

Risk Settlement Market Update Webinar

17 July 2018

Prepared by Aon

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Empower Results®

Today's speakers



Martin Bird



John Baines



Tim Gordon



Tom Scott

Agenda



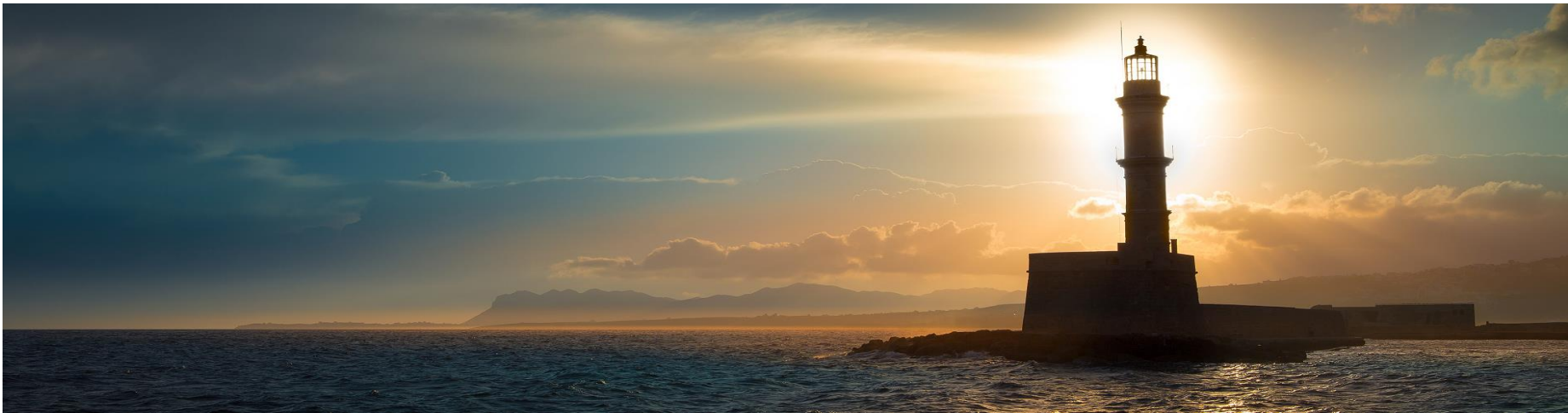
Risk Settlement Market Update and Case Studies



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

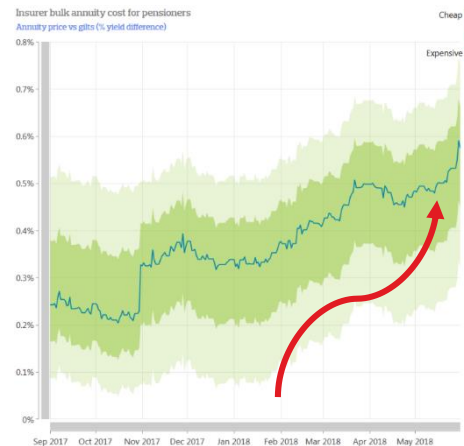
“2018 will see £30bn + of annuity transactions”

“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

Siemens

Biggest
buy-in
£1,300m

Biggest
longevity
swap
£2,000m

National Grid

c£5bn of
liabilities
secured so
far

100%
transaction
success
rate

>£11bn of
liabilities
being
priced



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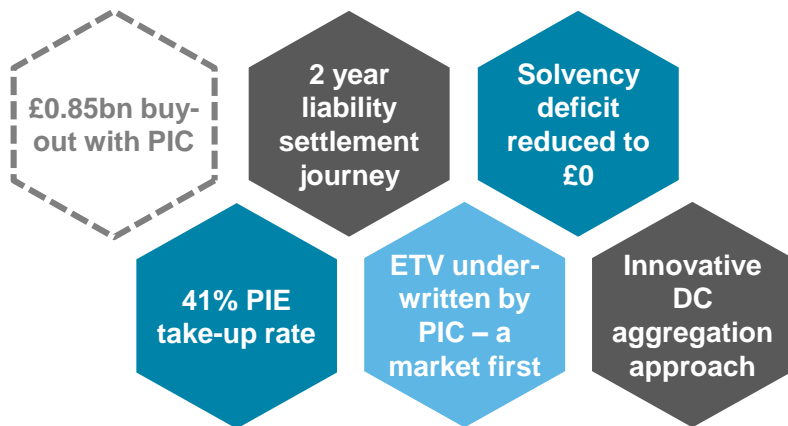
Pricing will
continue to
be attractive

But insurers
have
practical
capacity
limits



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

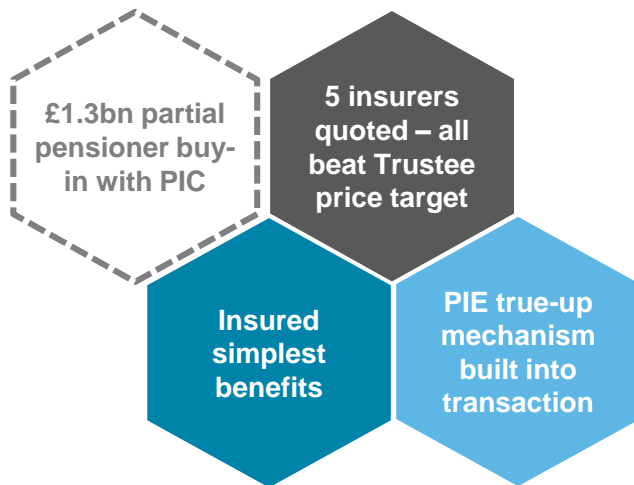
Case study - PA Consulting



“ 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

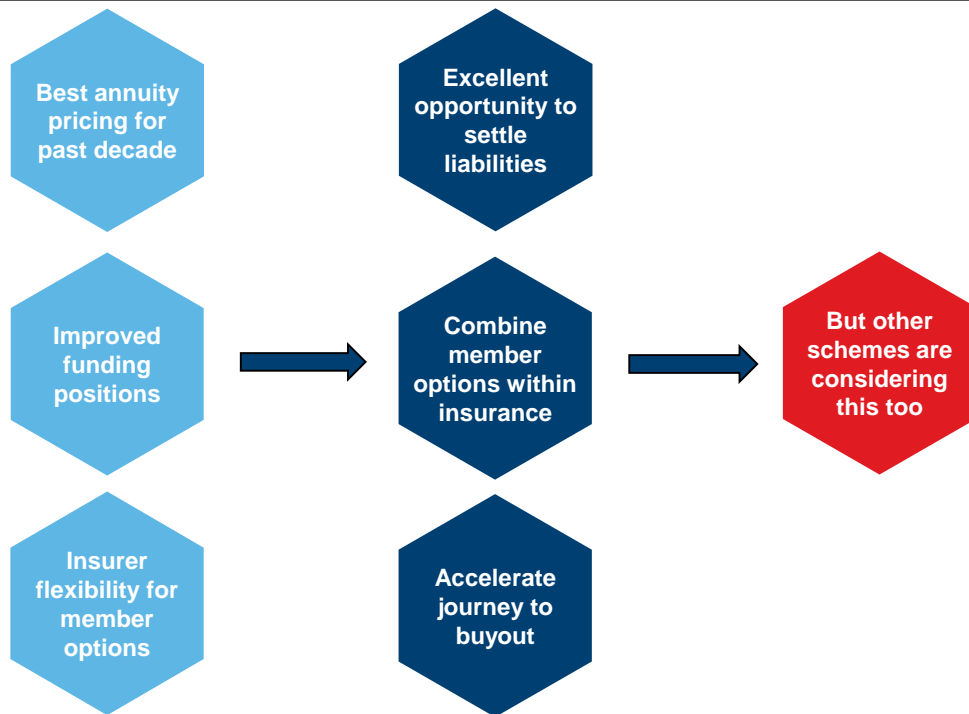


“ We are proud of what we have achieved with this latest buy-in, which is part of Siemen’s long-term pension de-risking strategy....achieving this is a **significant milestone** for the Company. ”

