

# Risk Settlement Market Update Webinar

17 July 2018

Prepared by Aon

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Empower Results®

## Today's speakers

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Martin Bird



John Baines



Tim Gordon



Tom Scott

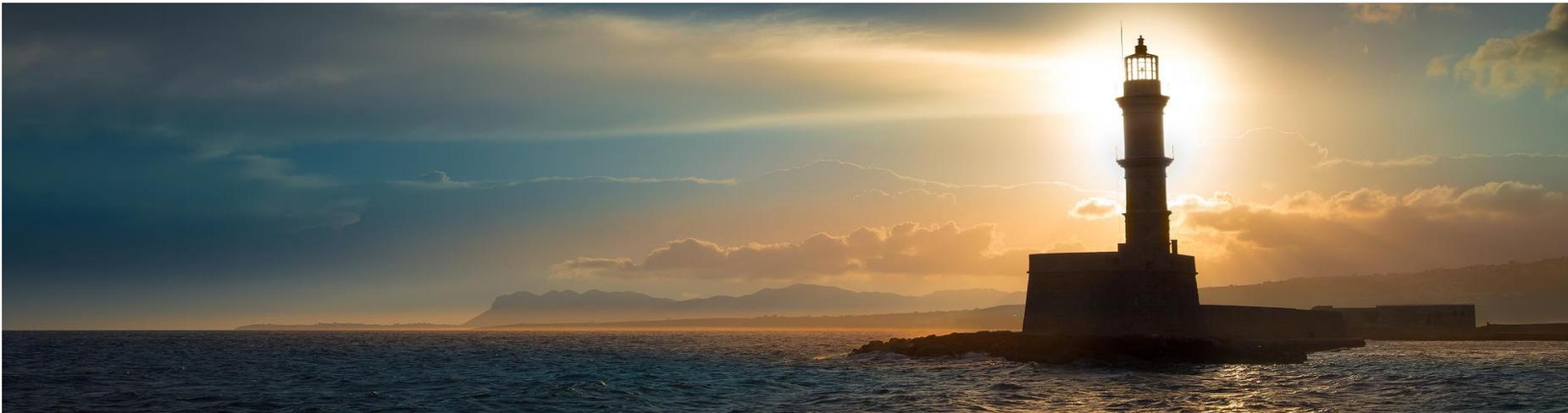
# Agenda

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 Risk Settlement Market Update and Case Studies

 Longevity Trends

 Longevity Swap Market Update and Case Studies



# Risk Settlement Market Update

John Baines

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# Risk settlement market update

c£20bn already transacted

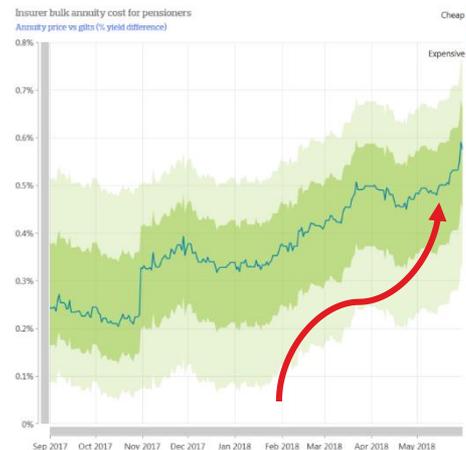
“2018 will see £30bn + of annuity transactions”

“The longevity swap market is back in sync”

“2018 transactions will be bigger”

£2bn National Grid longevity swap

4 x £750m+ transactions so far



**2017-8: Some of best annuity pricing since Credit Crunch, relative to gilts**

**Significant yield pick-up versus gilts and LDI programmes**

**As predicted 2018 is proving to be a huge year for insurance transactions!**

# Aon's year to date

PA Consulting  
Group

Biggest  
buy-out  
£850m

Biggest  
buy-in  
£1,300m

Biggest  
longevity  
swap  
£2,000m

National Grid

Siemens

c£5bn of  
liabilities  
secured so  
far

100%  
transaction  
success  
rate

>£11bn of  
liabilities  
being  
priced



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# H2 2018

Pricing will  
continue to  
be attractive

But insurers  
have  
practical  
capacity  
limits

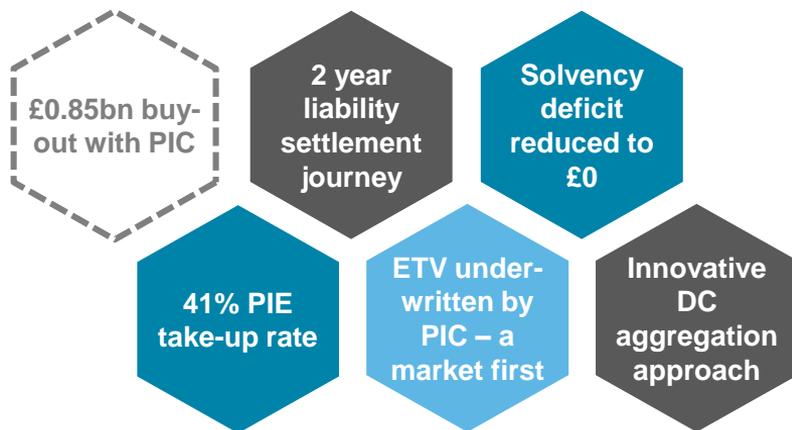


- Present a compelling case to insurers
- Need an experienced broker

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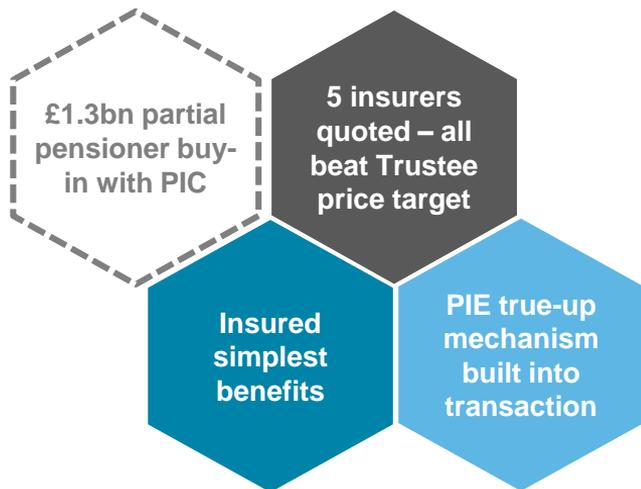
# Case study - PA Consulting



“ By a collaborative approach from all parties, we have been able to **secure a deal which no-one imagined possible** at the outset. The Aon team has been fully involved in all aspects of the process and we are very pleased at the support and advice that they have provided throughout. ”

