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Insurer's views on the post-budget landscape

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Origination and Structuring, Bulk Annuities,
Scottish Widows

Agenda

- The landscape
- What changed?
- Impact on DB scheme member behaviour
- Impact on DB scheme attitudes towards insurance
- Insurer views on member options exercise
- Summary

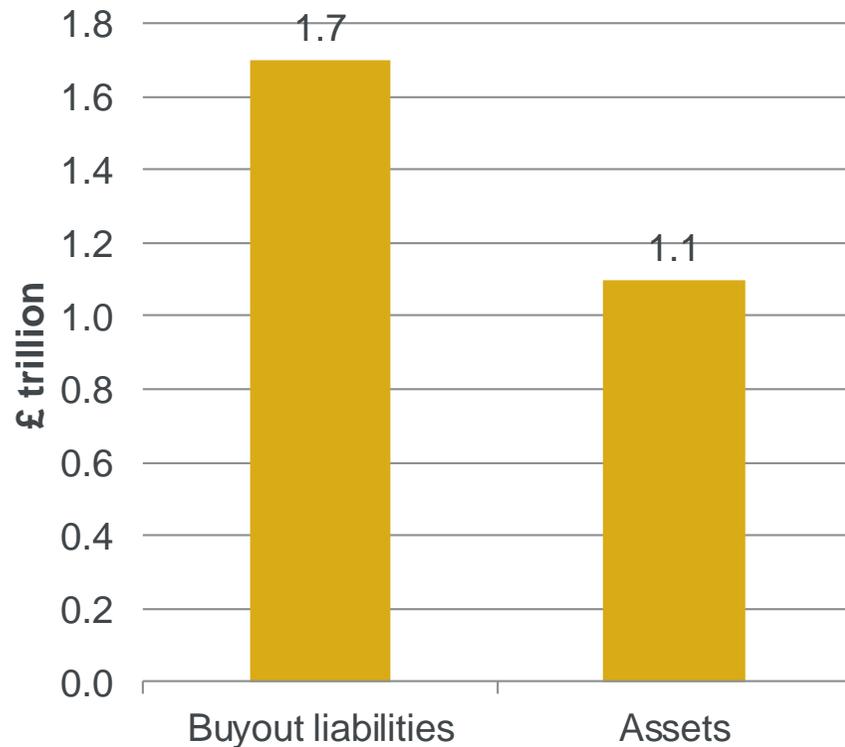


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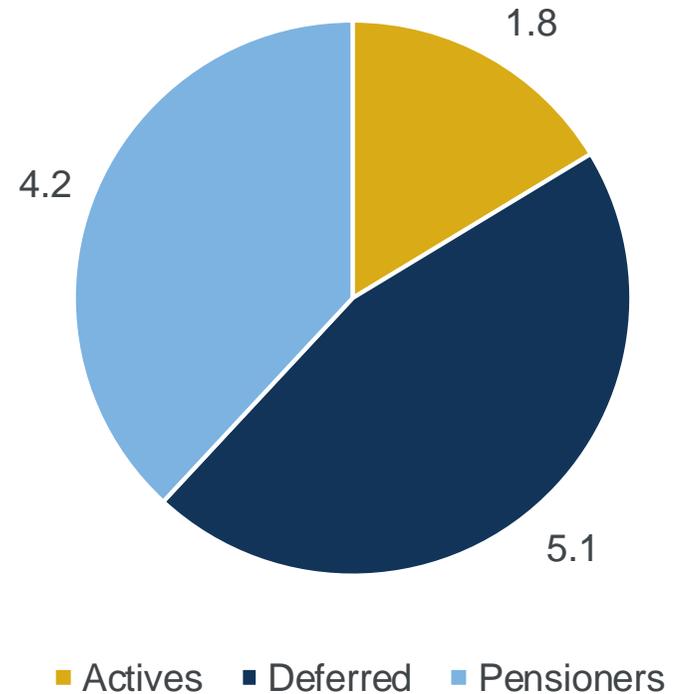
The bulk annuity market landscape

