

PENSIONS DE-RISKING IN NORTH AMERICA.

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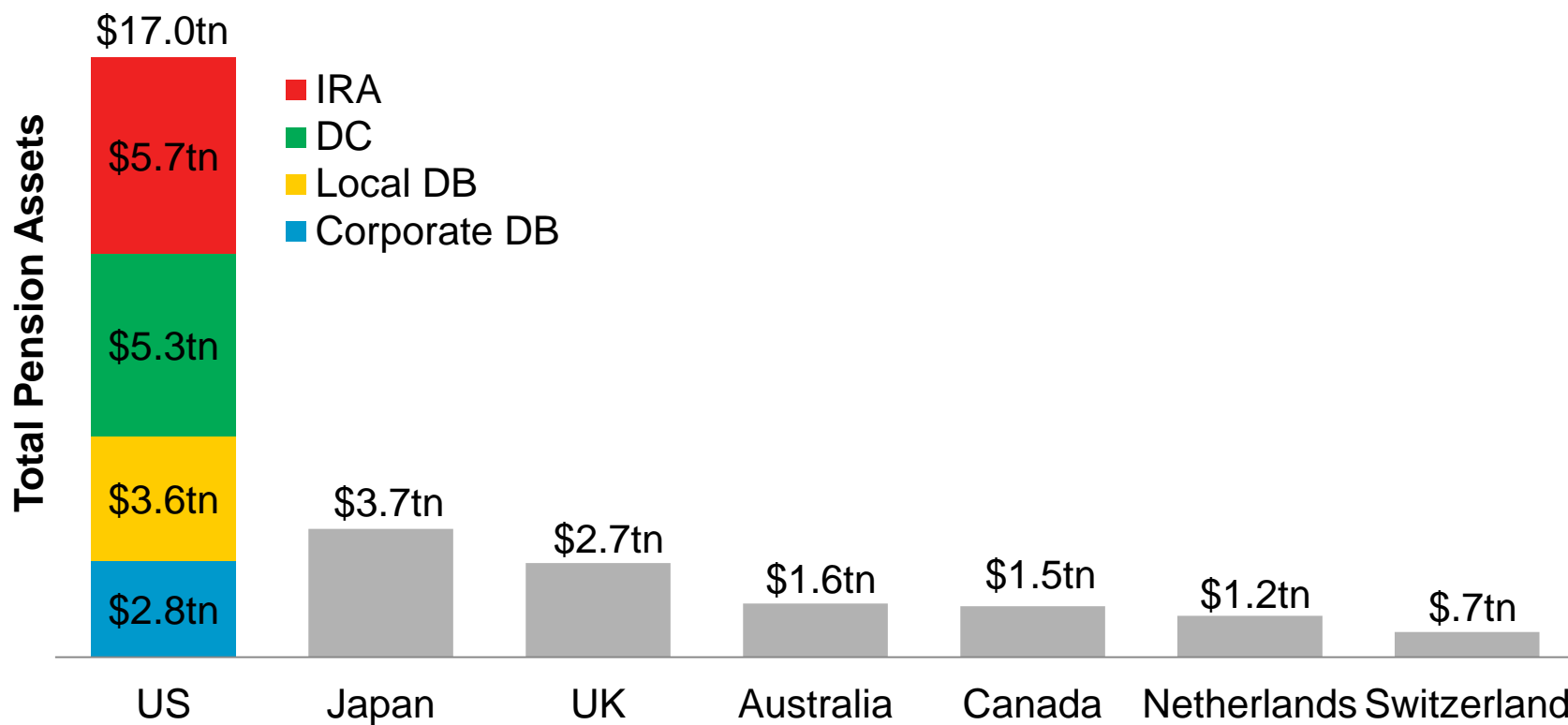
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DAY
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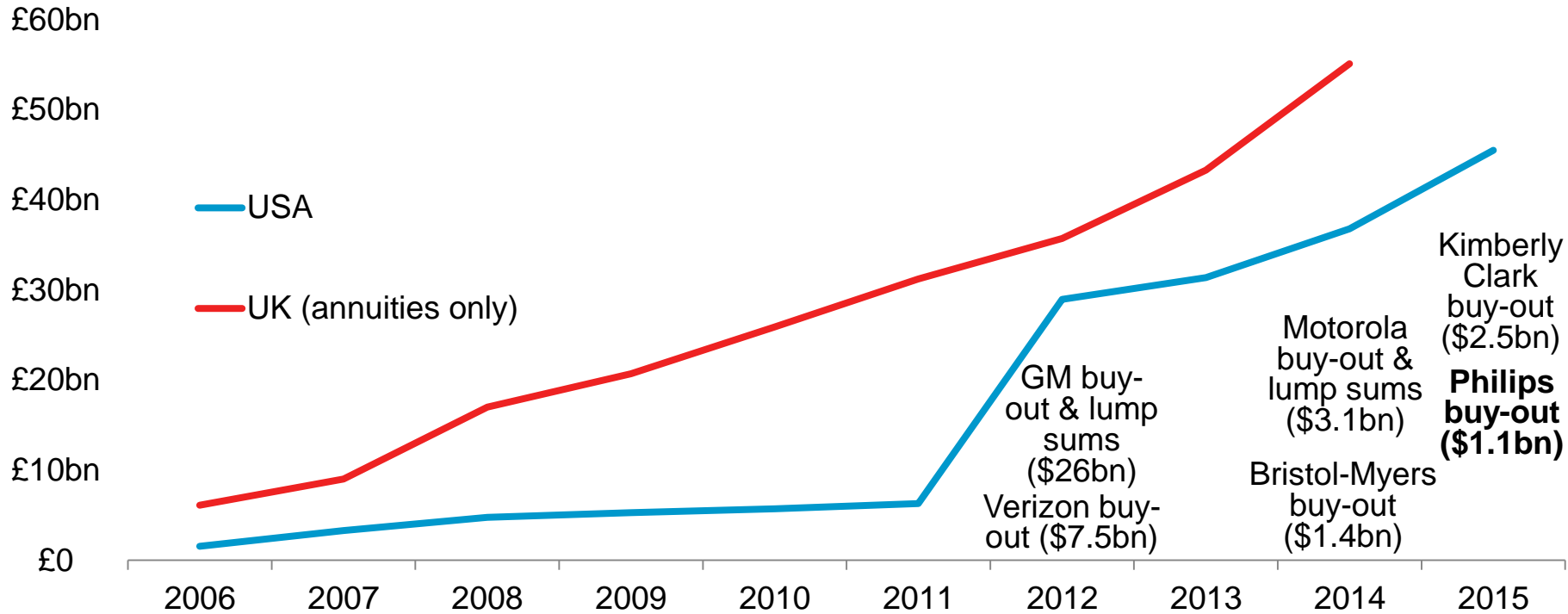