*Kully Janjuah, PA Consulting*

## Case study - Siemens

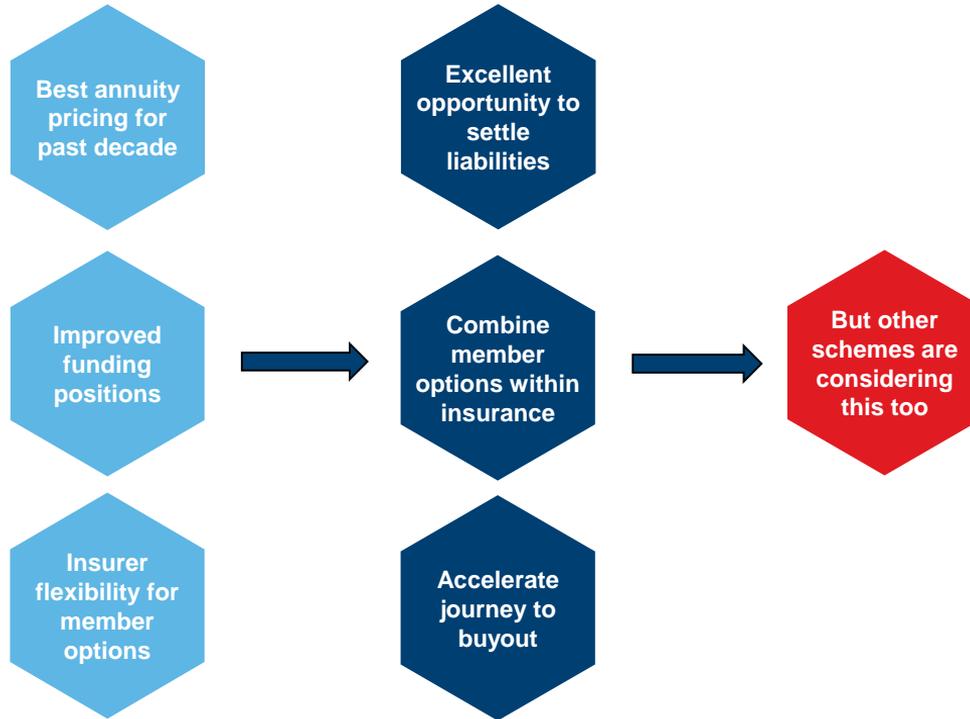


“ We are proud of what we have achieved with this latest buy-in, which is part of Siemen’s long-term pension de-risking strategy....achieving this is a **significant milestone** for the Company. ”

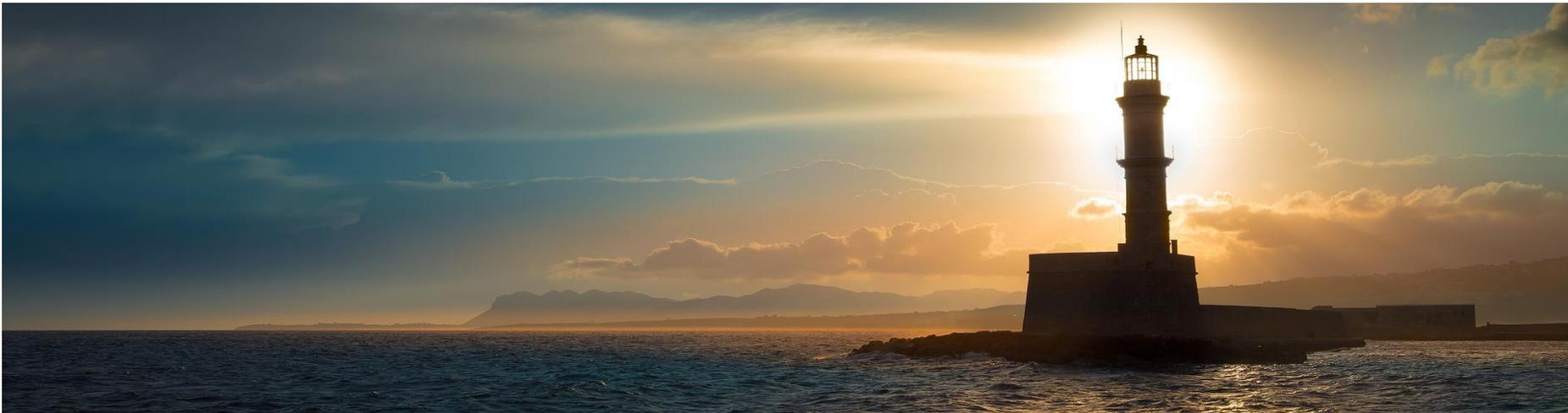
*John Smith, Siemens plc*

Contract signed within 8 days of going exclusive with PIC

# 2018 and beyond – opportunities and threats



**Innovation and opportunities exist – take them while you can!**



# Longevity

Tim Gordon

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QASIF  
Quality Assurance Scheme  
Institution of Actuaries  
Quality Assurance Scheme

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# Potted summary

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## National mortality improvements

*Lives-weighted, everyone*

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### What's happened?

- High-ish improvements 1975-2000
  - Record mortality improvements 2000-2010/11
  - Surprisingly low mortality improvements post 2010/11
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### Key questions

- What caused the fall off in mortality improvements?
- Will this continue?

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## Impact on scheme liabilities

*Liability-weighted, those fit enough to work*

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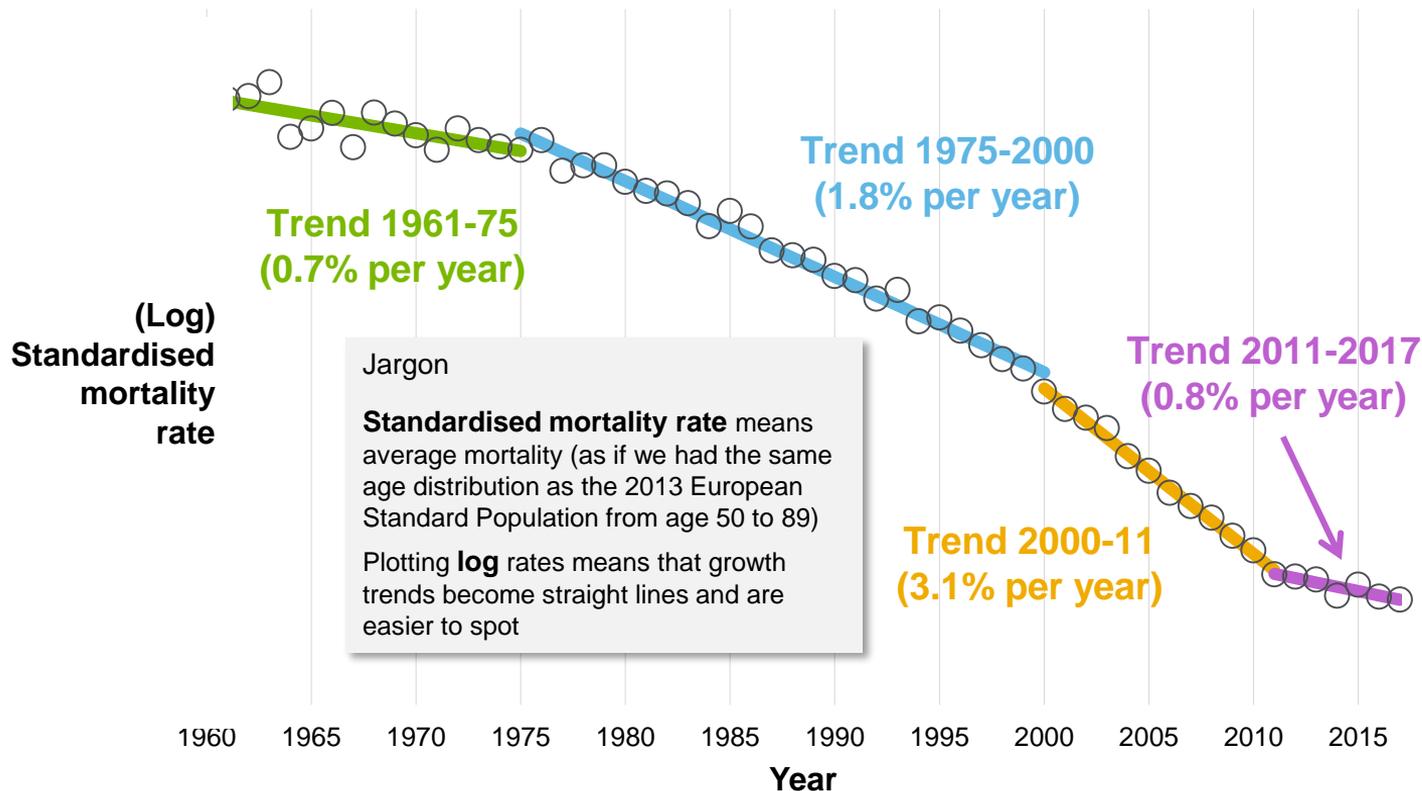
### What's happened?

