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Insurer's views on the post-budget landscape

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Agenda

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

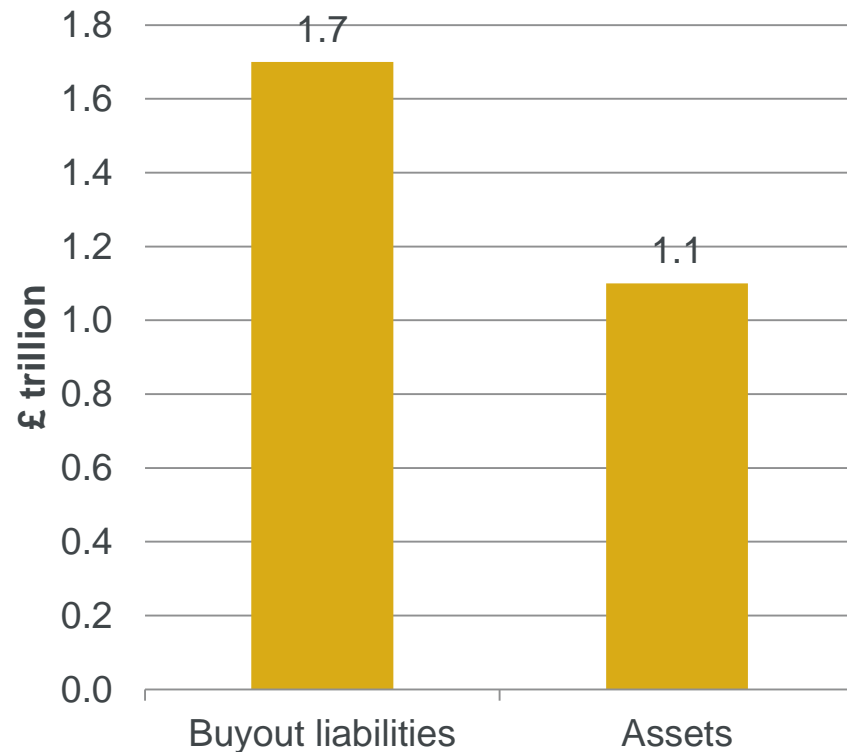


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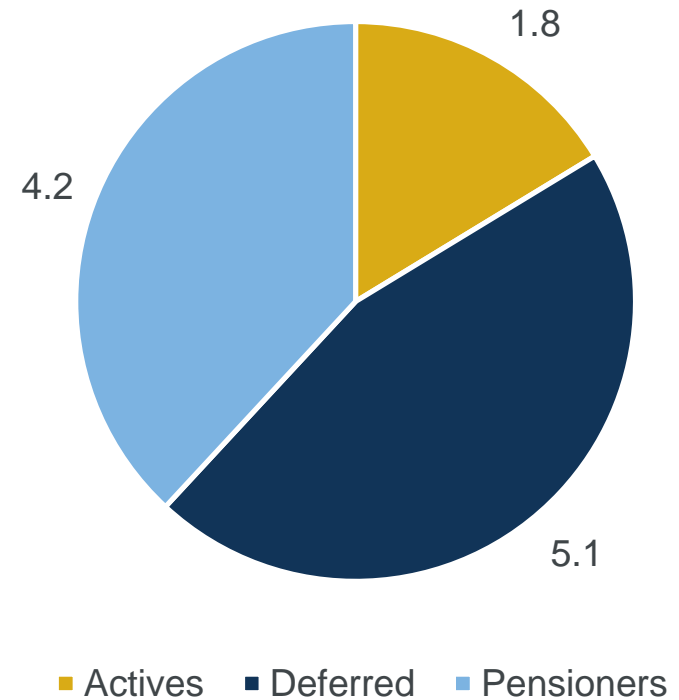
The current landscape