**Legal &
General**

The US market leads in pension assets.

US is by far the largest global retirement market in terms of total pension assets



US PRT market is growing and new regulations encourage further de-risking.



FAS 158 moves pension funding status onto companies' balance sheets

Pension Protection Act sets stricter funding requirements

SOA releases RP-2014 mortality tables increasing liabilities 5%-10%

PBGC premiums increased by 22%

US Notice 2015-49
US employers can no longer offer lump sums to retirees

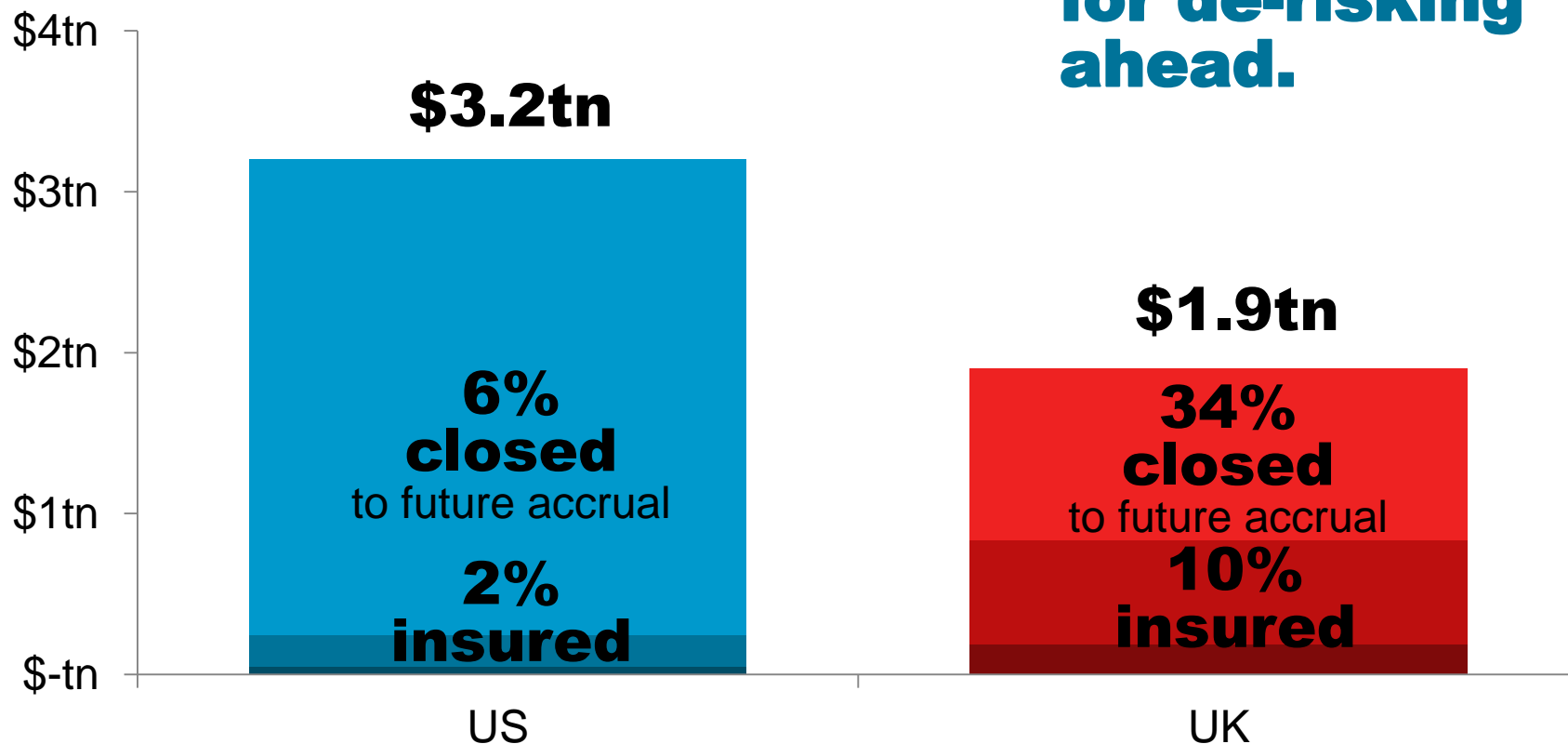
Recent buy-outs in the US.