Market overview – key facts and figures

31 March 2014 funding position of DB scheme universe



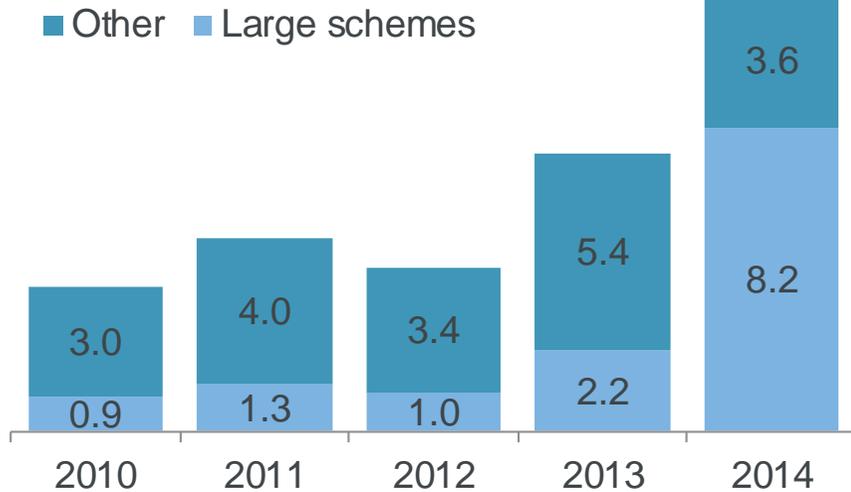
31 March 2014 DB scheme membership (millions)



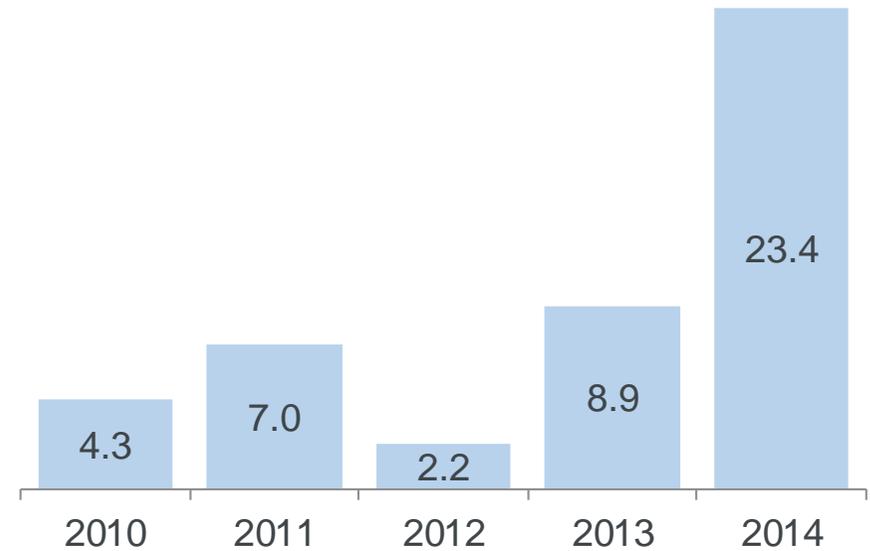
Source: PPF Purple Book 2014 and 2010

Market demand

**Bulk Annuity market
(£bn of premium)**



**Longevity market
(£bn of liability hedged)**



Source: Scottish Widows analysis

Market supply





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What changed?





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Impact on DB scheme member behaviours