Market overview – key facts and figures

31 March 2014 funding position of DB scheme universe



31 March 2014 DB scheme membership



Source: PPF Purple Book 2014 and 2010

Market demand

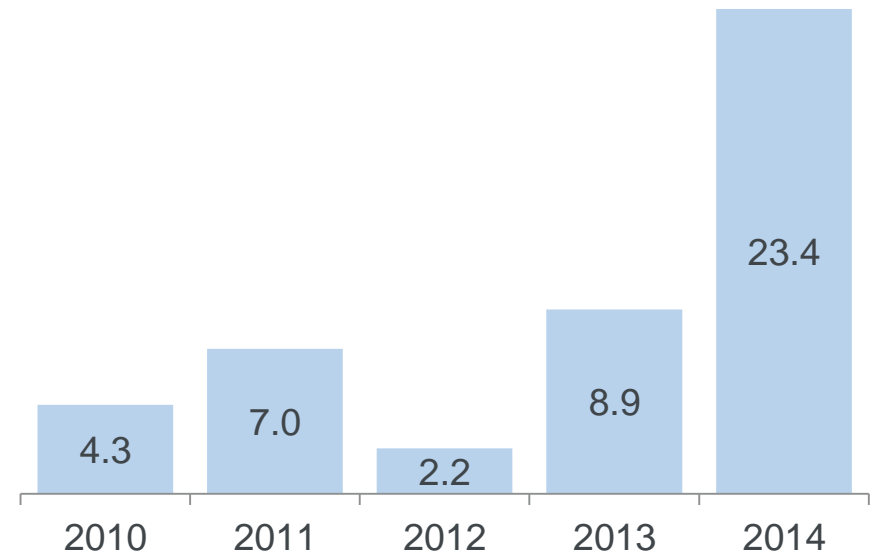
**Bulk Annuity market
(£bn of premium)**



