HEALTH WEALTH CAREER

MERCER WEBCAST

LONGEVITY HEDGING – WHERE'S THE MARKET GOING? HEAR IT FROM REINSURERS AND MERCER

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Canada Life™ Reinsurance

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TODAY'S SPEAKERS

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The Prudential Insurance Company of America

AGENDA
WHAT WE'LL COVER TODAY

14:00	Introduction	All
14:05	How does longevity hedging fit into strategic end goal planning?	Mercer
14:10	What is the reinsurer view on the longevity risk transfer market, pricing and capacity?	Canada Life Re and PICA
14:20	What makes a scheme more attractive for longevity hedging to reinsurers?	Canada Life Re and PICA
14:30	Which structures work best?	Mercer
14:35	What are the benefits and drawbacks of longevity hedging?	Mercer
14:40	Questions	All

LONGEVITY HEDGING – WHERE'S THE MARKET GOING?

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HOW DOES LONGEVITY HEDGING FIT INTO STRATEGIC END GOAL PLANNING?

Ensure the security of member benefits

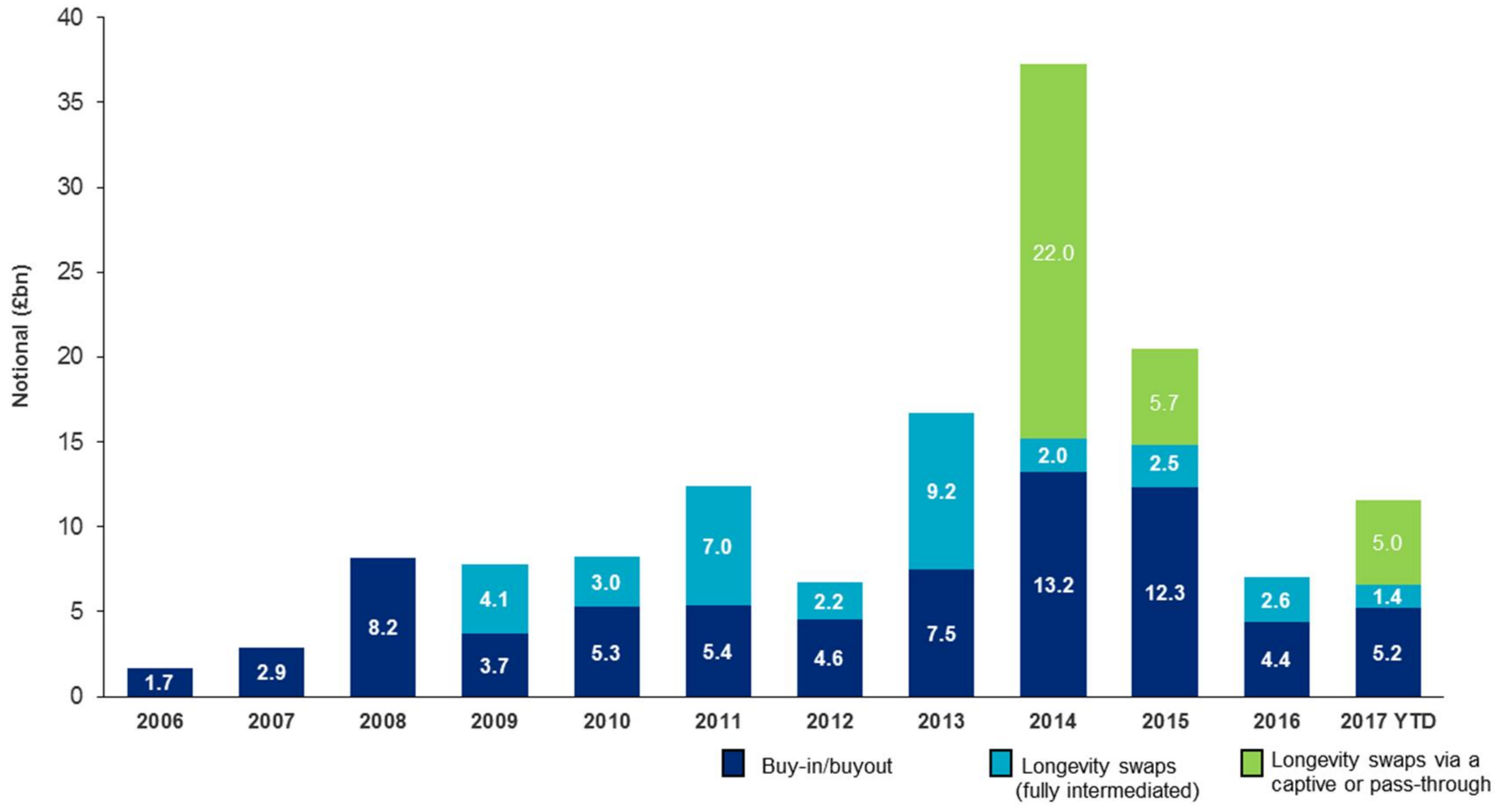
Hedging unrewarded risks

What is longevity risk and how can it be managed?