- Recent fall in mortality improvements applied *across the socio-economic spectrum*
  - But improvements have been higher for the relatively better off for the past 15 years *and remain so*
- 

### Key questions

- Do we expect the divergence to continue?
- How do we allow for this in setting mortality assumptions?

# Standardised England & Wales mortality rate (males 50 to 89 inclusive)



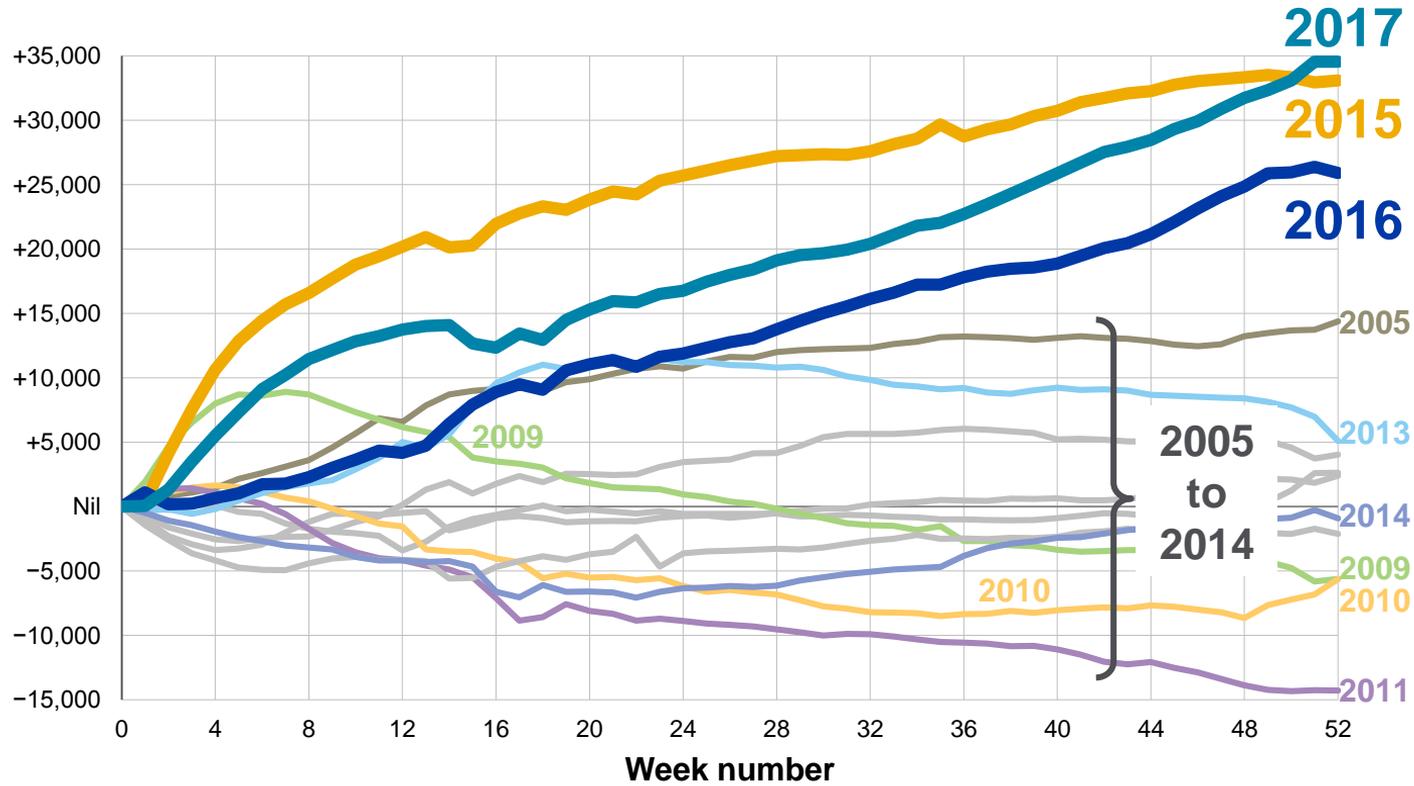
Calculations by Aon using ONS and CMI data.

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# Cumulative deaths in England & Wales vs the average over 2005-2014



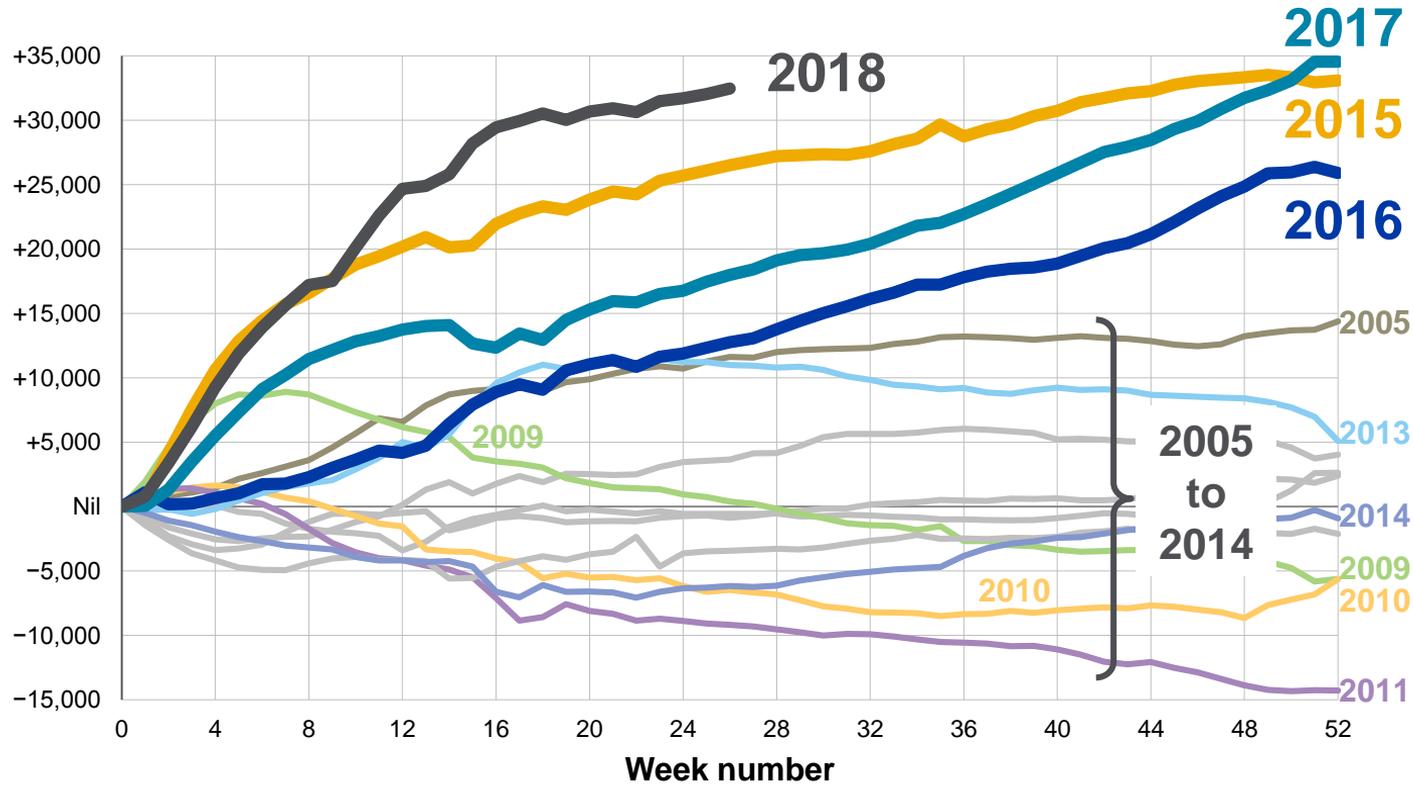
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# Cumulative deaths in England & Wales vs the average over 2005-2014



