

The Actuarial Profession

making financial sense of the future

Current Issues in Pensions

The Developing Buy-Out Market

Daniel Harrison

Synesis Life

21 February 2008

The Actuarial Profession

making financial sense of the future

“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)

Synesis

The Actuarial Profession

making financial sense of the future

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

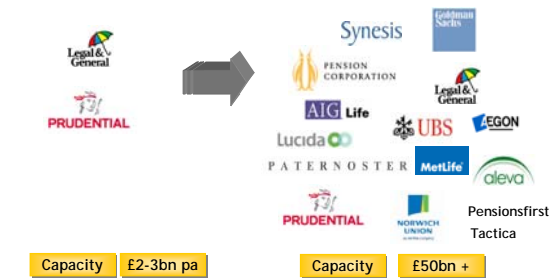
- Inflexible products
- Limited capacity
- Lengthy quotation process
- Perceived duopoly price

Synesis

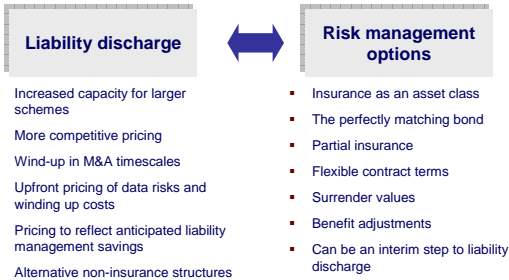
Demand for a new market



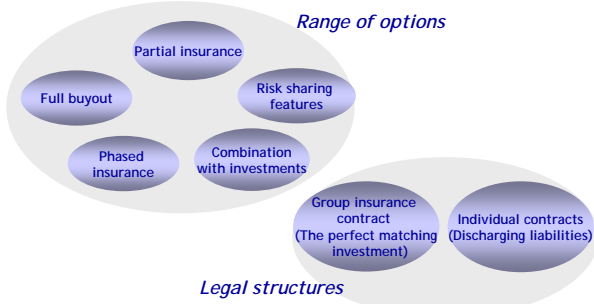
The new market



Innovation increases the range of options



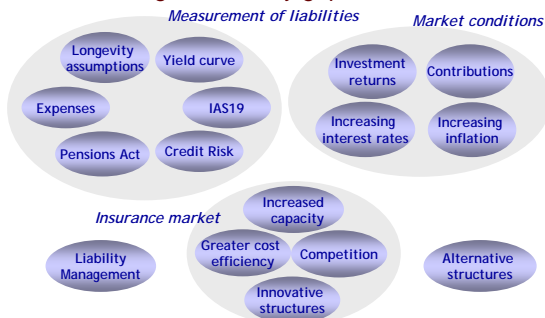
Range of insurance solutions



Synesis

The Actuarial Profession
making financial sense of the future

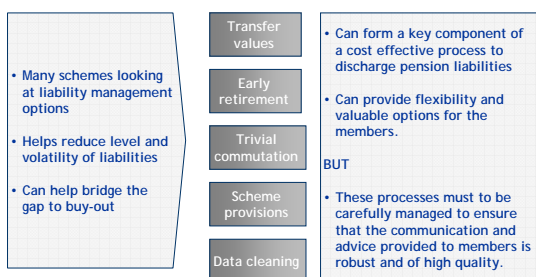
The narrowing affordability gap



Synesis

The Actuarial Profession
making financial sense of the future

Liability management options

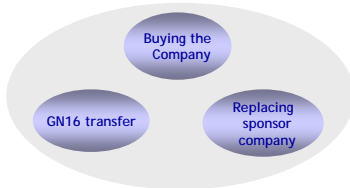


The potential savings from liability management can be factored into the buyout price up-front or through a profit share

Synesis

The Actuarial Profession
making financial sense of the future

Alternative structures



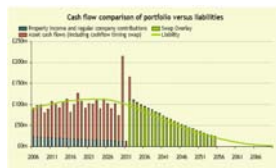
- Potentially an arbitrage between Pension and Insurance Regimes
- Security depends upon covenant of new sponsor and timing of insurance
- Rapid execution to achieve a clean-break (including data and expense risks)
- Could be an interim step to full insurance

Synesis

The Actuarial Profession
making financial sense of the future

Capital market solutions

- Investment strategy
- Interest rate and inflation hedges



LifeMetrics

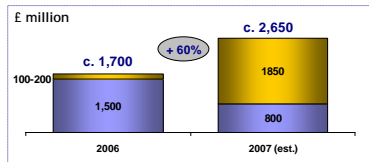
Portfolio of q-Forwards
Standardised Hedge Building Blocks

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

Synesis

The Actuarial Profession
making financial sense of the future

Recent examples of solvent insurance transactions



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

Synesis

The Actuarial Profession
making financial sense of the future

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?

Synesis

The Actuarial Profession
making financial sense of the future

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

Synesis

The Actuarial Profession
making financial sense of the future

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

Voltaire (1694 – 1778: died age 83)

Synesis

The Actuarial Profession
making financial sense of the future