

Prime Time for Pension Risk Transfer

Funded status improvements, attractive pricing support a thriving global marketplace

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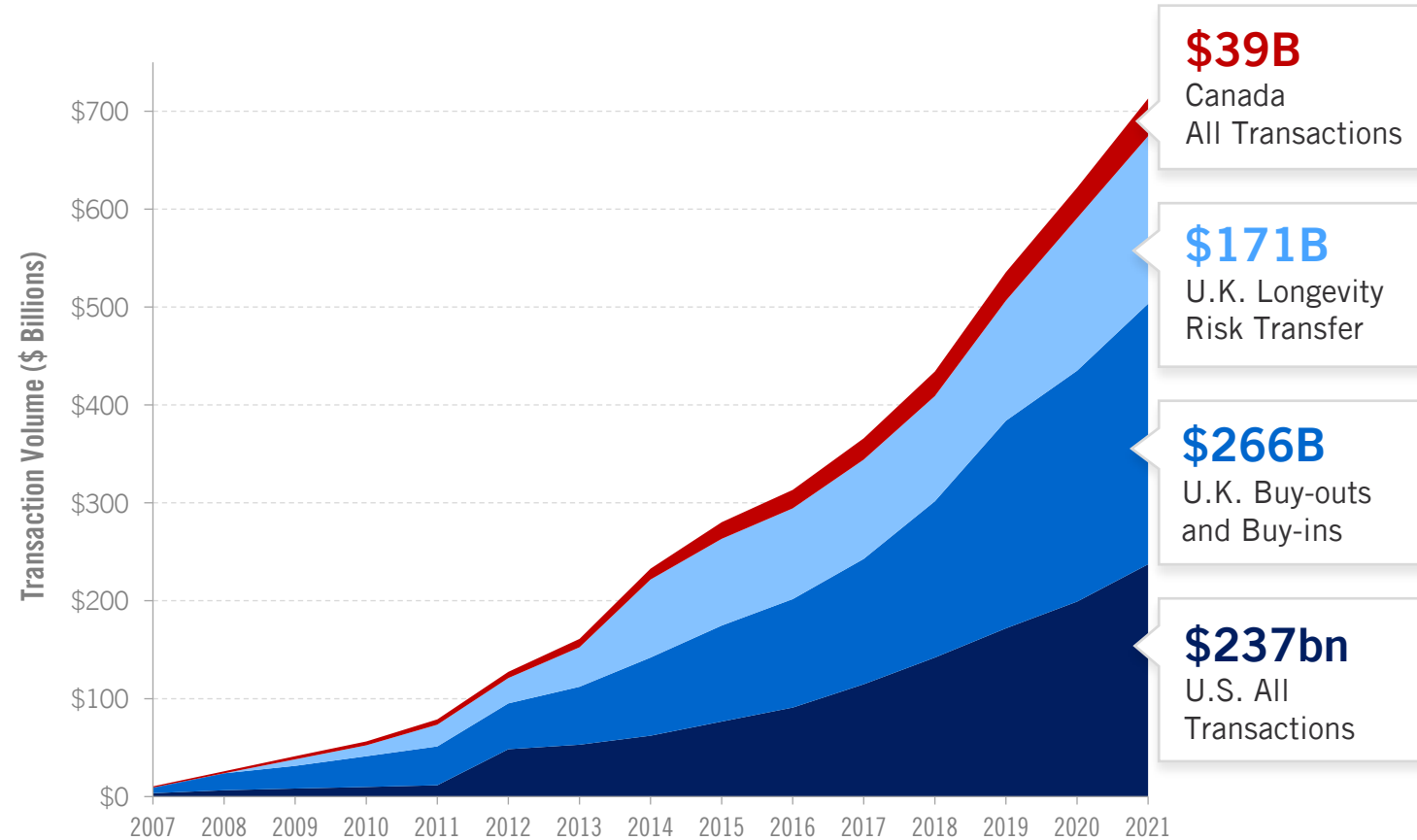
Pension Risk Transfer and Longevity Risk Transfer



Growth in this market continues.

More than \$700B in pension risk transfer transactions have been completed in the U.S., the U.K., and Canada alone since 2007.

Cumulative pension risk transfer totals by country and product



Data in USD billions. Cumulative totals.

Sources: LIMRA, Hymans Robertson, LCP, and Prudential Financial, Inc. (PFI) analysis of EY 2020.



Companies must transform to remain competitive.

“ “ In industry after industry, scenarios that once appeared improbable are becoming all too real, prompting boards and CEOs... to embrace the T-word: transformation. ” ”

– McKinsey¹

“ “ In a world of unprecedented disruption and market turbulence, transformation today revolves around the need to generate new value—to unlock new opportunities, to drive new growth, to deliver new efficiencies. ” ”

– Deloitte²



1 McKinsey Quarterly. 2016 November 7. [Transformation with a capital T.](#)

2 Deloitte. August 2016. Thinking big with business transformation. [Six keys to unlocking breakthrough value](#)

Pension de-risking can accelerate enterprise transformations.