	Philips	Kimberly-Clark	Motorola	Bristol-Myers	GM	Verizon
Year	2015	2015	2014	2014	2012	2012
Insured Members	Retirees and Deferreds	Retirees	Retirees	Retirees	Retirees	Retirees
Lump Sums?	No	No	Yes	No	Yes	No
Participants	17,000	21,000	30,000	8,000	118,000	41,000
Liabilities settled by annuity	\$1.1bn	\$2.5bn	\$3.1bn	\$1.4bn	\$26bn	\$7.5bn
% of total liabilities settled	Not disclosed	Not disclosed	37%	Not disclosed	20%	25%
Plan size to market cap	97%	15%	50%	10%	441%	27%
Credit rating	BBB+	A	BBB	A+	BB+	A-
Syndicate?	Yes	Yes	No	No	No	No
Contributions	Not disclosed	\$0.4bn	\$0.8bn	None	\$3.5bn - \$4.5bn	\$2.5bn
Debt Issuance	Not disclosed		\$1.1bn	None	None	None

US defined benefit pension supply is large...

... and has significant space for de-risking ahead.

Private Sector DB Pension Liabilities



The US pension structure makes insuring relatively easy and affordable.



Types of benefits

complexity
and governed by various
legislation

relatively **simple**

Indexation

high level of indexation
→ long duration liabilities

low level of indexation

Longevity exposure

Higher impact

Potentially lower impact

Annuity premium over accounting liabilities¹

25.0%

4.1%

The first steps in pension de-risking has been taken in the US.



Plan closure
% open to new entrants

13%¹

53%²

Lump sum offers

on wind-up and trivial amounts (pensioners) / transfers to DC (deferreds)

core part of de-risking: available to deferreds / not for retirees (2015)

Governance

trustees and corporate

fiduciary requirements and plan sponsor

Legislative guarantee (insured benefits)

100%

capped and varies by state

1. Pensions Purple Book 2015
2. Bureau of Labor Statistics, Employee Benefit Survey 2015
3. Standard & Poor's, "S&P 500 2010: Pensions and Other Post-Employment Benefits (OPEBs)", 26 May 2011 (data as of 31 December 2010)D

The US mindset is focused on de-risking.

US companies are significantly more likely than their UK counterparts to pursue a bulk annuity transaction in the near-term



36%

of US corporates say they are likely to pursue a bulk annuity transaction within the next 2 years¹

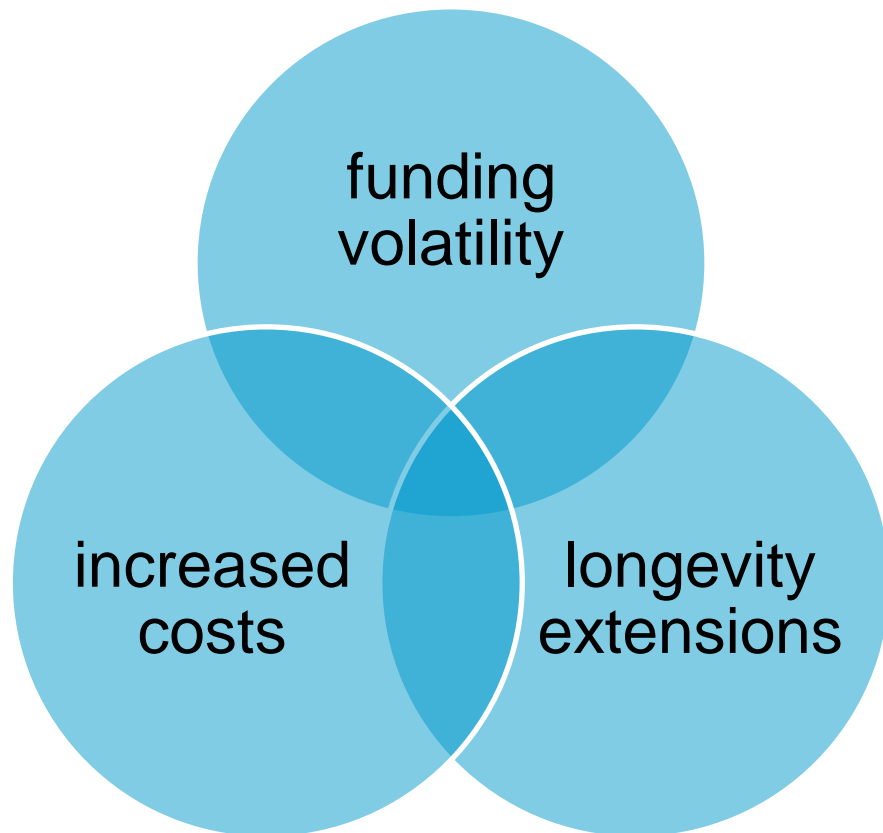


28%

of UK corporates say they are likely to pursue a buyout or buy-in over the next 2 years²