Things we do know

Historical transfer value take-up rates are very low

People like money

Availability of cash increases transfer value take-up rates

There are many more options in the DC world now

Current interest rates are very low

Other factors that will influence behaviour

Other pension arrangements

Other sources of income

Member engagement

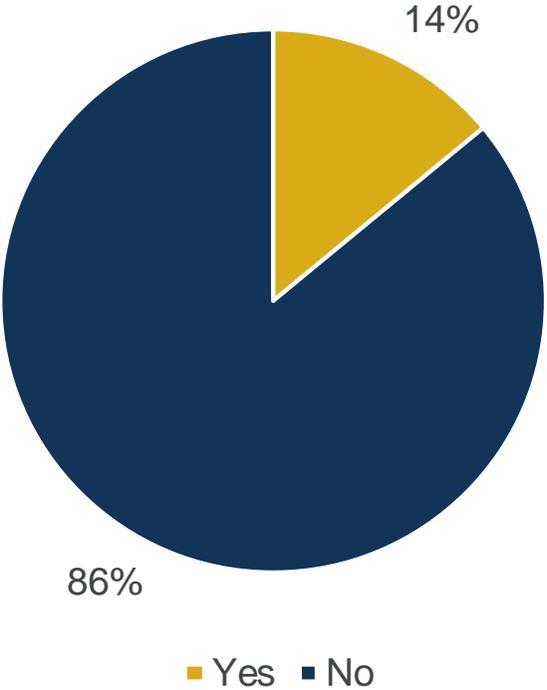
Member decisions



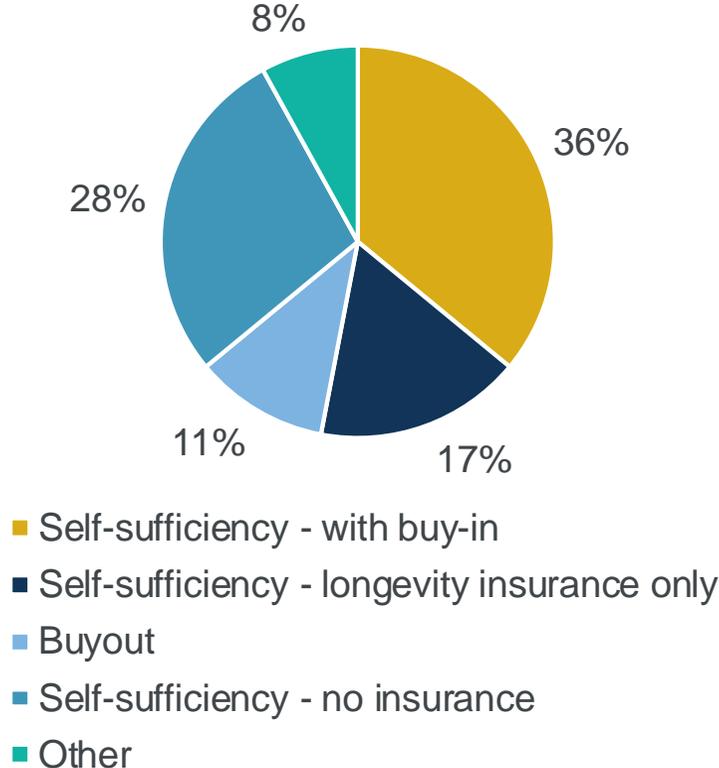
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Impact on DB scheme attitudes towards insurance

Will the Budget flexibilities introduced in 2014 affect your de-risking timetable?



What is the long-term objective of your scheme?