Decrease or eliminate
future contributions



Redirect cash flow
to R&D or M&A



Increase focus on
restructuring initiatives



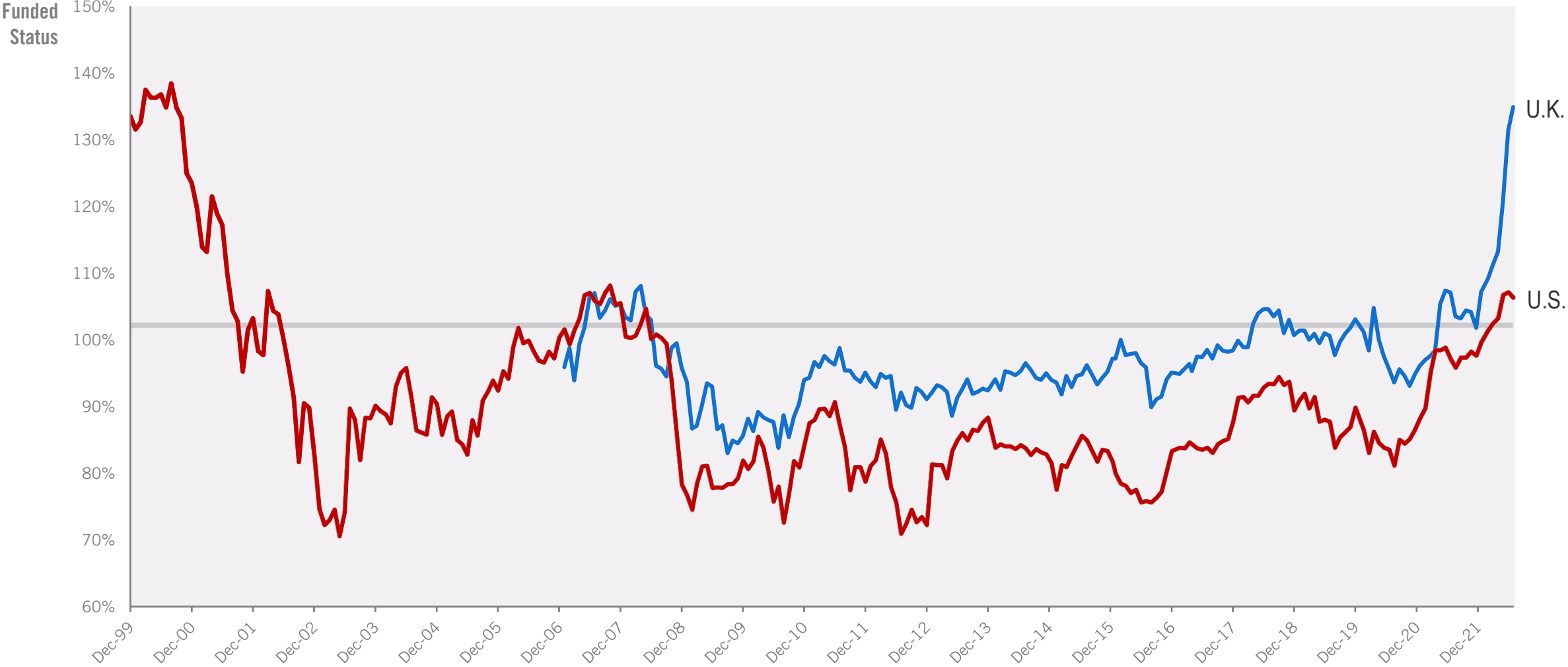
Improve investor
returns compared to
pension-heavy peers