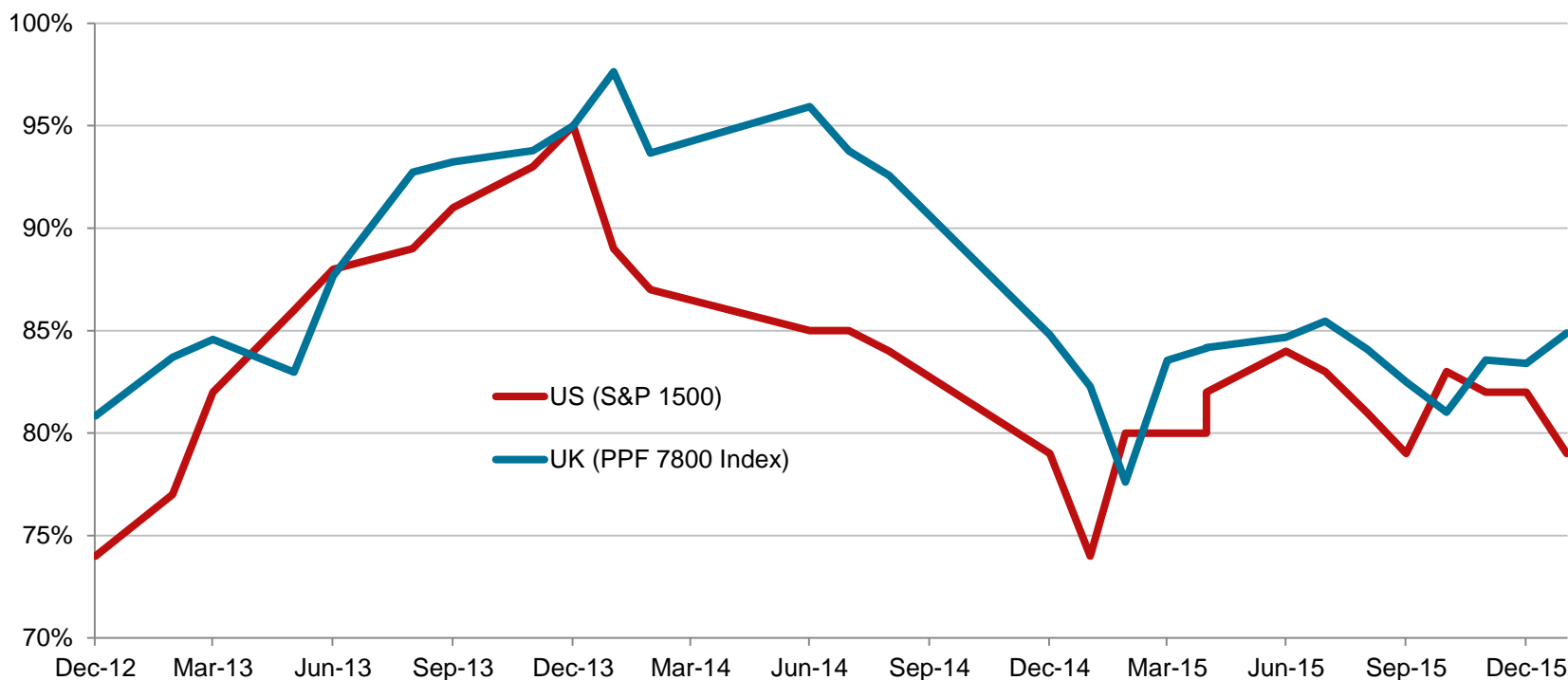
1. Mercer/CFO Magazine Evolving Pension Risk Strategies report, 2015
2. Aon Hewitt Global Pension Risk Survey 2013: UK Survey Findings

Pension de-risking drivers.



Pension de-risking drivers – funding volatility.

Historic funding levels of US and UK private sector pension schemes



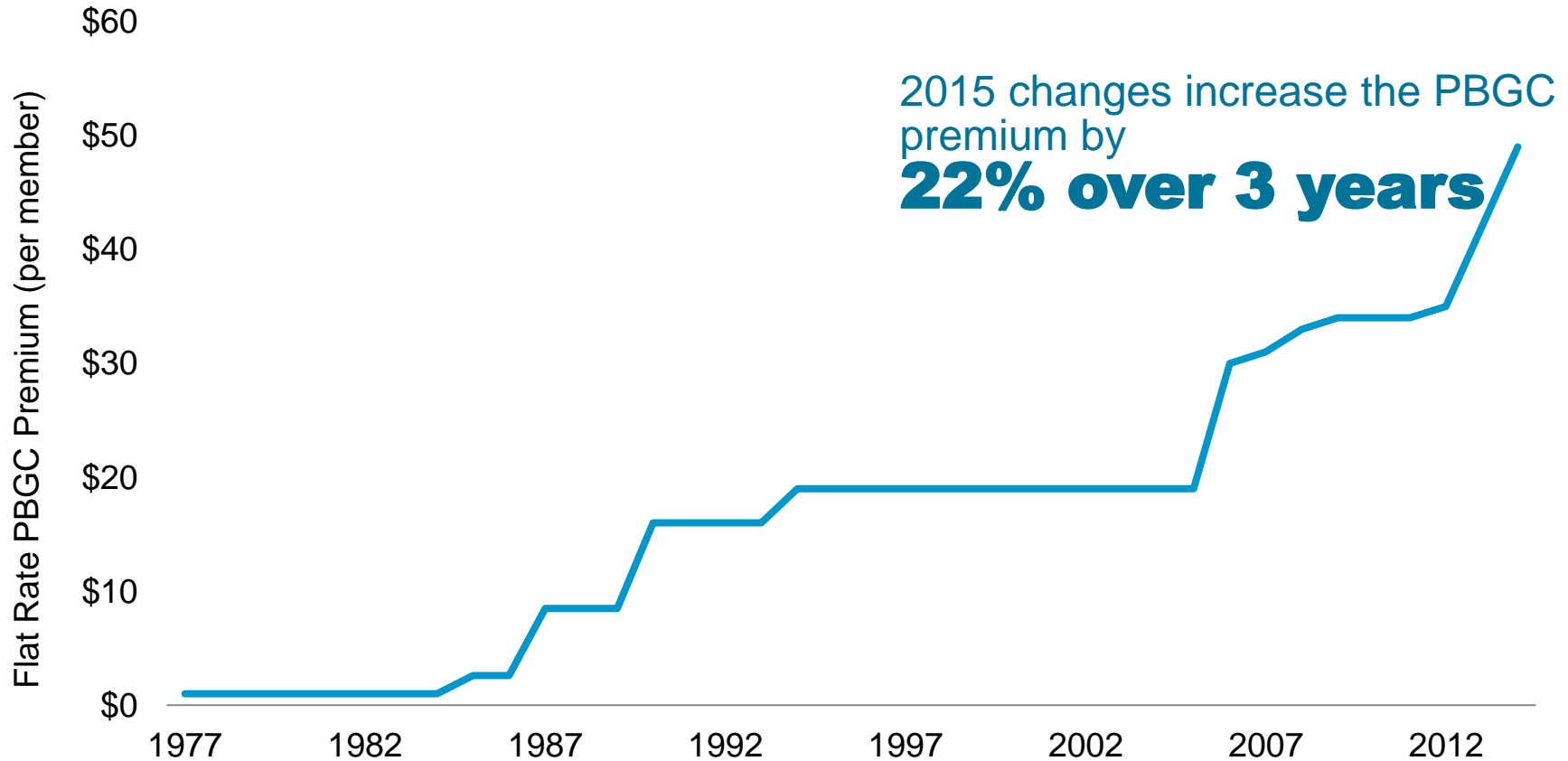
Volatile investment returns and interest rates make locking in funding status a challenge.

