Medically underwritten bulk annuities – the future?

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A real innovation to bulk annuities

1. **Medical underwriting is a welcome innovation** — Medical underwriting can offer significant savings vs traditional bulk annuity pricing
2. **Medical underwriting is proven to work** — Many successful transactions now completed by trustees
3. **Bulk annuities will move this way (small/medium schemes)** — Around £200m of medically underwritten bulk annuities to date
4. **The pace of adoption is rapid** — Medical underwriting may become the norm very quickly

What change has medical underwriting brought to bulk annuities?

Bulk annuities – the product

Monthly cashflows guaranteed for life which match member benefit payments

Up-front premium payment

Insurer ⇄ **Pension scheme**

Monthly pensions to scheme members

Pension scheme → **Pensioners**

On conversion to "buyout"

Pensioners → **Individual annuitants**

✓ Risks priced by insurer

✓ Scheme de-risked

✓ Improved security

Bulk annuities – pricing

The traditional approach

- Life expectancies estimated using proxy rating factors to allocate pensioners into broad based groupings
- Rating factors include gender, age, postcode, pension amount and employer industry type
- Experience data is not credible for smaller pension schemes

The medically underwritten innovation

- Use expertise in medical underwriting to more accurately assess life expectancies
- This is done by obtaining medical and lifestyle data from selected pensioners
- This considerably increases the credibility of life expectancy calculations for smaller pension schemes

A wide range of outcomes for lifespans means significant uncertainty

Projected lifespan at 65 (ONS)

Source: Projected lifespans are derived from the ONS 2012-based principal projection for the UK population

Traditional pricing approaches work well for large pension schemes
For smaller pension schemes a lot of uncertainty remains

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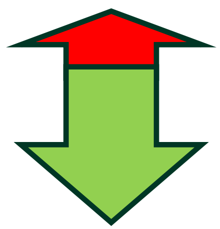
Medical underwriting – the consequences

Medically underwritten bulk annuity = **Traditional bulk annuity (buy-in or buy-out)** + **Members' actual medical and lifestyle features captured in the premium**

By getting detail on members' actual health an insurer can be more confident in how long they will live

Health and lifestyle data means premiums are more scheme specific

Reduces "cross subsidies" between schemes



Asymmetric distribution of outcomes following medical underwriting

Increased data means increased confidence

Increased confidence means less conservatism

Less conservatism means a lower premium

Postcode driven longevity assessments for members with large pensions can result in a "healthy" estimate

Using medical and lifestyle data means tailored assessments

The medically underwritten deal process

STEP

TIME

ASSESS
Help you decide if underwriting is right for you

We can review your scheme profile, supply an indicative quote and underwriting illustrations.

Your data doesn't have to be perfect, we just need some basic information about the number and profile of your members and benefits.

PREPARE
Tailor our approach and process to your needs

We will agree with you which of your members to approach for underwriting and develop a process and timeframe to support this.

We will provide you with typical milestones and a timetable for schemes like yours.

WE'LL WORK AT YOUR PACE

COLLECT DATA
Collect information from scheme members

We ask scheme members to complete a simple one page tick-box questionnaire.

We have a great track record on returns, typically achieving a response rate in excess of 80% on our transactions. For the members with larger benefit entitlements we may (with their permission) seek a GP report.

The key difference

4 TO 10 WEEKS

Typically, medical underwriting adds 2 to 4 weeks to a bulk annuity deal

2 WEEKS

PRICE
Provide you with a quote

Our quote will specify the members that are covered and the pension benefits for those members, as well as the relevant terms and conditions and how the rest of the buy-in process will operate.

We would be happy to meet in person if you like.

2 WEEKS

TRANSACT
Agree contracts and pay premium

You will need to pay us the premium and sign the contract. Following that we are 'on-risk' for all the pension benefits payable under the terms of the contract.

4 TO 6 WEEKS

ONBOARD
Set up your scheme

We will introduce you to one of our dedicated onboarding specialists, who'll set up your insurance policy and provide welcome packs and policy schedules to your members. We will stay in close contact with you to ensure a seamless transition.

