



IFoA Mortality and Longevity Seminar 2015

London, 29th January 2015

SL delegates attended the International Mortality and Longevity Symposium hosted by the Institute & Faculty of Actuaries (the IFoA) in Birmingham at the end of September last year. The 3 day symposium offered a unique opportunity to gain insight into the latest thinking on mortality and longevity from around the world; and how the latest developments can be applied to current decision making by business and policy makers alike.

As a consequence, SL was delighted to see that the IFoA was running a follow up Mortality and Longevity Seminar in London at the start of 2015. The aim was to build on the themes from the Symposium, but with more of a focus on the impact on UK products. SL's Senior Actuary Louise Witts attended to find out more.

Insights into Longevity

- *Latest work from the CMI*
- *Hot topics in mortality & Longevity research from around the industry*

Industry mortality tables are developed in the UK by the Continuous Mortality Investigation (CMI), a private company primarily funded by subscriptions from life assurance companies and actuarial consultancies who submit data to the CMI's investigations. Tim Gordon, as Chairman of the CMI Executive Committee, was therefore the perfect person to kick start the seminar with an update on the CMI's progress on the various investigations it is carrying out (such as annuitant mortality, self-administered pension scheme mortality, critical illness etc).

Two mentioned were of particular pertinence to SL:

- a) He considered the difficulties in looking at High Age Mortality. Not only do the number of records tail off for those aged 95-100 and older, but different life offices can show very different experience. One of the problems is establishing whether this is a true representation of the data or whether it is caused by life offices having different existence checking procedures. At present it is difficult for most analysts to adjust for these differences and so the data at the higher ages is not currently being fully taken into account. However the CMI are looking further into Higher Age Mortality, led by Neil Robjohns.
- b) He also noted that the Temporary Assurances tables, which include Endowments, are no longer updated. This is because Endowments are dwindling as a product class and so the life offices have less reason to submit data to the CMI. Therefore the amount of data being received is below that needed to make credible alterations to the existing tables. At present 80% of TM00 (the last table issued) still looks a reasonable fit for experience and hence is being retained.

Tim was followed by Peter Banthorpe who is the chair of both the IFoA mortality research steering committee and the September Symposium in Birmingham. Peter took us through a review of the latest research in the area of mortality.

He concentrated on three papers of most relevance in the UK:

- a) NAPF/Club Vita Pension Scheme Mortality Trends
- b) Longevity Basis Risk – IFoA sponsored research from Cass and Hymans Robertson
- c) “What is Ageing? Can we delay it?” – Longevity Science Advisory Panel (2014)

Whilst these papers are of general interest to SL, we were most interested in the OECD’s report on the Benchmarking of Longevity Assumptions, containing data from fifteen countries. This looked at whether the countries in the study are properly funding for their longevity risk. Whilst the study comes with a major “Model Risk” health warning (in that they compared all the countries to four base models, but if those models are inappropriate then the conclusions are limited in value), it was still comforting to see the UK classified as “OK” on their “classification of standard mortality tables by potential shortfall in provisions”. The messages around the US’s status were somewhat mixed given they were classified as being “Moderate Risk” for annuities, “OK” for one table commonly used for Pension Plans and as “Significant Risk” for the other.

The report’s conclusions included:

- Encouraging governments to make available mortality data split by socio-economic indicator (i.e. to make more public the extent of wealth effects);
- To encourage capital market solutions to provide capacity in the longevity space (e.g. by providing instruments hedging longevity risk etc).

The OECD believe that increasing or maintaining capacity for annuity providers and pension plans will be of ultimate benefit to individuals.

Finally, Peter looked at the World Health Organisation’s Global Status Report on non-communicable diseases 2014. This type of research is clearly of key importance to the specialist underwriters SL and others use to provide life expectancy estimates for the Life Settlement market. Hence it is of particular interest in helping us to update our due diligence processes on underwriters.

The world of annuities in 2015

- *What are customers’ needs post Budget reforms?*
- *Can we communicate the value of annuities to the consumer?*

To quote the UK’s Chancellor of the Exchequer, the Budget 2014 “introduces the most fundamental change to the way people access their pensions in almost a century”. This change was to abolish the need for retirees to purchase annuities. This clearly has a significant impact on the insurance industry, for whom annuities is major product, as well as on the UK consumer.

The two speakers were, unsurprisingly, pro annuities and dismayed by the change. They both spent some time looking at the difference in life expectancy based on actuarial tables (such as the CMI or the



Club Vita investigations mentioned previously) compared with surveys of individuals' expectations of their remaining life expectancy. As perhaps is well known, in general individuals underestimate their period of retirement. Life expectancies themselves, taken in isolation are crude tools. As SL is only too aware from our Life Settlement work, it is not well understood that a life expectancy is only an "average" and not a "maximum" or a "prediction". With all this uncertainty, will the change turn out to be a welcome freedom; or will it encourage short-termism and increase the burden on the State?

It was also noted that there could turn out to be only a relatively small window of stability. The change comes into effect on 6 April 2015, and is rapidly followed by the General Election on 7 May 2015. Will the new Government make any changes to this proposal following the election? It is a question being watched keenly by the annuity providers. In the meantime UK life offices are standing by for a busy month, with rumours that one insurer is training 400 temps to man their phones in April.

For SL this is a very interesting issue. We are clear supporters of consumer choice. Both our key asset classes, UK Traded Endowments and US Life Settlements, are based on the fundamental principle of the consumer having the choice to sell one of their assets should it suit them. Thus we are supportive of the idea of flexibility in the annuity markets. However we are conscious that early investors in the Life Settlement markets were themselves surprised by the length of the longevity expectations for wealthy individuals. Thus we would encourage legislators to develop a future annuity market that is structured in such a way that it balances the needs and interests of both policy holders and secondary investors. We shall continue to watch this debate with interest.

The challenges in communicating longevity risk

- Communicating longevity risk to Pensions Boards
- Communicating longevity risk to Life Boards
- Building and communicating "what if" scenarios

Whilst communicating longevity risk in the context of Life Settlements is a key issue for SL, the remaining speakers were of less practical relevance to our market; albeit, still of interest in their own right, particularly the panel debate at the end of the talks.

Asked about the potential biggest improvements in longevity, the panel felt that developments in regenerative medicine are massively exciting and have the potential to yield a step change in life expectancy. However, on the other side, antibiotic resistance was thought to offer the biggest threats to longevity improvements. In addition the potential of global pandemics is very real, and it was felt the US's lack of vaccination programmes (e.g. against measles) was also a cause for concern for those involved in monitoring developments in US mortality.

For more details on the seminar, or to discuss Life Settlement investment opportunities in general, please contact [Louise Witts](#).