Source: Pension Protection Fund 7800 Index and Mercer S&P 1500 Pensions Funded Status



Pension de-risking drivers – increased costs.

PBGC fees have risen over the past 30 years and are set to continue to grow.



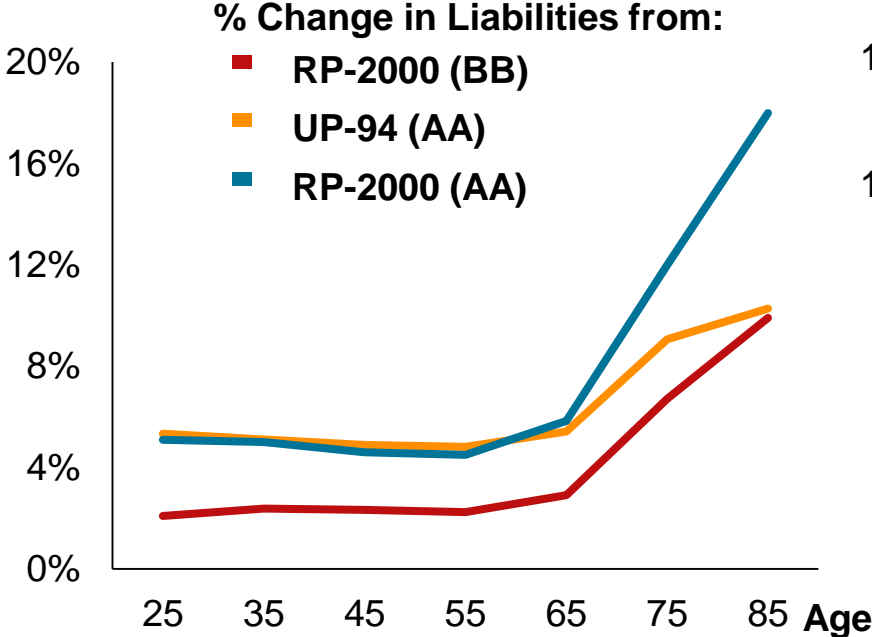
Source: PBGC



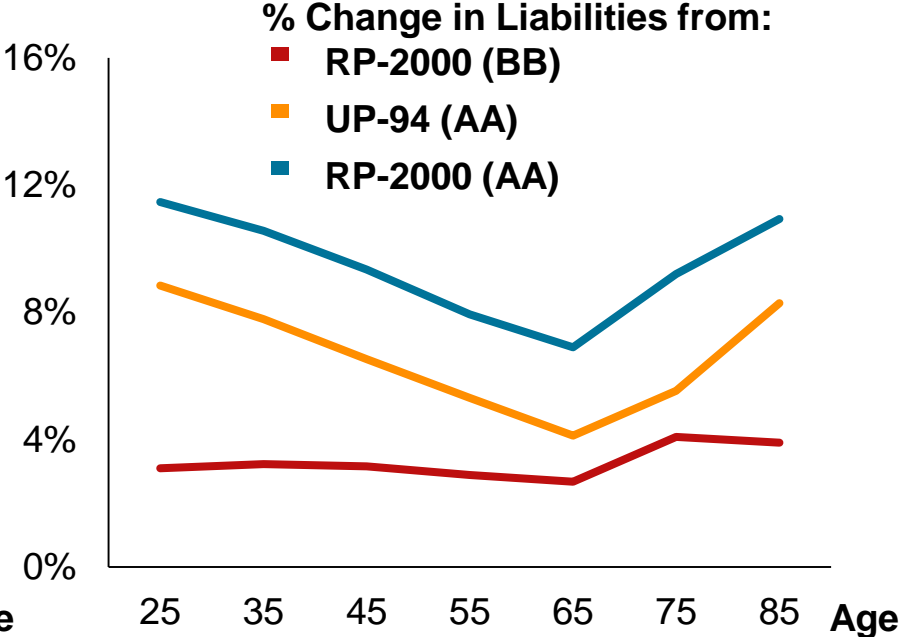
Pension de-risking drivers – longevity extensions.