UP TO 6 MONTHS

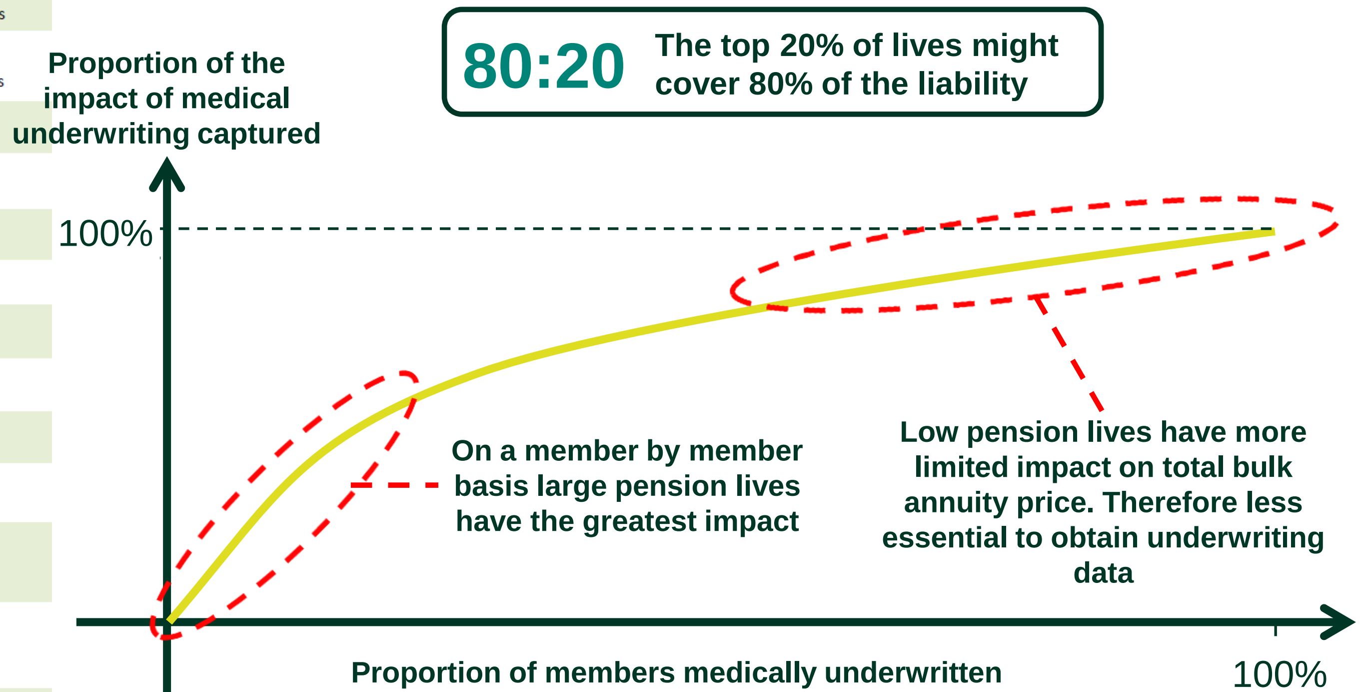
DATA CLEANSE
Ensure member data is accurate

We will provide you with support to ensure all members' benefits and personal details are fully up to date. Following this exercise a final premium will be calculated on the updated data – this could result in a small premium payable from you or a refund from us.

Medical and lifestyle data collection is proportionate

The objective is a meaningful premium reduction in the most effective way

		Member	
1	What is your height?	ft	ins
		or	cms
2	What is your weight?	st	lbs
		or	kgs
3	If you smoke manufactured cigarettes, have you smoked 10 or more per day for the last 10 years?	Yes / No	
4	If you smoke rolling tobacco, have you smoked more than 3ozs or 85g per week for the last 10 years?	Yes / No	
5	Have you been diagnosed with high blood pressure for which you are taking prescribed medication?	Yes / No	
6	Do you suffer from high cholesterol for which you are taking prescribed medication?	Yes / No	
7a	Have you suffered a heart attack?	Yes / No	
7b	Have you suffered from any other heart condition?	Yes / No	
8	Have you been diagnosed with angina for which you require ongoing medication?	Yes / No	
9	Have you been diagnosed with diabetes for which you require insulin or tablet or diet control treatment?	Yes / No	
10a	Have you suffered from a stroke?	Yes / No	
10b	Was this a cerebrovascular accident (major stroke)?	Yes / No	
11a	Have you been diagnosed with cancer?	Yes / No	
11b	If so, was it skin cancer or benign tumours?	Yes / No	
11c	Did this require surgery, chemotherapy or radiotherapy?	Yes / No	
12a	Have you been diagnosed with Parkinson's disease?	Yes / No	
12b	Have you been diagnosed with any other neurological disease (for example, motor neurone disease or dementia)?	Yes / No	
13	Have you been diagnosed with multiple sclerosis?	Yes / No	
14	Do you suffer from respiratory / lung disease?	Yes / No	



Schemes of all sizes can benefit from medical underwriting

1. Complete buy-in or buyout

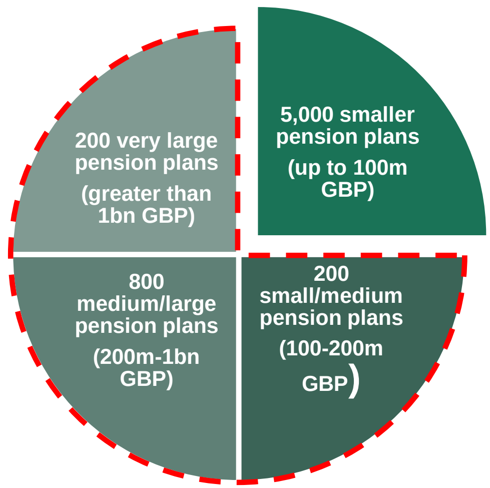
- Targets small/medium size plans
- Potential for premium saving
- Targeted member underwriting
- Can be applied to whole schemes

