



# IAPF Conference

Delivering on the DB Promise: The annuity solution

Thursday 3 October 2019

## Interest Rates Commentary



November 1999

---

The new options have been introduced in the context of: Low annuity rates: rates have fallen to their lowest nominal level for over 30 years due to Euro level interest rates and improved longevity

---

Society of Actuaries in Ireland,  
Retirement Options Committee Report



January 2001

---

Customers (and their representatives in the press) appear to regard conventional annuities as inflexible and poor value

---

Annuity and Insurance Products for  
Impaired Lives, Ross Ainslie FFA



May 2000

---

In the current environment of poor annuity rates, impaired annuities-..offer an alternative route

---

Reinventing Annuities, Wadsworth, Findlater and  
Boardman to The Staple Inn Actuarial Society



Irish Life



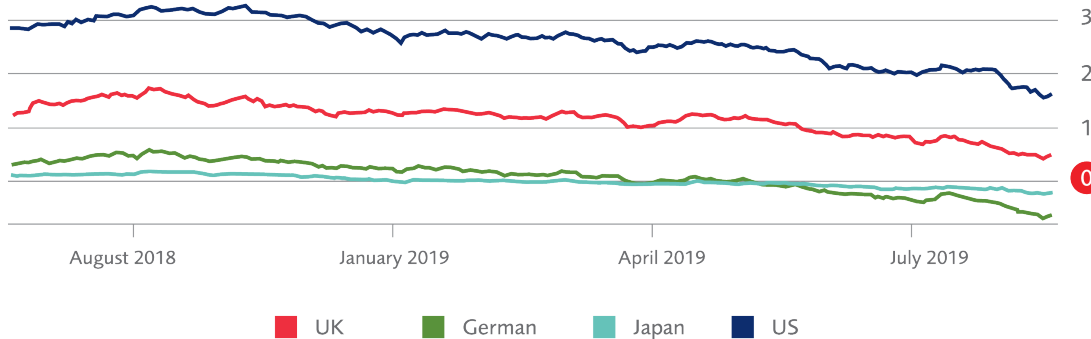


# Japanification - Lower for longer

1

Need to consider the real possibility of a new normal of zero yields

10-year government bond yields (%)



Source: Bloomberg © FT



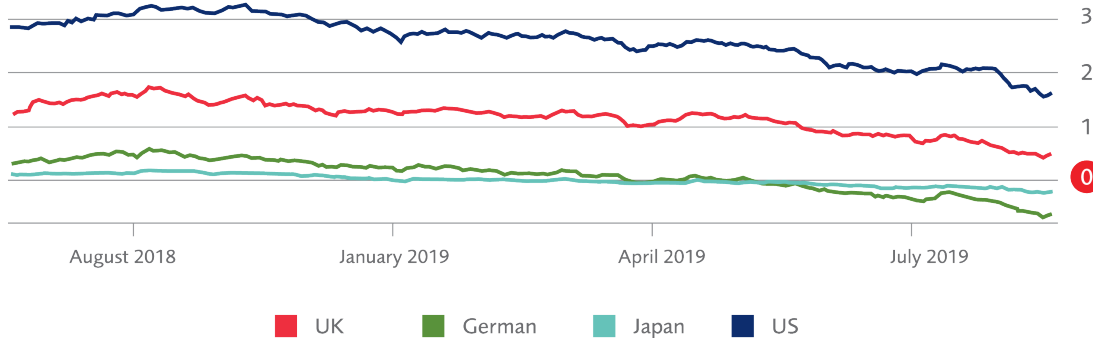


## Japanification - Lower for longer

2

Japan has had low/negative interest rates for two decades: there are many signs that Europe shares some of its characteristics

10-year government bond yields (%)