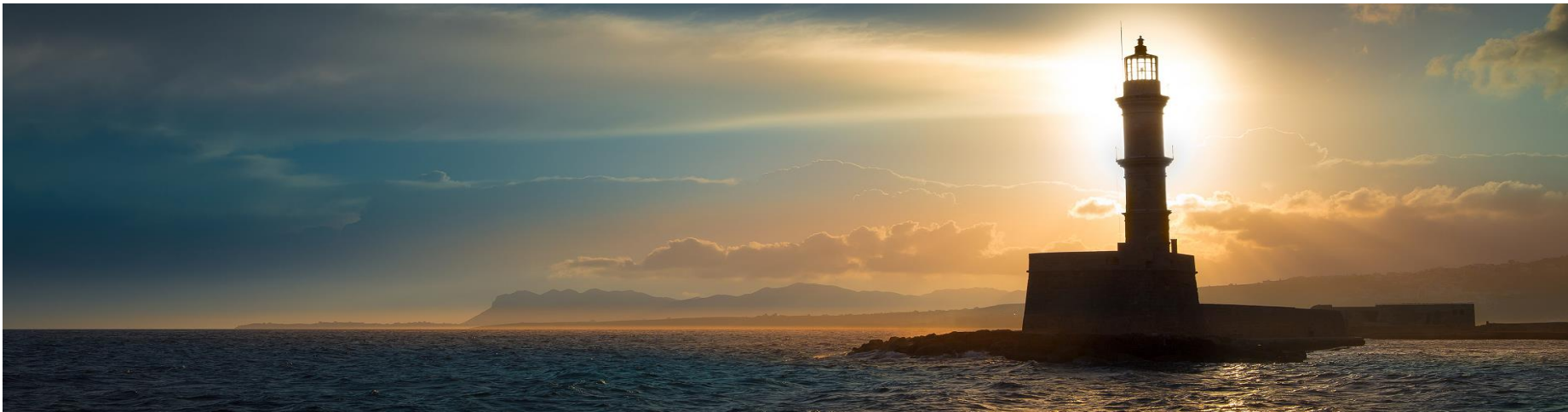
John Smith, Siemens plc

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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of Actuaries
Quality Assurance Scheme

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Potted summary

1

National mortality improvements

Lives-weighted, everyone

What's happened?

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

Key questions

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

2

Impact on scheme liabilities

Liability-weighted, those fit enough to work

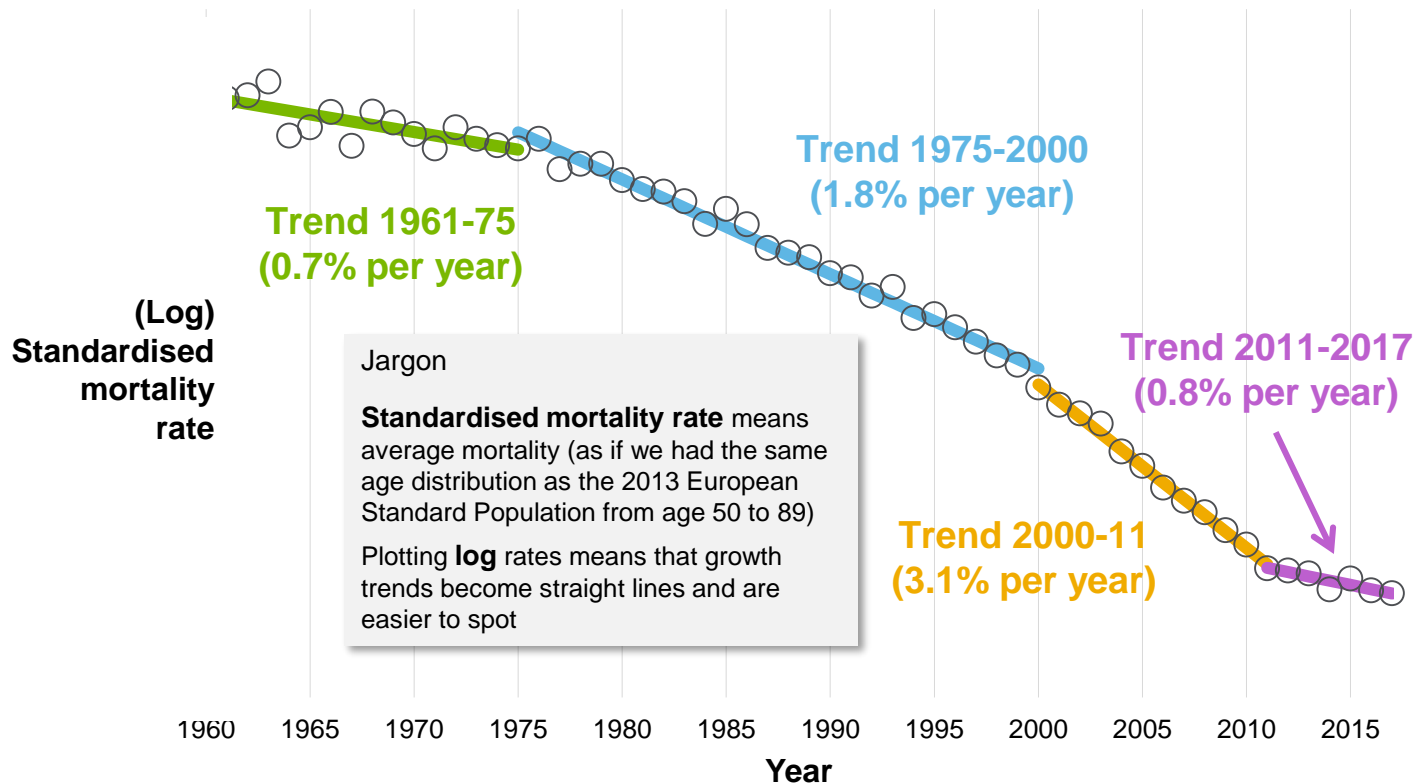
What's happened?

- 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)



