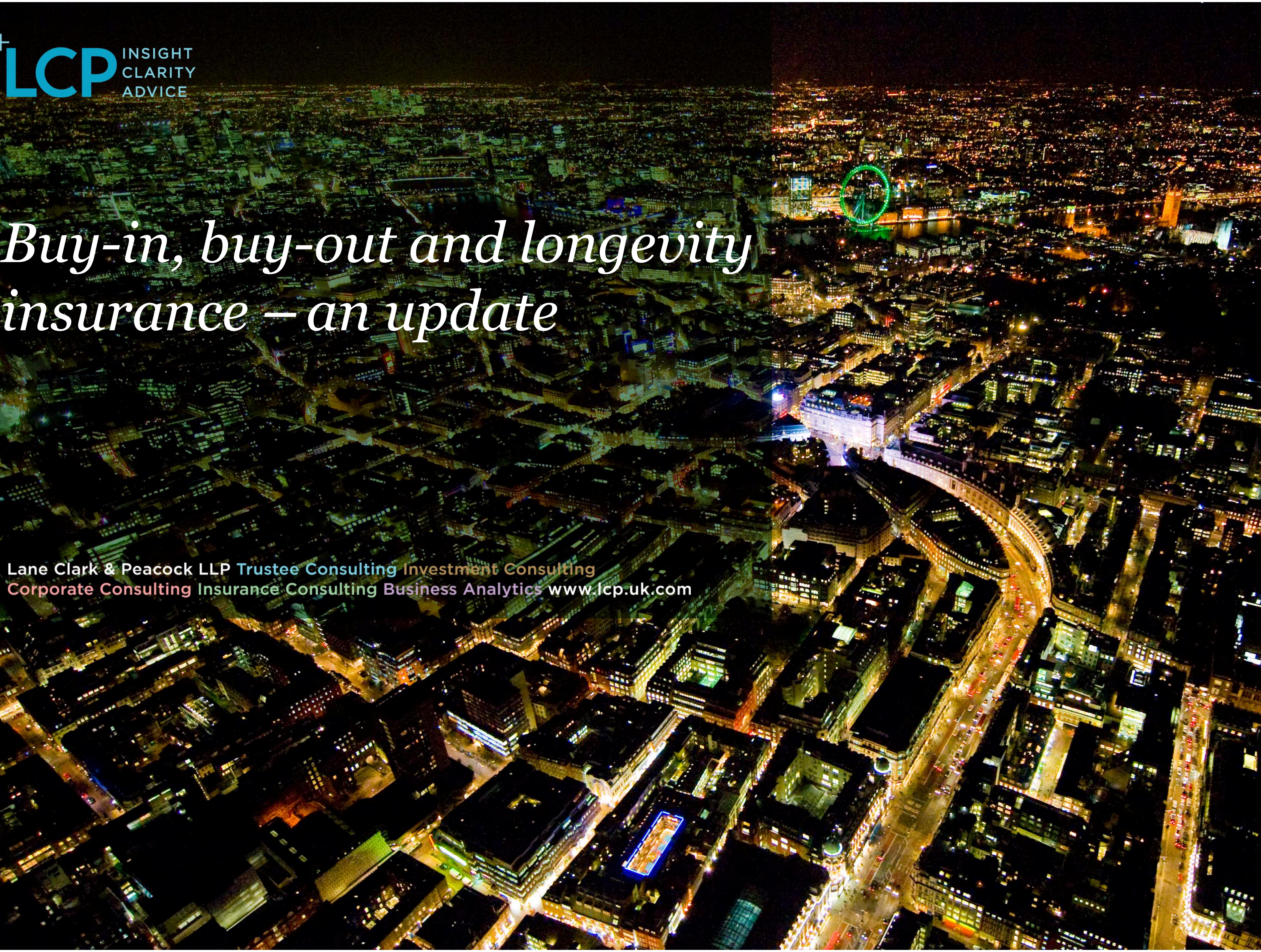


Buy-in, buy-out and longevity insurance – an update

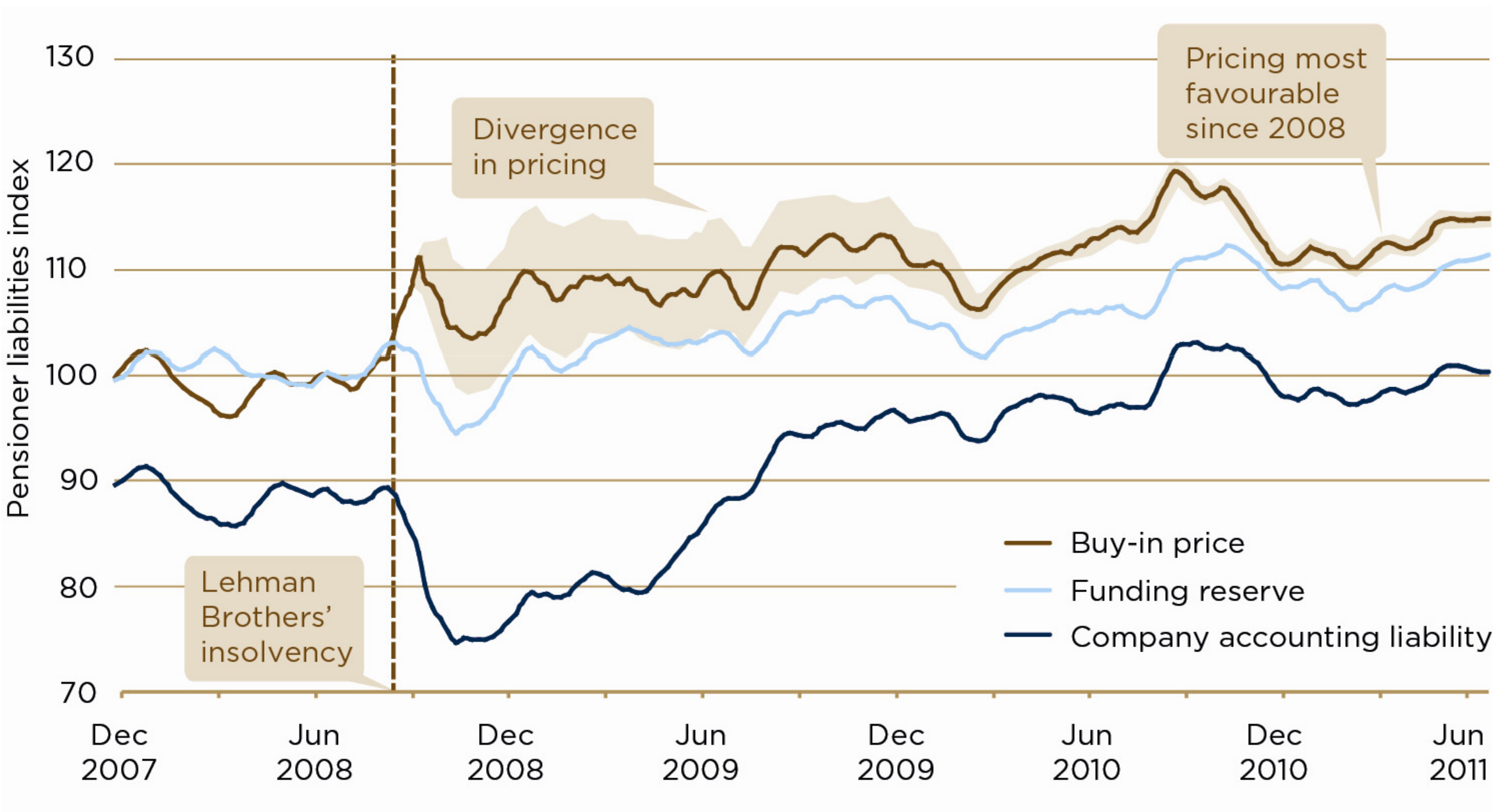
Lane Clark & Peacock LLP Trustee Consulting Investment Consulting
Corporate Consulting Insurance Consulting Business Analytics www.lcp.uk.com