Secure pensions
and financial wellness
of employees and retirees

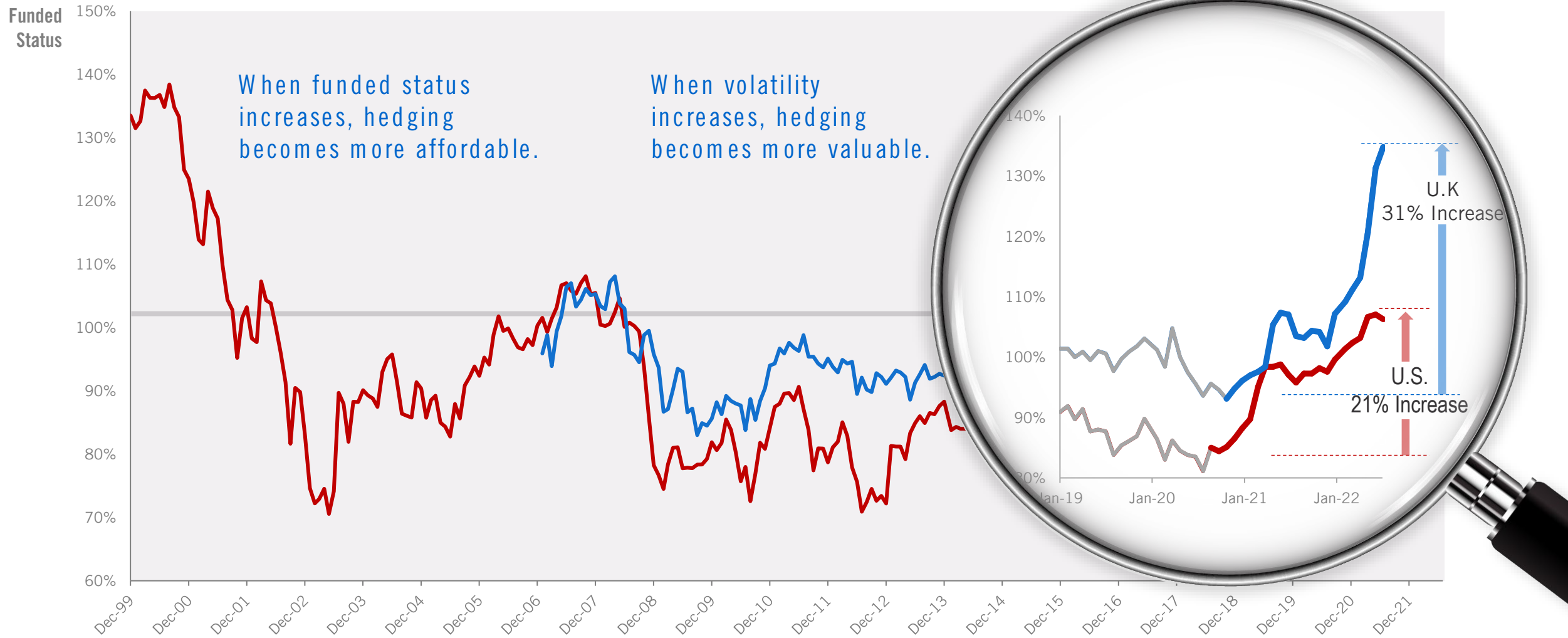


Plans have hedged asset risk and are now focusing on longevity risk.



U.S. Source: "Milliman 100 Pension Funding Index; the 100 largest U.S. corporate pension plans," March 31, 2021 (98.4%)
 FTSE 100 Source: Aon Hewitt, "Aon Hewitt Global Pension Risk Tracker," as of March 31, 2021 (98.4%). <https://PensionRiskTracker.aon.com>, accessed April 23, 2021.
 Funding ratio (cumulative assets/liabilities) of all pension schemes in the FTSE 100 index on the accounting basis.

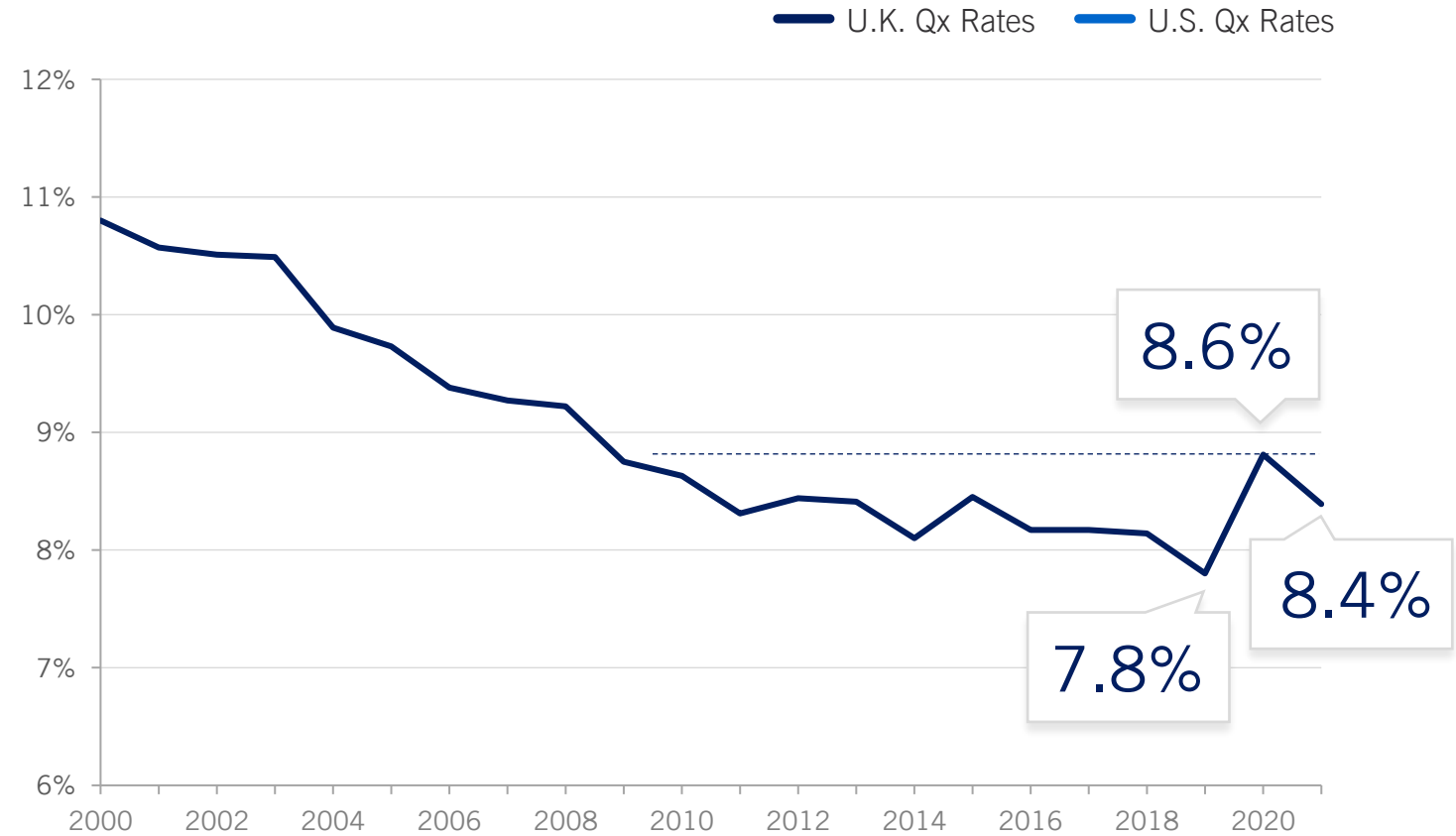
Despite recent pullback from recession fears, funded status has remained resilient.