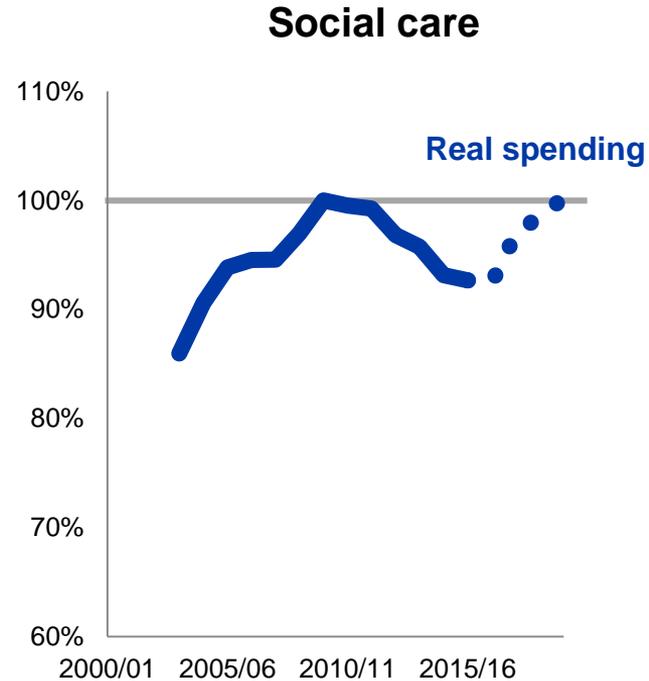
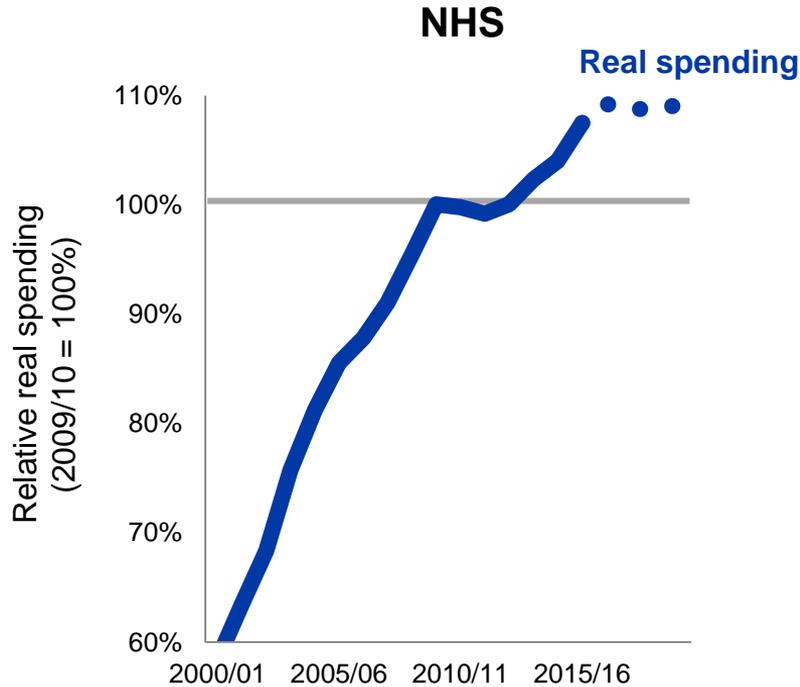
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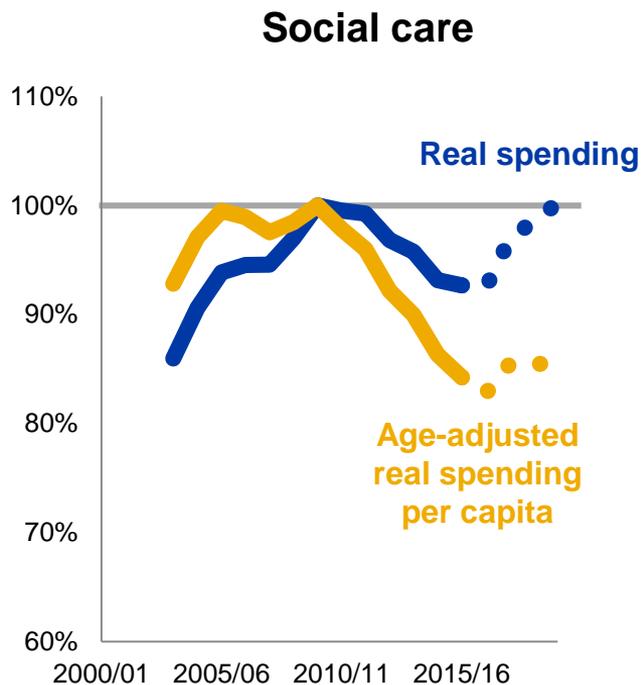
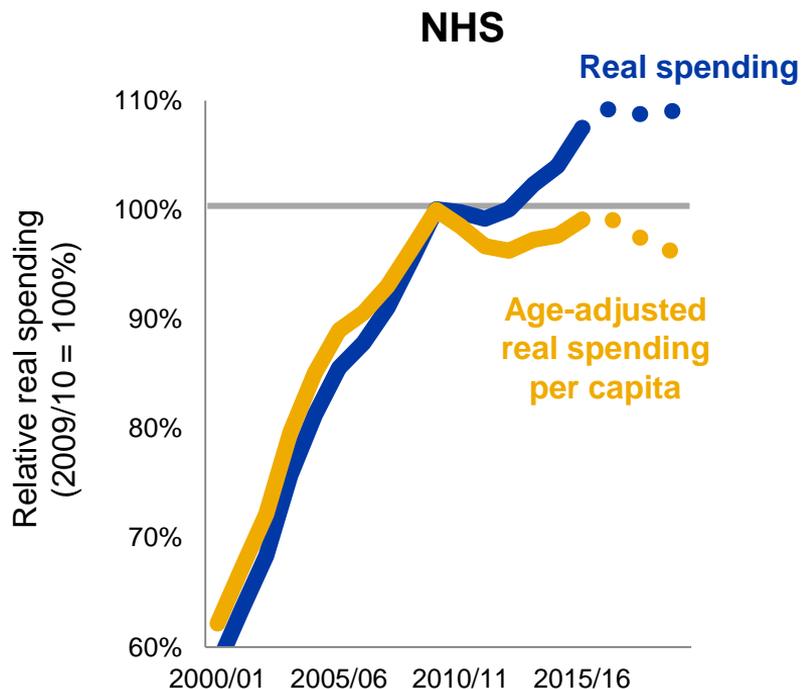
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# NHS and social care spending vs 2009/10 level