Which type of longevity risk management is best for a given client?

How much longevity risk management has been done by UK schemes?

UK PENSION SCHEME LONGEVITY HEDGING AND BULK ANNUITIES SINCE 2006



WHAT IS THE REINSURER VIEW ON THE LONGEVITY RISK TRANSFER MARKET, PRICING AND CAPACITY?

MARKET:

- Headwinds presented themselves in 2016
  - Solvency II implementation
  - Brexit
  - Changing mortality trends
- 2017 has observed a rebound with strong supply and demand
- The market has found a good balance
- Execution of recent transactions should increase Trustees' confidence in bringing new deals to market

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WHAT IS THE REINSURER VIEW ON THE LONGEVITY RISK TRANSFER MARKET, PRICING AND CAPACITY?

PRICING:

- Expectations for improvements in U.K. Longevity have recently slowed
- Longevity improvement projection models are not a crystal ball: there remains a great deal of uncertainty to future improvements
- Reinsurers tend to take a long-term view on mortality improvement
- Recent periods of improvements have been properly reflected in pricing
- Changing regulatory and capital regimes for reinsurers can impact pricing for affected reinsurers
- Reinsurers with large mortality blocks recognize the benefits of diversification by adding longevity risk
- Contrary to some perceptions, there exist no noticeable differences in pricing between longevity only swaps and longevity reinsurance of buy-ins

WHAT IS THE REINSURER VIEW ON THE LONGEVITY RISK TRANSFER MARKET, PRICING AND CAPACITY?

CAPACITY:

Increasing supply creating increased competition

Very active current pipelines but limited pricing personnel capacity

Proven track record & large well-rated balance sheets give competitive advantage

Generally plan to write material transactions well into the future

Larger opportunities better align with growth-oriented business objectives

Developed more efficient capabilities for both big and small longevity blocks

WHAT MAKES A SCHEME MORE ATTRACTIVE FOR LONGEVITY HEDGING TO REINSURERS?

Data completeness, quality, and recency

Simplified structures

Certainty of execution

Engagement with experienced advisors who constructively drive toward execution

THE MARKET NOW HAS A COMPLETE SET OF LONGEVITY SWAP SOLUTIONS

WHAT IS IT?

Captive

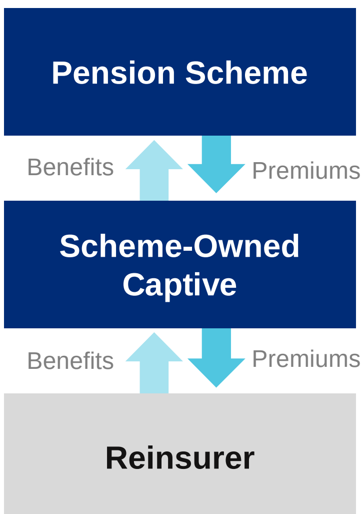
- Captive acts as intermediary and provides access to reinsurers
- Pension scheme retains reinsurer credit risk
- Typically collateralised

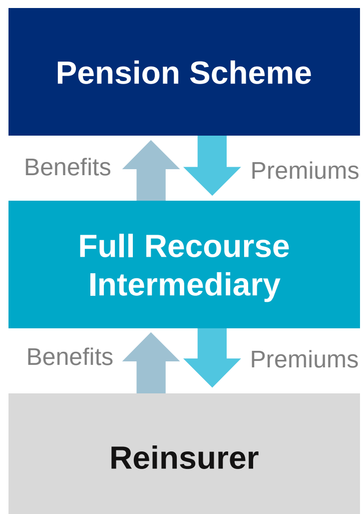
Fully Intermediated (Traditional or Streamlined)