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FTSE 100 Source: Aon Hewitt, "Aon Hewitt Global Pension Risk Tracker," as of March 31, 2021 (98.4%). <https://PensionRiskTracker.aon.com>, accessed April 23, 2021.
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Longevity improvements remain volatile.

Base mortality rates for U.S. & U.K. retirees

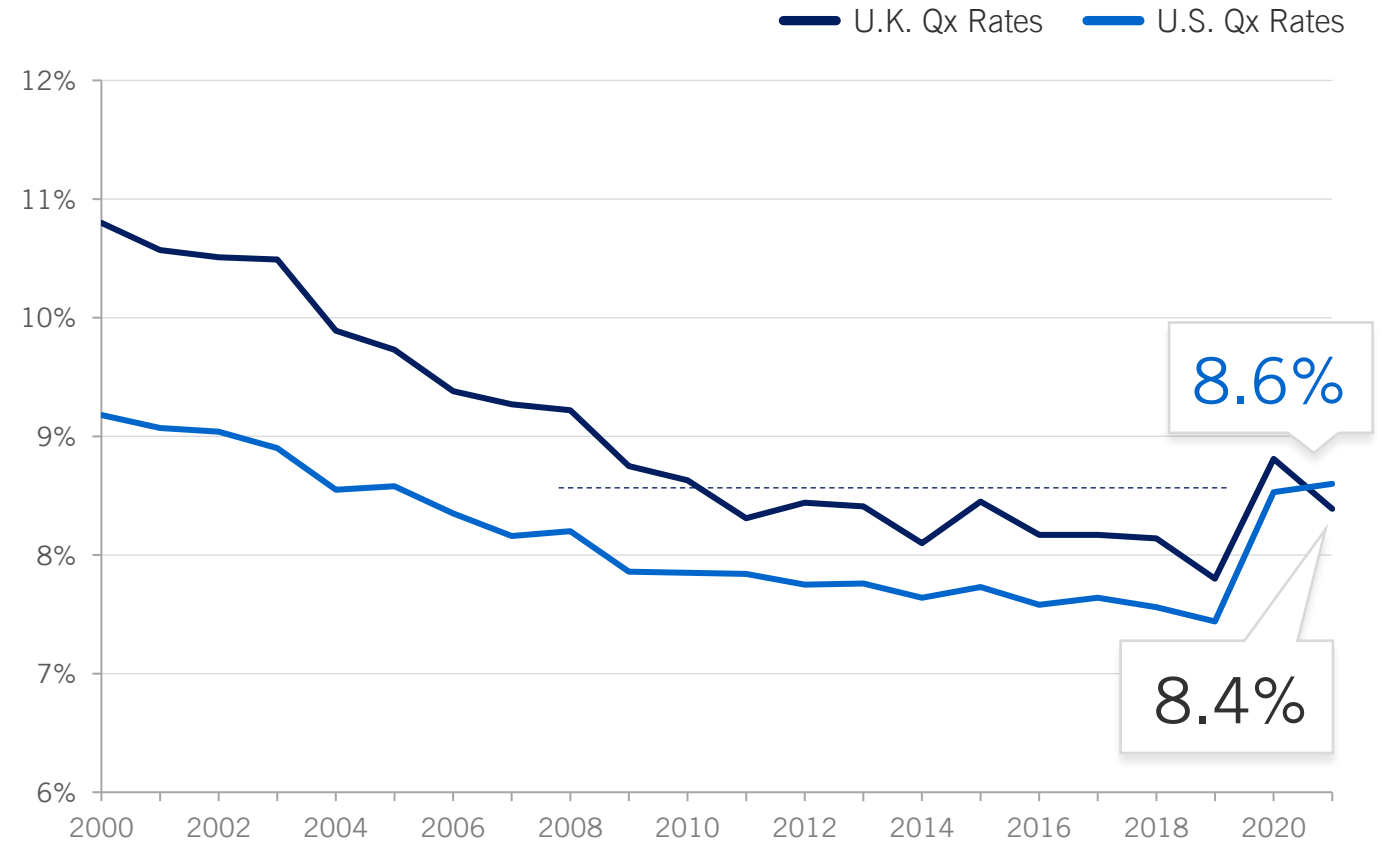


Source: U.K. rates based on ONS data, S3P industry tables, and 50/50 M/F split
U.S. Qx rates based on Social Security Administration/CDC data, assuming 50/50 M/F split
Both U.S. and U.K. based upon a retiree group with an expected benefit-weighted average age of 82



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There are three distinct phases of COVID – initial pandemic, vaccination phase and endemic phase.

