



Institute
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Current Highlights in Pensions 2015

12 November 2015
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Medically underwritten bulk annuities (MUBAs)

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The agenda

- 1 Introduction to medically underwritten bulk annuities (MUBAs)
- 2 A look at how MUBAs are used in practice, in particular “top slicing”
- 3 Market context and some case studies
- 4 Questions and comments

What is a medically underwritten bulk annuity?

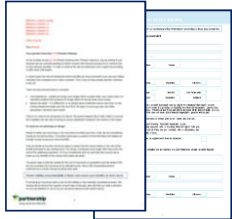


A medically underwritten bulk annuity is practically identical to a traditional bulk annuity. The only difference is that additional underwriting information is sought

Collecting health and well-being information – maximising the response rate

Experience gained from over 60 underwriting exercises

- Inclusive language
- Clear and full rationale
- Everyday terminology
- Concise detail
- Direct call to action



- Improved look & format
- Improved spouse info
- One and two life form
- No change to questions
- Concise DPA wording



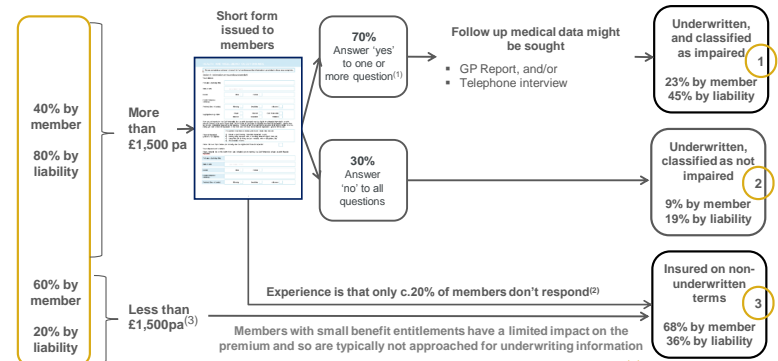
Best Practice Guide for Third Party Data Collectors (TPDCs)

A new TPDC is entering the market



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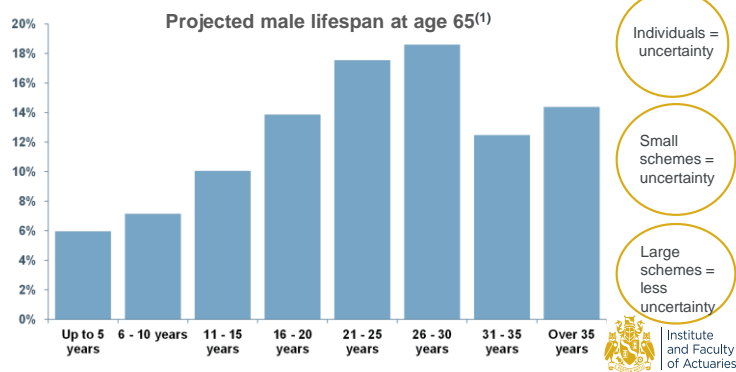
Medical underwriting in practice



12 November 2015 (1) Analysis as at January 2015 shows that c70% of members have one or more qualifying health or lifestyle trait that means their bulk annuity cost can be lowered. (2) Analysis as at October 2014 shows average 80% response rates to the short form on transactions completed by Partnership. (3) The threshold of £1,500 pa is an illustration of what is typical. Different thresholds are used for different transactions depending on various factors

Increased data = increased confidence = less conservative = lower premium

There is huge uncertainty around how long individuals are likely to live



12 November 2015 (1) Source: Projected lifespans are derived from the ONS 2012-based principal projection for the UK population

Increased data = increased confidence = less conservative = lower premium

Tony would like to buy car insurance.

He goes to an insurer and simply tells them:

"I'm a 55 year old male who lives in WC1V 2AH and have a car worth £20,000."

The insurer is cautious so as to protect their solvency position and profit. For all they know Tony is driving a Mitsubishi Evo, has an awful claims history and nine points on his license.

The result is a big premium.

