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Innovations in DB De-risking; medically underwritten bulk annuities

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Partnership



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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

Quick Question...

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



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



£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%

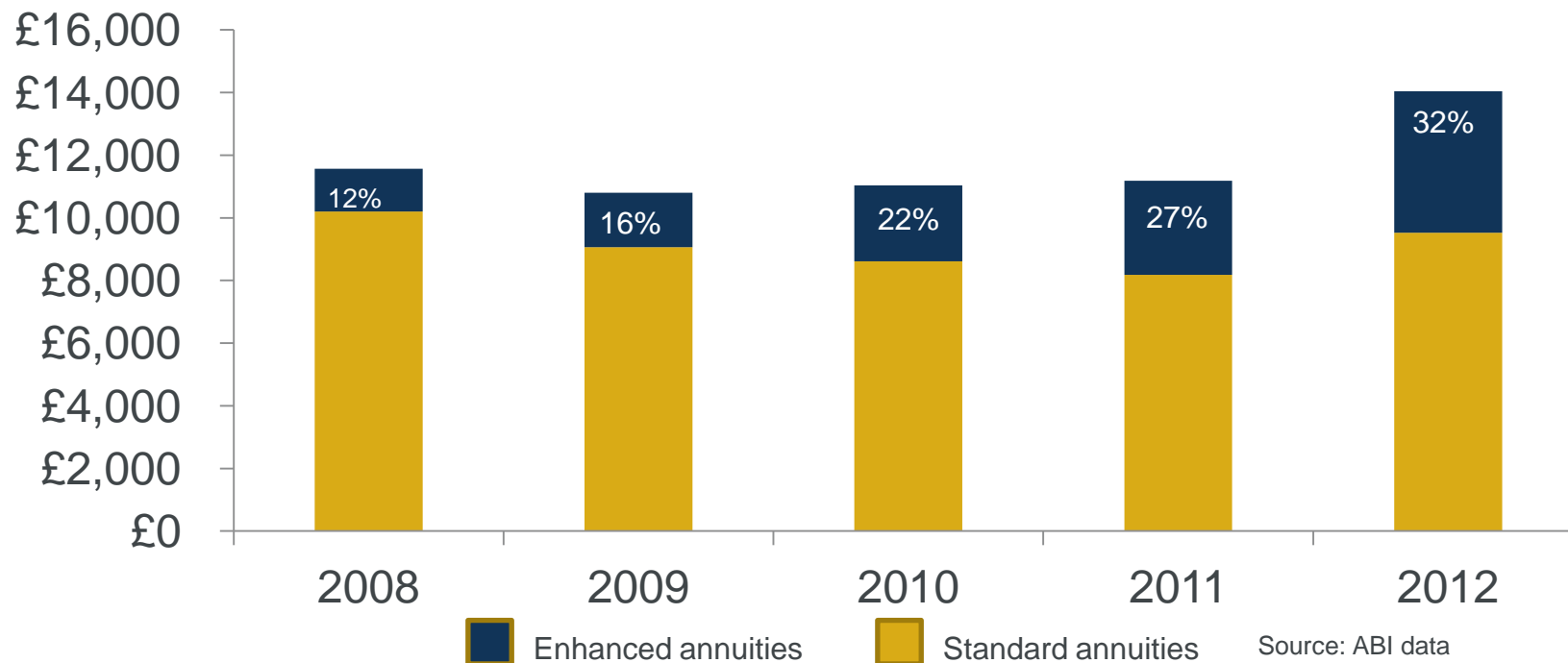
* Sample rates based on partnership assessment of severity of existing conditions compared with the best standard rate available as at the 12th March 2013. Actual rates can vary and will depend on individual circumstances. For illustration purposes only.



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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...