Early research has shown the groups most impacted by COVID-19 were those with the highest mortality rates prior to the pandemic.¹



Frail elderly



People with significant comorbidities



The most deprived among us



Communities of color

These groups make up a relatively small proportion of overall pension liabilities, so the market can continue confidently pricing transactions and pension schemes.



¹ Cairns, Andrew J. G. and Blake, David P. and Kessler, Amy and Kessler, Marsha, "The Impact of COVID-19 on Future Higher-Age Mortality" (May 19, 2020).

Uncertainty remains about mortality improvements post pandemic.

Life expectancy could be higher

- More medical advances from technology developed during the pandemic
- Better hygiene and social distancing
- Acceleration of deaths and survivorship bias

Life expectancy could be lower

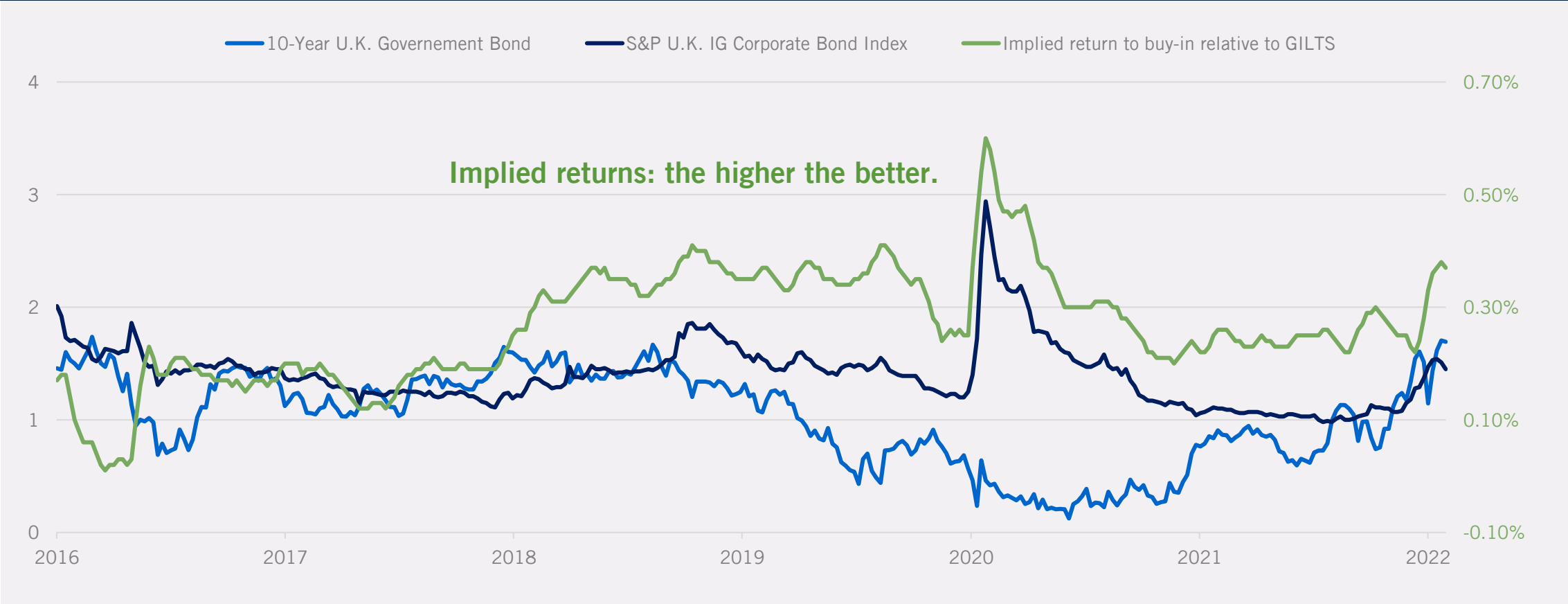
- Delays to non-covid medical advances
- Long COVID
- Delays in screening and diagnosis of other diseases could result in higher mortality in the short and medium term
- Behavioral change – drinking, smoking

Endemic Covid – Impact depends on new variants, new vaccines, behavioral changes



Market pricing remains attractive.

Schemes that are well-prepared can take advantage of market opportunities.



LCP pension de-risking update May 2022
10-year U.S. Treasury and BofA US Corporate Index OAS were sourced from the Federal Reserve Bank of St. Louis.
10-year U.K. Government Bond rates were sourced from the Bank of England website. S&P U.K. Investment Grade Corporate Bond Index rates were sourced from S&P Dow Jones Indices.