Source: Bloomberg © FT

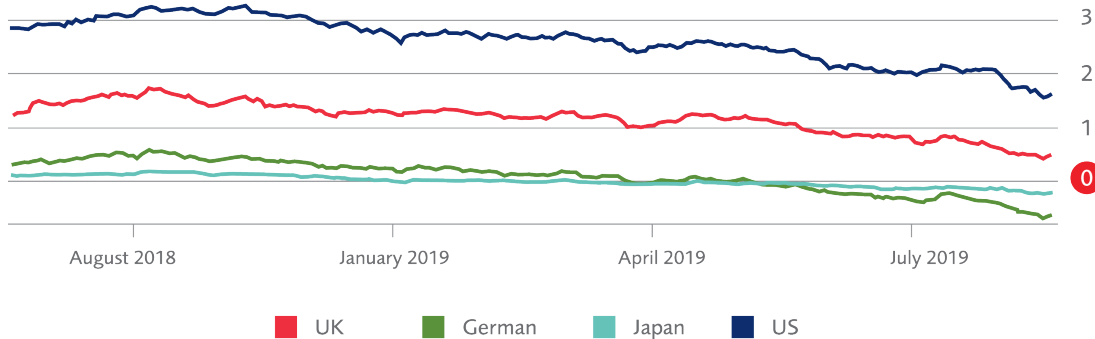


## Japanification - Lower for longer

3

Any view of a return to a magic land of 4% or higher plus interest rates has to be seriously challenged: rates may fall even lower

10-year government bond yields (%)



Source: Bloomberg © FT



# Strong UK Buy-In Buy-Out (BIBO) Market Trend



£30bn in “BIBO” transactions 2018 - Expected to grow strongly 2019



Investors expect action on de-risking initiatives



Companies rewarded for offloading risk



Corporates see favourable buy-in accounting treatment



Irish Life

## BIBO: Main points of difference / Buy-In or Buy-Out

### Buy-In

- ✓ Ongoing scheme often view this as an investment choice
- ✓ Favourable accounting treatment – settlement cost generally not recognised through P&L (but as “other comprehensive income”)
- ✓ Management of discretionary increases
- ✓ Trustees retain primary relationship with members (can continue to make payments)
- ✓ Triple protection for scheme members - Insurer/Scheme/Sponsor
- ✓ Flexibility to change to buy-out at a later stage: no cost

### Buy-Out

- ✓ Only option in a scheme wind-up scenario
- ✓ Scheme liability fully extinguished for employer
- ✓ Full transfer of risk and cost to insurer with individual contracts issued to members



Irish Life

## Buy-In



Insurer



Trustees



Scheme Members

## Buy-Out



Insurer



Scheme Members



# Growth in Irish Annuity Transactions

## Current Landscape

### Since 2013

Over €2.2bn in BIBO transactions over the last 6 years

- ✓ Market has developed strongly since 2013 – on average €380M in transactions each year but volatile year to year
- ✓ More and more clients enquiring to de-risk their Defined Benefit obligations through “BIBO”

### Case Study

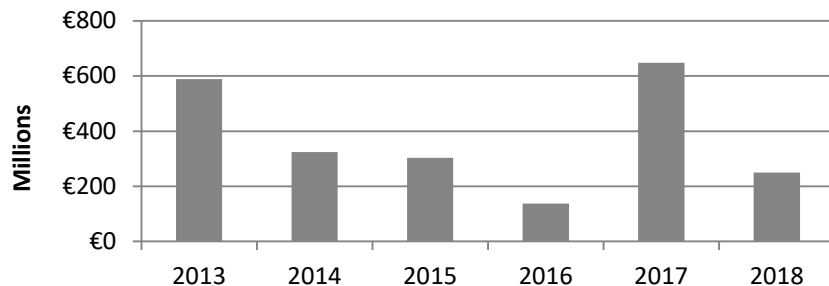
- ✓ Change to 2017 was a bumper year for BIBO approx. €550M in transactions taking place
- ✓ Irish Life sell first collateralised annuity Buy-In to Danske Bank Pension Scheme with value of €335M in late 2017
- ✓ Danske will tell their own story shortly



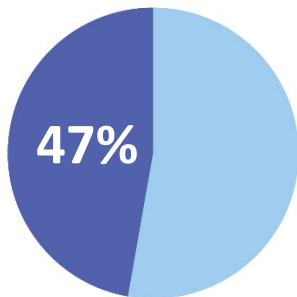
# Growth in Irish Annuity Transactions

## Current Landscape

### Irish Bulk Annuity Market Activity



Irish Life have more than 47% market share over this period



...including being the provider of choice on **3 out of the largest 5** deals to close over this period



# Defined Benefit Schemes Backdrop

## Operating Environment

Strong Equity  
Returns

Bonds Rates at  
a new normal

Improved Funding  
Positions (to recently)