31 October 2013

ertise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

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:

- New:



- Traditional:



- They cover all pensioner members (no “cherry-picking” of just unhealthy lives) or potentially sub-sets of pensioner members



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)

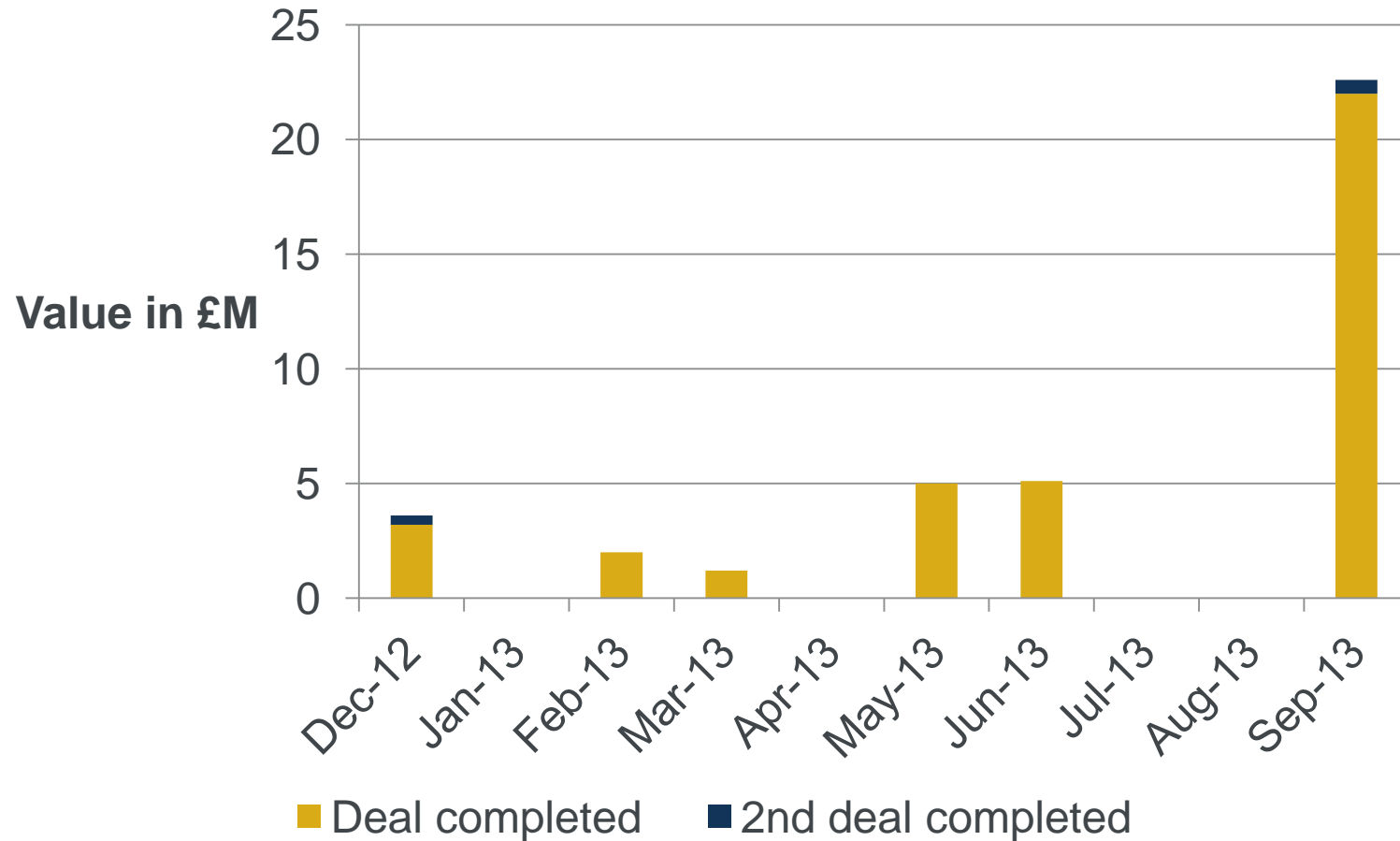


The Pro's and Con's of this approach

- 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



Deals done to date



Source: Partnership sales

For illustration purposes only



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Press coverage

Partnership completes biggest enhanced buy-in

Jack Jones

Partnership has completed a £22m medically underwritten buy-in with an unnamed scheme.

The transaction covers around 20 of the scheme's highest liability members, who account for approximately 50% of its liabilities.

The underwriting process, using health data gathered from members using a questionnaire, enabled the trustees to remove the risk at a cost below the scheme's technical reserves.

This is the eighth enhanced buy-in written by Partnership, the only provider to have completed such a deal so far. It dwarfs the previous deals which transferred approximately £15m of liabilities in total.