Sources: IFS / Spending Review, NHS Digital, Office for National Statistics (ONS) 2014-based projections, Office for Budget Responsibility (OBR), Fiscal Sustainability Report 2017, 2017 Budget announcement

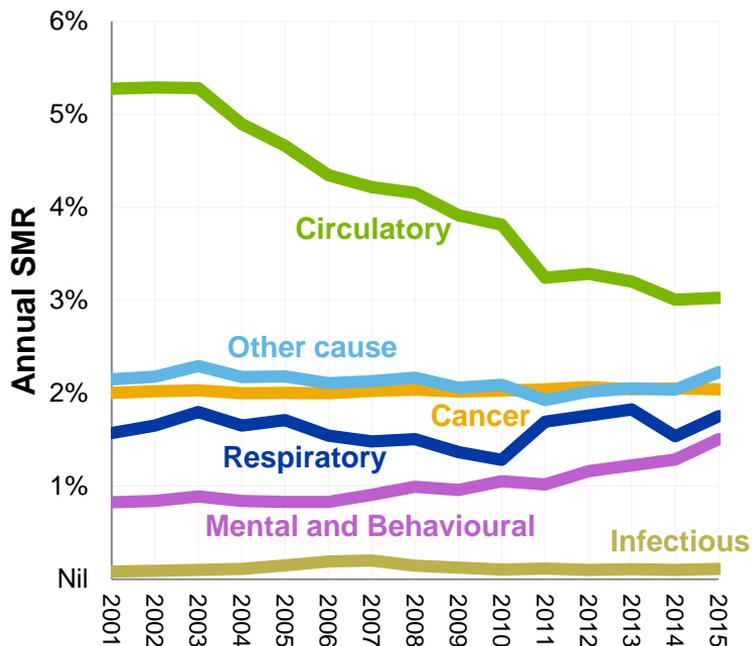
# NHS and social care spending vs 2009/10 level



Sources: IFS / Spending Review, NHS Digital, Office for National Statistics (ONS) 2014-based projections, Office for Budget Responsibility (OBR), Fiscal Sustainability Report 2017, 2017 Budget announcement

# Evidence: Causes of death

## Standardised E&W mortality rate by cause for ages 80+

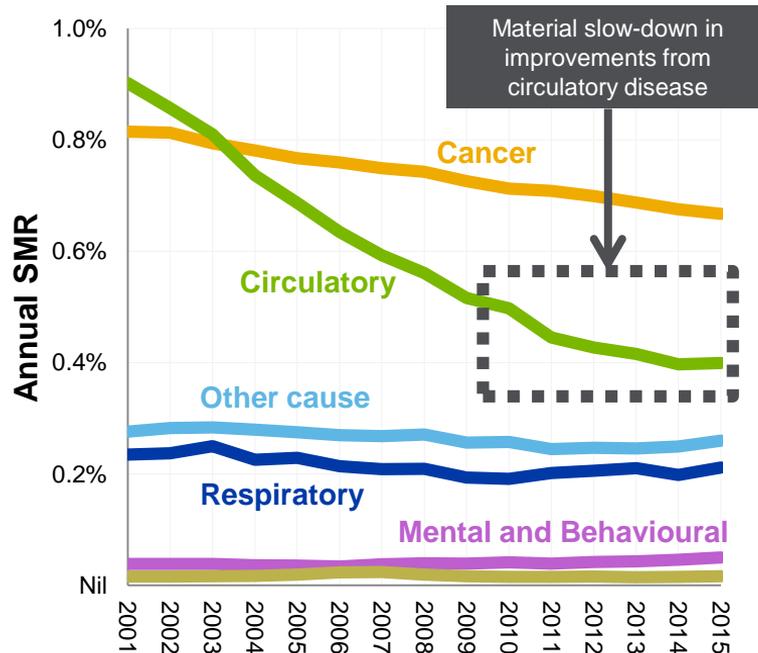


Calculations by Aon using ONS data.

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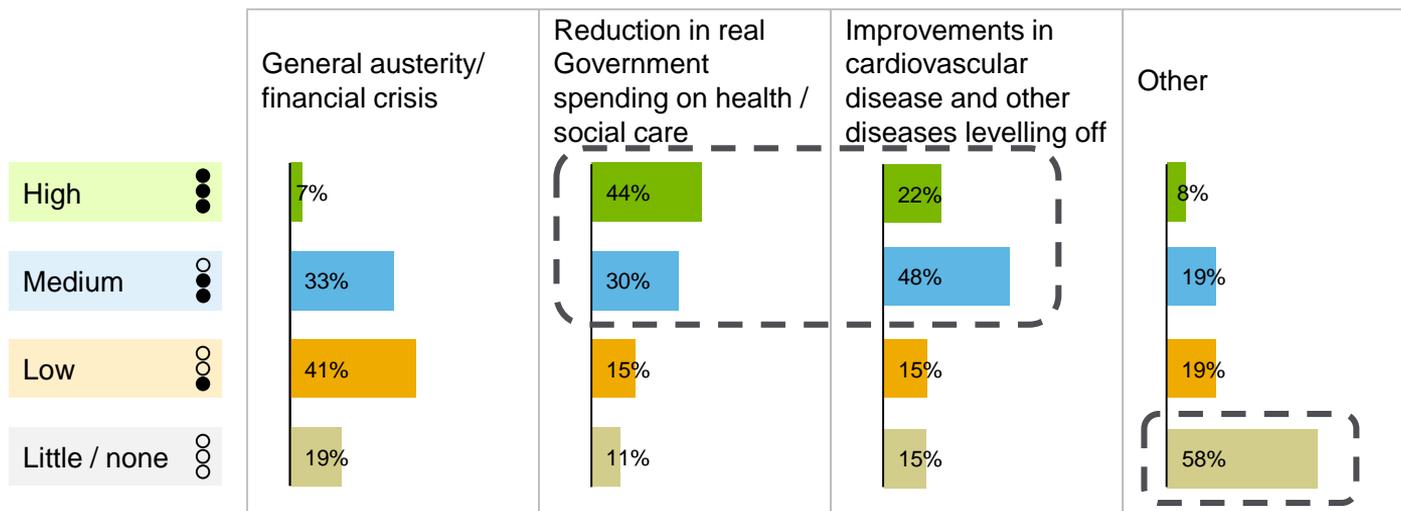
## Standardised E&W mortality rate by cause for ages 60 to 80



Material slow-down in improvements from circulatory disease

# Insurer/reinsurer view on principal drivers

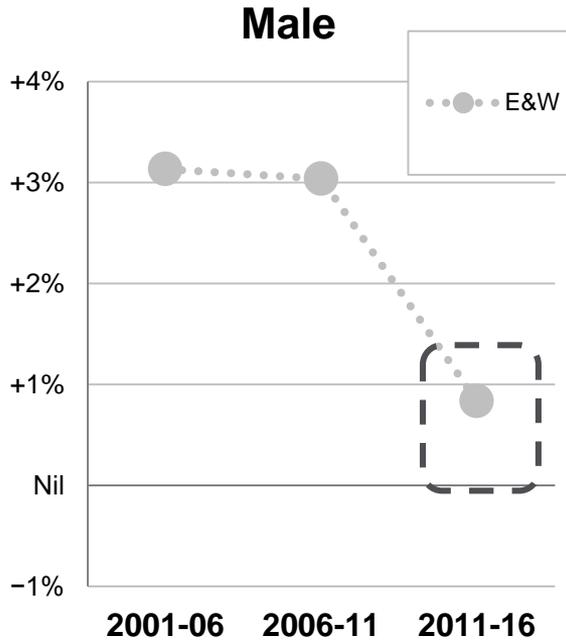
What do you think are the biggest drivers of recent low mortality improvements in the UK?  
Please indicate the relative importance of the following factors.