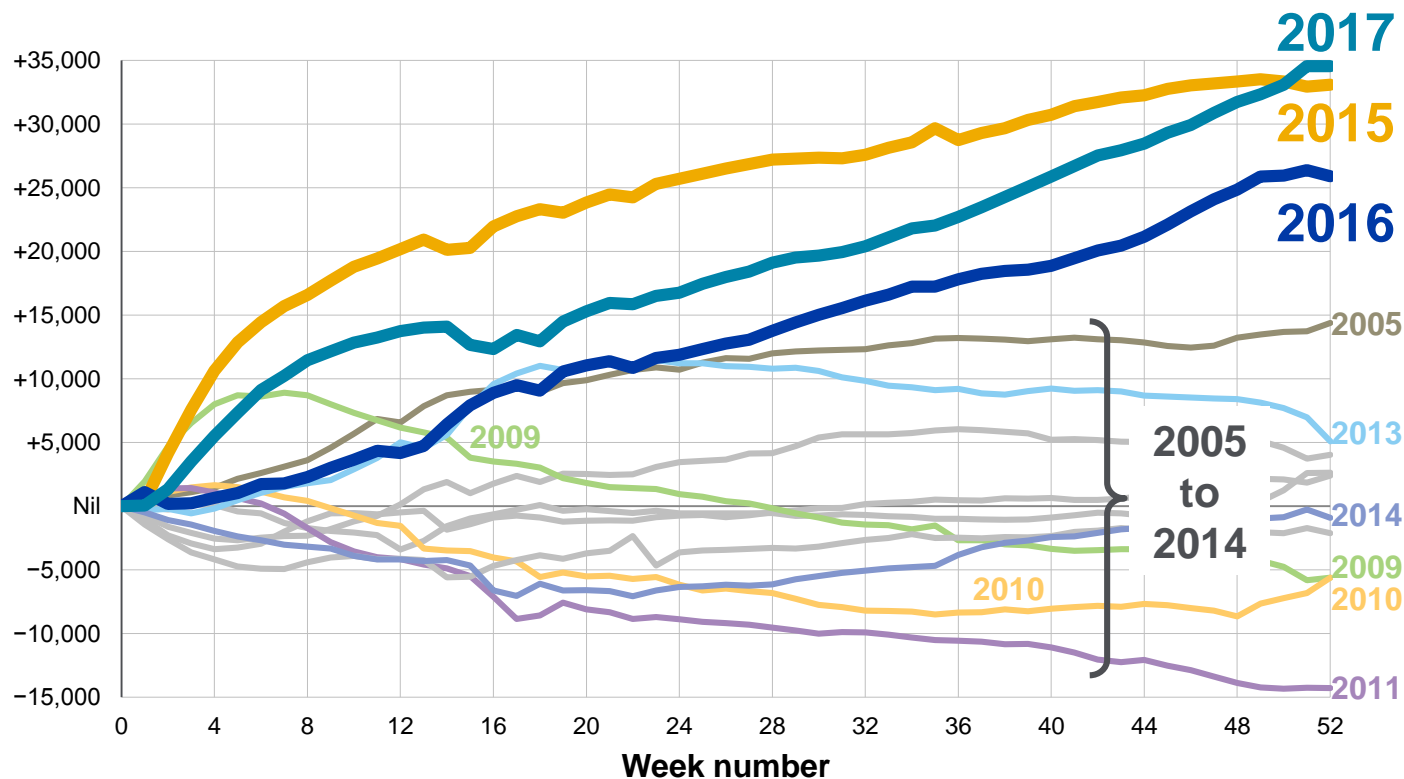
Calculations by Aon using ONS and CMI data.

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

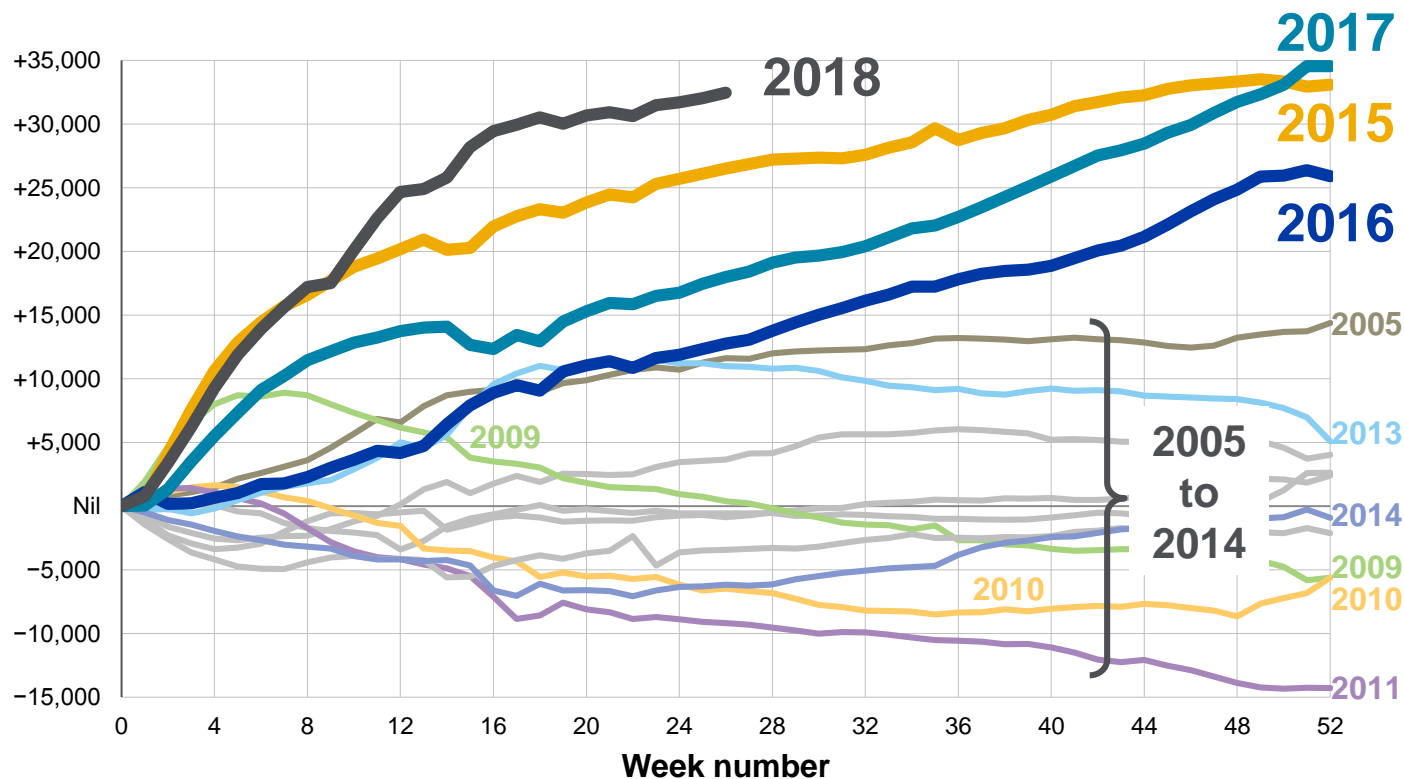


Calculations by Aon using ONS data.

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



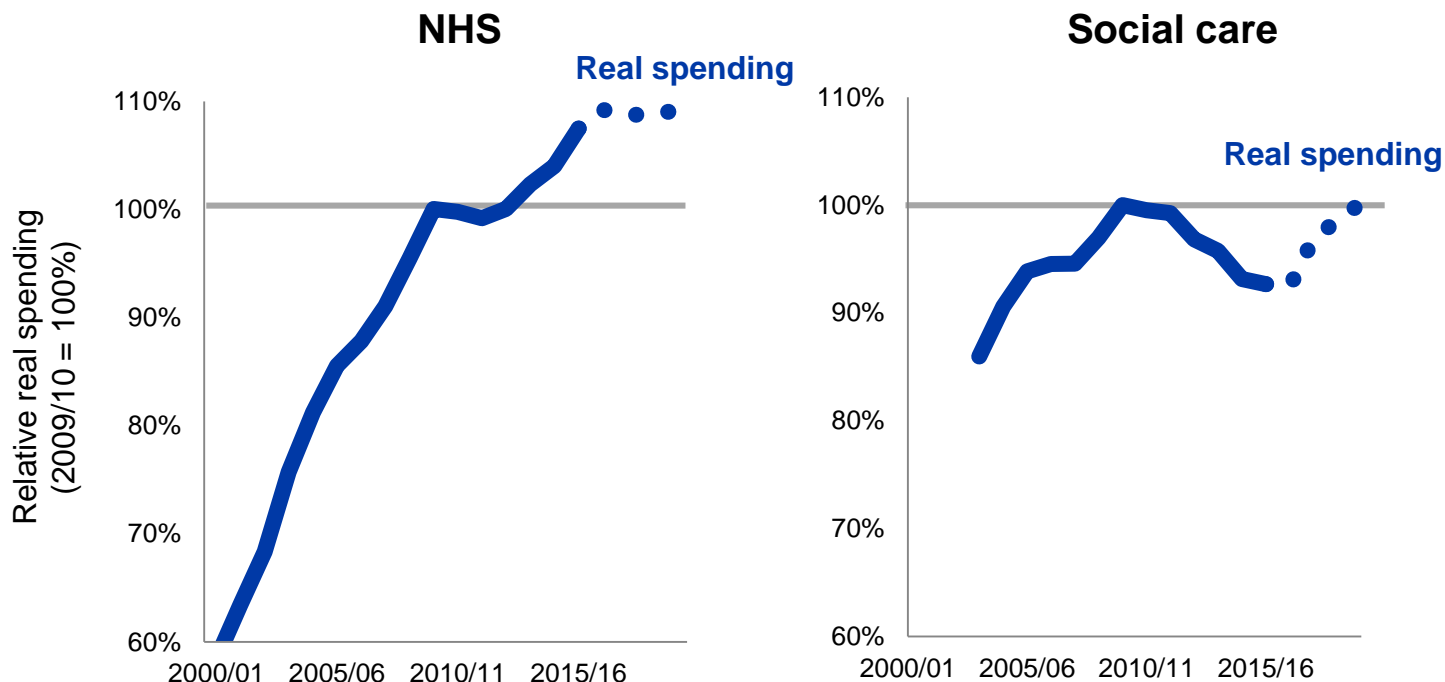
Calculations by Aon using ONS data.

