Navigating through the de-risking maze

Pensions & savings annual conference

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What risk management option is right for me?

Is longevity risk a significant for my scheme? Will this change in future?

Am I concerned about future market capacity for de-risking?

What is my intended endgame?
The ‘de-risking’ options

BUY-IN

A perfect matching asset, held by the scheme
Manages demographic and investment risk
Exact match for pension increases
Easy to move to buyout
Involves transfer of assets to insurer

LONGEVITY SWAP / DIY BUY-IN

Scheme acquires assets to provide a close match liabilities
Manages demographic risks via longevity insurance or reinsurance, with fees paid over time
Scheme retains assets

Longevity hedging underlies both of these options
The ‘de-risking’ options – pros and cons

BUY-IN

✓ Exact cash-flows match
✓ Insurer regulatory capital regime
✓ Default risk protection
✗ Illiquid asset

Gilt Yields + c25bps

LONGEVITY SWAP / DIY BUY-IN

✓ Higher yield
✓ Future flexibility
✗ Asset default exposure
✗ High governance

Gilt Yields + c100bps

A choice between security or return
Annuities, DIY or another way?

A bridge between pensions and insurance
Building a bridge between the pension and insurance worlds

<table>
<thead>
<tr>
<th>Downside risk</th>
<th>Traditional self-sufficiency</th>
<th>Insured self-sufficiency</th>
<th>Buyout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertain</td>
<td>More certain all risks managed ‘like an insurance company”</td>
<td>Certain all risks insured</td>
<td></td>
</tr>
<tr>
<td>Outperformance / losses</td>
<td>Scheme retains all</td>
<td>Shared between scheme and an insurer</td>
<td>Insurer retains all</td>
</tr>
<tr>
<td>Covenant</td>
<td>No change to covenant</td>
<td>Covenant enhancement from insurance underpin</td>
<td>Employer covenant replaced by insurer covenant</td>
</tr>
</tbody>
</table>
Combining investment management with insurance

Self-sufficiency investment management

- Precise cash flow matching
- Real assets

+ Insurance framework and capital underpin

- Insurance risk framework
- Discounting based on insurance principles
- Insurer underpins funding position
Capturing tomorrow’s world today

- Insured self-sufficiency
  - Higher discount rate than traditional self-sufficiency
  - Covenant enhancement
  - Market definition of self-sufficiency
  - Upside rather than simple run-off

- Define objectives
- Work with your advisor
- Plan and prepare early
Considerations in selecting your journey

- Impact on overall risk
- Available liquidity
- Future flexibility
- Other risks
Summary

De-risking market is constantly evolving to meet the market needs.

To determine which option is right for you first you need to consider what tomorrow should look like.
Any Questions?
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