

# Pension Term Assurance – The truth behind the hype

Rod McKie & Stephen Griffiths

---

---

---

---

---

---

---

---

## So what's the truth behind the hype?

- How did protection providers respond to A day?
- Did innovation or me too products lead the way?
- How did distributors respond to PTA?
- What impact did PTA have on pricing?
- What has the impact been on existing business?
- Has PTA helped to bridge the protection gap?

---

---

---

---

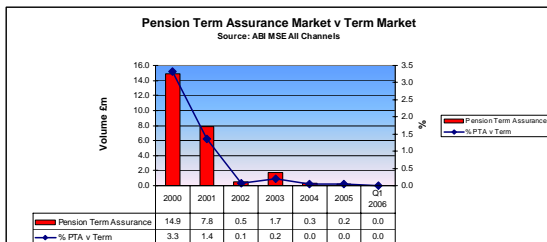
---

---

---

---

## PTA : the background




---

---

---

---

---

---

---

---

## PTA : the background

- contribution limits up to 100% of earnings capped at £215,000 pa
- tax relief up to £3600 a year for all
- premium paid net of basic rate tax
- higher rate taxpayers reclaim additional relief to 40%
- lifetime allowance of £1.5 million to include PTA death benefit
- excess monies above limit taxed at 55%
- contributing to PTA would invalidate enhanced protection
- no CIC rider benefit within the pension fund
- market open to ICOB and COB advisers

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

---

---

## PTA : providers response

- Only 4 were there from A day
- Most of the rest followed soon thereafter
- By end of June 10 providers were competing
- At least one more provider expected to come to market in next 6 months

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

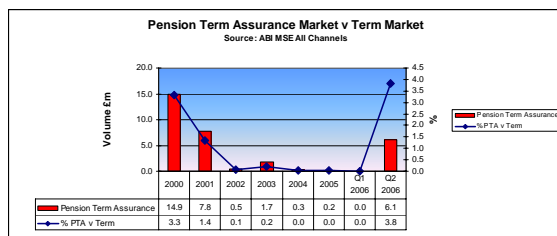
---

---

---

---

## PTA : the impact



The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

---

---

## PTA : the product

Key similarities :

- Stand alone product
- Comparable cover to OTA
- Level and decreasing cover
- Single Life cover
- commission payable on full gross premium

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## PTA : the product

Key differences (out of 10 main competitors) :

- 1 provider has put PTA into its menu
- 1 provider offers joint life cover
- 1 provider is offering PTA GIV
- 1 provider accepts employer contributions
- 3 providers offer unlimited sum assured cover
- 4 providers offer waiver of premium
- 6 providers offer indexation
- 7 providers offer a conversion option

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## PTA : conversion option triggers

**Co A :**

If you no longer wish your premiums to be counted towards the Annual Allowance and you do not wish any arising benefits from your membership to be counted towards your Lifetime Allowance, you can switch...

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## PTA : conversion option triggers

### Co B :

Once your Plan has started, if any of your Plan premiums become ineligible for tax relief you may be able to convert your Plan to an alternative life cover plan or to a new Life Insurance with Tax Relief plan.

---

---

---

---

---

---

---

---

## PTA : conversion option triggers

### Co C

... the right to exercise this option shall be subject to one of the following conditions applying on the date on which the request is made :

- (i) the premiums being paid in terms of the policy have ceased to be eligible for tax relief, or
- (ii) ... the total percentage of the Standard Lifetime Allowance expended by benefit crystallisation events... when added together with the percentage of the SLA expended by the Benefit Amount (PTA S/A) would be greater than 90% of the SLA in the tax year in which the request to exercise this option is made

---

---

---

---

---

---

---

---

## PTA : the product conclusion

- More differentiation than OTA
- Some advisers selecting on product features

---

---

---

---

---

---

---

---

## PTA : the distributors

- Split reactions from advisers
- Pro : Lifesearch, Lighthouse, Personal Touch
- Anti : DL&P, Network Data
- Middle ground : SESAME, Bankhall
  
- AIFA - Over 40% of advisers are not considering PTA
- A'web – Over 50% of advisers are not considering PTA
- Std Life – ¼ of advisers only recommend PTA for HRT

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## PTA : COB v ICOB

- ICOB : fair analysis - compare PTA/OTA
- ICOB : headroom check required or,
- Written warning that the recommendation may not be suitable
- COB advisers can elect to dis-apply ICOB rules
- COB – full fact find of pension arrangements
- Majority of business being written on ICOB
- AIFA - >50% uncertain which regulatory regime!