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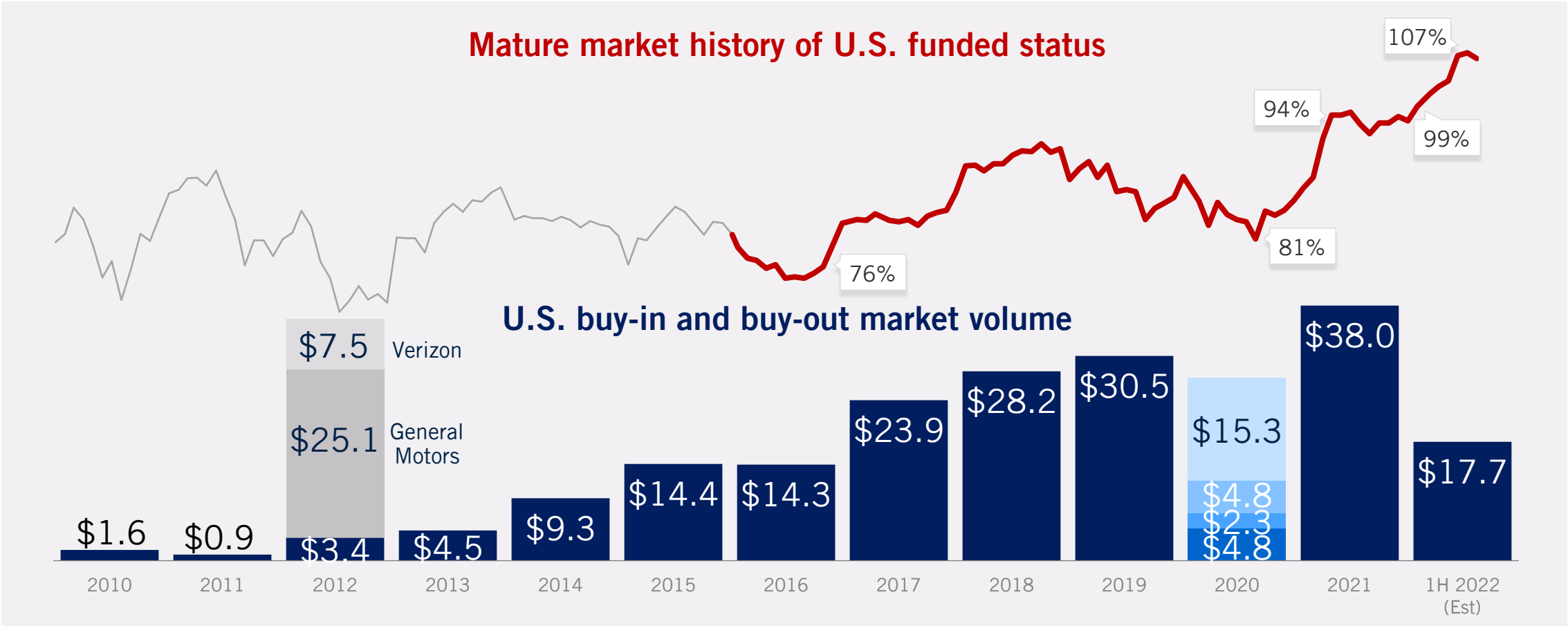
Schemes that are well-prepared can take advantage of market opportunities.



Milliman Pension Buy-out Index (MPBI), May 2021 (<https://www.milliman.com/en/insight/milliman-pension-buyout-index-july-2022>)
10-year U.S. Treasury and BofA US Corporate Index OAS were sourced from the Federal Reserve Bank of St. Louis.
10-year U.K. Government Bond rates were sourced from the Bank of England website. S&P U.K. Investment Grade Corporate Bond Index rates were sourced from S&P Dow Jones Indices.

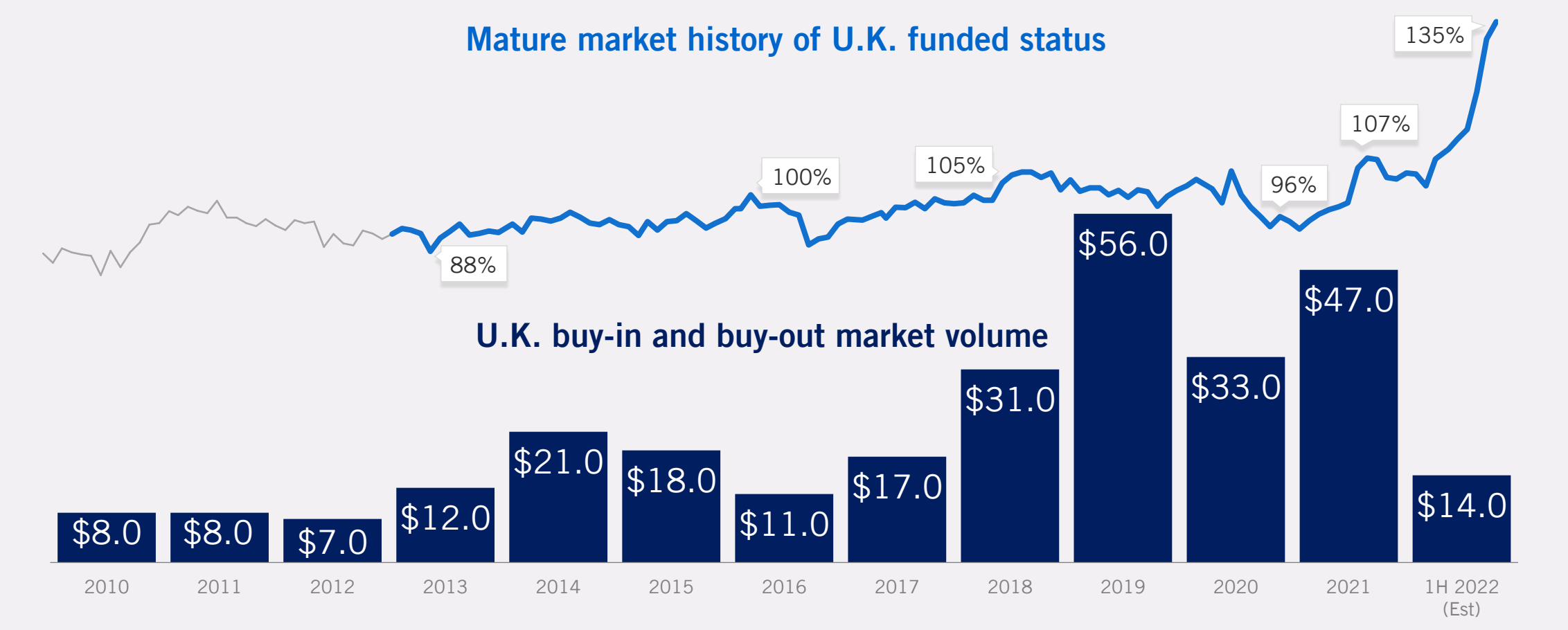
2021: the U.S. buy-in and buy-out market volume was the highest ever