The market – some facts and figures

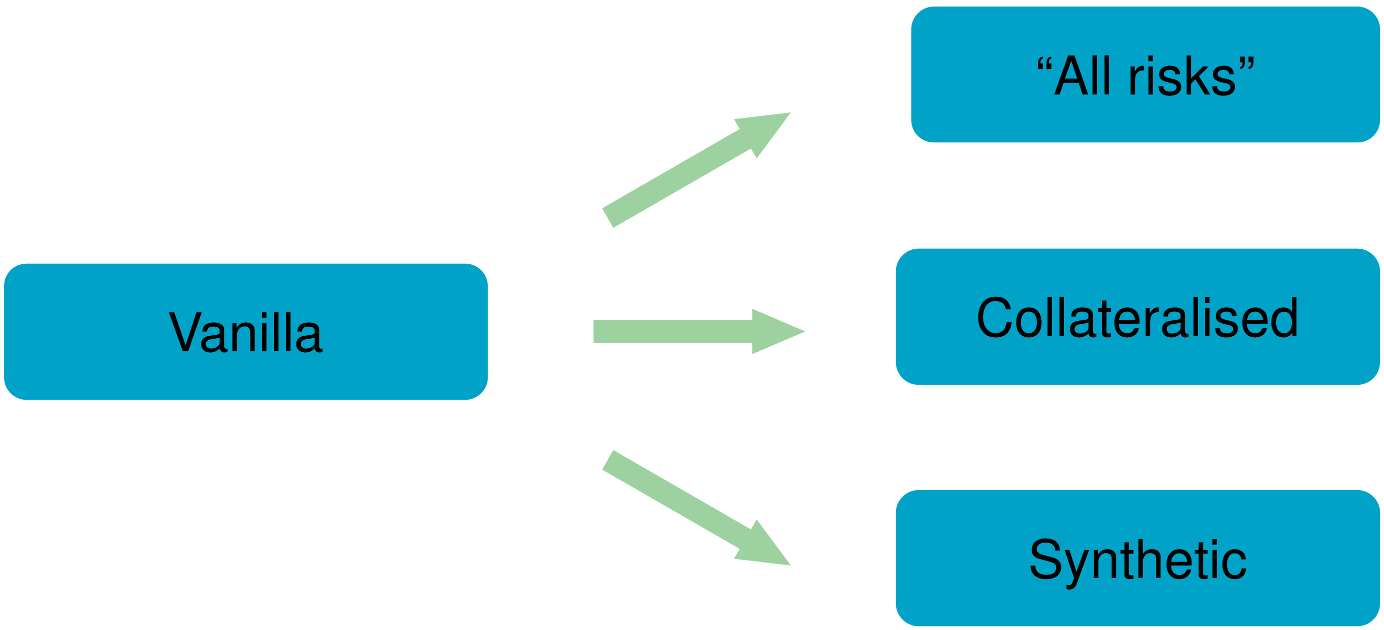
- Over 50 transactions over the last 5 years over £100m
- £30 billion of business written since 2006
  - Including 10 FTSE 100 transactions