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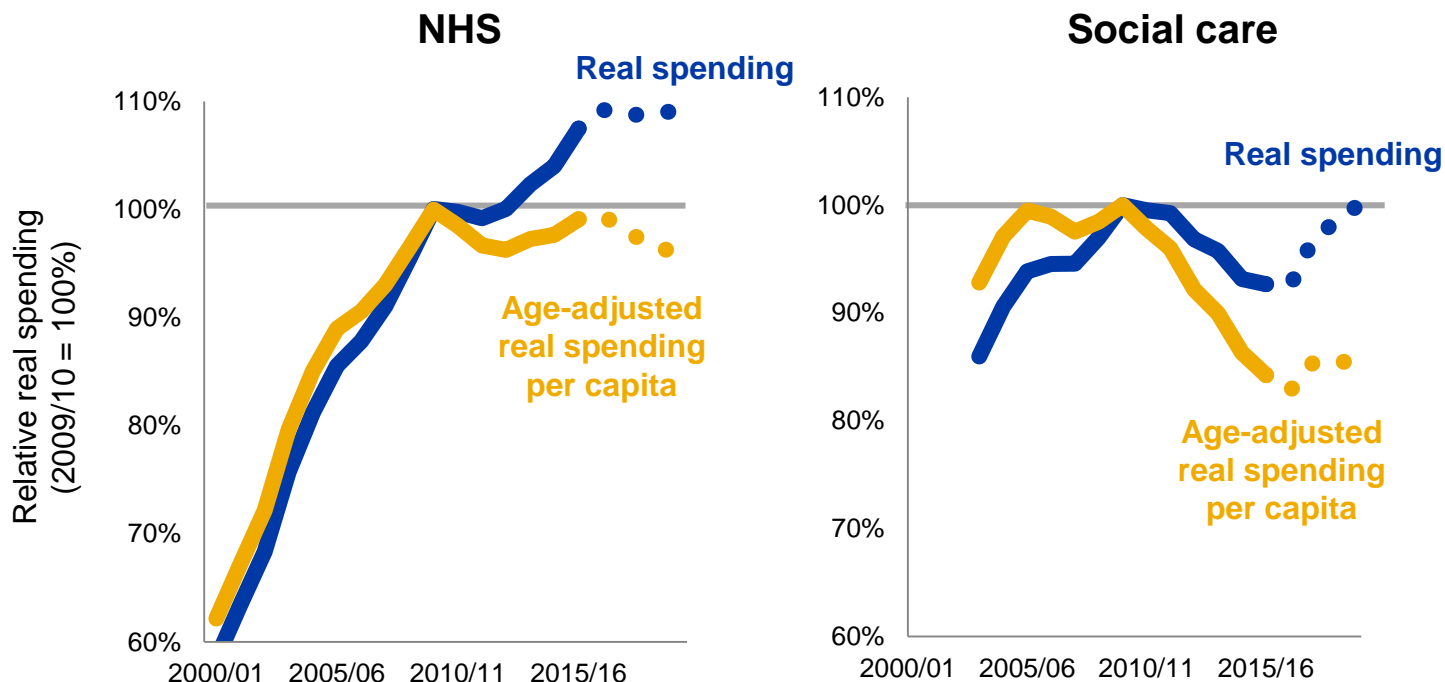
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NHS and social care spending vs 2009/10 level



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

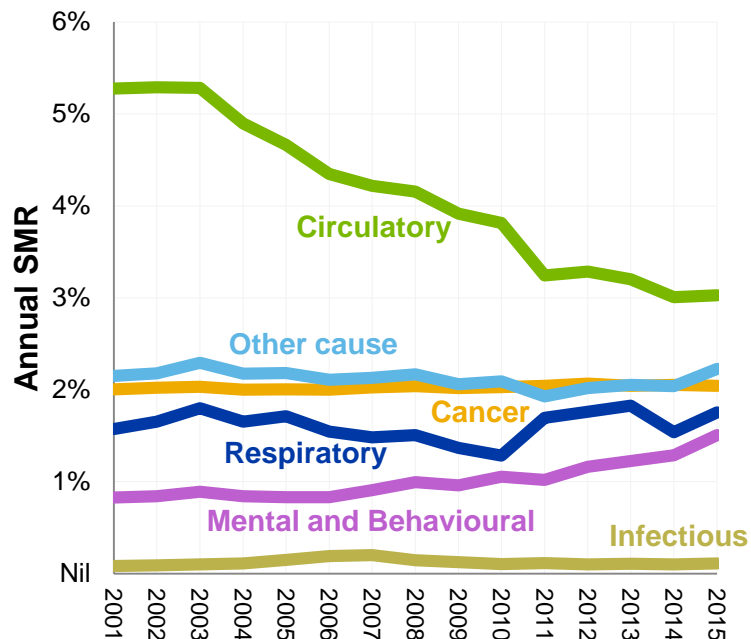
NHS and social care spending vs 2009/10 level



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+

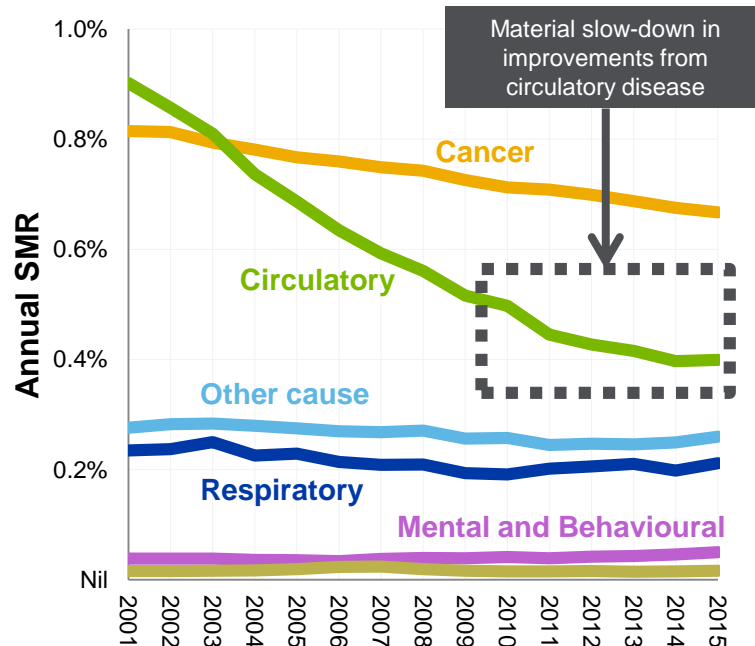


Calculations by Aon using ONS data.

