

PREMIER PENSIONS MANAGEMENT

TECHNICAL UPDATE: 04/09

Longevity Risk

Life Expectancy is one of the actuarial assumptions which has generated a lot of discussion over the last few years. Defined Benefit schemes have been gradually strengthening this assumption although there are some commentators who consider that the allowance for future improvements needs to be strengthened still further.

With this uncertain background, pension schemes now have considerable awareness of longevity risk as an issue and more of them are looking into ways of managing this risk.

The most common options available include:

- Full buyout:** This is when the total pension liability of a scheme is transferred to an insurance company by way of individual policies for each member in return for payment of a premium by the Trustees. The insurer then bears all financial risks associated with the payment of pensions including longevity risk.
- Partial buyout:** This is similar to a full buy-out, but only for part of the liabilities of the scheme. For example, a buyout of pensions already in payment.
- Buy-in:** A scheme purchases a single annuity or deferred annuity policy which covers all or a group of members and which matches all of the liabilities for those members. This policy is then treated as an asset of the scheme. Although the Trustees are still exposed to the risks of longevity they have an asset which matches the payments and so fully mitigates the risk.
- Longevity Insurance:** An insurance policy which provides financial compensation to the scheme should members live longer than expected.

Longevity Bond: A scheme invests in a bond where the payments on the bond are linked to an index of longevity of a defined population. This is similar to an index linked bond where the payments are linked to an index of inflation.

Longevity Derivative: A scheme enters an over-the-counter derivative where payments are linked to the differences between expected longevity and some measure of experienced longevity.

Risk Sharing: The scheme reaches an agreement with members whereby the financial impact of future changes in life expectancy is shared between the sponsor and the members themselves.

If you would like to have an informal discussion, without obligation, on the impact of mortality on your pension scheme, please contact Paul Couchman, as below.

March 2009

*This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey CR2 0BS. DL: 020 8916 2129.
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