- 2010 statistics
  - £8.3 billion written in 2010
  - 5 insurers wrote over £700m

Further evidence of a robust and durable market

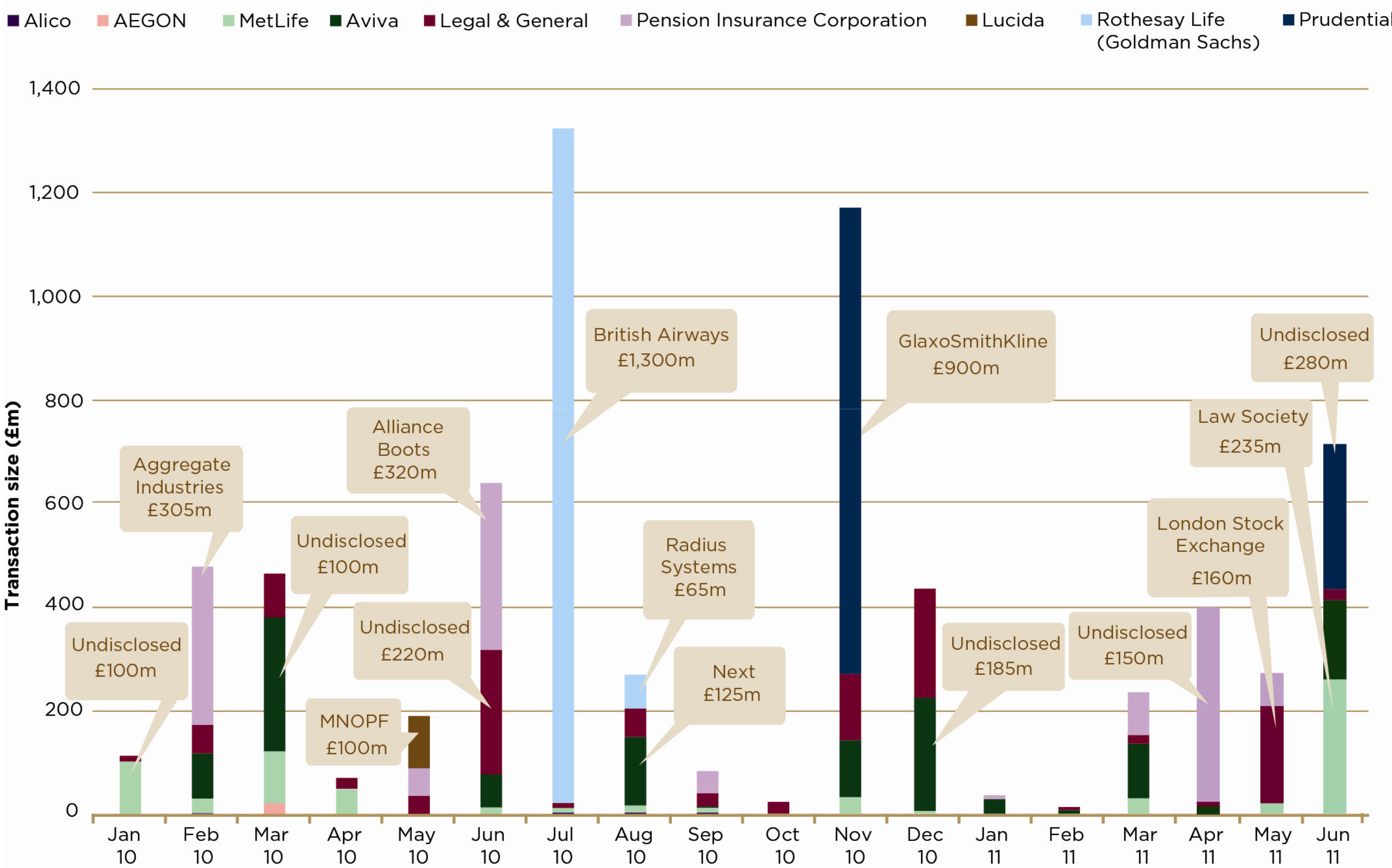
Funding measures for pensioner liabilities