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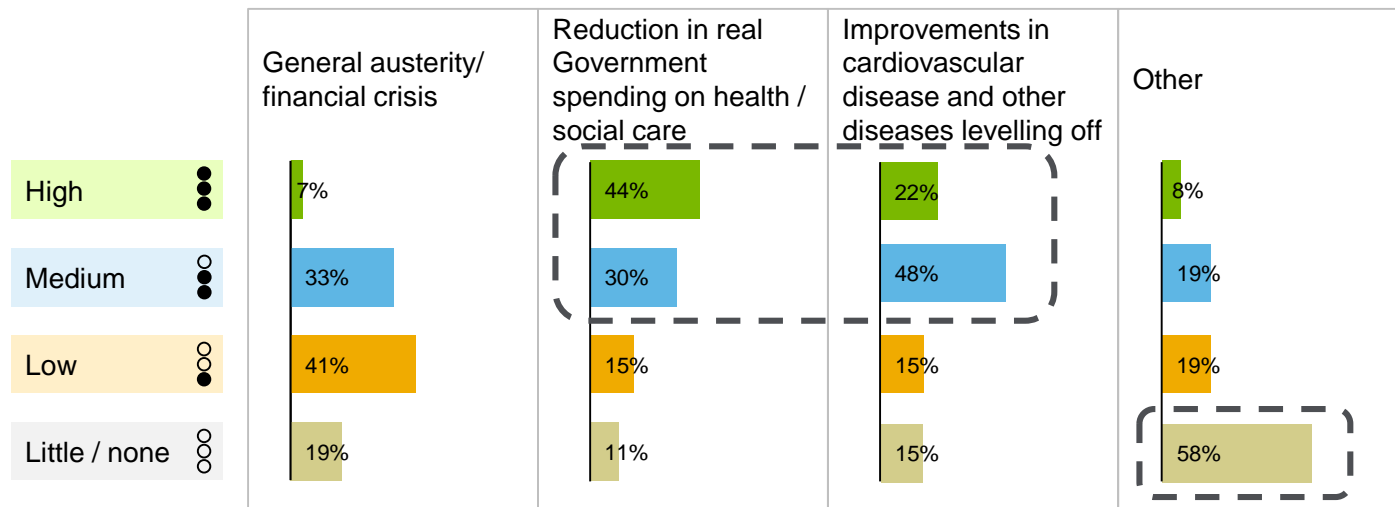
Standardised E&W mortality rate by cause for ages 60 to 80



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Insurer/reinsurer view on principal drivers

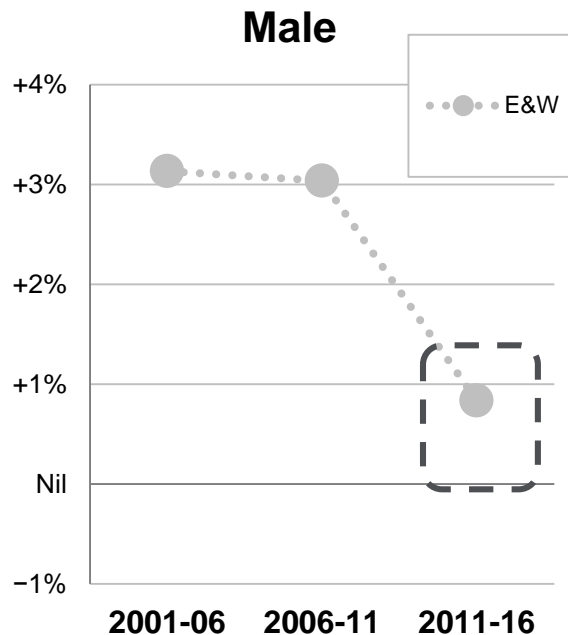
*What do you think are the biggest drivers of recent low mortality improvements in the UK?
Please indicate the relative importance of the following factors.*



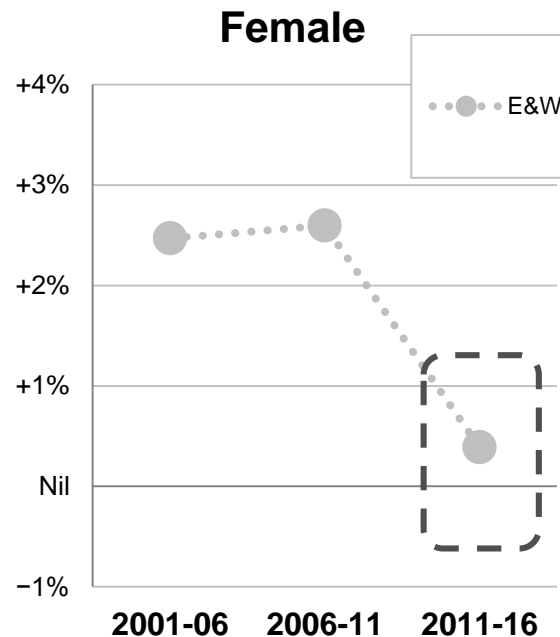
Source: Aon Insurer/Reinsurer Longevity Survey, November 2017

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

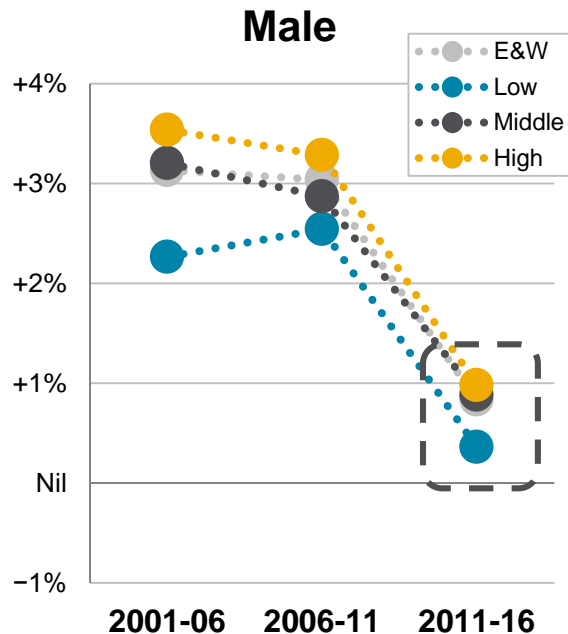
Mortality improvements in England & Wales by socio-economic type



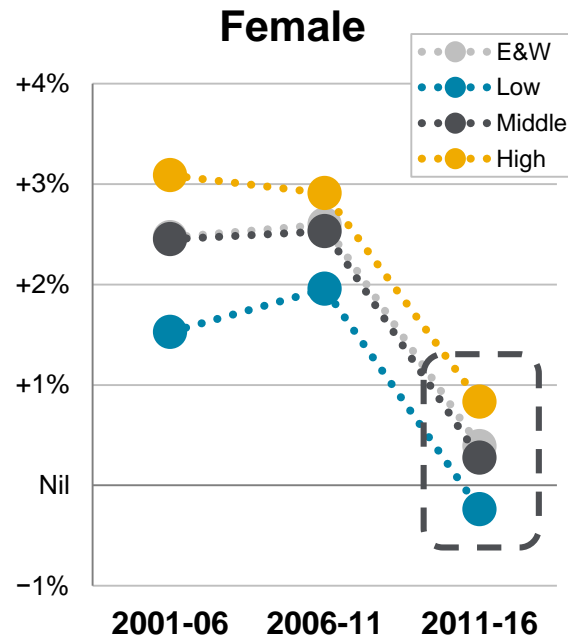
Calculations by Aon using ONS data.



