Longevity 7 press articles

Prudential set to launch longevity insurance for US, by Chris Panteli, Global Pensions, 8 September 2011

US/GERMANY – Prudential is preparing to launch the first longevity insurance product in the US "very soon", delegates at the Longevity 7 conference in Frankfurt were told.

Prudential (known as Pramerica in the UK), which earlier this year completed the country's first buy-in deal with Hickory Springs (*Global Pensions*; 26 May 2011), said it was working on bringing the product to market to afford US pension plans the same ability to deal with longevity risk as their UK counterparts.

However, Amy Kessler, senior vice president and head of longevity reinsurance at Prudential Retirement, told delegates at the conference in she did not expect a high take-up from pension plan sponsors because longevity risk awareness is so low in the US.

Kessler said: "I believe longevity insurance will be available in the US very soon. Today we offer it as a reinsurance product because there is so much demand coming from the UK and we reinsure that pension risk. However, in the very near future we intend to bring this to US sponsors as well in the form of longevity insurance because we believe they should have the same kind of choices and flexibilty in de-risking as exist in the UK."

Kessler told delegates that the US was unaware of the full extent of longevity risk as they were too preocupied with asset risk.

"For US plan sponsors, risk taking is still the norm," she said. "The average US pension plan is underfunded and still invested in 50-60% risk assets and 40% bonds.

"One of the things very clear about the UK market is plan sponsors have sought to reduce their asset risk first. Once that risk is reduced to the point where it has 70-80% of its assets in fixed income, at that moment longevity risk becomes quite a significant piece of the remaining risk.

"Instead, many US sponsors and probably thinking that in comparison to their very significant asset risk, longevity is not meaningful, but that would change if their asset risk was reduced."

Longevity risk transfers to become 'common' worldwide, says Prudential, by Jonathan Williams, IPE, 9 September 2011

GLOBAL – Longevity risk transfers are set to become commonplace across the world's defined benefit (DB) pension market, Prudential Retirement has predicted.

Speaking at the Longevity Seven conference in Frankfurt yesterday, senior vice-president and head of longevity reinsurance Amy Kessler also praised the UK's role in

promoting de-risking as a viable strategy for pension funds to undertake, noting that her home market – the US – had yet to embrace many of the longevity de-risking approaches commonplace in the UK.

Kessler, who recently oversaw the £100m (€113m) longevity reinsurance deal struck between Prudential and Rothesay Life, said UK corporates struggled with generous benefits in addition to cost-of-living adjustments – with schemes "in some cases" dwarfing their sponsoring company.

There have been several cases of this in recent times, most notably that of food manufacturer Uniq, which conducted a debt-for-equity swap with its underfunded scheme, being freed of its responsibility as scheme sponsor.

Kessler praised the UK for its part in longevity risk transfers, arguing regulatory changes such as strict funding regulations and a push for more transparency on company balance sheets was driving the interest in longevity risk.

"The UK has led the world in pension de-risking," she said. "I'll ask you to please keep your eye on this list because, if all of these factors are aligned, then any defined benefit pension market anywhere in the world will move toward managing and transferring risk."

She said the change would be driven by plan sponsors' changing risk tolerance, as well as stakeholders beginning to take note of risk as monitoring tools became more widespread.

She added that plan sponsors face "real financial consequences if they fail to act", with de-risking deals such as buy-ins and buyouts in the US only totalling £7.9bn between 2006 and 2010, while the UK market had seen £30bn in activity.

However, she attributed this to a lack of awareness of longevity risk in the US, with it ranking below interest rate and equity market risk for most of the country's plans, while its UK counterparts were more likely to be aware due to the role of auditors and consultants.

"One of the greatest distinctions when I moved to the UK to work with DB pension plans," Kessler said, referencing her time at Swiss Re, "was the distinct awareness from pension fund sponsors that auditors would be certain to enforce something that is broadly a mark-to-market concept on longevity."

She said this approach offered a "more realistic" estimate of longevity as it affected the plan than currently in place in other countries.

Investors could use ETFs to trade longevity, Deutsche Börse predicts, by Jonathan Williams, IPE, 12 September 2011

GLOBAL – Exchange-traded funds (ETFs) could be used for trading longevity once the market becomes sufficiently liquid, Deutsche Börse has suggested.

Addressing delegates at the Longevity Seven conference in Frankfurt last week, Hendrik Rogge, responsible for the company's Xpect longevity indices, also said trading would be limited to such funds and future contracts, as regular trading would be impractical due to the monthly release of new data.

He added that introducing ETFs was a "possible solution" toward making longevity risk more tradable, but that other stumbling blocks remained.

Asked when the market would be liquid, Rogge conceded it was something Deutsche Börse would also like answered.

"I've been calculating indices for four years now, and we've seen remarkable improvements over the last few years, but it's absolutely impossible to give you some insight," he said.

He said there was interest in trading, but that it was "hard to find a first mover" to commit to a first trade.

"I don't think we will see day traders on longevity indices because changes occur on a monthly basis," he said when asked about such a possibility.

"It will be hard to find a day trader willing to trade within the days we publish these indices. Having ETFs – yes. I think it is a possible solution."