Increasing sophistication of transactions



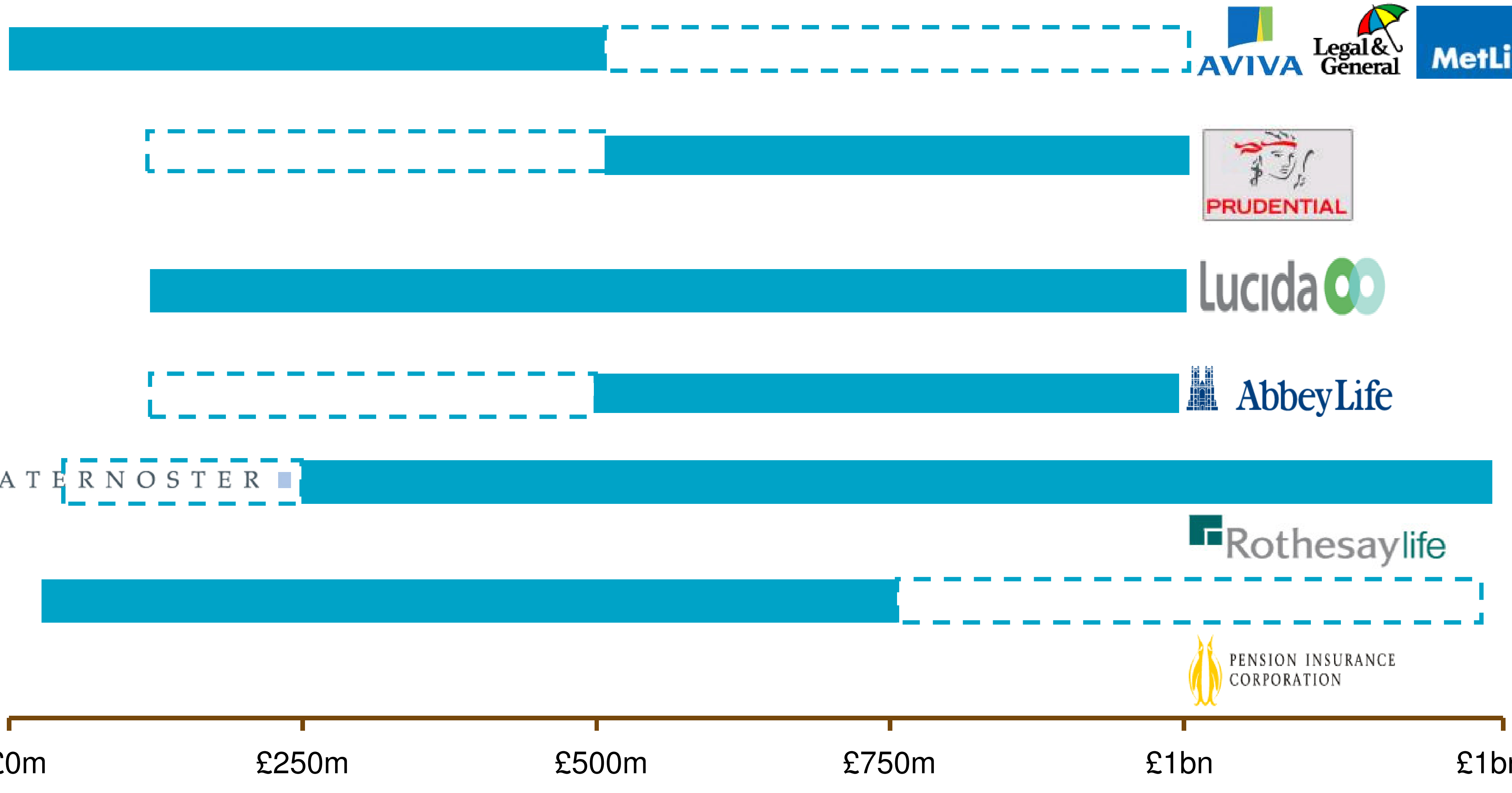
Buy-out/buy-in transactions 2010/2011



Source: LCP research of insurance company data and company announcements

Insurance company target markets

Some rules of thumb



Buy-in pricing

Insurer's longevity assessment

What influences insurer pricing?

Investment markets

- Swap yields
  - Interest rates
  - Inflation / LPI
- Corporate bond yields
- Credit default swaps?

Appetite

- Available capital
- Business targets
- Another deal fallen through?
- Client name
- Mix of business

Assessing the economics of a trade

The impact of a trade can be expressed in a number of ways:

- % impact on TPs
  - “*increase by 3%*”
- as a “drag” on investment return
  - “*reduction of 0.4% per annum*”
- shift in life expectancy
  - “*an additional 1.2 years beyond present assumptions*”

All clients are different.
Understand the benefits and limitations of any metrics used

LCP INSIGHT CLARITY ADVICE

Longevity hedging in practice

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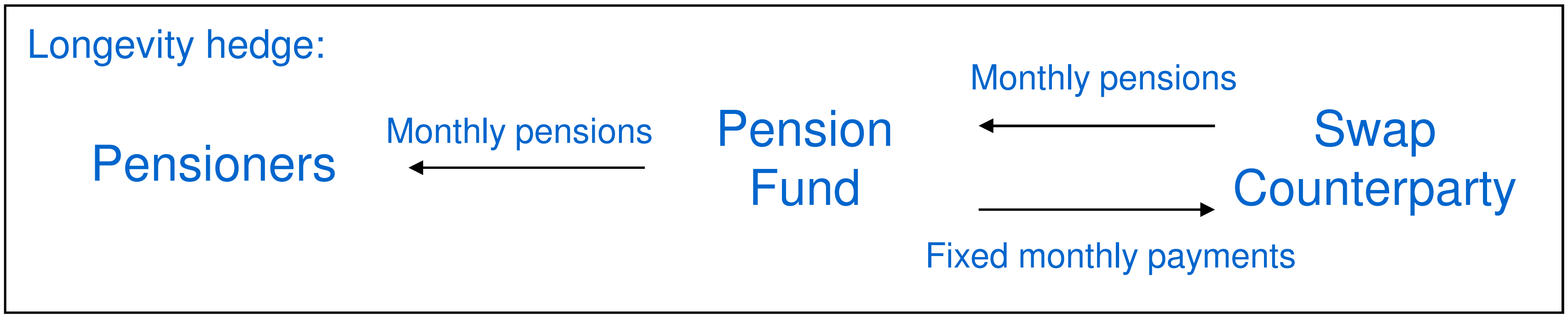
Quick introduction to longevity hedging