The lead adviser to the trustees was Hymans Robertson and the legal adviser was Squire Sanders, both of which had a long-standing relationship with the scheme.

Hymans Robertson's Alistair Russell-Smith, who is the scheme actuary to the fund, said the deal had provided a focused, cost-effective hedge.

He said: "The trustees of the scheme looked at a range of de-risking opportunities and went for this solution because of its focus on the high liability individuals; it has hedged around 50% of the pensioner liabilities despite only covering around 20 lives."

Partnership head of de-risking David Harvey said the scale of the deal, and the fact that it covered a subset of liabilities within a larger scheme, were both significant.

He said: "The nature and size of this transaction demonstrates how medically underwritten buy-ins can play a significant part in the de-risking of any size of scheme, including those larger schemes looking to remove the risk of those highest liabilities."

Hymans Robertson partner and head of buyouts James Mullins predicted the

enhanced bulk annuity market would grow rapidly, given the competitive pricing and client demand.

He said: "For trustees and sponsoring employers looking concerned about their concentration of risk, an enhanced buy-in is a tailored and cost-effective way of managing their scheme's liabilities."

"This summer, Partnership completed a £5.1m buy-in with the Plasser scheme (PP Online, 24 June - www.professionalpensions.com/2276973), Just Retirement, Legal and General and Aviva are also active in the market but are yet to announce a completed transaction."

A report by the Pensions Institute at the start of the year suggested that medical underwriting could cut the cost of buy-ins for smaller schemes by 10% (PP Online, 4 Online - www.professionalpensions.com/2241281).

Professional Pensions

ENGAGED
THE TRUSTEE MAGAZINE
INVESTOR

Partnership completes £5m Imperial enhanced buyout deal

DE-RISKING

Partnership, the annuity provider, has completed an enhanced buyout of the defined contribution (DC) section of the Imperial Home Decor occupational pension scheme. This scheme has been in wind up since October 2003 when the company was declared insolvent and was subject to a landmark legal ruling in 2011.

For the last 12 months Partnership has been working closely with both Bridge Trustees and Capita Employee Benefits, to develop a buyout solution which would see all parties – including scheme members – secure the best possible out-comes.



The innovative solution we developed allowed the trustees to discharge their liabilities.

David Harvey

This led to a deal being secured which would see the almost 140 qualifying DC members – who had been receiving interim pensions – benefit from an enhanced annuity deal worth approximately £5m. Members of the scheme who have defined benefit pensions will continue to be paid by the Financial Assistance Scheme.

David Harvey, head of de-risking solutions at Partnership,

said: "Given the history of the scheme and the unique nature of their requirements, we were delighted to be chosen to work closely with all parties. We feel that the innovative solution we developed allowed the trustees to discharge their liabilities whilst giving all members genuine choice over the shape of their pension."

Giles Orton, chairman of Bridge Trustees, said: "Due to the nature of the Imperial

Home Decor scheme, finding the right solution for its members presented us with a challenge. Therefore, we are pleased that we are able to complete this buyout which will lead to enhanced incomes for many of the schemes defined contribution members."

Kenneth Donaldson of Capita Employee Benefits said: "We feel that we have developed the right de-risking vehicle for the problems that we faced. Not only will it allow the trustees to discharge their obligations but also help to ensure that the scheme members receive the type of pension provision they had saved for."

■ www.partnership.co.uk

PensionsWorld

Medically underwritten market grows

More pension schemes are taking advantage of the growing medically underwritten bulk annuity market.

Plasser UK and Imperial Home Decor are two of the latest employers to have secured medically underwritten bulk annuity deals for their pension schemes.

Partnership, which completed the deals, said that it had written seven medically underwritten bulk annuity transactions since December.

When setting up these types of arrangements, providers analyse the health of retired

members. If they find liabilities are sufficiently skewed by members with less than average life expectancies, they can offer lower premiums to insure benefits.

This practice is particularly beneficial for small schemes, where the health of a small proportion of members can have an impact on the whole scheme.

Anne Yen, Finance

director at Plasser UK, said: "De-risking a pension scheme at below buyout cost can only be achieved on medical grounds."