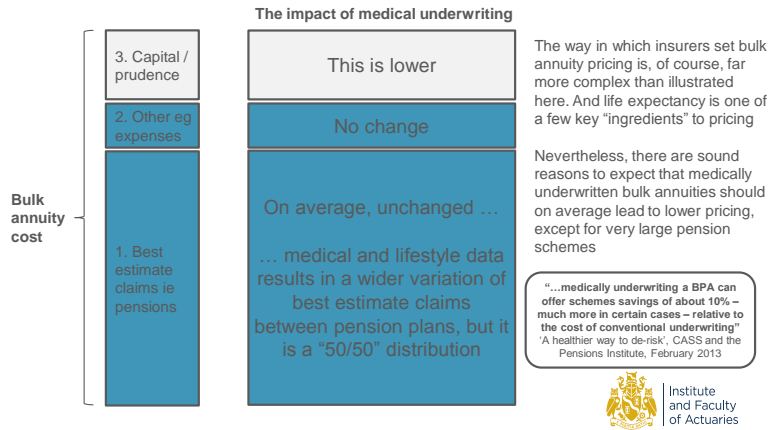
Tony learns his lesson. He re-approaches the insurer:

"I'm a 55 year old single male actuary, I drive a Ford Focus and have a normal driving record. For good measure here's my answer to another 250 rating factors."

The result: fairer premiums which are, on average, lower across all consumers

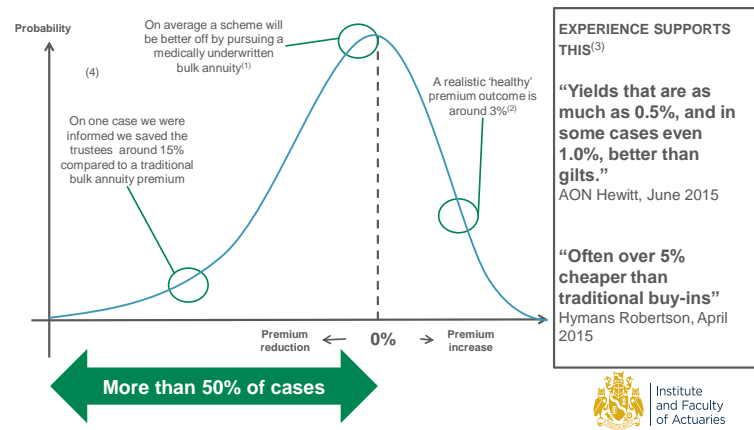
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Increased data = increased confidence = less conservative = lower premium



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Increased data = increased confidence = less conservative = lower premium



12 November 2015 (1) Increased data means increased confidence so an insurer can be less conservative and hold less capital. (2) Based on Partnership analysis of realistic scenarios following medical underwriting, as at Sept. 2014. (3) Quotes from Aon Hewitt's June 2015 "Bulk Annuity Market Monitor" and Hymans Robertson's April 2015 "Medically underwritten buy-ins – market insights" publication. (4) Graph for illustration purposes only – not an actual distribution

Top end postcodes can be deceiving “top slicing” is also adding to premium volumes



For large liability members a postcode can offer limited insight on life expectancy

By collecting medical and lifestyle data insurers can offer sharper pricing



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All schemes can use top slicing, even the largest

Why top slice?

1. Concentration of benefits drives risk within a scheme = tackle a **primary risk**
2. The benefits of underwriting are more pronounced = **big potential upside** with (probably) limited downside
3. Technical provision **assumptions can be prudent** for these members = release tied up funding
4. Experience shows a real possibility of **transacting below technical provisions** = tackle risk and improve funding
5. **High response rates** can be expected as data collection would be targeted to what should be highly engaged members

Less than
£10
million

Scheme range

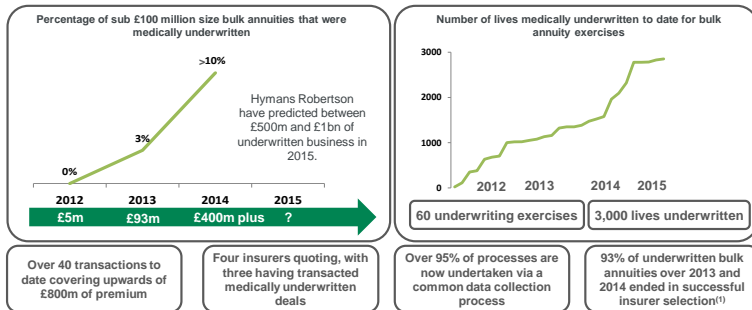
Over £1
billion



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Medically underwritten bulk annuities here to stay