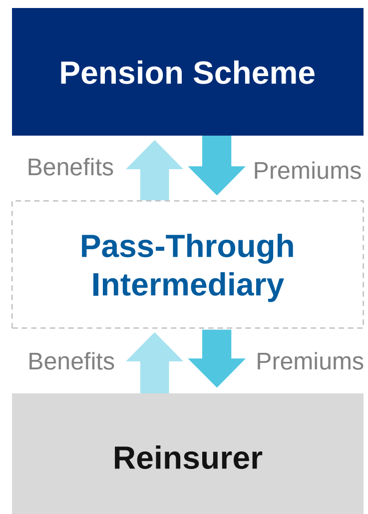
- UK regulated insurer acts as counterparty
- Protects pension scheme from reinsurer credit risk
- Can be uncollateralised under the Streamlined/SmartDB variant

Pass-Through

- As per fully intermediated, but pension scheme retains reinsurer credit risk
- Typically collateralised







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WHICH LONGEVITY SWAP STRUCTURES WORK BEST?

	Captive	Traditional	Streamlined "SmartDB"	Pass-Through
TARGET SIZE (OF PENSIONER LIABILITIES)	• More than c.£0.4bn	• c.£0.4bn to £5bn	• £0.05bn to £1bn	• More than c.£0.4bn
BENEFITS	• Potentially lowest ongoing costs • Maximum contractual and future flexibility • Scalable and reusable	• High credit risk protection • Straightforward structure • Some future flexibility	• Pre-agreed contract • Low set-up and ongoing costs • Low governance • Some future flexibility	• Lower intermediation costs • Some future flexibility
DRAWBACKS	• High set-up costs • Higher governance required • Risk of reinsurer default	• Risk of intermediary default • Less flexible than captive	• Risk of intermediary default • Limited flexibility on contractual terms	• Risk of reinsurer default • Less flexible than captive

WHAT ARE THE BENEFITS AND DRAWBACKS OF LONGEVITY HEDGING?

	Pensioner longevity swap	Pensioner buy-in
BENEFITS	• Removes longevity risk, including “concentration” risk • Retains asset flexibility • Complements any existing interest rate and inflation hedging and/or cashflow driven investments • Possible stepping stone to later full risk transfer or self sufficiency run-off	• Removes interest rate, inflation and longevity risk for the included members • Close matching on portion of liabilities for the members included • Consistent with a long term complete exit • Understood proven product
DRAWBACKS	• Possible adverse funding implications • Extra admin requirements • Interest rate and inflation risks not hedged • Likely collateral requirements (unless Streamlined)	• Can require significant capital at outset • Constraints on investment strategy (e.g. illiquid asset; reduction in hedging if selling bonds) • Material counterparty credit risk to insurer default • Some extra admin requirements

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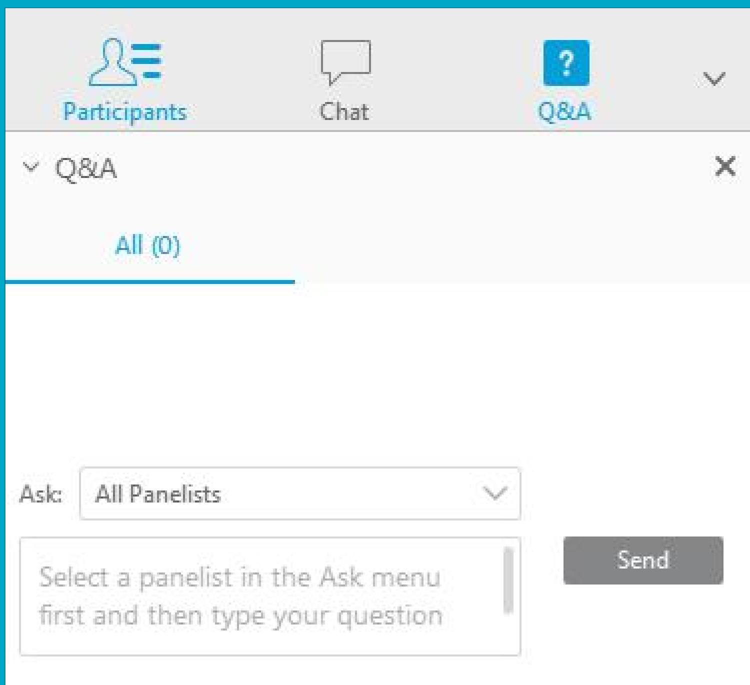
QUESTIONS?

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

To submit a question while in full screen mode, click the Q&A button in the top right corner of your screen.



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