"This is a complex process but by working closely with Partnership and Gallagher Employee Benefits, we managed a good balance of engagement and sensitivity with our pensioners and the process worked well. The one-page medical questionnaire was fundamental to the process and we are pleased with the outcome."

The report *A healthier way to de-risk*, published by the Pensions Institute and



Cass Business School in February, claimed that more than 5,000 small, underfunded DB schemes could make big savings when insuring liabilities using more sophisticated medically underwritten buy-in pricing methods.

The report estimated that the size of the market to be £200m, roughly a third of the size of defined benefit liabilities in the Pension Protection Fund index. Only around 140 of conventional bulk annuities are written in a normal year. ■

A simplified approach to medical underwriting

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

??? Scheme - Member's questionnaire

Personal details

Member	Title	First name	Surname	Date of birth	Gender	NI Number
Spouse/Named Dependent						

Medical details

Question	Member	Spouse/Named Dependent
What is your height?	ft ins or cms	ft ins or cms
What is your weight?	st lbs or kgs	st lbs or kgs
If you smoke manufactured cigarettes, have you smoked 10 or more cigarettes per day for the last 10 years?	Yes / No	Yes / No
If you smoke rolling tobacco, have you smoked more than 30cs or 85g per week for the last 10 years?	Yes / No	Yes / No
Have you been diagnosed with high blood pressure, requiring ongoing medication?	Yes / No	Yes / No
Have you suffered a heart attack requiring hospital admission?	Yes / No	Yes / No
Have you been diagnosed with diabetes, requiring insulin or tablet treatment?	Yes / No	Yes / No
Have you suffered from a stroke (CVA), excluding mini-strokes (TIAs)?	Yes / No	Yes / No
Have you been diagnosed with angina, requiring on-going medication?	Yes / No	Yes / No
Have you been diagnosed with cancer (excl. skin cancer and benign tumours) requiring surgery, chemotherapy or radiotherapy?	Yes / No	Yes / No
Have you been diagnosed with Parkinson's disease?	Yes / No	Yes / No
Have you been diagnosed with multiple sclerosis?	Yes / No	Yes / No
Have you taken early retirement on the grounds of ill health?	Yes / No	Yes / No

Notice of statutory rights

Under the Access to Medical Reports Act 1988 and the Access to Personal Files and Medical Reports (Northern Ireland) Order 1991 and the Access to Health Records and Reports (Isle of Man) Act 1993, Partnership reserves the right to apply for a medical report from any doctor who has at any time attended you. The declaration gives you your consent to apply for such a report if we need to.

Your rights

- You do not have to give your consent but, without it, Partnership will not be prepared to accept your pension annuity application.
- If you do give your consent, you can indicate whether or not you wish to see any report before it is sent to us.

If you indicate that you do not wish to see any report:

- The doctor can forward it to us immediately and we should be able to process your Pension without delay.
- You can, however, still change your mind at any time within six months and notify the doctor that you wish to see the report. If the doctor has already forwarded the report to us, he/she will send you a copy and, if not, he/she will give you 21 days to arrange to see it.

supplying you with the report.

you if we apply for one and will inform the doctor
to see it.
sending it to us.
report you consider incorrect or misleading and can

he/she considers would be likely to cause serious
at would indicate his/her intentions towards you.
to disclose information about, or the identity of,
person has consented or the information relates to,
doctor does not let you see any part of the report

Life Assurance Company Limited (Partnership) to
or research and statistical purposes
information with other insurers and reinsurers. These

tion except to prevent fraud or if required to do so

signing this form you are consenting for
formation as detailed in the above questionnaire. I
I above.

on any doctor who, at any time, has attended me,
is consent may be treated as the original.
on this form is true and complete.