Projected % Change in Liabilities of Moving to New Tables RP-2014

Male



Female



The release of the RP-2014 tables have made longevity a focal point for pension plans.

Source: Deutsche Bank, "US Pension Buy-out Market: Implications for the UK", April 2014.
 % increase in 2014 monthly deferred-to-age-62 annuity due values (at swap rate as of March 24, 2014) based on a number of different sets of base mortality rates and generational projection scales to RP-2014 base rates projected generationally with Scale MP-2014
 Source: Society of Actuaries. "RP-2014 Mortality Tables (Exposure Draft)", February 2014



The UK vs. US market participants.



UK competitors include mono-lines with very different economic models.



US competitors are all traditional insurance players.

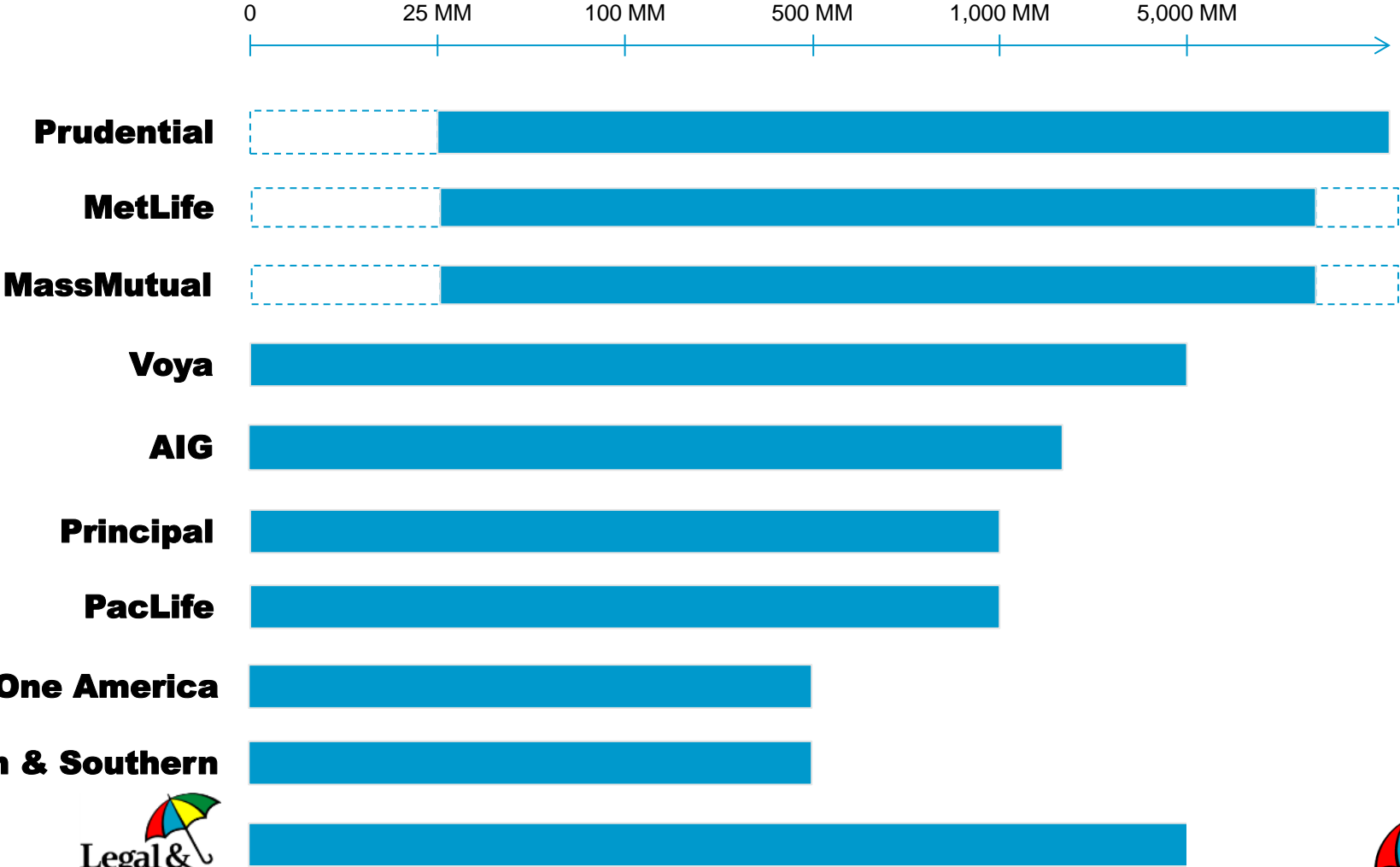
- Aviva**
- Rothsay Life**
- Scottish Widows**
- Partnership**
- Prudential (UK)**
- Just Retirement**
- Pension Insurance Corporation**



- Prudential (US)**
- AIG**
- MetLife**
- Principal**
- Voya**
- MassMutual**
- PacLife**
- One America**
- Western & Southern**