Mortality improvements in England & Wales by socio-economic type



Key
Low: Deciles 1-3
Mid: Deciles 4-7
High: Deciles 8-10

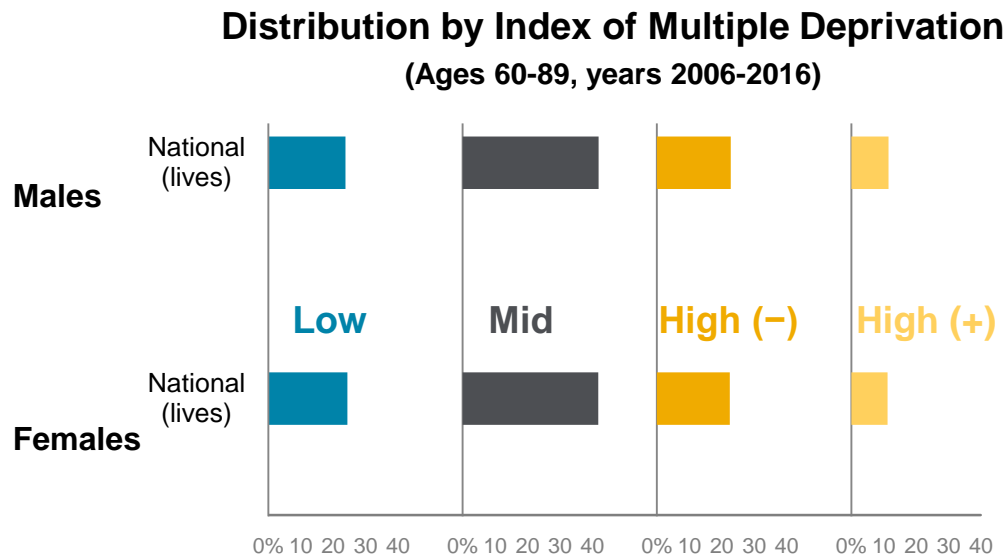


Calculations by Aon using ONS data.

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

Improvements by socio-economic group

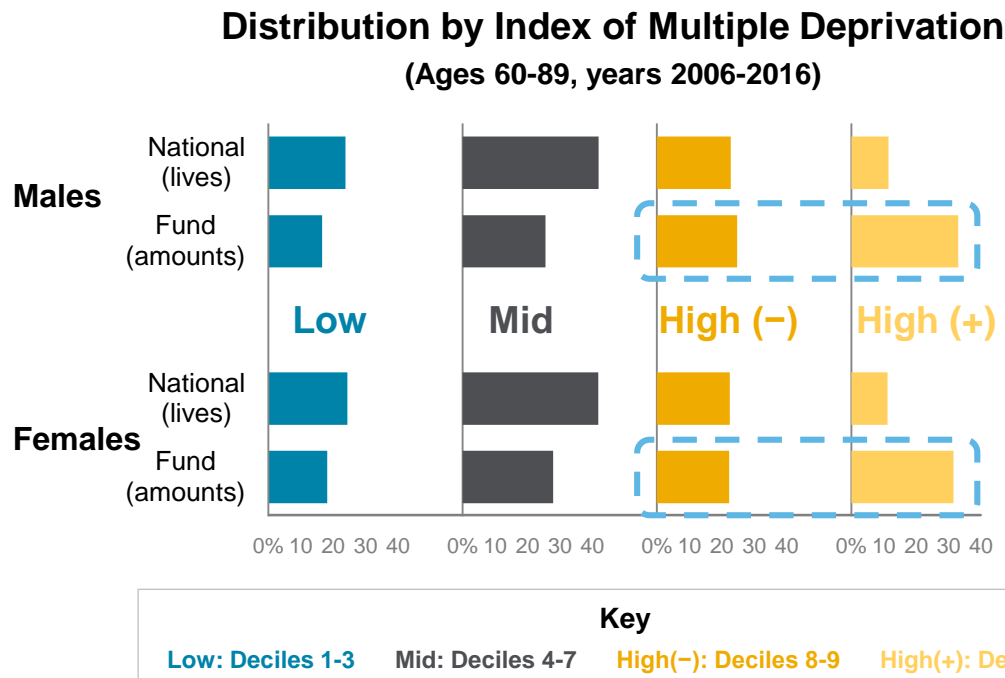
- Even **very large pension schemes** are too small to **measure mortality improvements** credibly and robustly
- But we can map their socio-economic profile to the national experience