Market remains strong this year, and we expect continued growth in 2023.



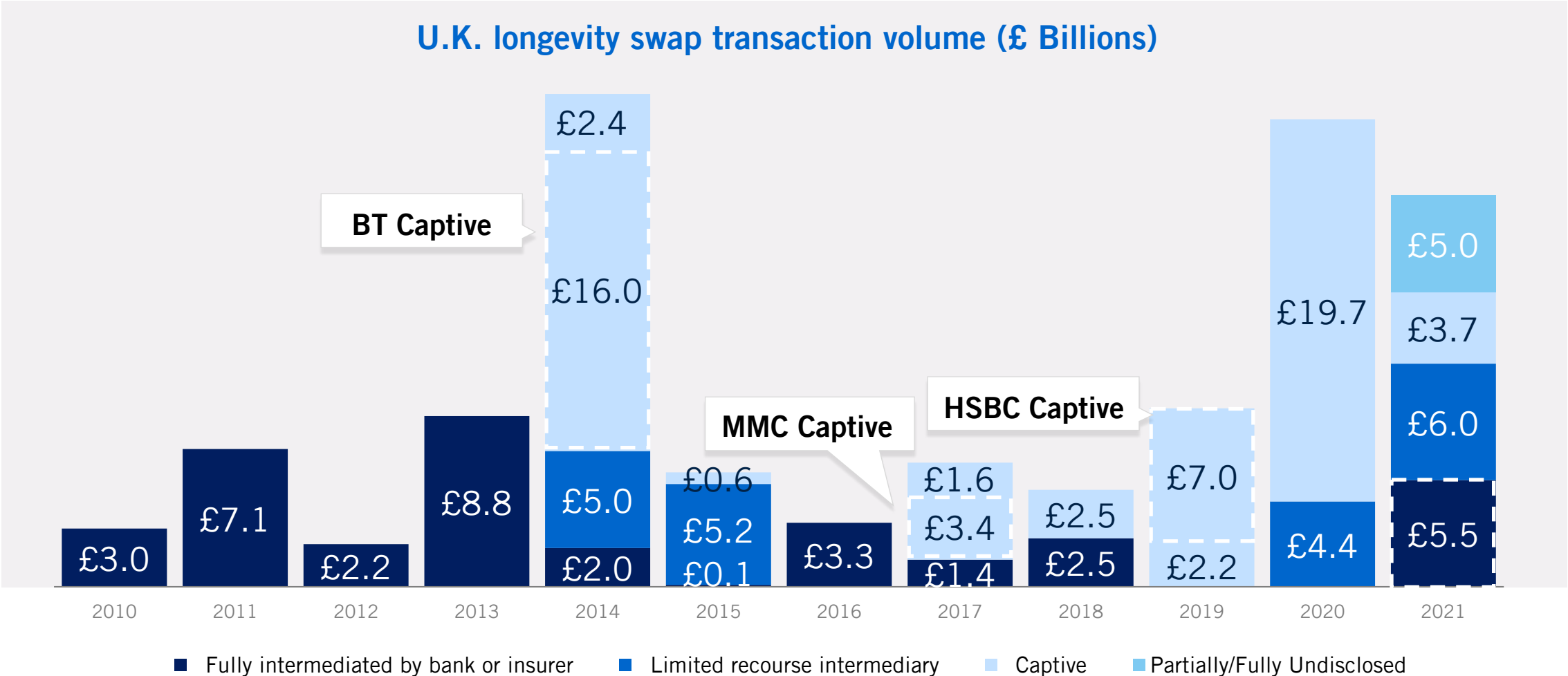
In USD billions. Source: LIMRA Group Annuity Risk Transfer Survey, Q4 2021. Includes single premium buy-outs, buy-ins and terminal funding. U.S. Funded Status Source: Milliman 100 Pension Funding Index; the 100 largest U.S. corporate pension plans, March 31, 2021 (98.4%)

2021: the U.K. buy-in and buy-out market volume tied for the second-highest ever.