2. Top Slicing

- Pension scheme funding prudent
- Removes concentration risk
- Potential for premium saving
- Can work for all scheme sizes

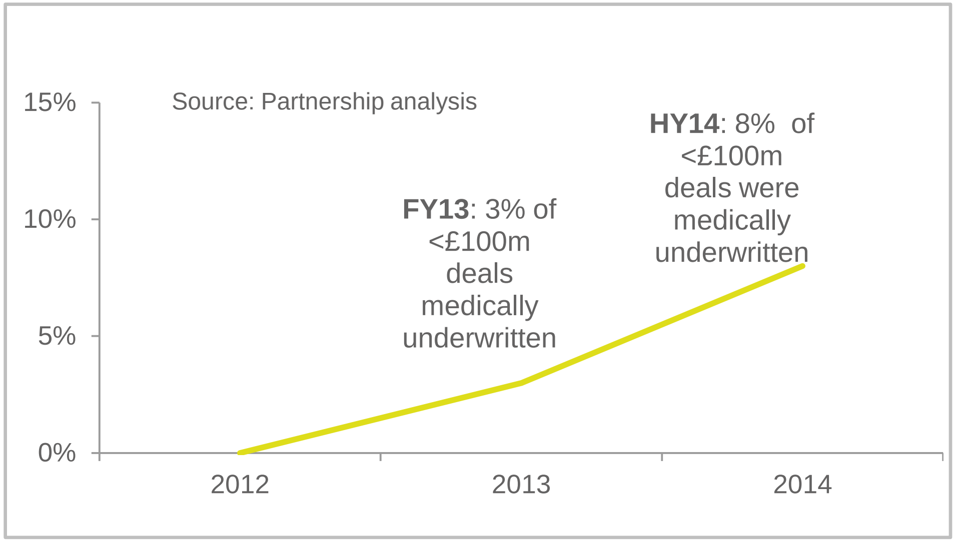
3. Selective risk removal

- Medical underwriting is truly individual - trustees can “cherry pick”
- Get quotations for largest lives
- Only insure those showing the best result of cost vs risk reduction

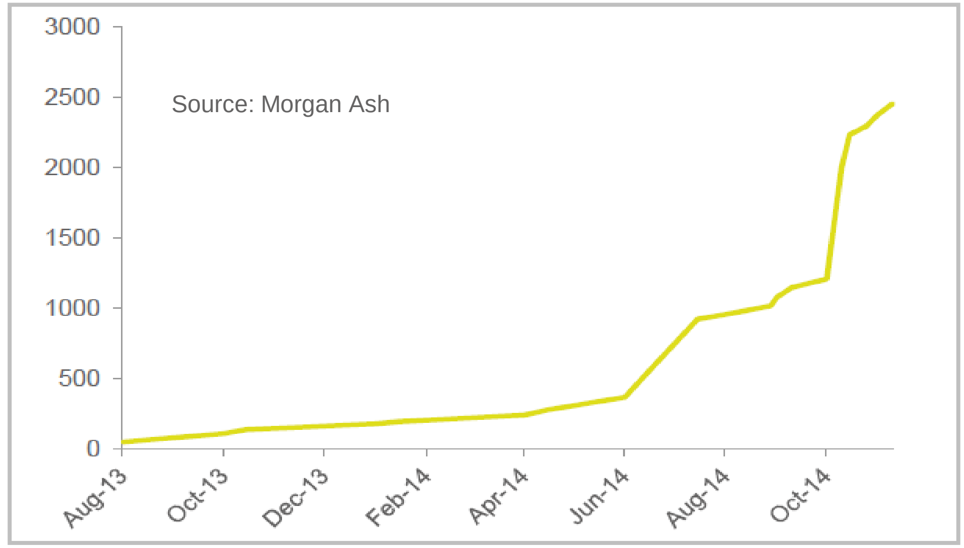


Take up is accelerating

% of bulk annuity transactions in sub £100m market that were medically underwritten



Cumulative number of pensioners medically underwritten



"The medically underwritten buy-in market is developing rapidly. We are seeing rapidly growing interest from pension schemes of all sizes, and as a result, we expect medically underwritten buy-ins to reach £500m by the end 2014."
James Mullins, Partner and Head of Buy-out Solutions, Hymans Robertson, 11 September 2014

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Thank you