioners for completion by them and their spouse
- The forms are returned to whoever is acting as the "central hub" where they are assessed and the chosen underwriting route is adopted & carried out
- All health information provided securely to insurers, in real time
- On completion of the underwriting exercise (which usually takes about four to six weeks) all insurers issue a binding quotation for all pensioners, whether they qualify for a health discount or not
- The quotation is based upon a true picture of pensioner longevity.....might not always be cheaper!

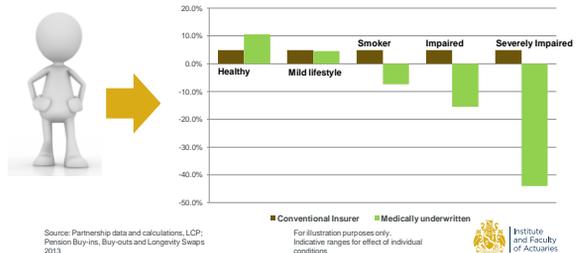


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Benefits

Individual member – potential savings relative to technical provisions

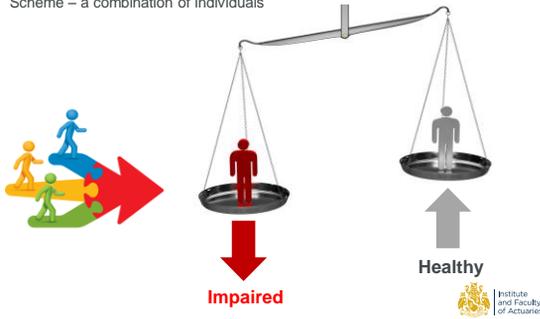


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Benefits

Scheme – a combination of individuals



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Case Study 1

A transaction driven by a business event

Situation	<ul style="list-style-type: none"> Sponsor was owned by an individual who wanted to sell the business The scheme was in deficit which had a negative impact on the valuation of the business The biggest liabilities were pensioners, some of whom have known health conditions The Trustees and sponsor wanted the benefits secured on competitive terms in a timely manner
Approach	<ul style="list-style-type: none"> Simple 1 page medical questionnaire sent to all pensioners (irrespective of health and pension size) Underwriting following receipt of completed questionnaires resulted in a significant level of enhancement Data queries resolved and underwriting exercise carried out simultaneously
Outcome	<ul style="list-style-type: none"> Benefits secured on competitive terms resulting in a reduction in the scheme deficit Removing the uncertainty of the pension risk made the business more attractive to buy Benefits were secured for the pensioners with an insurance company The owner received a higher price when he sold the business

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Case Study 2

Securing a tranche of pensions in payment

Situation	<ul style="list-style-type: none"> Sponsor is in the services industry throughout the UK Scheme has a significant concentration of risk, with 50% of the liability held by the top 17 liabilities The sponsor/trustees were aware of health issues for a number of those pensioners The Trustees and sponsor wanted to remove the volatility of the biggest liabilities
Approach	<ul style="list-style-type: none"> Simple 1 page medical questionnaire sent to all pensioners being included in the exercise Bespoke TP calculations carried out by scheme actuary to estimate a fair value bulk annuity price Underwriting and data queries carried out at the same time
Outcome	<ul style="list-style-type: none"> Guaranteed quote produced based on information received Scheme actuary able to advise that the medically underwritten quote was fair value The trustees were able to secure the pensions through a buy-in as part of their de-risking strategy Improvement in funding position – trustees secured the buy-in at a figure below the technical reserves

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Summary

- The underwritten bulk annuity market is embryonic but we believe it is here to stay
- Early transactions show that significant savings can be achieved
- Effective for small schemes, or those with large concentration risk
- ...but not for all schemes
- Trustee knowledge of pensioners is invaluable, especially the high value ones!

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Thank you



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