- >10% of the sub £100m deal market was underwritten in 2014, continuing an exponential pattern of growth
- The first case over £100m was transacted in December 2014



Over 40 transactions to date covering upwards of £800m of premium

Four insurers quoting, with three having transacted medically underwritten deals

Over 95% of processes are now undertaken via a common data collection process

93% of underwritten bulk annuities over 2013 and 2014 ended in successful insurer selection⁽¹⁾



Case study - Taylor Wimpey Pension Scheme

Largest medically underwritten bulk annuity to date

This landmark transaction, the largest ever medically underwritten bulk annuity in the UK, significantly raises the threshold of deal and pension scheme sizes that had previously been assumed to be suitable for medical underwriting

Date December 2014

Deal size £206 million – 99 members

Background The trustees targeted the concentration risk from the liabilities of the 99 largest pensioners
Average pension size > £50,000 per annum

Process The trustees went straight down the medically underwritten route – a traditionally priced bulk annuity was discounted early on. Four insurers were involved

Outcome The pensioners did not have an untypical distribution of health conditions for a top end socio-economic group.
Trustees transacted at a figure £9.4m below their technical provisions
Implication - medical underwriting saved considerably more than £9.4m against the estimated cost of a traditional bulk annuity



Hedged longevity concentration risk

Improved the funding of the scheme

Taylor Wimpey



Case study - Kuwait Petroleum Services

Full scheme de-risking – largest medically underwritten full scheme buy-out to date

In May 2015, Partnership announced a £42 million medically underwritten bulk annuity with the trustees of the Kuwait Petroleum Services Company Limited Pension Scheme. This transaction is the largest full scheme medically underwritten buy-out in the UK to date.

Date May 2015

Deal size £42m – 34 members

Background The trustees wished to buy-out the remaining 34 members of their UK legacy scheme. Average pension size of over £50,000, including three deferred pensioners aged over 60.

Process Competitive process via AON AHEAD's data collection platform. A 90% response rate was achieved with all participating members undertaking a tele-interview and having a GP report requested where the initial underwriting form indicated an impairment.

Outcome Partnership were selected having delivered the most competitive price following a beauty parade. The lead adviser on the deal stated that the trustees saved around 10% compared to the cost of a traditional bulk annuity policy – equivalent to a discount rate of Gilts + 90 basis points.⁽¹⁾



Kuwait Petroleum scheme agrees £42.3m enhanced bulk annuity deal

Professional Pensions, 11.06.2015



Aon Hewitt advise KPSCPS on bulk annuity with Partnership

Actuarial Post, 11.06.2015



The deal is the largest full scheme medically underwritten bulk annuity

Pensions Age, 11.06.2015



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(1) Aon Hewitt's press release on the transaction and subsequent market reports

To summarise – medically underwritten bulk annuities mean:



Greater variation of premium

Medical underwriting doesn't rely on proxies for health status e.g. postcode and pension size

Health and lifestyle data means there is less simplification and so there is a reduced 'cross subsidies' between schemes



Some schemes pay less, others pay more

A healthy scheme may pay slightly more than traditional pricing

Whilst an average scheme or scheme in poor health will probably pay less



Lower premiums, on average

Increased data means increased confidence

Increased confidence means insurers are less conservative

Less conservative means a lower premium



Pensioners with large pensions

Traditional pricing is more prudent for members with large benefit entitlements in top-end postcodes

Medical and lifestyle data means tailored pricing



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Conclusion

- 1 Introduced medically underwritten bulk annuities (MUBAs)
- 2 Looked at how MUBAs are used in practice, and explained top slicing
- 3 Gave the market context and some case studies
- 4 Any questions or comments?

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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.