Largest amount of Bulk Annuities

- ICI Pension Fund – £3.6bn
- TRW Pension Scheme – £2.5bn

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



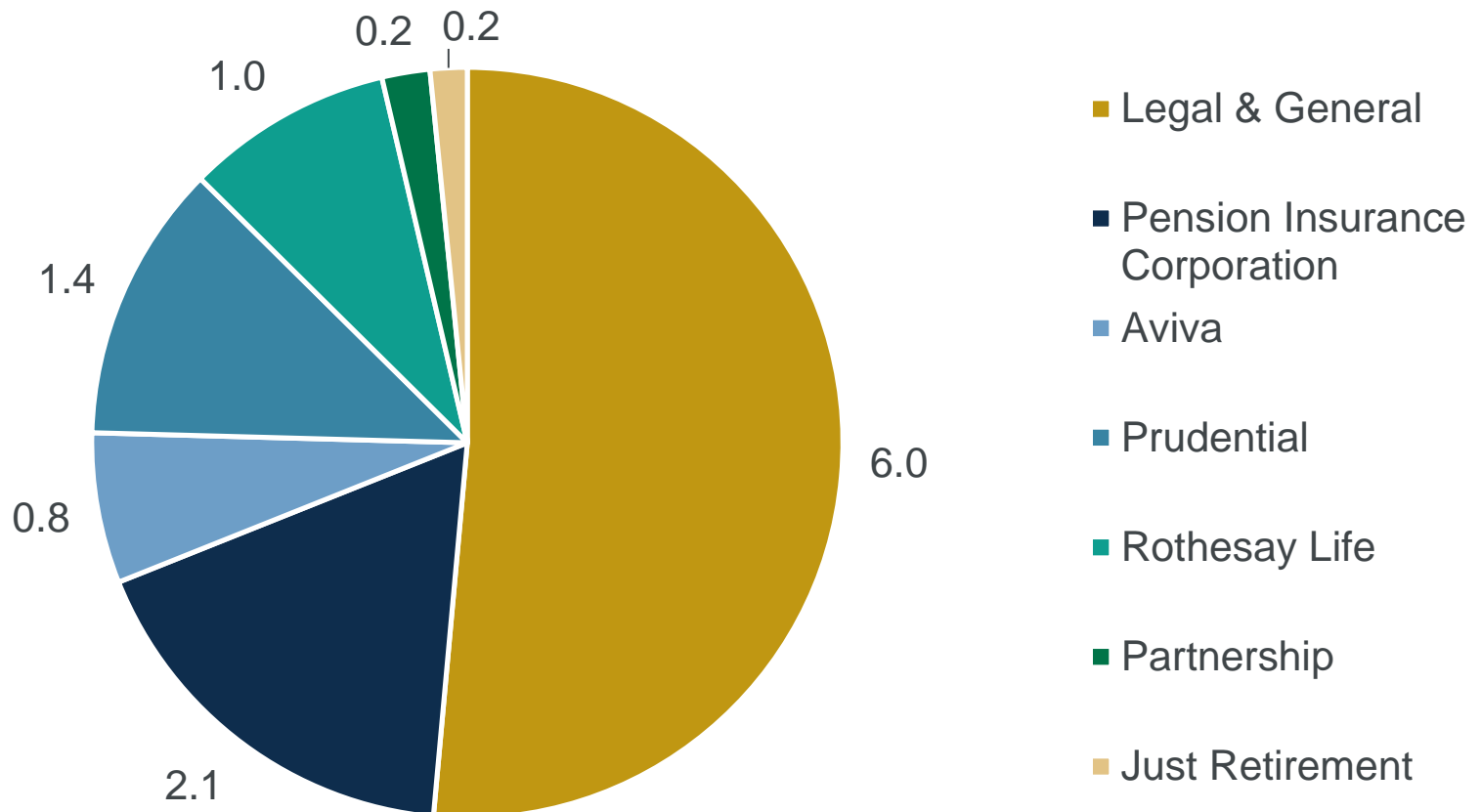
Largest amount of longevity hedged

- BT Pension Scheme – £16bn
- BAE Systems – £5.0bn

Source: Legal & General analysis

Market supply

Bulk annuity market premium received in 2014 (£bn)



Source: Legal & General analysis – based on transactions disclosed to 31 January 2015



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What is changing?





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Impact on DB scheme member behaviours

Things we do know

Current 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

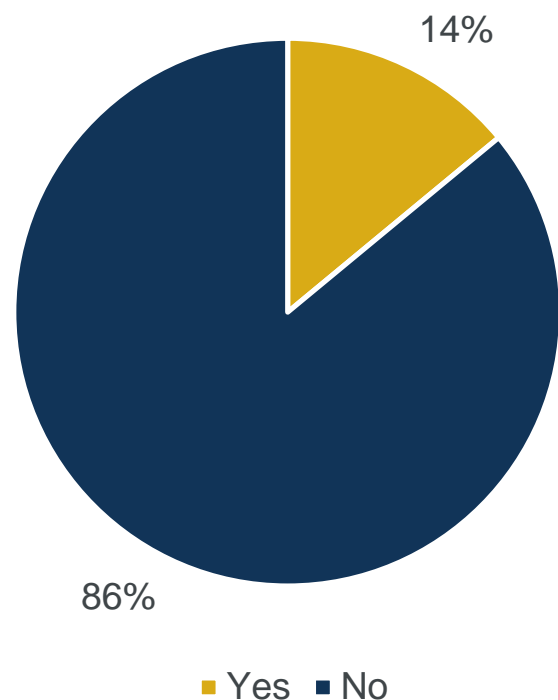
Member decisions



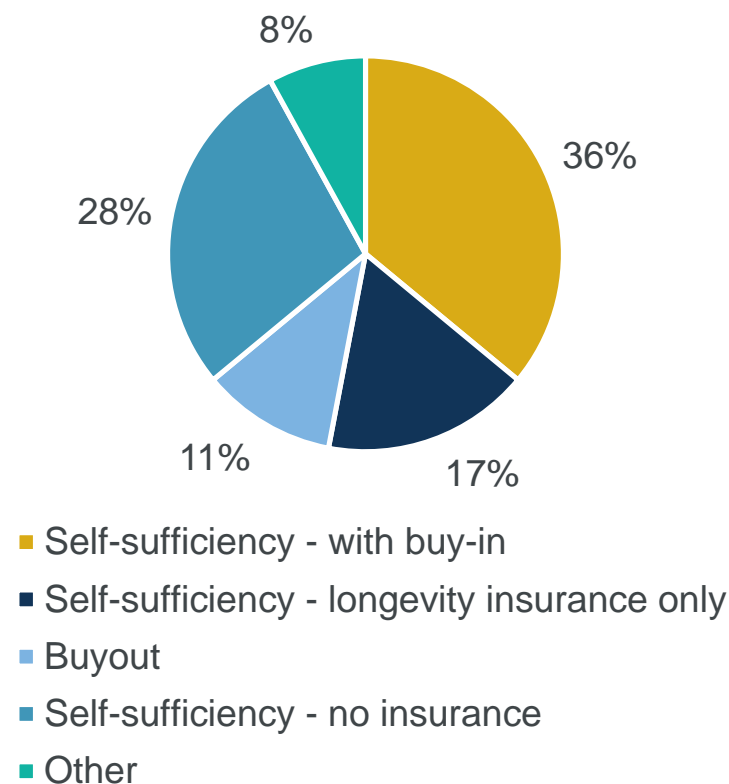
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Impact on DB scheme attitudes towards insurance