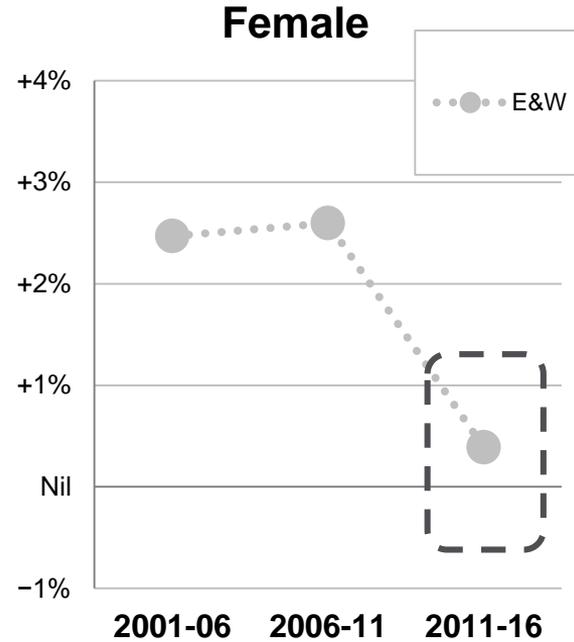
Source: Aon Insurer/Reinsurer Longevity Survey, November 2017

There is a broad consensus on what's happened so far

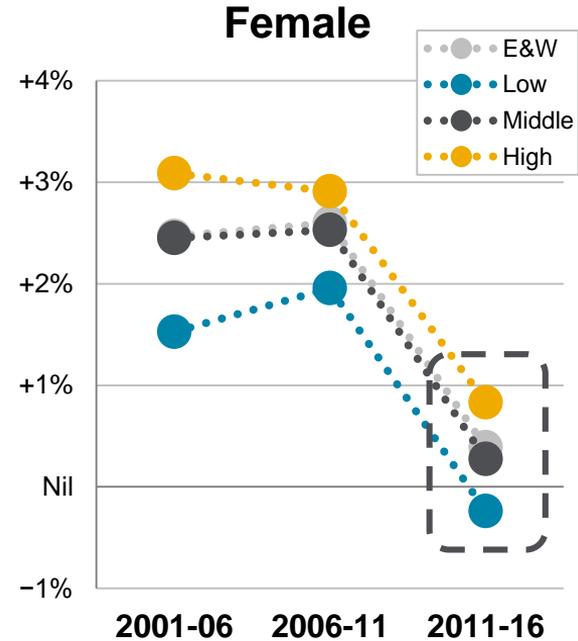
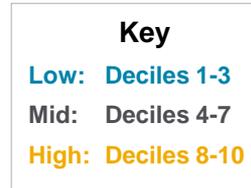
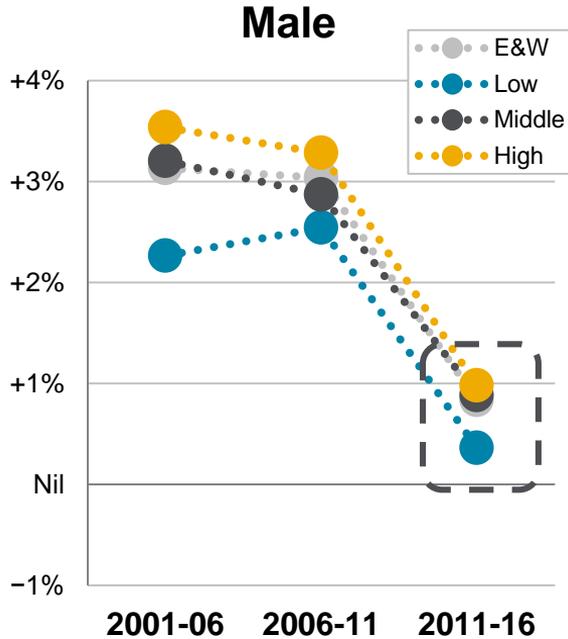
# Mortality improvements in England & Wales by socio-economic type



Calculations by Aon using ONS data.



# Mortality improvements in England & Wales by socio-economic type



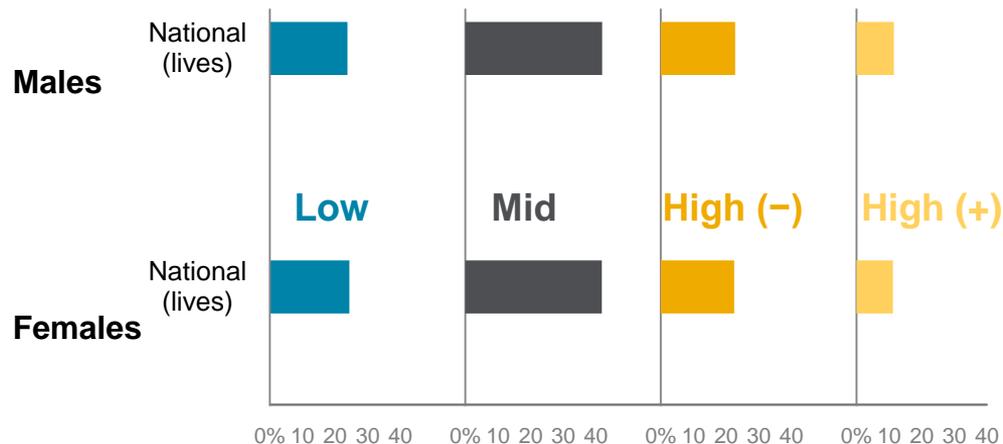
Calculations by Aon using ONS data.

Improvements fell across the socio-economic spectrum, but *persistently higher for the better off*

# Improvements by socio-economic group

- Even **very large pension schemes** are too small to **measure mortality improvements** credibly and robustly
- But we can map their socio-economic profile to the national experience

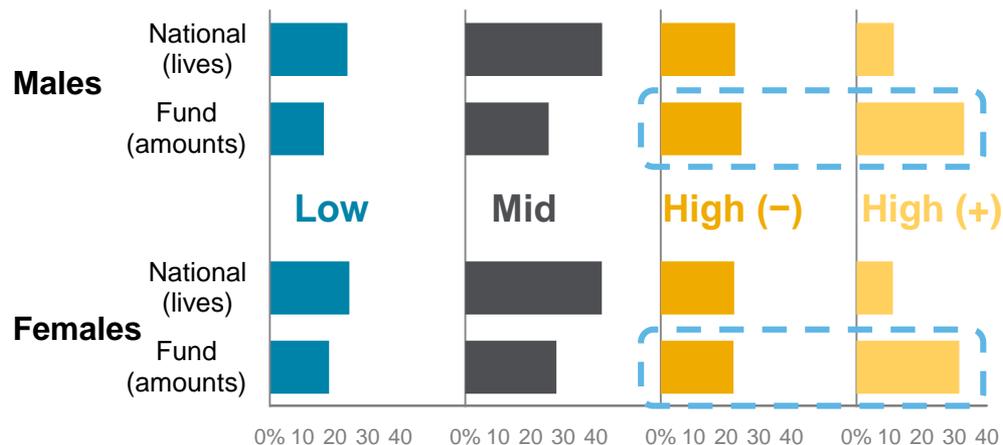
**Distribution by Index of Multiple Deprivation**  
(Ages 60-89, years 2006-2016)



