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Communicating longevity to pension scheme trustee boards

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Challenges for the actuary

Large range of:

- risk profiles
- longevity management approaches
- user knowledge and understanding
- airtime available



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Risk profiles

- Assets
- Covenant
- Benefit design (which may change)
- Member options (legislative changes)
- Population size
- Population heterogeneity
- Data availability and quality

Advice needs to be proportionate to the risk



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Longevity management approaches

- May have no strategy
- Incentive exercises – transfers; pension increases
- Annuitisation
- Longevity swaps – bespoke; index
- Medically underwritten annuities
- Captive insurers

Advice needs to be consistent with the sophistication of the strategy



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User knowledge and understanding

- Despite the statutory Trustee Knowledge & Understanding requirement, few trustees have a great depth of knowledge of longevity risk
- Occasionally there are individual trustees with specialist knowledge of, for example, statistics (data mining etc), modelling or epidemiology

Advice is best pitched at a level suitable for the group as a whole.



Airtime available

- Longevity discussions often squeezed by other agenda items
- Rare to discuss longevity outside the funding valuation process until there is a transaction (but different issues do arise, for example, for actuarial factors used in benefit calculations)
- Small funds have too little data for a scheme specific approach
- Big funds may find Generalised Linear Modelling worthwhile at least once

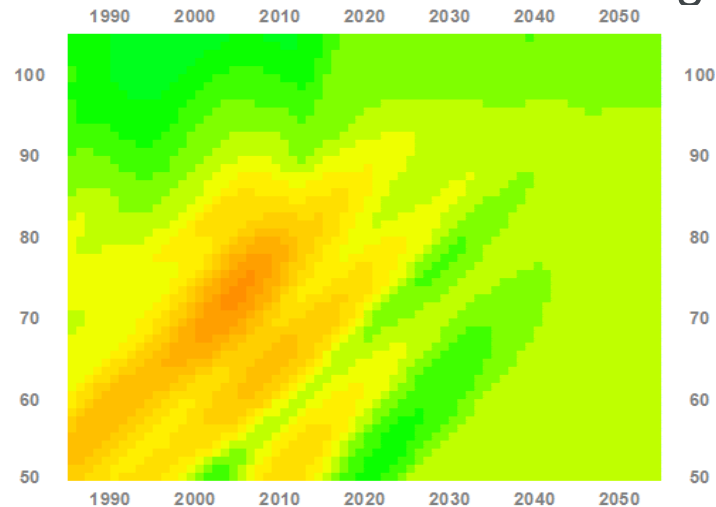
Use trustee training days to discuss general points about longevity risk



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Suggested approach

- Play to your audience's strengths: in general use scenario analysis to create human interest.
- Heat maps can derail a discussion about longevity



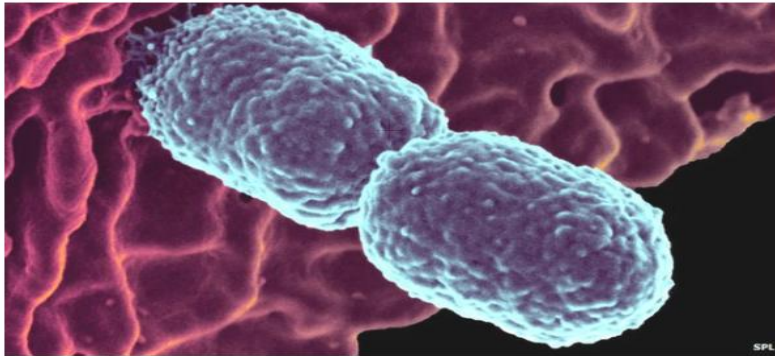
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Suggested approach continued

- Referring to recent media articles can really engage trustees

Antibiotic resistance rise continues

By James Gallagher
Health editor, BBC News website



The Telegraph

Home Video News World Sport Finance Comment Culture Travel Life Women F
Politics General election 2015 Investigations Obits Education Science Earth Weather
Science News Dinosaurs Space Night Sky Evolution Picture Galleries Science Video

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Breast cancer breakthrough as Cambridge University finds gene behind killer disease

Cambridge University and the Wellcome Trust's Sanger Institute have discovered the gene responsible for triple negative breast cancer



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Suggested approach continued

- Explain what's needed under scheme documents, legislation, regulatory guidance, decisions (such as: how to segment, base tables, improvements)
- Explain risks: basis risk, trend risk, idiosyncratic risk, including relevance (small scheme v large scheme etc)



Suggested approach continued

- Explain what “best estimate”, “prudence” might mean in context
- Provide relevant data (e.g. info from longevity swap pricing)
- Quote reasonable range and explain the arguments/beliefs that would point in one direction rather than another
- Explain “strong” features in the range of plausible assumptions such as trend reversal



Suggested approach continued

- Trustees often argue down longevity risk by reference to obesity etc (in my experience this is particularly true in Scotland)
- I have even heard actuaries criticised for past failures to anticipate longevity improvements and in the same breath described as “cautious” when it comes to the latest advice
- Important to draw out the uncertainty: analogies (e.g. to weather forecasting) can be helpful