In USD billions. Total market volume as reported by Lane, Clark & Peacock, translated into USD at rate of \$1.27
 FTSE 100 Source: Aon Hewitt, "Aon Hewitt Global Pension Risk Tracker," as of March 31, 2021 (98.4%). <https://PensionRiskTracker.aon.com>, accessed April 23, 2021. 2021 buy-in and buy-out volume is estimated.
 Funding ratio (cumulative assets/liabilities) of all pension schemes in the FTSE 100 index on the accounting basis.

U.K. schemes' de-risking journeys driving record demand for longevity swaps.



Source: Hymans Robertson and PFI analysis of announced transactions, as of May 2021

Funded Reinsurance

Allows an insurer to transfer both asset risk and longevity risk associated with pension and annuity liabilities

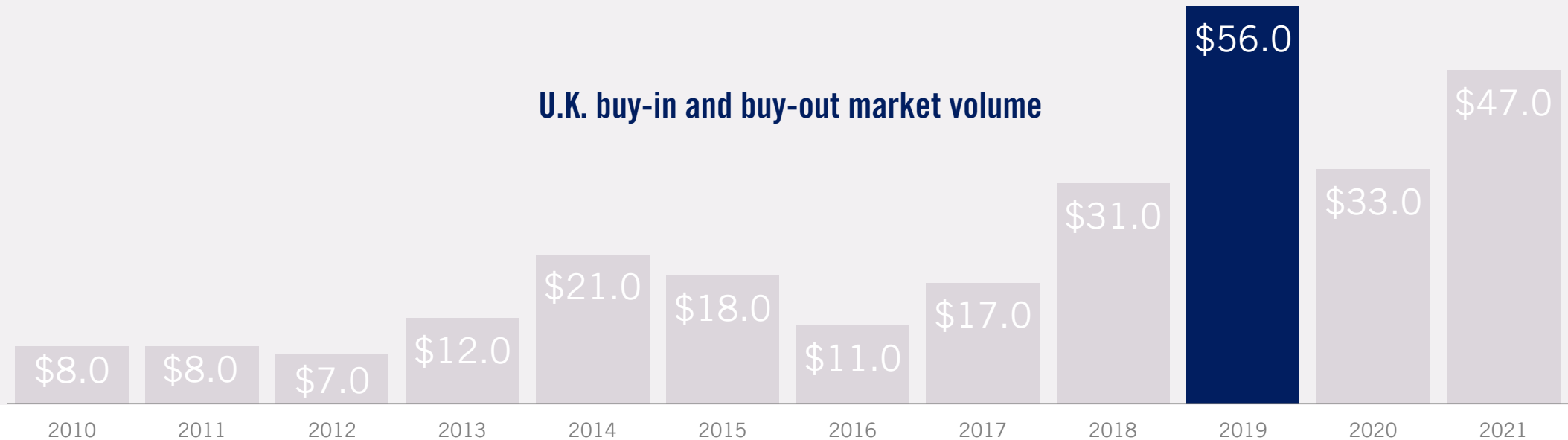


Recent transactions in the U.K. have led to meaningful volume and capacity.

Growth in the U.K. buy-in and buy-out market has caused insurers to seek reinsurance partners with capital and asset management expertise.

In these transactions, insurers transfer asset and longevity risk and receive indirect access to the reinsurer's asset management capabilities and illiquid asset origination.

U.K. buy-in and buy-out market volume



In USD billions. Total market volume as reported by Lane, Clark & Peacock, translated into USD at rate of \$1.27

Pensions in Netherlands



The Dutch market is expected to grow, driven by pension reform.

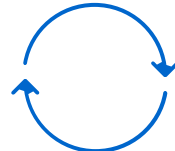
€1.7T
market size

€330bn
in corporate DB assets

131.7%
funded ratio for corporate DB plans



€46bn in back-book
transactions 2019-2021

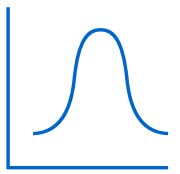


Pension reform
accelerating DC transition



Future PRT opportunities

Growth comes with challenges.



PRT transactions have been episodic



Data quality needs improvement



Plan terminations require retiree and deferred coverage



Solvency II

+1.66%
+3.26%
+1.20%
+1.43%
+1.75%
+0.94%
0.00%



Solvency II changes are likely to result in reduced capital requirements for insurers... enabling the UK PRT market to continue to grow.

Best Estimate Liabilities (BEL)

Present value of future cash flows payable to policyholders, discounted using a risk-free yield curve

Risk Margin (RM)

Amount on top of BEL an insurer pays to transfer risk to another insurer, representing future CoC¹

Updates	Impact
60% reduction is likely	<ul style="list-style-type: none"> • Lower required capital • Increased pricing competition • More insurer capacity

Matching Adjustment (MA)

Reduction in BEL for spread earned on insurers assets²

Updates	Impact
<ul style="list-style-type: none"> • Smaller reduction in BEL and MA tied to market spreads • More assets could become MA eligible 	<ul style="list-style-type: none"> • Could result in an increase in volatility • Insurer could increase investments in MA eligible assets

¹ Calculated as the present value of projected capital requirement, discounted at risk-free rate, multiplied by a "standard" 6% CoC
² Calculated as the insurers' asset spread over risk-free rates less expected defaults and downgrades ("the Fundamental Spread")



- | Pension Risk Transfer
- | Longevity Risk Transfer
- | Funded Reinsurance



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