The Actuarial Profession
making financial sense of the future

Current issues in pensions
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Insurance Mechanics

How Insurers price

- Best Estimate Liabilities
  - Mortality
  - Asset Return
  - Inflation expectation
  - Expenses
- Capital
  - Insurers own funds
  - More uncertainty = more capital = higher price
- Combined together gives the insurer's price

Pooling – Why small schemes should buyout

Mortality

- Base Reserve = £2.6m
- Long Cohort = £2.8m
- Two key members live to 95 – liability = £2.8m

Spouses Age Gap

- Two key members have spouses 10 years younger the liability is 4% higher than base

Pooling – How large schemes lower the buyout cost

- Lower uncertainty = Lower capital = Lower price

- Schemes can influence key assumptions
  - Base level mortality
  - Marriage proportion
  - Spouses age difference

- Good quality data is key

- In totality these factors can contribute 2% - 3% to the price

A Final Example

Marriage Statistics

- Typical scheme assumption between 70% - 90%
- Small schemes the actual rate could be 0% - 100%
- Low downside risk
- High upside potential benefit
- Lower buyout cost

Scheme Design

Longevity Risk

Benefits	Base	Long Cohort	Increase
Increasing	£2.60m	£2.80m	7%

Scheme Design

Longevity Risk

Benefits	Base	Long Cohort	Increase
Increasing	£2.60m	£2.80m	7%
Non-increasing	£2.60m	£2.68m	3%

Financial Services Compensation Scheme (FSCS)

- Set up under the Financial Services and Markets Act 2000
- UK's compensation fund of last resort for customers of firms authorised by the FSA
- Pays compensation (90% of policy value) in the event a regulated insurance company can not make its payments
- Covers buy-in and buyout contracts

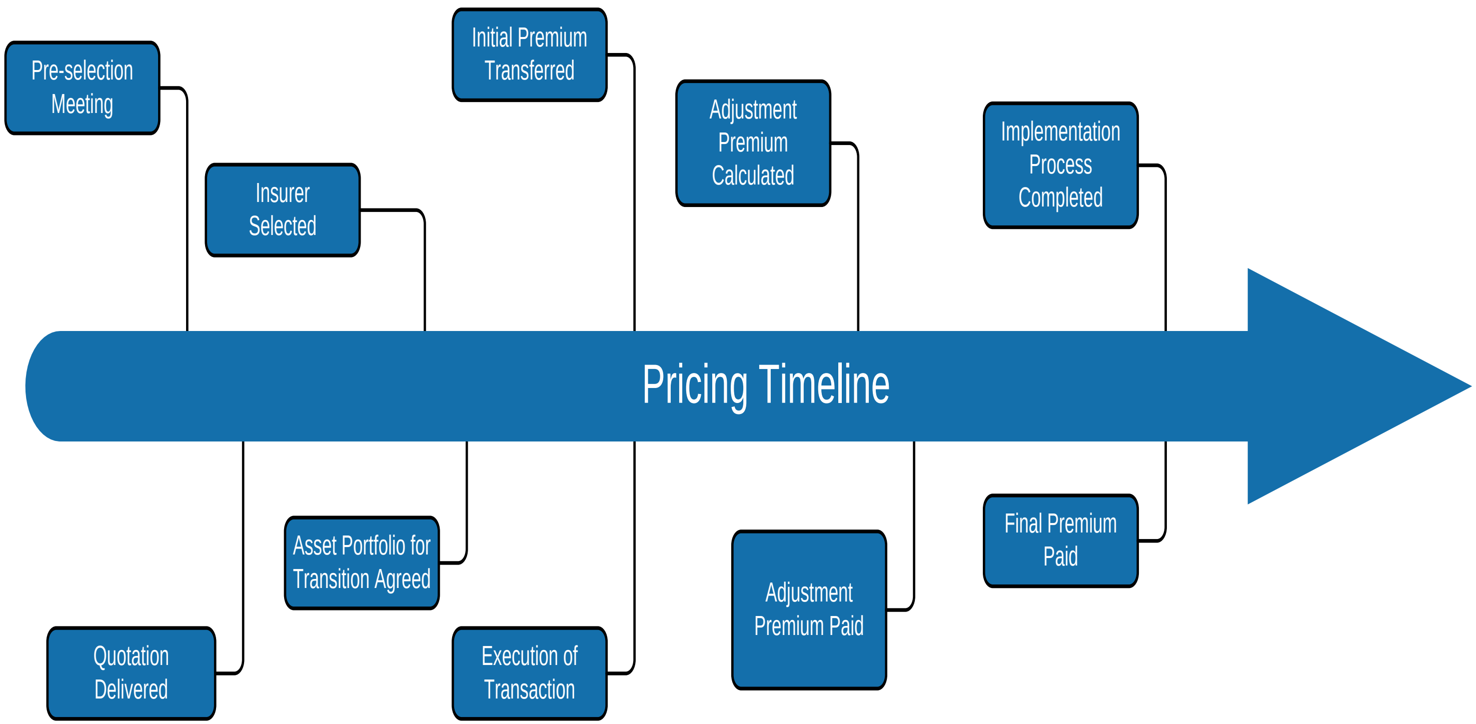
Solvency II

- New regulatory requirements for all insurers operating in EU
- Objective is to standardise the regulation across the EU to facilitate a single insurance market
- Comes into force on 1 January 2013
- Solvency II requirements:
  - Pillar 1: calculation of the capital requirements
  - Pillar 2: risk management and governance procedures
  - Pillar 3: greater transparency for the regulator and public
- Requirement to hold enough capital to meet next 12 months obligations with 99.5% probability

