

## Current Issues in Pensions The Developing Buy-Out Market

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*"People always live for ever when there is an annuity to be paid them. An annuity is a very serious business; it comes over and over every year, and there is no getting rid of it."*

*Jane Austen (Sense and Sensibility - 1795)*

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## The Old Bulk Purchase Annuity Market

*"For many years, there were only two UK insurers who would quote, and not always as many as two, and then it was a slow and cumbersome process"*

### Reactive strategy

- Small schemes
- Insolvent wind-ups
- Compulsory purchase



### A product of last resort

- Inflexible products
- Limited capacity
- Lengthy quotation process
- Perceived duopoly price

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Demand for a new market



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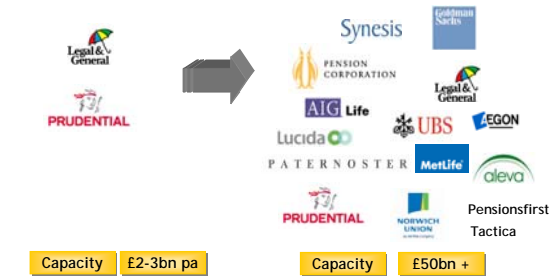
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The new market



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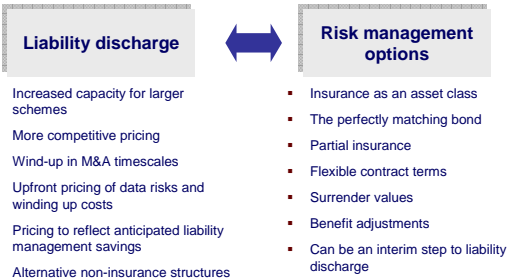
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Innovation increases the range of options



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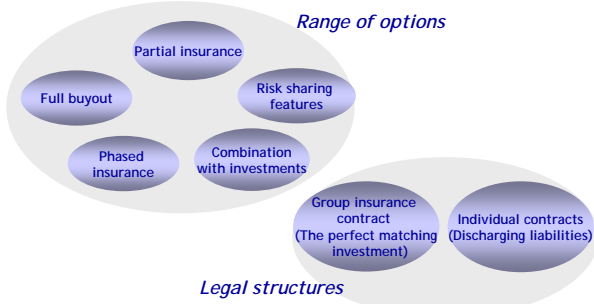
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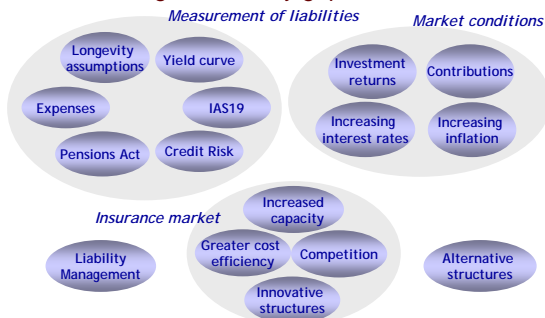
## Range of insurance solutions



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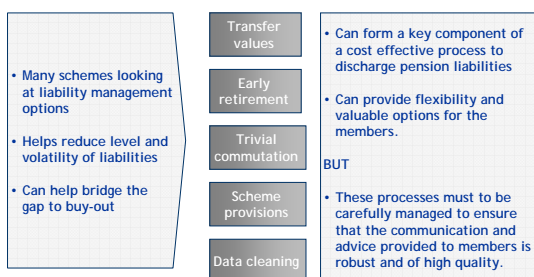
## The narrowing affordability gap



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## Liability management options

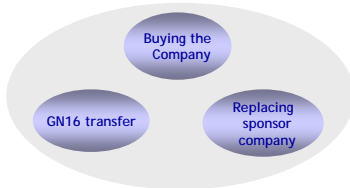


The potential savings from liability management can be factored into the buyout price up-front or through a profit share

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## Alternative structures



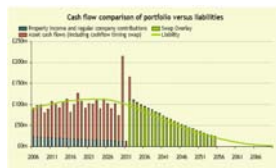
- Potentially an arbitrage between Pension and Insurance Regimes
- Security depends upon covenant of new sponsor and timing of insurance
- Rapid execution to achieve a clean-break (including data and expense risks)
- Could be an interim step to full insurance

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## Capital market solutions

- Investment strategy
- Interest rate and inflation hedges



LifeMetrics

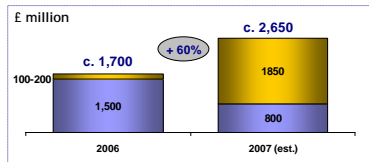
Portfolio of q-Forwards  
Standardised Hedge Building Blocks

Ages 50-59 Male	Ages 60-69 Male	Ages 70-79 Male	Ages 80-89 Male
Ages 50-59 Female	Ages 60-69 Female	Ages 70-79 Female	Ages 80-89 Female

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## Recent examples of solvent insurance transactions



- Pipeline continues to grow
- "...2008 is likely to be the year of the pension buy-out"

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### Issues to consider

- Ensure consistency of terms
  - Terms for commutation to tax free cash
  - Early and late retirement factors
  - The level of transfer values promised
  - Other member options
- Security offered
- Liability management options
- Structure of contract
  - What are the main objectives?
  - Risk management or transfer?
  - Speed of execution
- Administration and communication
  - Who retains control and responsibility?

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### Summary

- Longevity is increasingly becoming the key risk for pension schemes
- Capital markets may offer some protection, but limited scope and imperfect matching
- At present insurance represents the only perfect matching asset
- The insurance environment offers the gold-standard by which other methods of transferring pension liabilities should be judged
- Far more flexibility is now available to manage or transfer pension liabilities
- Liability management can help to reduce the cost
- Alternative structures may offer a lower cost, but at the price of lower security...unless benefits are ultimately insured in UK regime

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***"I advise you to go on living solely to enrage  
those who are paying you annuities"***

*Voltaire (1694 – 1778: died age 83)*

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