Key
Low: Deciles 1-3 Mid: Deciles 4-7 High(-): Deciles 8-9 High(+): Decile 10

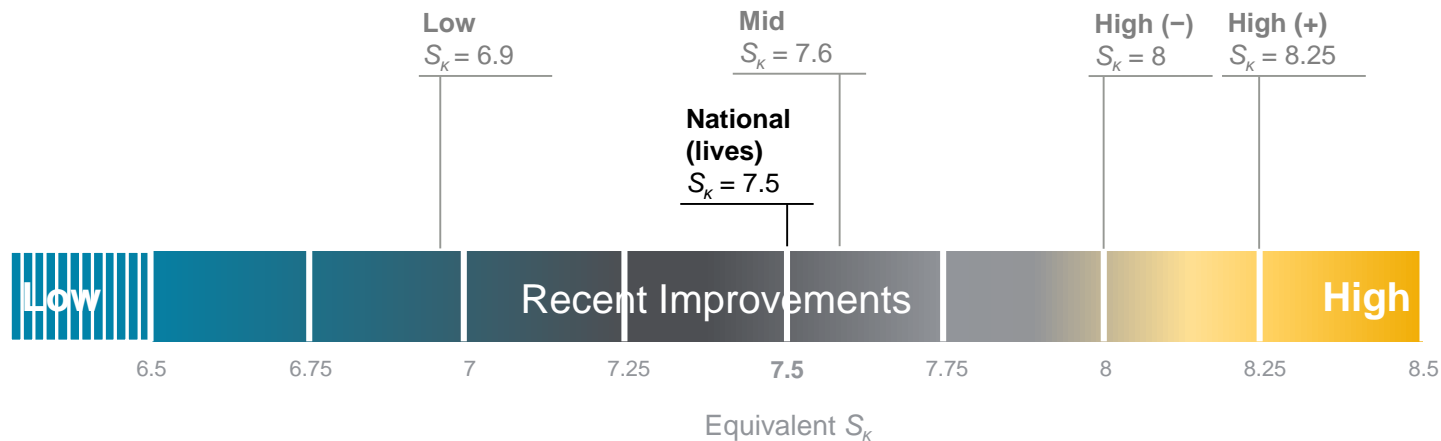
Improvements by socio-economic group

- 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

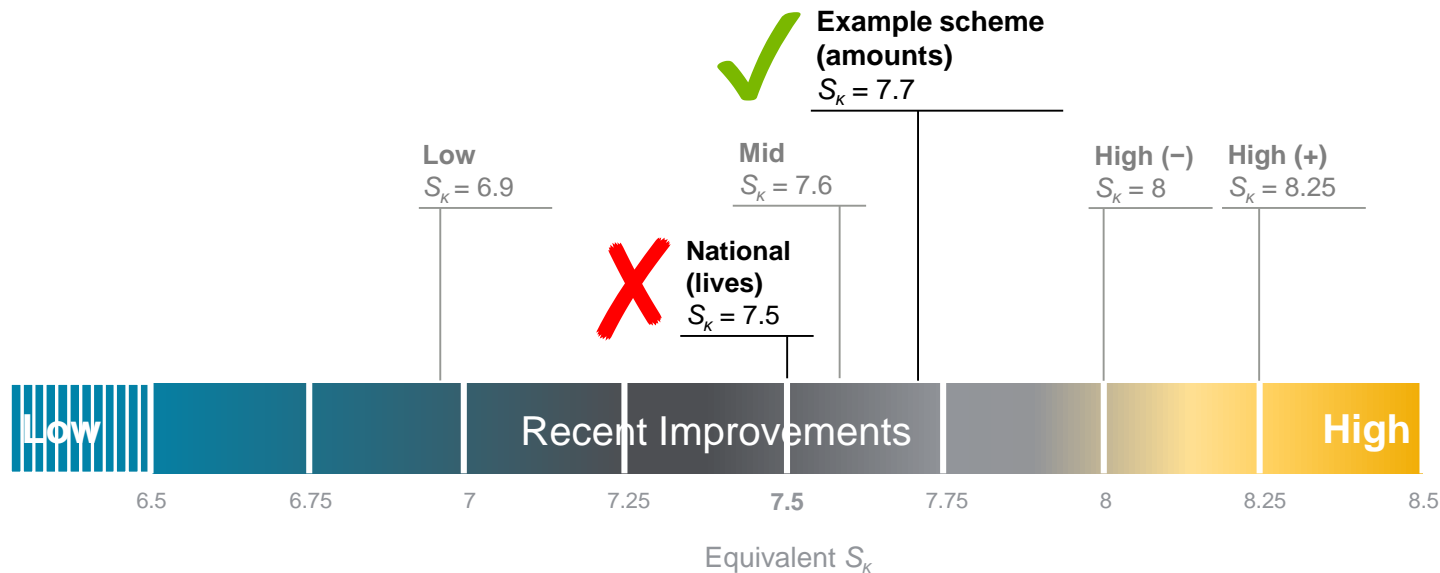


We can use this information to infer future improvements for a particular scheme

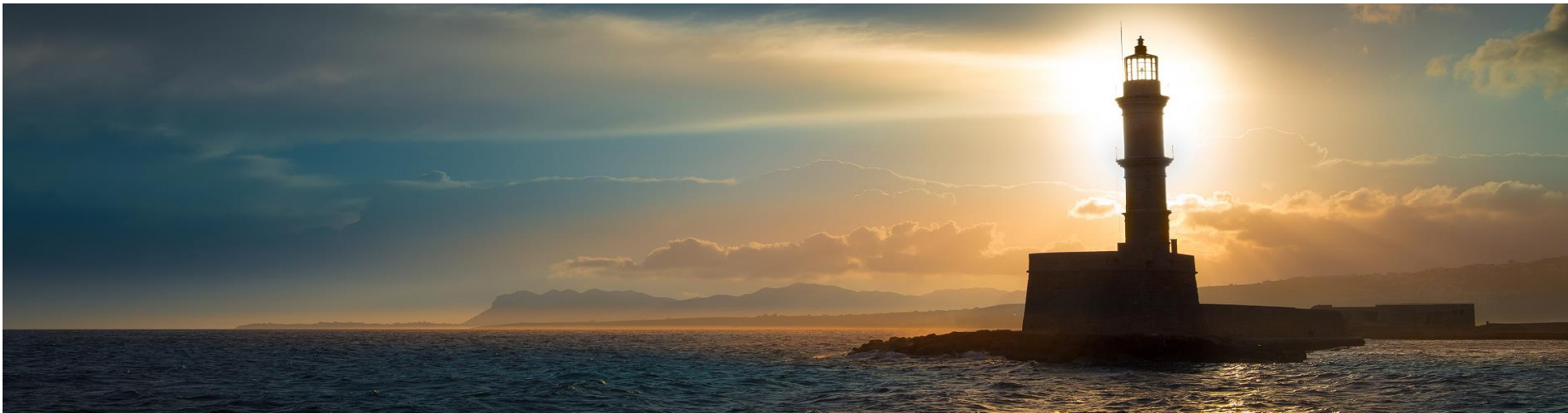
Possible approach to setting scheme-specific improvements



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

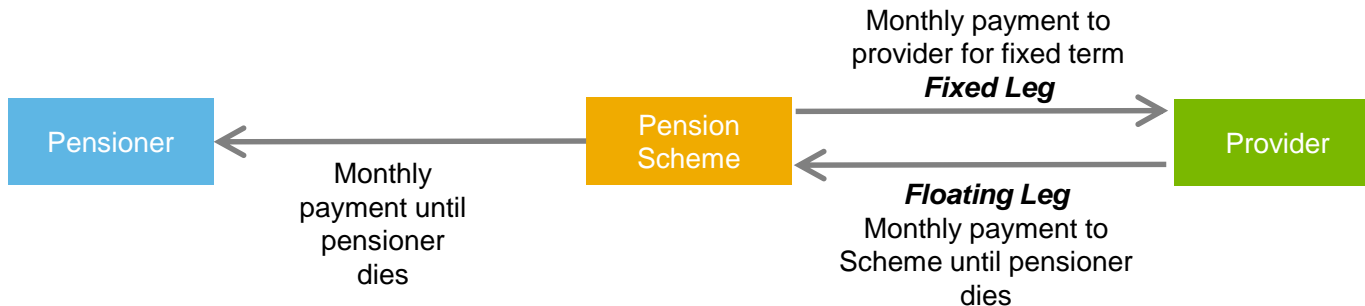
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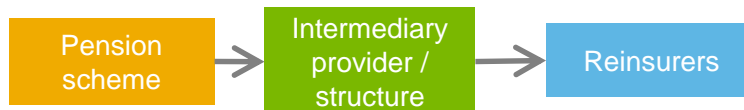
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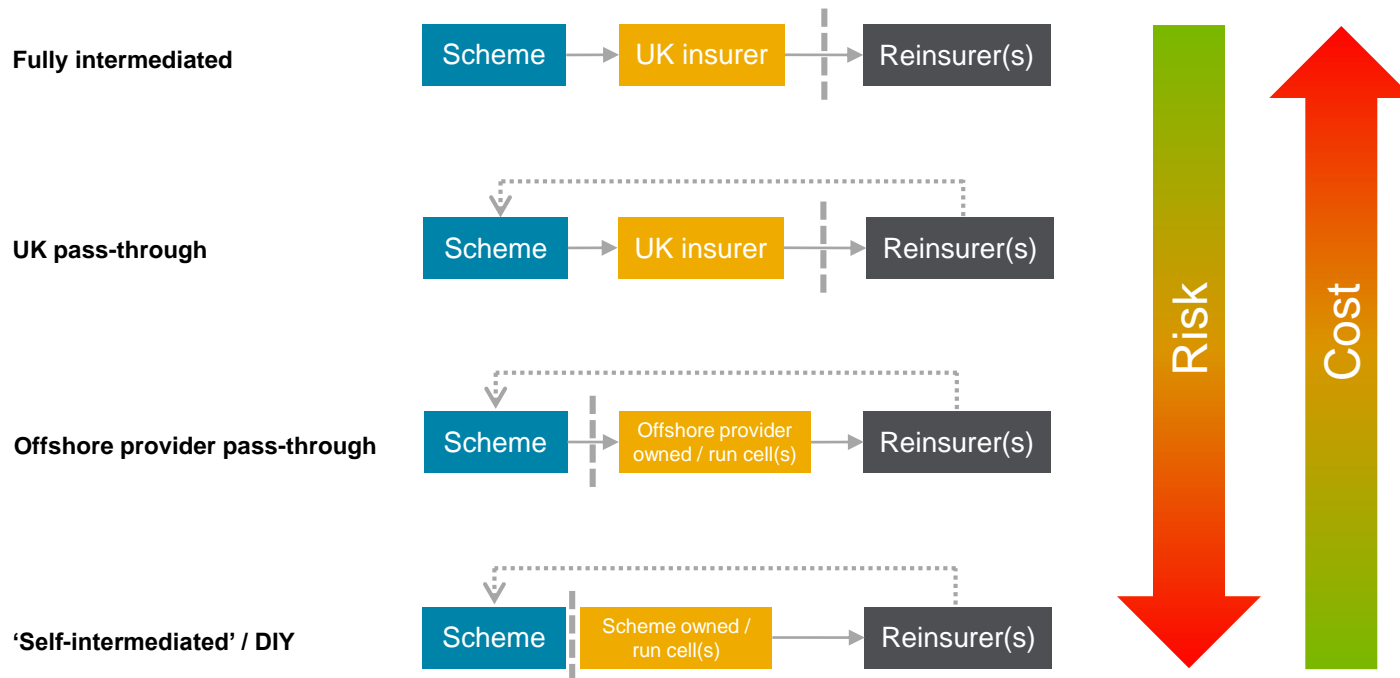
Longevity swaps – overview



