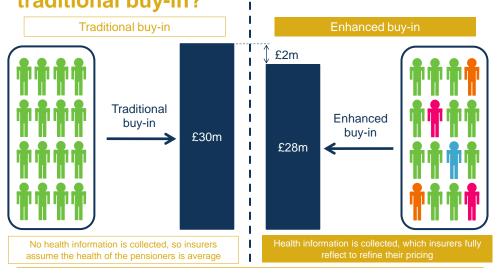


#### **Concentration of risk**

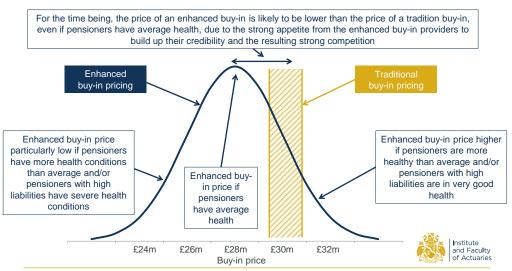
- Typically, 50% of a DB pension scheme's liability is made up from only 10% of the members. This dynamic creates a significant concentration of risk:
  - the experience of this small group of members will drive pension scheme's finances
  - in particular, significant risk that they live longer than expected
- A medically underwritten buy-in ("an enhanced buy-in") (a bulk annuity policy, with premium that takes account of the health of your members) is a new way of tackling this concentration of risk



# How is an enhanced buy-in different from a traditional buy-in?



## **Enhanced buy-in pricing**



## What are the benefits of enhanced buy-ins

- Low cost of investigating whether beneficial for you
  - insurance company bears the cost of gathering health information as part of quotation process
- Our experience is high member response rates in excess of 90% of pensioners providing health information
- The fact that it's a new market, means there is a significant early mover advantage during the first half of 2014

Enhanced buy-in prices are currently close to Technical Provisions and around 10% cheaper than a traditional buy-in



#### **Enhanced buy-in providers**

Provider	Background	Buy-in deals to date
partnership seeing retirement differently	UK's second largest provider of enhanced annuities to DC members (£800m of annuity revenue for FY 2011)  Entered bulk annuity market for DB schemes in 2012	11 enhanced buy-ins     Covering c£90m of liabilitie
justretirement	UK's largest provider of enhanced annuities to DC members (£1,200m of annuity revenue for FY 2011/12)  Entered bulk annuity market for DB schemes in 2013	3 enhanced buy-ins     Covering c£35m of liabilities
Legal &\ General	Multi-line insurer and longest established insurer in traditional buy-in market – covering all transaction sizes     Experience of medically underwritten annuities for DC members and now quoting on enhanced buy-ins	No enhanced buy-ins     99 buy-ins covering £1.7br     of liabilities in year to Sept     2013
AVIVA	Multi-line insurer and established insurer in traditional buy- in market – currently focussing on sub-£50m buy-ins     Experience of medically underwritten annuities for DC members and now quoting on enhanced buy-ins	No enhanced buy-ins     37 buy-ins covering £200m     of liabilities in year to Sept     2013     Institute     and Faculty     of Actuaries

#### How health information is obtained

Letter to pensioners

Obtaining more detail on any health conditions

Information shared with insurers

Underwriting

- 15 short questions in relation to their health / lifestyle;
- permission for a 15 minute telephone conversation to discuss this matter in more detail; and
- permission to obtain a GP report from the member's doctor.

For members who have given their permission:

- telephone pensioners who have high liabilities and/or whose responses indicate a health condition;
- further reassure pensioners on the background; and
- GP reports obtained.

The third party who has gathered all of the medical information then shares this in a consistent format with the insurance companies who are being asked to provide a quotation.

Insurance company providers then use the health information obtained to establish their specialist view of each pensioner's life expectancy and determine their buy-in quotation accordingly



## **Background to the transaction**

- Sponsor is in the UK services industry
- Significant concentration of risk, with 17 members accounting for 50% of pensioner liability
- Known health issues for several of these large liabilities
- A simple one page questionnaire was used to gather medical evidence
- Decided to approach one insurer to investigate an enhanced buy-in



## **Key facts**

- Partnership's PA Lite form was used with simple yes/no questions and consent to obtain a GP report (member and spouse)
- The response rate to the questionnaire was just under 90% (15 of 17), covering 90% of liability, with 80% of these received within 2 weeks
- GP reports were requested based upon size of liability and/or responses to the questionnaire
- All medical data incorporated into pricing assumptions





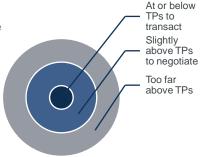
### **Targeted pricing**

 Bespoke technical provisions (TP) calculations were performed for this cohort of members

Clear target to aim at, and the premium came in below TPs

 How is such a saving achieved?
 Look at individual annuity uplifts and apply them in a bulk context

 Partnership use 19 years of medical and mortality data to assess life expectancy





#### Fair value

- The Scheme Actuary was able to advise that the medically underwritten quotation was fair value
- Dealing with a single insurer was essentially a trade off between competitive tensions and desire to do a quick, simple and fair value deal
- Covenant review of Partnership was undertaken by the Trustees
- The role of the adviser/Scheme Actuary is key in guiding the Trustees and sponsor through the process





## Individual annuity potential uplifts

Health or lifestyle condition diagnosed or declared within the last 6 months	Partnership uplift rate*
Cancer	73.5%
Type I diabetes	19.5%
Heart Attack	18.0%
Smoker	17.9%

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



<sup>\*</sup> For illustration purposes only. Indicative ranges for effect of individual conditions





Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