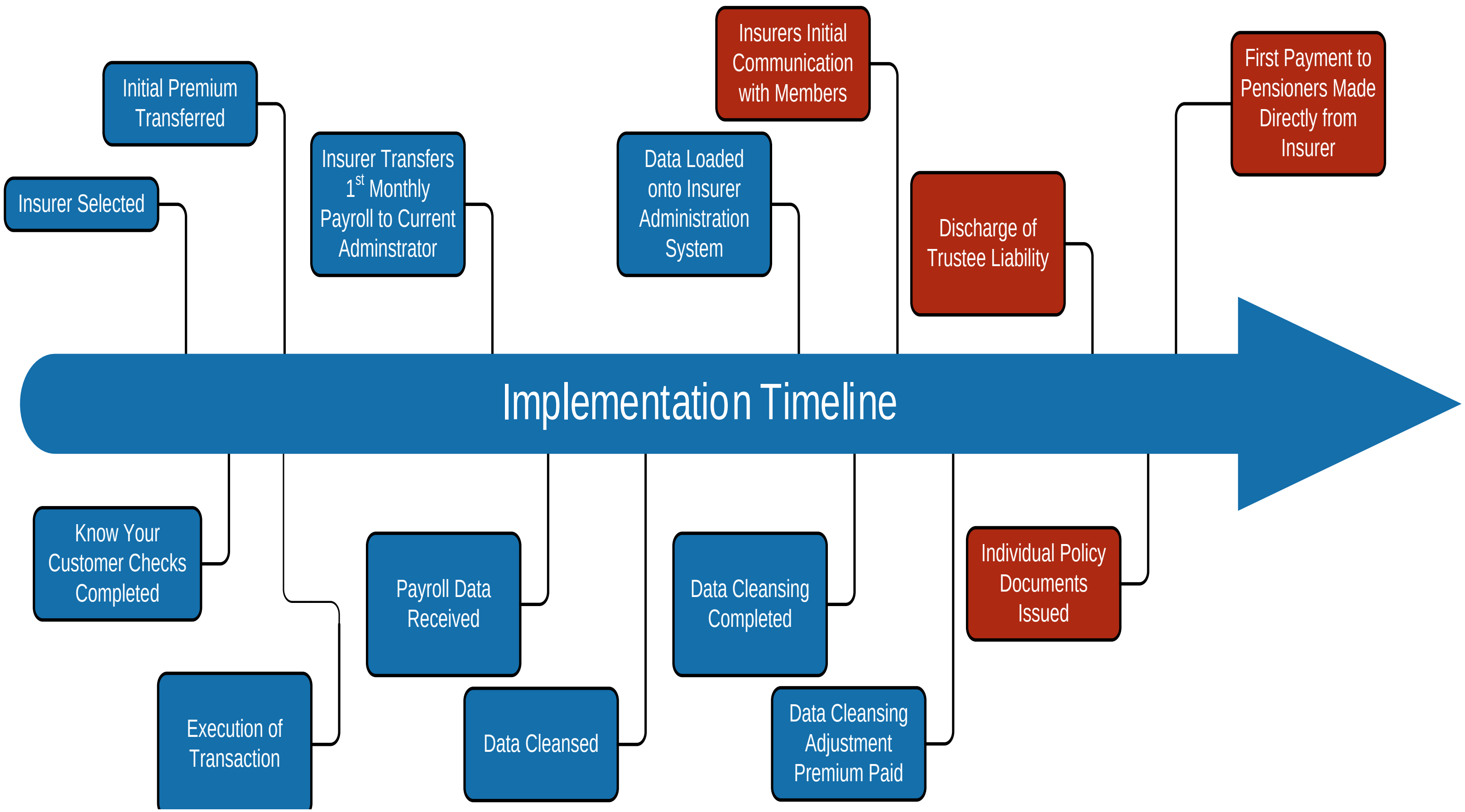
Solvency II

- Insurance companies will be required to calculate their capital requirements in one of two ways:
  - Application of the standard formula
  - Development of an internal model
- Fifth round of consultation completed in September 2010 and industry awaits results
- Broad range of outstanding issues
- Most insurers have now reflected increased capital requirements in their pricing
- We don’t expect further step change in pricing in January 2013

Quotation Process



Key Stages of a buy-in & buyout



Questions