I sent to Partnership (*delete as appropriate)

Date: _____

I sent to Partnership (*delete as appropriate)

_____ Date: _____

Spouse/Named Dependent

Mr's name

SS

none No

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- 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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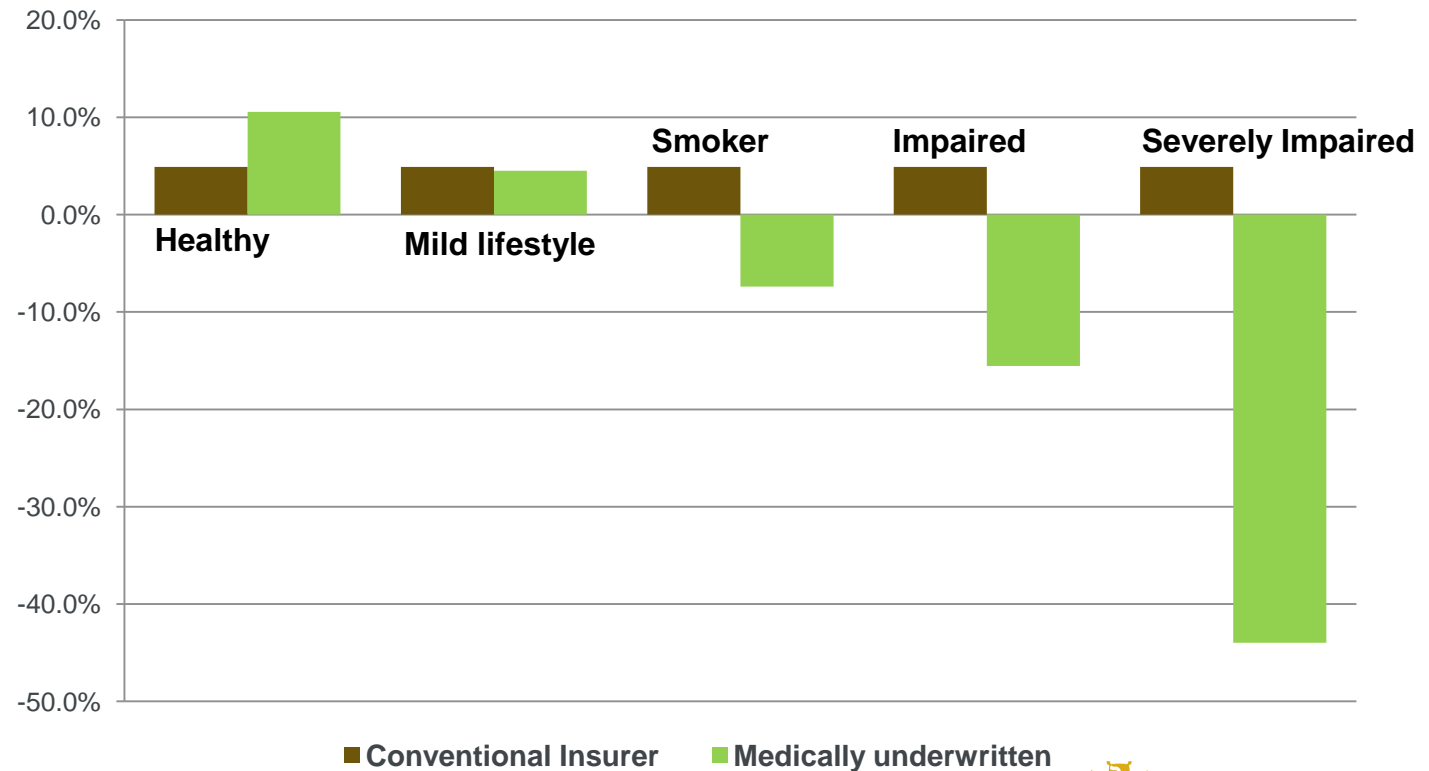
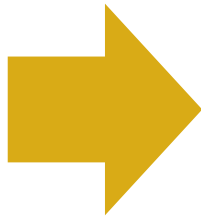
Quotation process for a binding quotation

- The Trustees send the one page health questionnaires to pensioners for completion by them and their spouse
 - This is the only member contact -there will be no visits, no phone calls etc.
- The forms can be returned either via the EBC or sent directly to the insurer and assessed by underwriters. In some instances they will request a GPR (typically larger individual liabilities)
- On completion of the underwriting exercise (which usually takes about six weeks) the insurer issues a binding quotation for all pensioners, whether they qualify for an enhanced buy in or not
- The quotation is based upon a true picture of pensioner longevity.....might not always be cheaper!