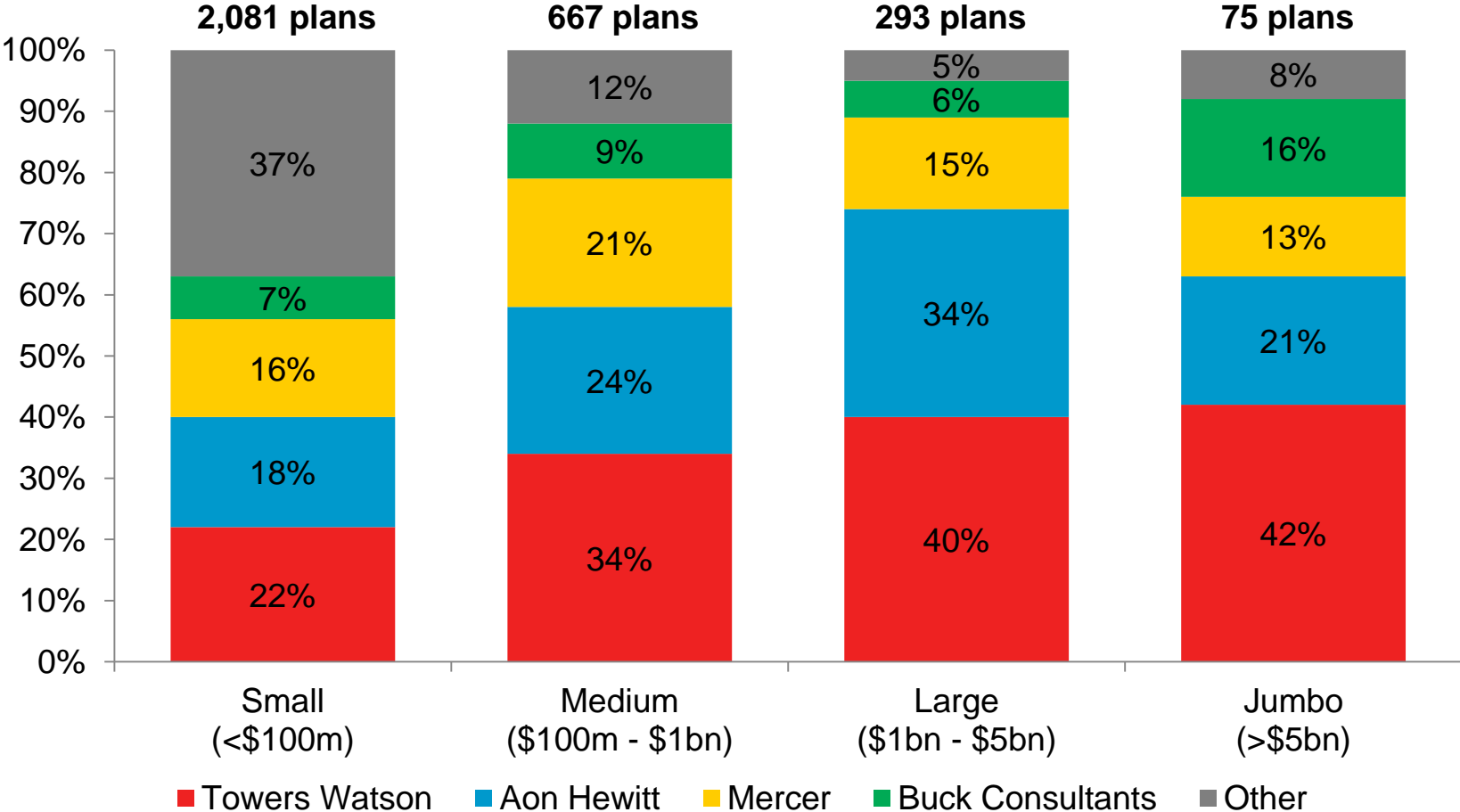


US market participants' engagement.



US pension consultant market.

Actuarial pension consultant market share by plan size



Source: EBSA; extract of Form 5500 Database



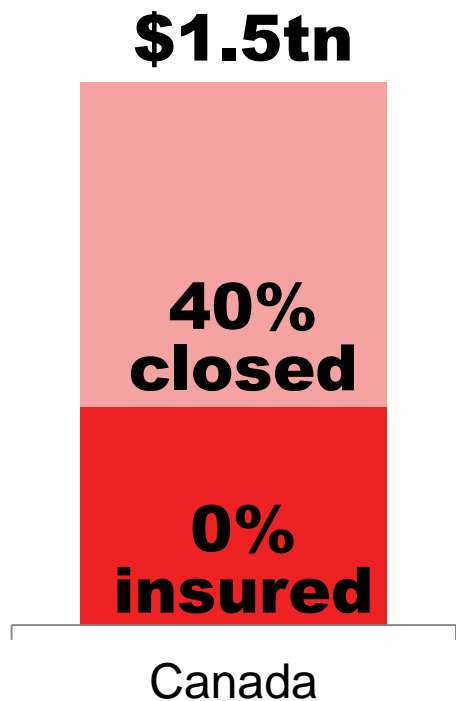
CANADIAN PRT MARKET.

Canadian DB pension market.