Moderation in Life  
Expectancy

Maturing  
Liability Profiles

## Regulation & Costs

Introduction of Risk Reserve

IORPS II

Debt on Employer

## De-Risking Actions

Close to  
New  
Entrants

Close to  
Future  
Accrual

Modify  
Investment  
Strategy

Pension  
Increase  
Policy

Pension  
Increase  
Exchange

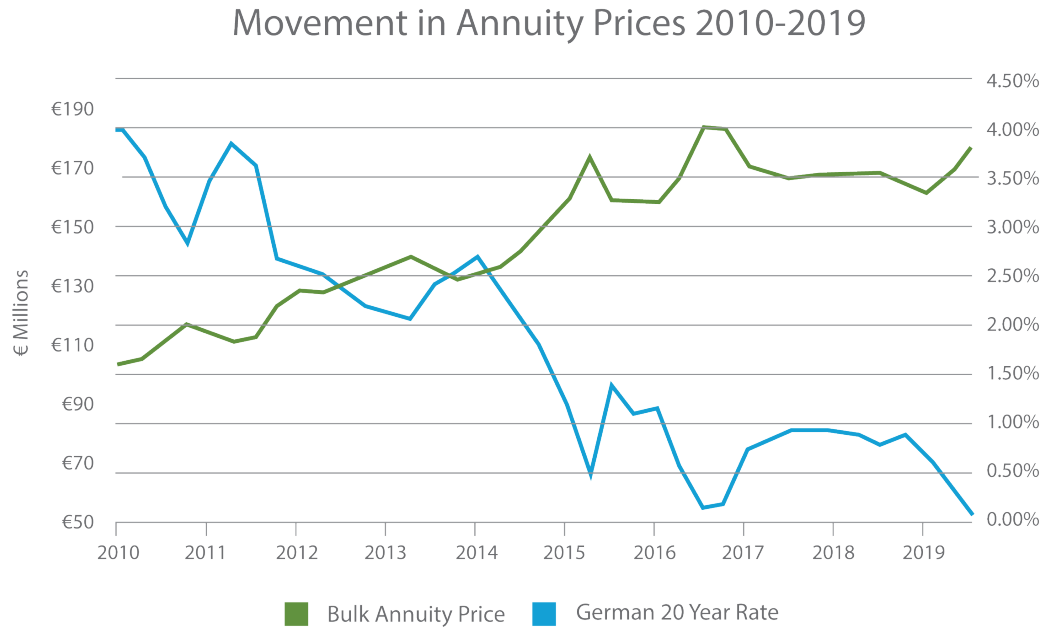
Enhanced  
Transfer  
Values

**Annuity Buy-  
In & Buy-Outs  
(BIBO)**





## Market Pricing / Current Landscape



## Drivers Affecting Prices

▼  
**CORE INTEREST RATES**

▼  
**LONGEVITY**

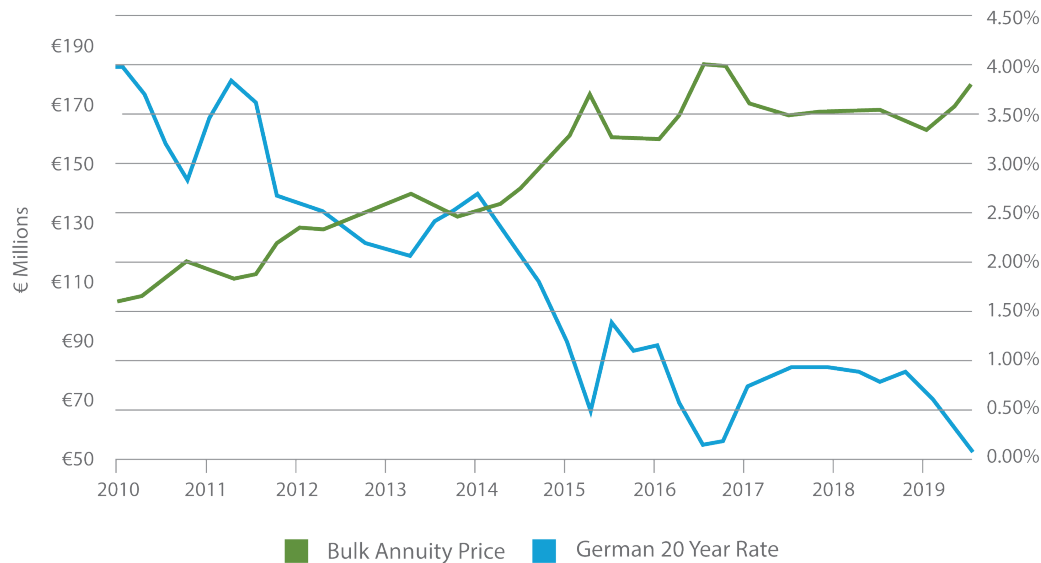
▼  
**SOLVENCY REGIME**

▼  
**REINSURANCE**

▼  
**SPREADS**

## Market Pricing / Current Landscape

Movement in Annuity Prices 2010-2019



Movement in pricing of sample portfolio 2010 to 2019



Interest rates have been the driver of price movements in this period



But as insurers predominantly use spread assets to price annuities this will generate efficiencies for schemes who make the transition at this time.



Underlying spreads are at German rates + c 80 to 120BPs

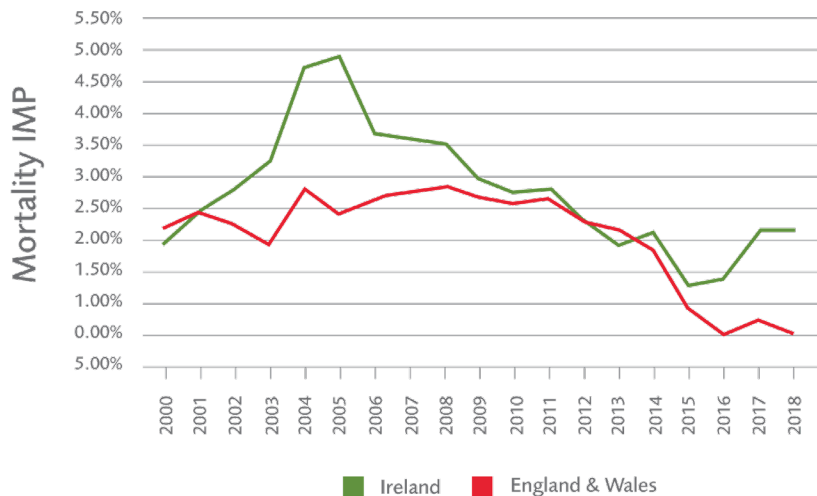


Irish Life

## Recent Irish Mortality changes

### Current Landscape

Comparison of five year average mortality improvements Ireland and England & Wales ages 20-90



Irish Life

## Drivers Affecting Prices



### LONGEVITY



Here is some recent Irish Life analysis of mortality trends



Combined male and female with 5 year smoothing



Significant slow down but still material improvements in Ireland



UK slowdown had been sharper



Pricing has improved to reflect this trend



# BIBO: Investment Solutions

## Buy In or Buy Out to Execution Details



### GENERAL INVESTMENT APPROACH

- ✓ Investment approach bespoke by case depending on profile