Source: De-risking journeys of large pension schemes – published February 2015



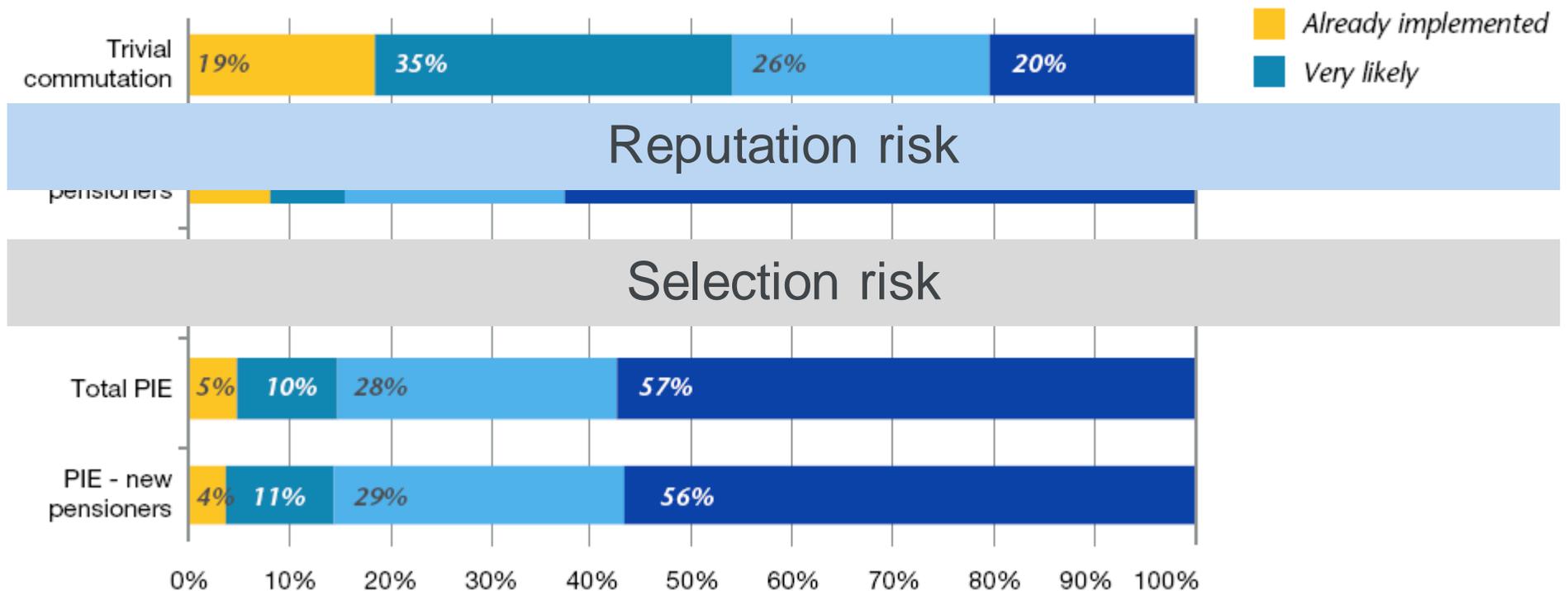
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Insurer views on member options exercises

Insurer response to increase in member options exercises

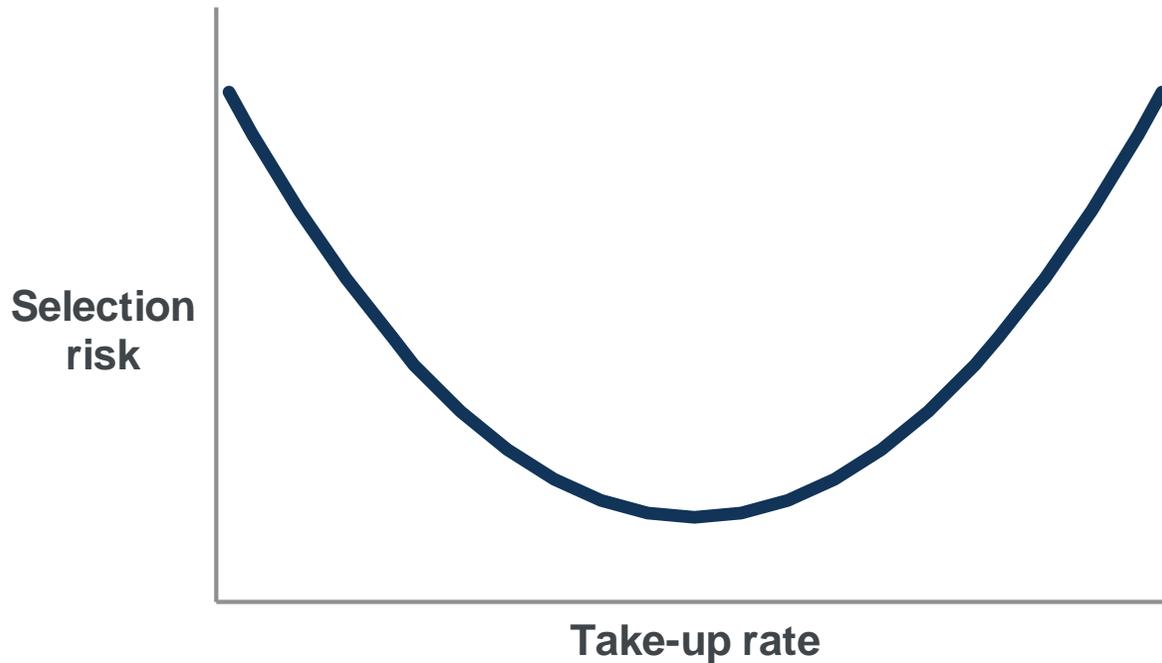
Chart 15 – Liability management

What is your attitude towards the following strategies over the next 12-24 months?