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## 2<sup>nd</sup> Half Goals

- How did protection providers respond to A day?
- Did innovation or me too products lead the way?
- How did distributors respond to PTA?
- What impact did PTA have on pricing?
- What has the impact been on existing business?
- Has PTA helped to bridge the protection gap?

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Impact on Pricing - Tax

- Ordinary Term Business (OTA) taxed on “I-E” basis
- PTA taxed on “Profits”
- Effect of “I-E” is favourable for XSI offices
- “Profits” basis will remove competitive advantage of XSI offices
- Gross PTA premiums > Gross OTA premiums

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Impact on Pricing - Mortality

- PTA mortality expected to be the same as OTA mortality due to the same underwriting being applied
- Could make the case that PTA would be targeted at, or chosen by higher socio-economic groups
- Maximum sum assured for PTA would offset this
- Policies sold exhibiting different characteristics

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Impact on Pricing - Expenses

- Additional costs associated with PTA sale
- Commission payable on gross PTA premiums
- Commission scales remain unchanged so commission increased
- Can argue sales process more complex and costly
- Has any commission bias impacted split between OTA and PTA?

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Impact on Pricing - Lapses

- OTA historic lapse rates impacted by significant premium reductions in the last 10 years.
- PTA premiums unlikely to reduce significantly
- Lapse rates expected to be lower than before
- If lapses 20% less than historic rates, premiums could be reduced by 2-3%

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Impact on Pricing - Premiums

- Premiums in intermediary market set to market
- BRT rates initially set to be small % cheaper than OTA, but enough to be worthwhile
- Frantic reprice activity as more players enter the market
- Current BRT rates approx 85% of OTA rates

The Actuarial Profession  
making financial sense of the future

---

---

---

---

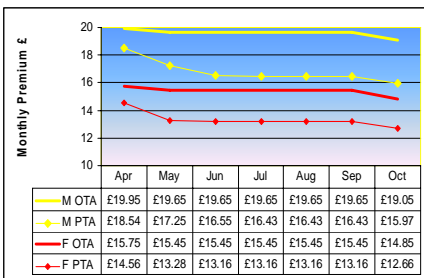
---

---

---

---

## PTA Premiums v OTA Premiums



- Market leading monthly premium rates for £100,000 non-smoker policy
- Age 40
- Term 25 years
- PTA premium with basic tax relief

Source: Exchange

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Impact on Existing Business (1)

- Insurers had concerns about churning of existing business
- Premium saving for PTA, especially higher rate taxpayers.
- Would it be an opportunity to steal business?
- Was it possible to switch with simplified underwriting?

The Actuarial Profession  
making financial sense of the future

---

---

---

---

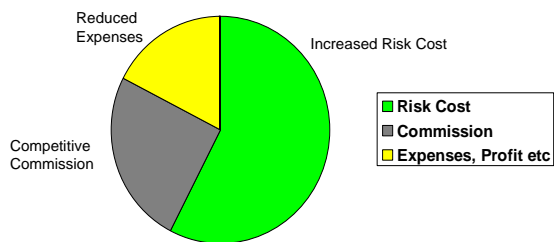
---

---

---

---

## Impact on Existing Business (2)



$$\text{Manufacturing Cost} = \text{Risk Cost} + \text{Expenses (excluding commission)}$$

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Impact on Existing Business (3)

- Barriers to Switching
  - Challenging non-disclosure
  - Reputational risk
  - Lack of reinsurer support
  - Restricted product features
  - Existing remuneration structure

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

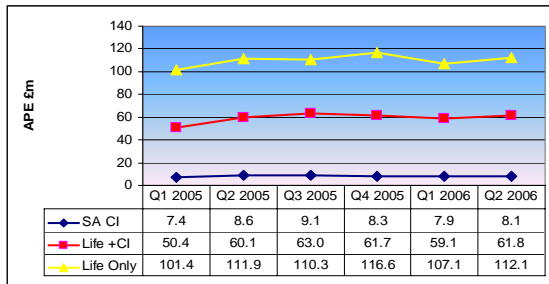
---

---

---



## Impact on Protection Gap (1)



Source: ABI New business statistics

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

---

---

## Impact on Protection Gap (2)

- Can we sell a Stand Alone CI product with PTA?  
→ will experience improve if Stand Alone CI actively marketed alongside PTA? → Not so far
- Market is stable – for all product types with PTA increasing and OTA decreasing.
- BUT Sums assured are increasing
- 2 single life policies reducing protection gap
- So far the signs are promising

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

---

---

The Actuarial Profession  
making financial sense of the future

Pension Term Assurance  
– The truth behind the hype

Rod McKie & Stephen Griffiths

---

---

---

---

---

---

---

---

---

---