# Improvements by socio-economic group

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**Distribution by Index of Multiple Deprivation**  
(Ages 60-89, years 2006-2016)

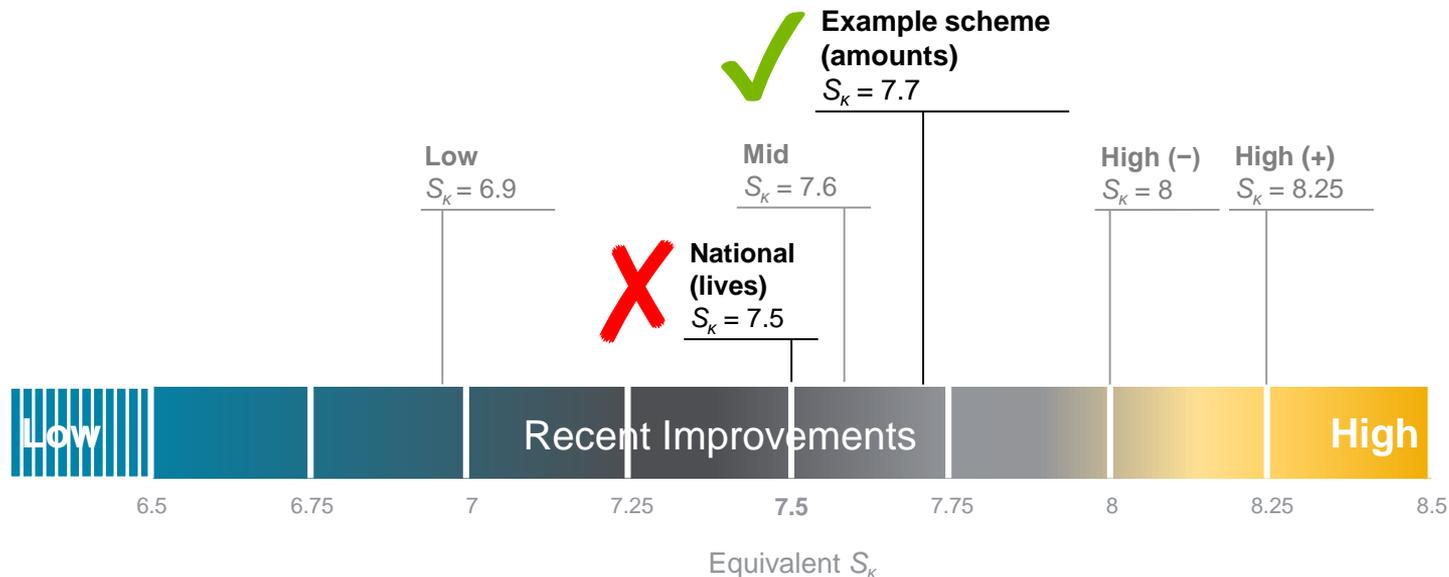


**We can use this information to infer future improvements for a particular scheme**

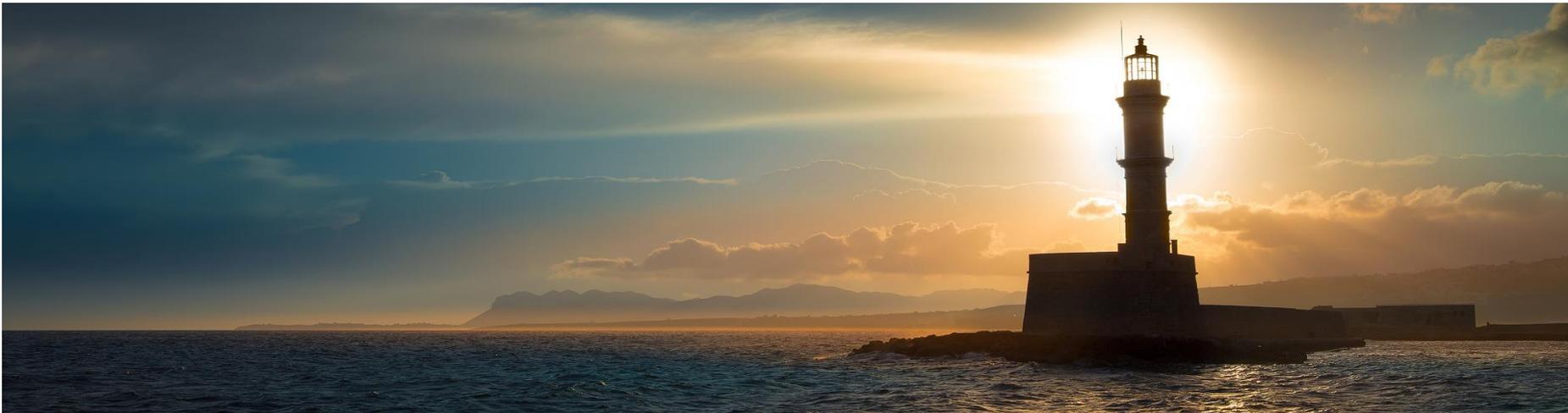
# Possible approach to setting scheme-specific improvements



# Possible approach to setting scheme-specific improvements



This scheme has had higher recent improvements than the national population ( $S_k = 7.7$ )



