


Retirement has more potential with   
**PRUDENTIAL**


---

## The role of Annuities for the future – Capital, Capacity and Longevity


Andy Reed,  
Director, Defined Benefit Solutions, Prudential

TISA – Pension Risk Transfer Seminar  
29 April 2009

These slides are intended for debate only and do not constitute advice



Opinion poll

Retirement has more potential with   
**PRUDENTIAL**

---

**Is there currently a desire to de-risk via (insured) annuity solutions?**

**Do you believe that supply can meet demand given current capital & capacity limitations?**

**Is there a role for annuities in the future of DB de-risking?**

2

Pension Risk Transfer

Retirement has more potential with  **PRUDENTIAL**


## Annuity solutions are integral to de-risking

- › The desire to de-risk appears greater than ever
  - › Trustees
  - › Sponsoring employers
- › Insured annuity solutions offer good value for money
  - › But due to insurance regulations these require capital


Longevity Risk      Investment Risk      Admin Risk

- › Alternative solutions have been developed that require less capital
  - › But currently not as effective as insured annuity solutions
  - › Tend to focus on just one element of risk
  - › LDI only hedges against risk – it does not reduce/remove risk
  - › Longevity Swaps can be complex and costly – only viable for very large schemes
  - › Both these routes have been tarnished by the credit crunch

Capital, Capacity and Longevity

Retirement has more potential with  **PRUDENTIAL**

- › Credit crunch has had a significant impact on **capital**
  - › Credit spreads - Prices down / Yields up
  - › Financial Strength matters
  - › Cost of capital is up but likely to go down over time
- › Affordability is all relative
  - › If invested in gilts, then more likely to be able to afford de-risking solutions
- › Market **capacity** increased but possibly now restricted compared to last year
  - › Currently 11 FSA registered providers of bulk annuity solutions
  - › Total DB market over £1 trillion and around 50% want to de-risk within 5 years
- › Syndication and capital from other sources
- › **Longevity** risk is still a major headache for pension schemes
  - › While focus has been on economic turbulence and investment returns, longevity risk has not magically disappeared
- › Insured annuity solutions remain THE key to longevity risk transfer


Retirement has more potential with   
**PRUDENTIAL**

**Annuities - the future**

**'Pension Risk Transfer' = Insured Annuity Solutions**

- › Despite innovations, only insured annuity solutions offer true 'risk transfer'
  - › Aside from Enhanced Transfer Values and 'scheme adoption' routes
- › Alternative solutions mainly help to 'reduce exposure' or 'hedge against risks'
  - › Merely help preparation for the 'end-game' - full scheme wind-up
  - › Even then, annuity solutions are required via buyout (to avoid entering PPF)
- › Annuity solutions are flexible

Full scheme liabilities	OR	Partial (eg, pensioners only, just new vestings, etc.)
One-off cost	OR	Phased to spread costs
Liabilities fully discharged (buyout)	OR	Held as an insured asset (buy-in)

Retirement has more potential with   
**PRUDENTIAL**

**Example of a risk management route-map**

Data cleanse > > > > > > > > > > > >

Existing Pensioners: Buy-in (group policy) > > > > > > > Annuitisation (individual policy)

New Pensioners: > Buy-in as they retire > Buy-in as they retire > Buy-in as they retire > Annuitisation (individual policies)

Deferred & Active Members: Set up DC scheme for new entrants > Offer Enhanced Transfer Values (from DB to DC) > Buy-in (group policy for remaining members) > Annuitisation (individual policies)

Investment strategies > > > > > > > > > > > > > >  
Consistent with route-map strategy

## Provider selection

Retirement has more potential with  
**PRUDENTIAL** 

### **Provider selection for annuities is vital**

- › Given the economic conditions any pension scheme considering risk transfer should think very carefully about which counterparties they are willing to do business with
- › Price will always be important, but so too are:
  - › Financial strength
  - › Security and long term outlook
  - › Track record
  - › Ability to tailor solutions
  - › Ability to offer additional security structures
  - › Long term business strategy
- › Pension provision is a long-term promise - only the strong will survive

## Opinion poll 2 – so now what do you think?


Retirement has more potential with  
**PRUDENTIAL** 


**Is there currently a desire to de-risk via (insured) annuity solutions?**

**Do you believe that supply can meet demand given current capital & capacity limitations?**

**Is there a role for annuities in the future of DB de-risking?**

Any questions?

Retirement has more potential with **PRUDENTIAL** 



Question and Answer session