Source: Aon Global Pension Risk Survey 2015

Assessing selection risk



Other factors

Level of offer

Process

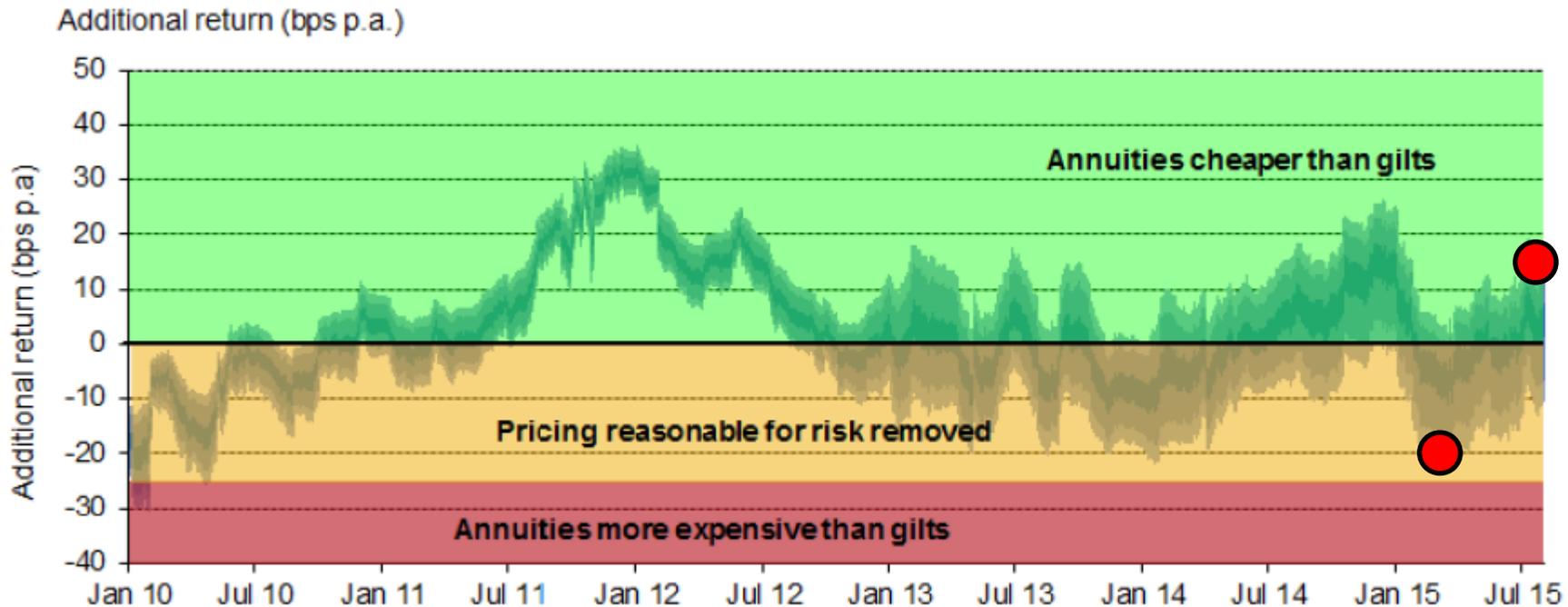
Members included

Materiality

Decision making

The importance of market timing

Pensioners: typical range of best prices relative to gilts



The graph shows how the implied yield underlying pensioner pricing has changed relative to the prevailing yield on gilts. In the green zone, pricing is lower than the cost of meeting the liabilities from a matching gilt portfolio.

Source of Chart: Aon Hewitt



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Summary

Summary

- Demand and supply for pension scheme insurance is high
- The 2014 Budget creates opportunities and challenges for schemes, employers and members
- Predicting member behaviour after April 2015 is difficult
- Schemes are not expecting a major impact on their de-risking journeys
- Liability management is not a barrier to meeting long term objectives through insurance



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 presenter.