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

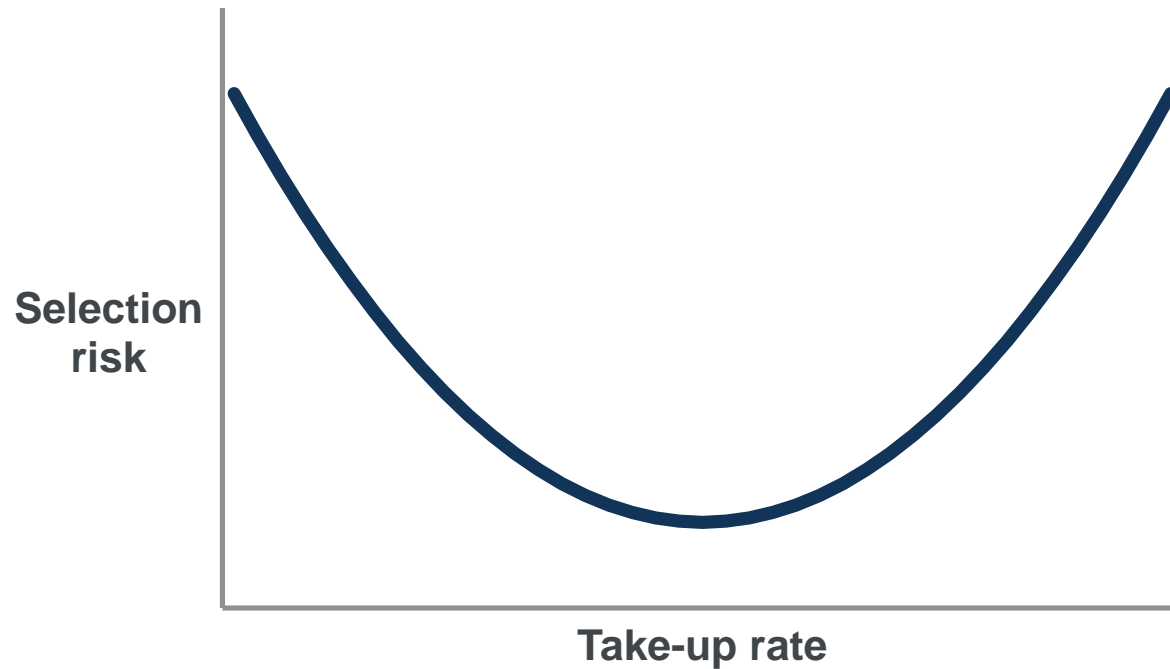
70% of respondents said that liability management exercises were important to meeting their long term objectives