Risk transfer chain



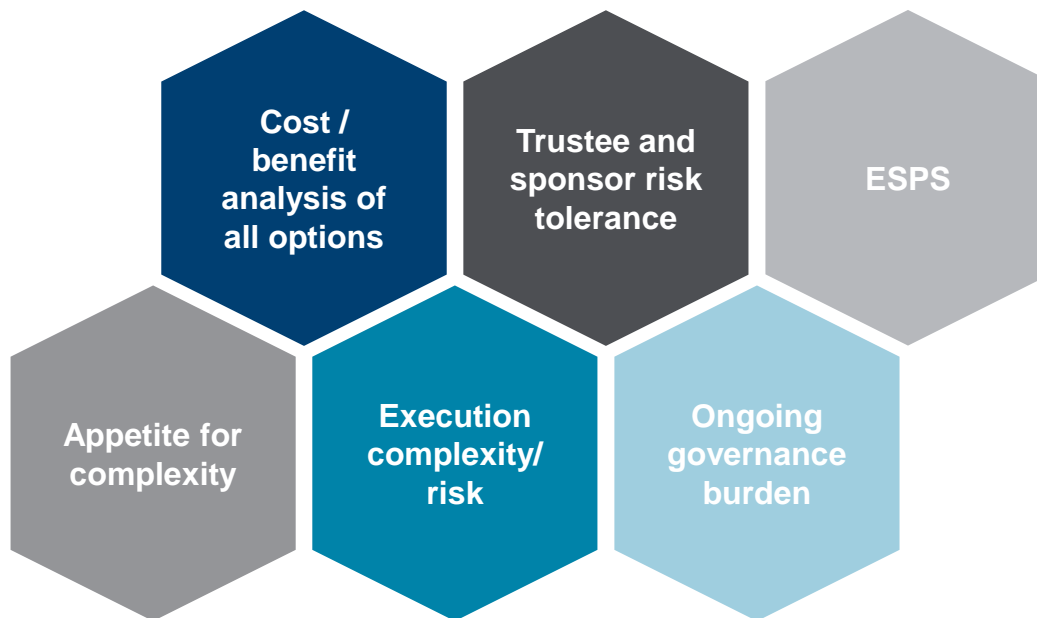
Structures – horses for courses ...



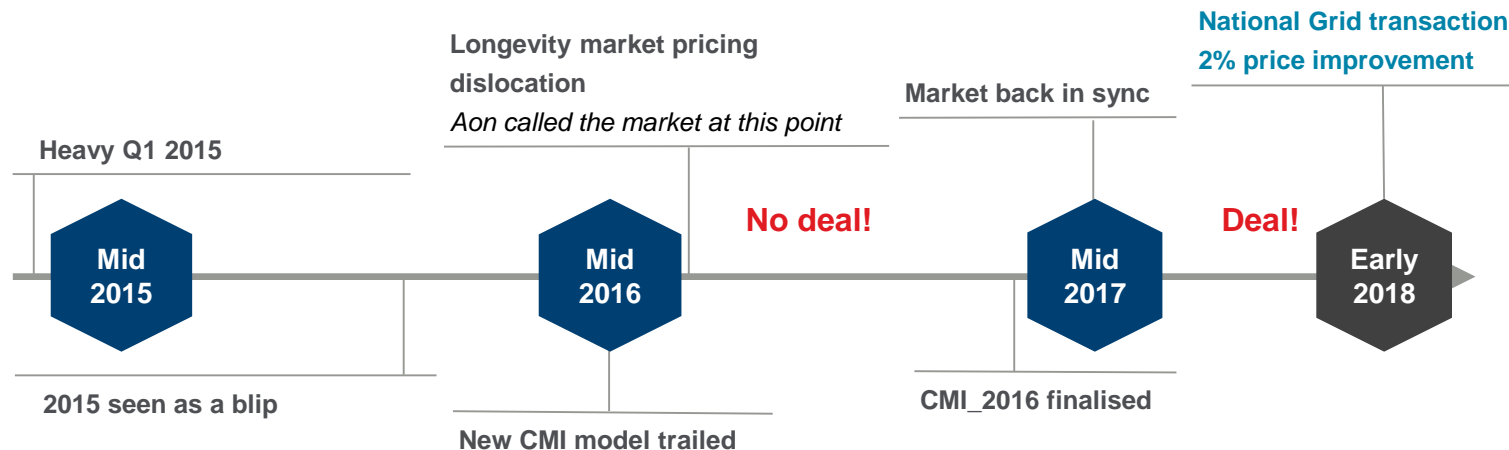
National Grid structure



National Grid structure



Longevity insurance pricing – deal / no deal?



Pricing back in the right zone – but proceed with care

Future-proofing

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



Transition to
annuity



PIE / benefit
restructure

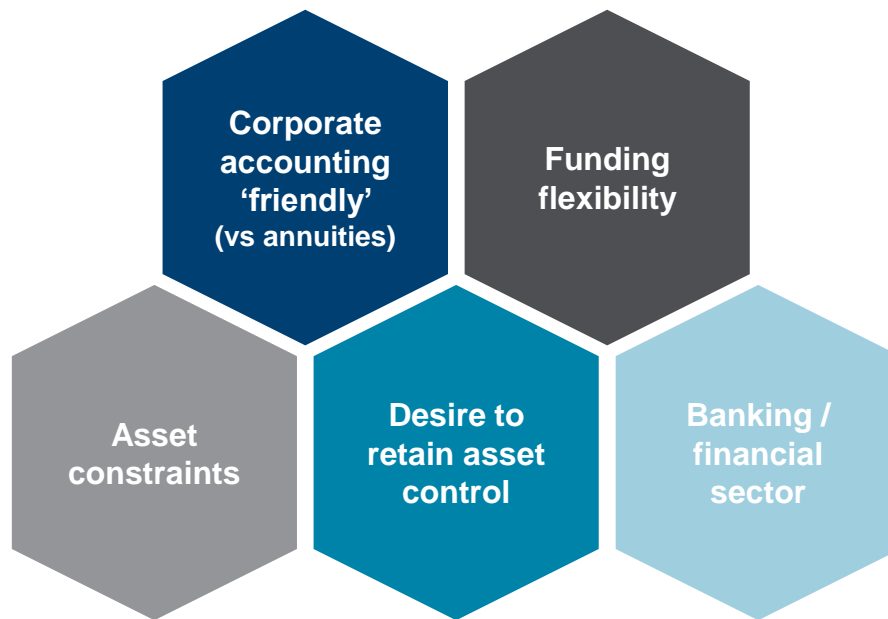


Lump sum
settlements



Intermediary
failure

Which schemes?



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