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Medically underwritten bulk annuities

James Mullins
Hymans Robertson

Andy Morley
Partnership Assurance

18 February 2014



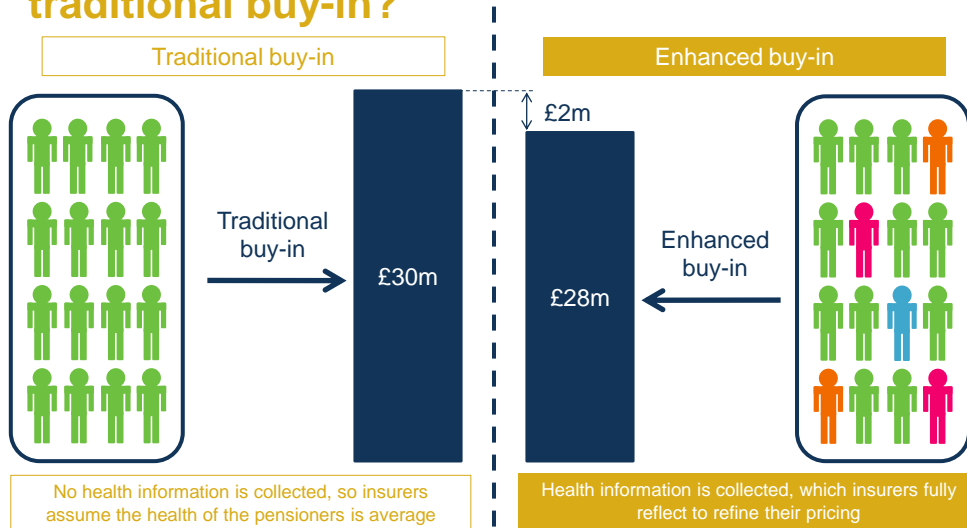
Concentration of risk

- 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



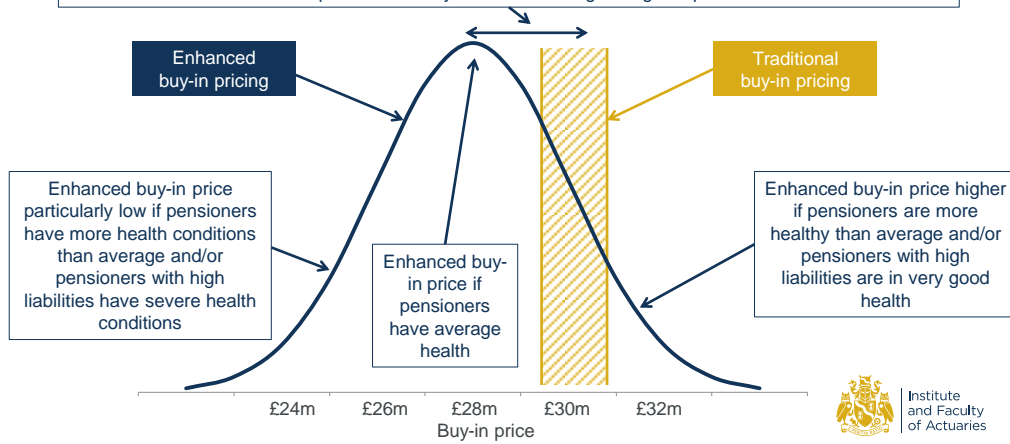
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How is an enhanced buy-in different from a traditional buy-in?



Enhanced buy-in pricing

For the time being, the price of an enhanced buy-in is likely to be lower than the price of a traditional buy-in, even if pensioners have average health, due to the strong appetite from the enhanced buy-in providers to build up their credibility and the resulting strong competition







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

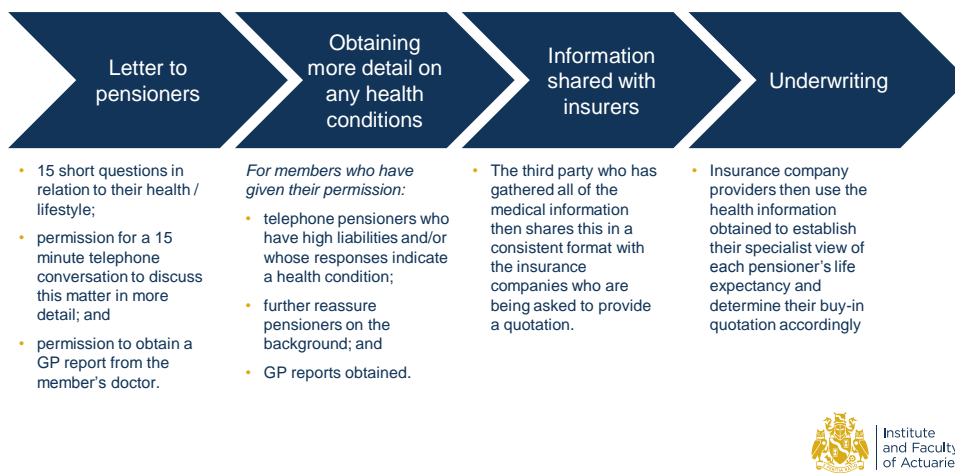


Enhanced buy-in providers

Provider	Background	Buy-in deals to date
	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 11 enhanced buy-ins • Covering c£90m of liabilities
	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 3 enhanced buy-ins • Covering c£35m of liabilities
	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • No enhanced buy-ins • 99 buy-ins covering £1.7bn of liabilities in year to Sept 2013
	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • No enhanced buy-ins • 37 buy-ins covering £200m of liabilities in year to Sept 2013



How health information is obtained



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

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

* For illustration purposes only.
Indicative ranges for effect of individual conditions



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11 February 2014

Questions

Comments

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.



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