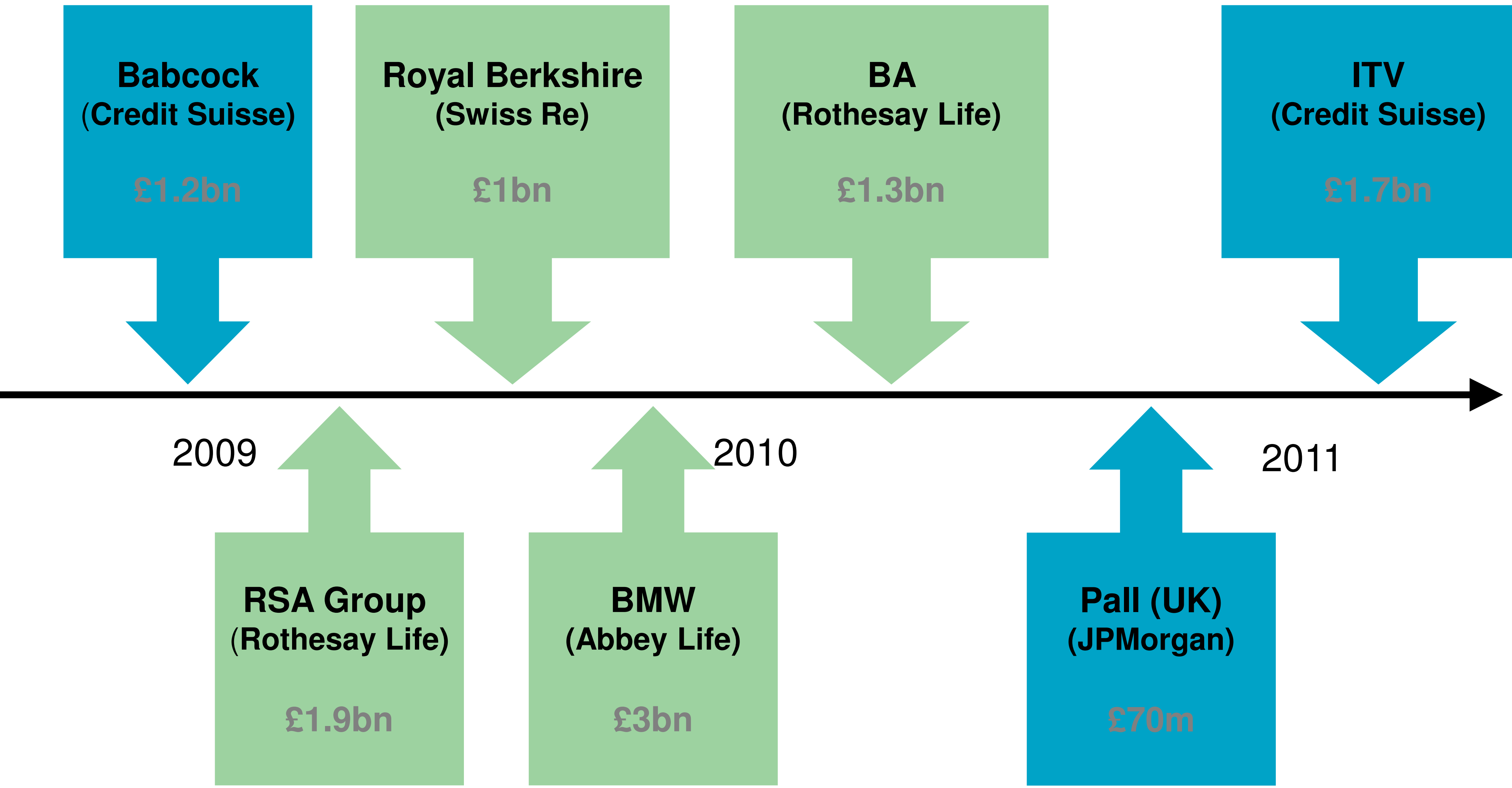
What is it?



Why use it?

- Assets remain under the control of the scheme
- Leads to three characteristics, distinct from buy-in / buyout:-
  - Additional security
  - Scheme can retain upside on underlying assets (downside too…)
  - Flexibility on management of financial risks