# Longevity Swap Market Update

Tom Scott

17 July 2018

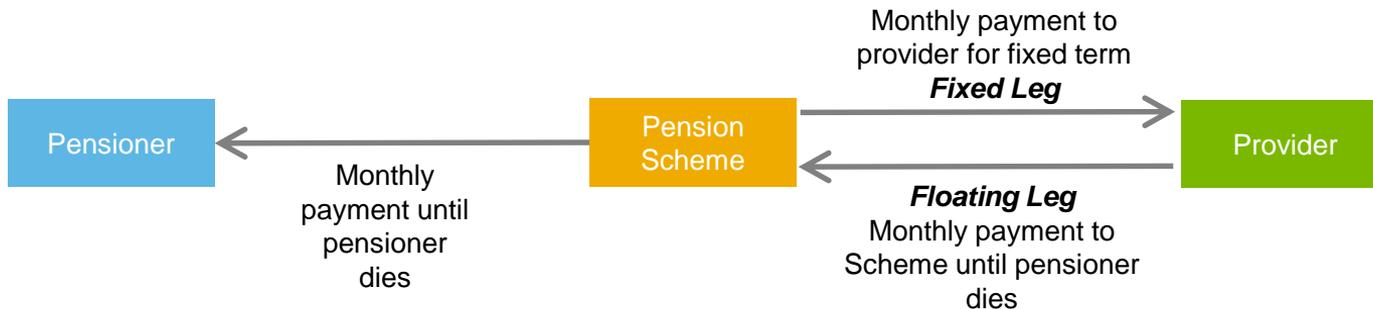
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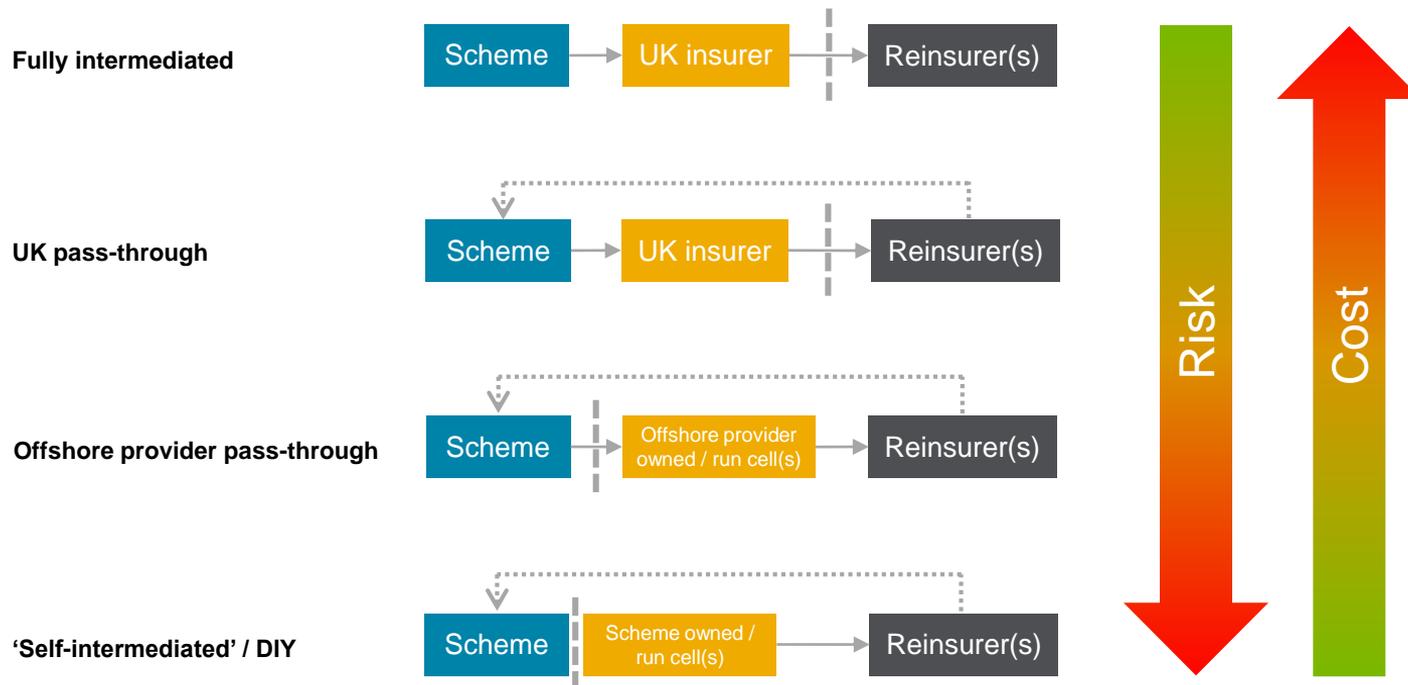
# Longevity swaps – overview



## Risk transfer chain



# Structures – horses for courses ...



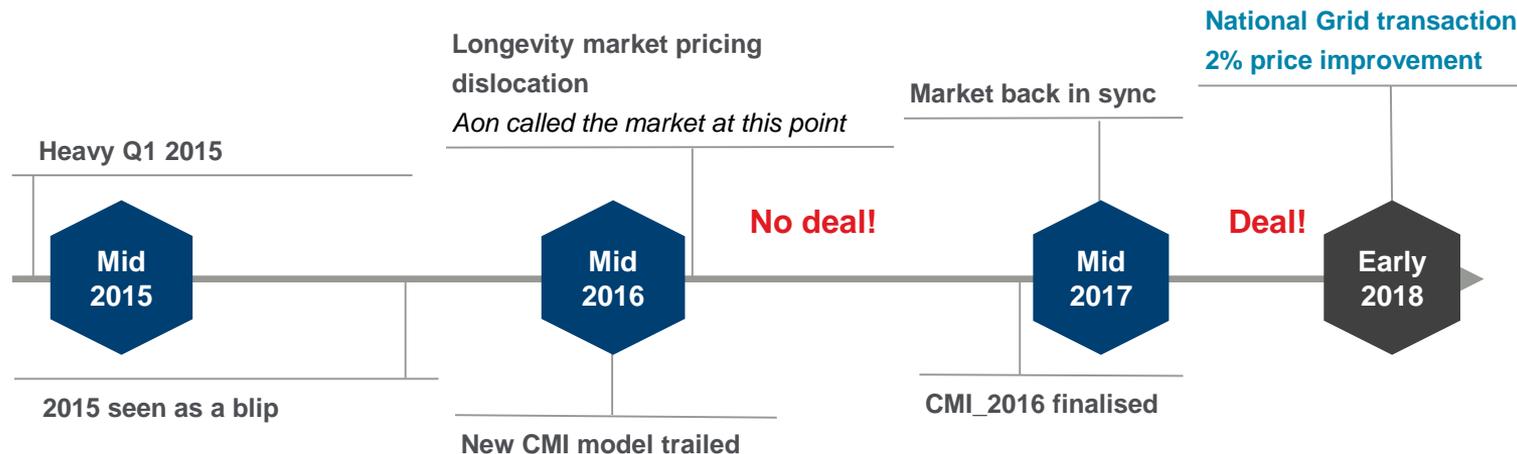
# National Grid structure



# National Grid structure



# Longevity insurance pricing – deal / no deal?



Pricing back in the right zone – but proceed with care

# Future-proofing

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Important to consider in advance a range of future scenarios and needs



Transition to annuity



PIE / benefit restructure



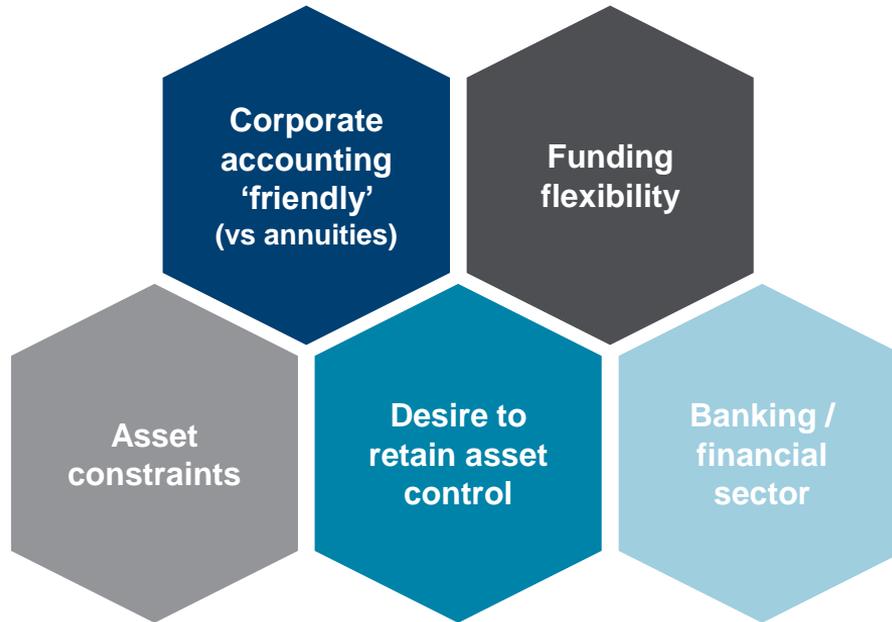
Lump sum settlements



Intermediary failure

# Which schemes?

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