Instead, Rogge argued that, once the market became more liquid, products on exchange could include futures contracts, as well as ETFs.

Speaking at the same conference, Prudential Retirement's senior vice-president and head of longevity reinsurance predicted longevity risk transfers would become increasingly common in defined benefit (DB) territories, as they followed the UK example of more transparent disclosure of risk, as well as stricter funding regulations.

Longevity asset class 'compelling opportunity' – conference, by Chris Panteli, Global Pensions, 12 September 2011

GLOBAL - The development of longevity as an asset class continues to grow as longevity risk becomes increasingly recognised, experts believe.

Delegates at the Longevity 7 conference in Frankfurt, Germany last week heard how longevity markets could provide investors with the opportunity to earn attractive returns.

David Blake, conference chairman, professor of pension economics and director of the Pensions Institute at Cass Business School said: "Longevity risk is an increasingly important risk to recognise, quantify and manage for both pension plan and annuity providers, as well as for governments and individuals. Getting the right trend improvements in life expectancy is the key both to managing this risk and to creating an asset class acceptable to investors to buy into.

"However, this has proven to be difficult to realise in the past; even official agencies have systematically underestimated previous mortality improvements. Pension plan and annuity providers are beginning to question whether longevity is a risk they should be assuming on an unhedged basis, and the capital markets are beginning to offer solutions for managing and unloading longevity risk."

Société Générale managing director and head of insurance and pension solutions Jeff Mulholland added: "The opportunity to relative trade the micro-longevity and macro-longevity markets is becoming compelling.

"With spreads likely to tighten in the micro-longevity market due to market forces, investors will have the opportunity for potential mark-to-market gains over time, whilst the amount of longevity risk that needs to be hedged globally suggests macro-longevity spreads may widen over time, leading to opportunities for returns for investors who trade longevity."

Amy Kessler, a retirement expert at Prudential's (Pramerica in the UK) Retirement division said the UK was leading the way in pension plan de-risking.

"Progress in the UK has been driven by regulation, accounting transparency and risk awareness among pension schemes that has led to dramatic changes in risk management and governance. Many of the same catalysts for change are arriving in the US today," she said.

"As US pension plan sponsors face these changes, there is broad recognition that their current risk position is unsustainable. While affordability remains an issue, techniques used in the UK for reducing and transferring risk have crossed the pond."

Raimond Maurer, professor of investment and pension finance at Goethe University, and co-organiser of the conference, added: "In the twentieth century, state-organised pension programmes shouldered the lion's share of financial provision for the elderly. In the twenty-first century, however, retirees are likely to depend very heavily on privately organised funded old-age protection, such as private occupational pension plans and life annuities.

"Yet, the financial institutions that are supposed to supply these products, such as pension funds and life insurers, face substantial difficulties in managing systematic longevity risk. One possible solution to this problem might be the transfer of a reasonable proportion of this longevity risk to the capital markets. This, however, requires investors to accept longevity-linked instruments as an appealing asset class."

Pension funds 'wholly incapable' of managing longevity risk – Pacific , by Jonathan Williams, IPE, 13 September 2011

GLOBAL – Pension funds are "wholly incapable" of managing longevity risk, as are governments and the public sector, according to Pacific Global Advisors' head of asset-liability management.

Guy Coughlan, former co-head of JP Morgan's European pension advisory as well as global head of longevity solutions, also suggested that the most natural holders of

longevity risk could be young employees saving for retirement through a defined contribution (DC) scheme.

Speaking at the Longevity Seven conference in Frankfurt last week, Coughlan began by saying that the current holders of longevity risk were "not the most efficient", arguing that any such risk should therefore be transferred away.

Coughlan cited several factors as driving forces behind longevity as a potential asset class, with market size being one, supporting estimates that global longevity risk in defined benefit schemes stood at around $25trn (€18.2trn).

He stressed the need to establish capital markets for longevity, as insurers would be unable to absorb the above capacity – therefore necessitating capital markets to develop risk transfers in a way that complements existing insurance approaches.

"Currently, most of the longevity risk in the world resides with institutions wholly incapable of being able to manage it – within governments, defined benefit pension plans, within corporations and the public sector," Coughlan said.

He argued that the longevity risk within insurance companies and capital markets was currently significantly smaller than those existing in pension funds, requiring a change in this imbalance.

"The natural holders of higher-edge longevity risk, one of them might be young workers in their defined contribution pension plans," Coughlan said.

He explained that younger workers had "remote" longevity risk, allowing for "intergenerational risk-sharing" from a public policy perspective.

"It provides them with a diversified investment, it provides them with a risk premium – certainly something I would have considered having in my own defined contribution portfolio," he said.

However, he conceded that numerous pension funds were choosing to accept their longevity risk as given at the moment, rather than transferring it out of the scheme.

"In doing so, they need to be aware this is part of their investment decision and should be factored in to what they do with areas such as asset allocation," he said.

The importance of addressing longevity risk: Interview with Amy Kessler at Longevity 7 Conference, by Chris Panteli, Global Pensions, 14 September 2011

http://www.globalpensions.com/global-pensions/interview/2108879/amy-kessler-interview