Longevity trades (by pension schemes) to date

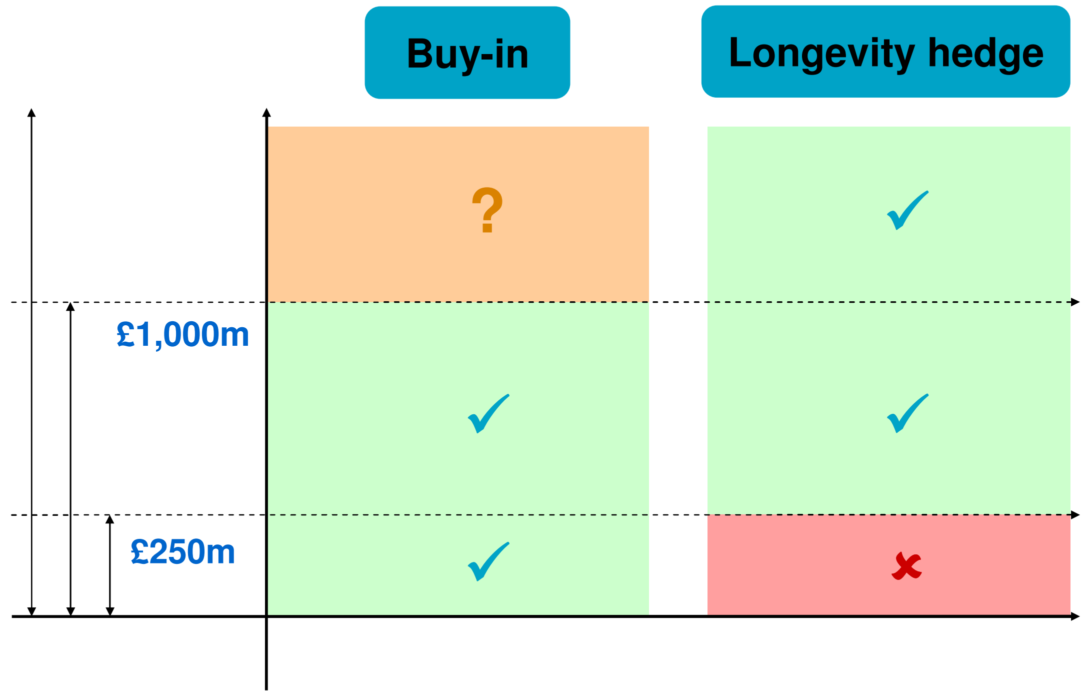


Source: Press releases by transaction participants.

Why so few trades to date?

- Only available for schemes where pensioner-related liabilities exceeds c£250m

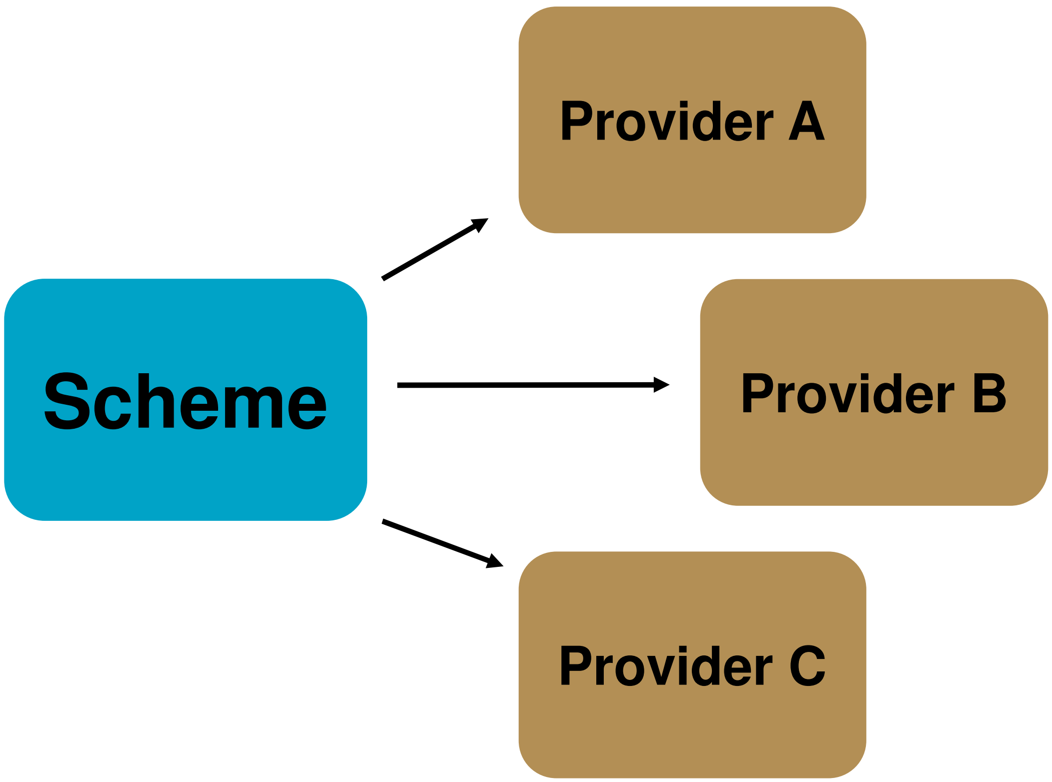
- Highly complex arrangements
  - Collateral
  - Exit to buyout?