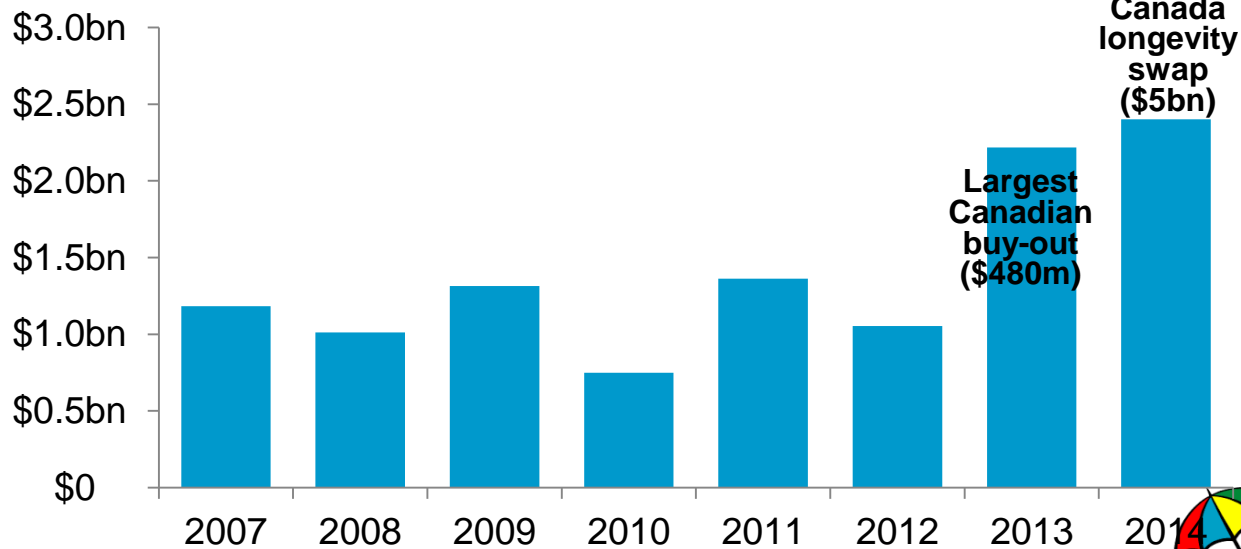
Private Sector DB Pension Liabilities¹

Companies increasingly interested in gauging/understanding longevity risk

- Canadian Institute of Actuaries recently published a new mortality table, which increases plan funding liabilities by circa 5%
- Increasing focus of longevity estimation and risk

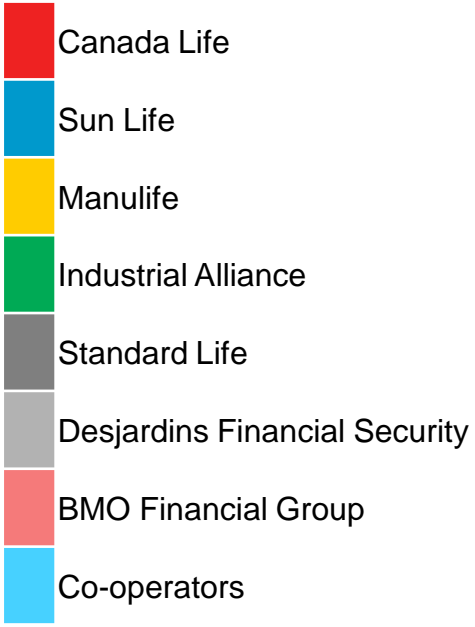
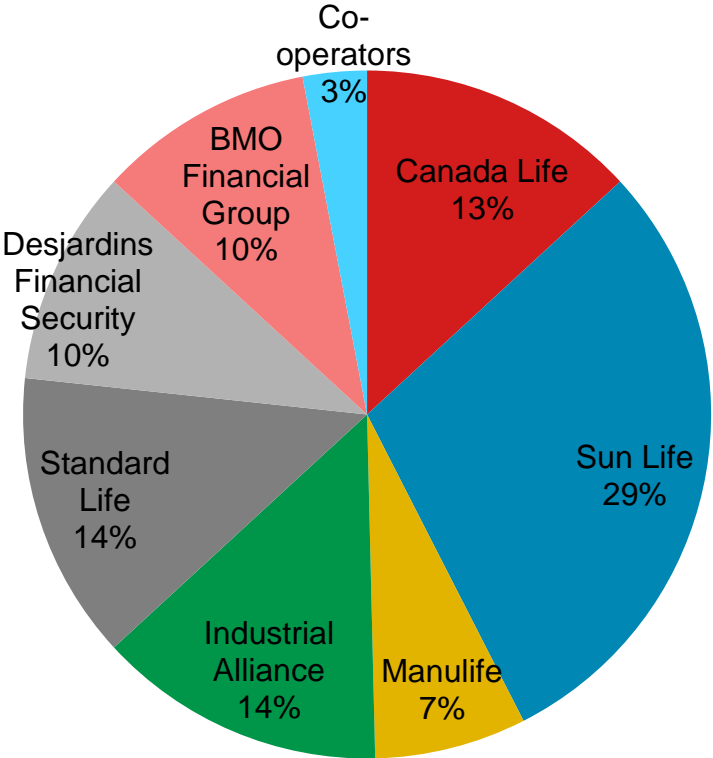


Canadian Bulk Annuity Premiums²



1. Sun Life Financial Estimates, Aon Hewitt Toronto Canada (Financier Worldwide)
2. LIMRA

Canadian market participants.



Participant	Annuity assets (CAD bn)	Credit rating (S&P)	Optimal annuity size
Canada Life	3.5	AA	< \$50M
Sun Life	7.8	AA-	< \$100M
Manulife	1.9	AA-	\$30M - \$60M
Industrial Alliance	3.6	A+	< \$50M
Standard Life	3.6	A+	\$10M - \$20M
Desjardins Financial Security	2.7	A+	\$15M - \$25M
BMO Financial Group	2.7	A+	\$30M - \$50M
Co-operators	0.8	BBB+	\$10M - \$20M