- ✓ Typical approach involved using a balanced mix of sovereign, supra-nations, corporate credit, private places and commercial mortgages



### PRICE TRACKING

- ✓ Can provide sophisticated price tracking mechanism referencing observable market data
- ✓ Provides more clarity and certainty around execution terms
- ✓ Maintain pricing competitiveness throughout execution



### IN-SPECIE TRANSFER

- ✓ Suitable assets can be taken in-specie to reduce liquidation costs and reduce execution risk



## Benefits



Competitive credit enhancing terms

---



Improved pricing visibility

---



Certainty around execution terms

---



Reduce transaction costs

# BIBO: Be Data Ready / Next Steps

To enable a smooth transition, being data ready is important...

## Being data ready allows:

Better transaction flexibility timewise

Definitive requirements for insurers

Competitive Pricing Terms

## Scheme Rules & Trustee Policy:

What does Trust Deed say

Clear policy for discretionary benefits



Pension increases



Dependents entitlements

## Up to date existence checking covering:

Member in payment

Dependent spouse

Contingent children's benefits



**Irish Life**

DOB

Gender

Annual Pension

Minimum Payment Period

Dependents Reversion %

Dependents DOB

Dependents Gender

Overlap Applies

Children's Reversion %

Children's DOB

Payable on Death of First or Both Lives

Children's Pension Payable for life (Y/N)

Pension Increase Rate

Pension Increase Date

Temporary Pension Payment Term

Temporary Pension Increase Rate

Temporary Pension Increase Date

Occupation

Address/Postcode