- Longevity market structure present additional challenge in provider selection processes

Provider selection – the longevity challenge

- **Typical objective of provider selection process:-**
  - To identify the provider that delivers optimal combination of price, security and contract terms



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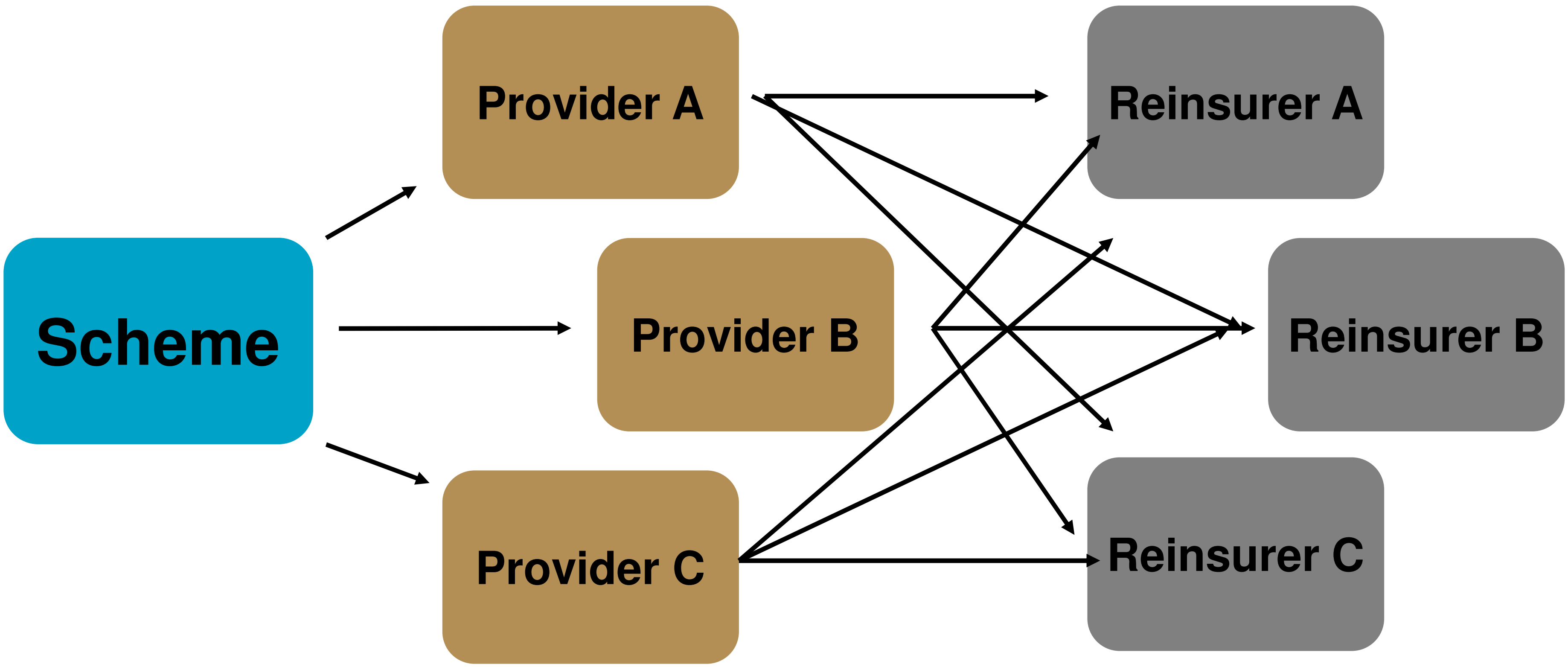

Developing the longevity market

- Three key areas of focus would help open up this market:-
  - Simplification / standardisation of standard contract terms
  - Clearer exit route for buyout
  - Providers explore alternatives to back-to-back reinsurance of longevity

Scope

- This generic presentation should not be relied upon for detailed advice or taken as an authoritative statement of the law.
- If you would like any assistance or further information, please contact LCP.
- This document should not be passed to any third party without our formal written agreement.