Benefits

Individual member – potential savings relative to technical provisions



Source: Partnership data and calculations, LCP;
Pension Buy-ins, Buy-outs and Longevity Swaps
2013

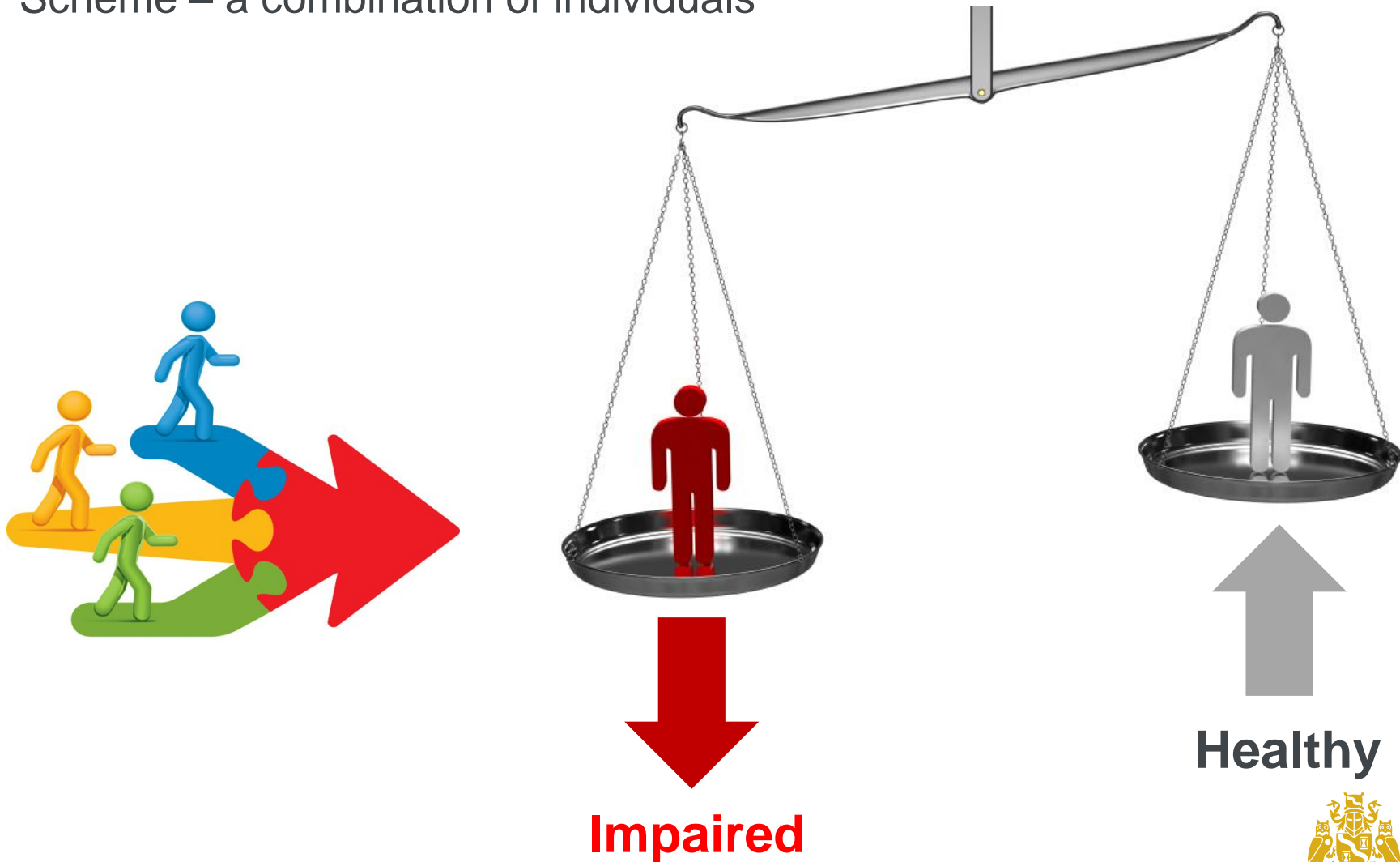
For illustration purposes only.
Indicative ranges for effect of individual
conditions



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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

- 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

- 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

- 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



Case Study 2

Securing a tranche of pensions in payment

Situation

- sponsor is in the services industry throughout the UK
- Scheme has a significant concentration of risk held in the top 20 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

- Simple 1 page medical questionnaire sent to all 20 pensioners
- 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

- 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



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!



Thank you



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Thank you



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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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