

Using an open underwriting process to achieve competitive pricing for the £1.4bn buy-in by the Marks & Spencer Pension Scheme.

M&S

EST. 1884

LCP helped us maintain momentum in our strategic review of a range of options for removing longevity risk and advising on our approach to the insurers and reinsurers. As a result of effective preparations and a focused process, we were able to capture a valuable market opportunity in longevity pricing and execute two simultaneous transactions ahead of the deadline.

Simon Lee, Head of M&S Pension Trust and Chief Investment Officer

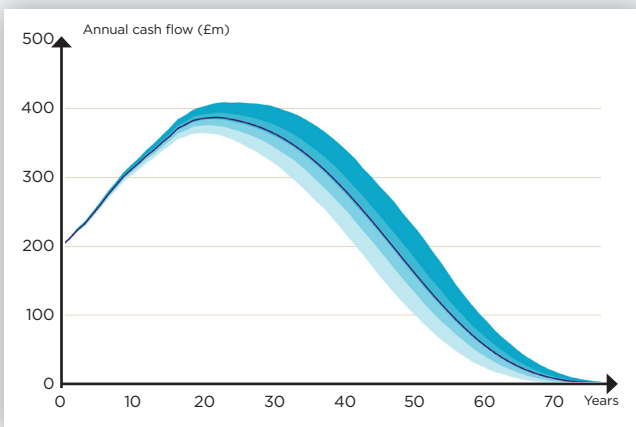
Background

- £11bn pension plan with c.50% pensioner liabilities
- Unusual pension plan demographics (90% female population, significant part-time working)
- Well-funded and substantially de-risked for investment and market risks
- LCP appointed as specialist longevity de-risking adviser to a joint working group of trustee and company representatives

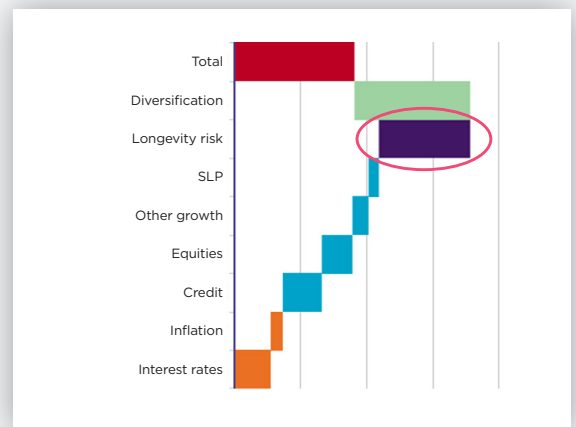
Evaluating longevity de-risking:

- Longevity risk was measured using LCP LifeAnalytics and then combined with other risks in LCP Visualise
- As the chart below illustrates, longevity was identified as the dominant risk
- There was a concern that the cost of longevity risk removal could rise in the medium to long term

LCP LifeAnalytics



LCP Visualise



*Case Study: M&S
continued*

**Implementing longevity
de-risking:**

We recognised that most insurers pass substantial amounts of longevity risk to reinsurers (in respect of pensioner buy-ins) and that the same reinsurance underwriting was required whether buy-ins, longevity swap, or a combination was adopted.

LCP set up a Common Data Room

We set up new infrastructure to run a common online data room so that, for the first time, both insurers and reinsurers could access the same data simultaneously.

This gave all parties access to better quality data and a well run query process. The result was improved efficiency for all parties as reinsurers could provide pricing to each insurer in the buy-in process without running parallel quotes based on separate data sets provided by each insurer.

The outcome was high levels of engagement and attractive pricing.

Reinsurers

Insurers



Solution

1. One third of pensioner longevity risk removed through two buy-in transactions.
2. Attracted by LCP's open process, reinsurers committed to fully modelling **all** pensioner demographic risk, making future underwriting exercises easier.

**Fully-modelled on reinsurers
and insurers systems**

M&S Pension Scheme



**£1.4bn
Longevity
risk removed**

**£3.1bn
of possible
future de-risking
opportunities**

**£925m
buy-in
Aviva**

**£470m
buy-in
Phoenix Life**

Approx values as at March 2018

We welcome the use of a common data room through which reinsurers can ask questions to and seek clarifications from the advisers running the buy-in process. This direct access is likely to lead to an efficient underwriting process and more attractive pricing for the end pension scheme.

Amy Kessler

Senior Vice President and
Head of Longevity Risk Transfer
Prudential Financial (Reinsurer)

What does this mean for you?

For large pension schemes committed to phased de-risking using buy-ins, longevity swaps or a combination, the common data room removes inefficiencies in the underwriting process, improves reinsurer and insurer engagement and maximises the scheme's pricing opportunities and flexibility in the short and long term.