Factors for insurers to consider

- Reputational risk
- Selection risk

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

Assessing selection risk



Other factors

Level of offer

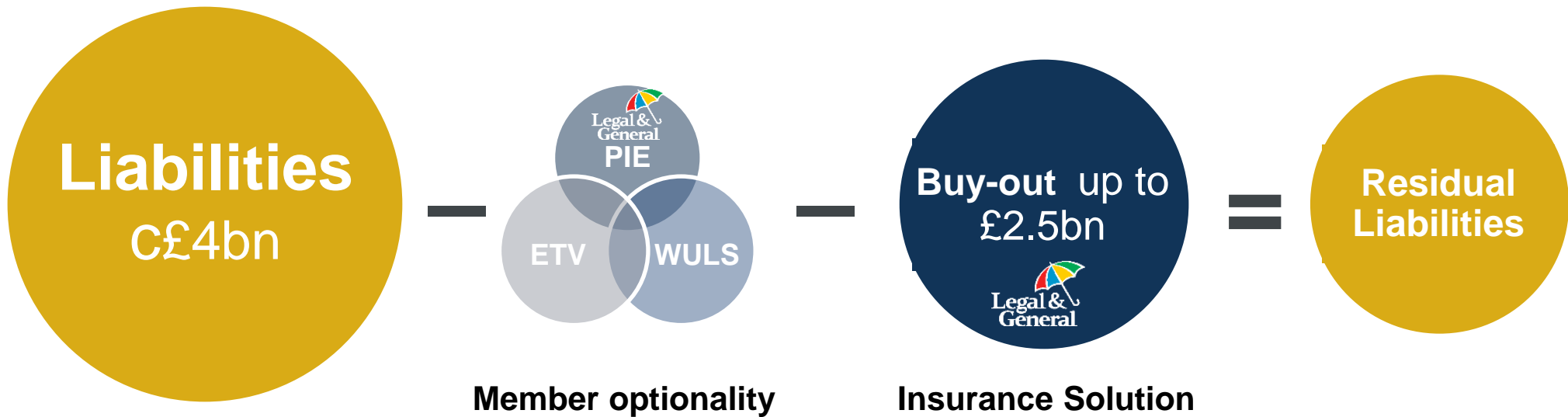
Process

Members included

Materiality

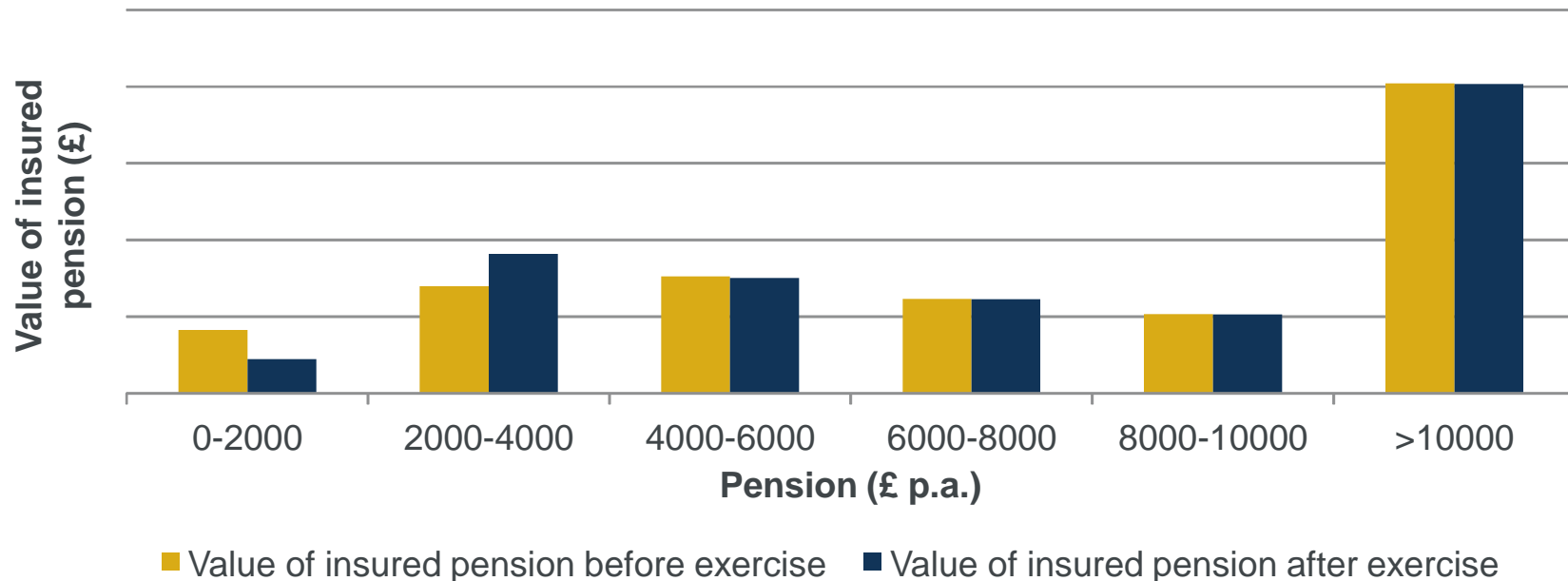
Decision making

Case study – pension increase exchange



Case study – trivial commutation

Impact of trivial commutation exercise on liabilities insured



Policy restructured

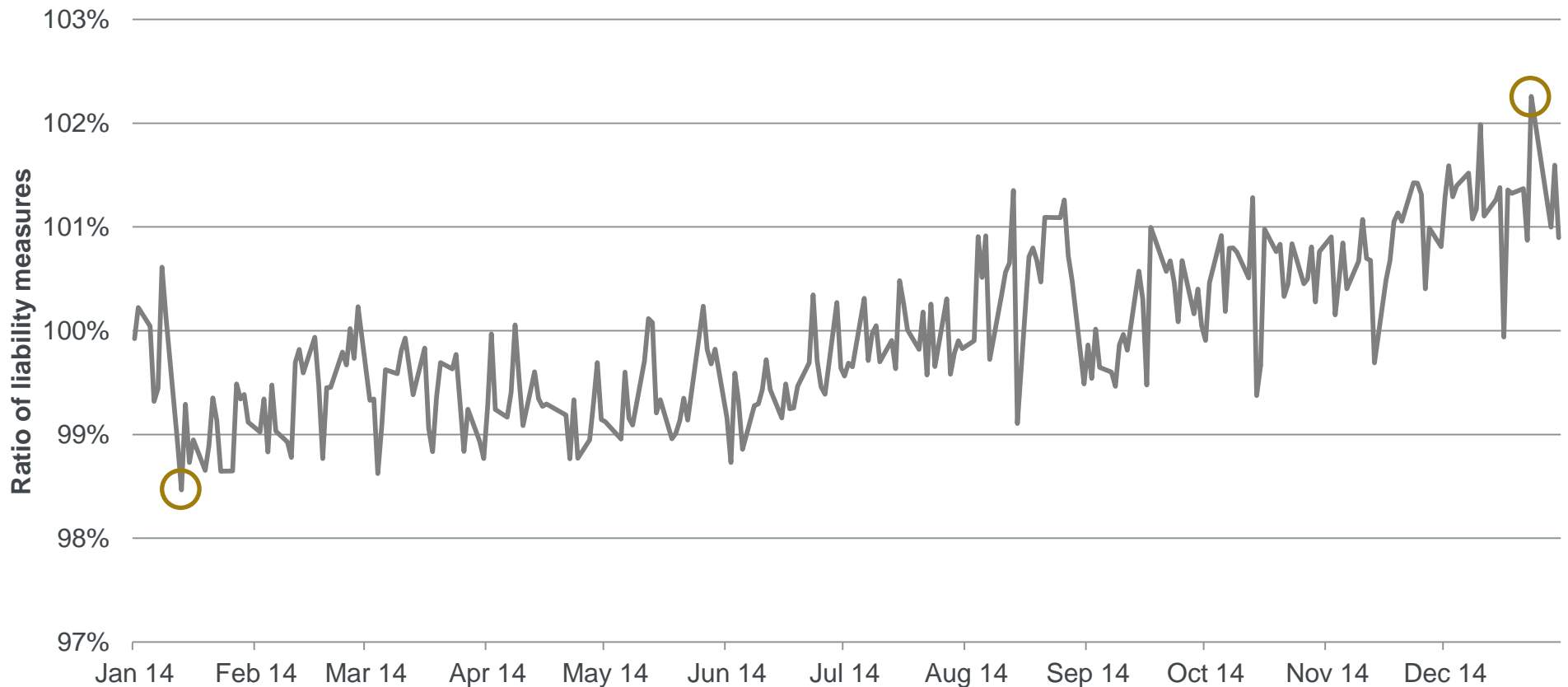
- Duration and index-linked proportion maintained
- Consideration given to scheme longevity assumptions
- Scheme retains selection risk (same as if no buy-in in place)

Benefits to scheme

- Cost reduction
- Liabilities insured affordably

The importance of market timing

Gilts vs Pensioner Buy-in Price





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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
- Insurers are already innovating to help schemes meet their objectives



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.