



P&I CONFERENCES and **AON** Hewitt present

# Canadian Pension Risk Strategies Summit

June 3 | Toronto | Four Seasons Hotel

These aren't your  
grandmother's annuities

Brent Simmons

Senior Managing Director, Defined  
Benefit Solutions

Sun   
Life Financial

# AGENDA

1

New philosophy

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2

Risk transfer innovations

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3

Pricing insights

# NEW PHILOSOPHY

# TWO TYPES OF ASSETS

## Return seeking (e.g., equity)

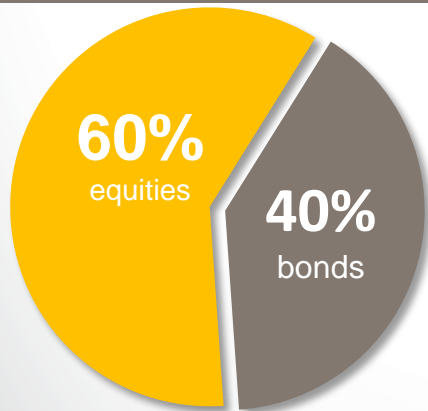
- Don't match liabilities
- Assets can move very differently than liabilities
- Potential for bad news
- Potential for good news

## Hedging (e.g., bonds)

- Match liabilities
- Assets and liabilities move together
- No bad news
- No good news

# MAKING CALLS ON EQUITIES AND INTEREST RATES

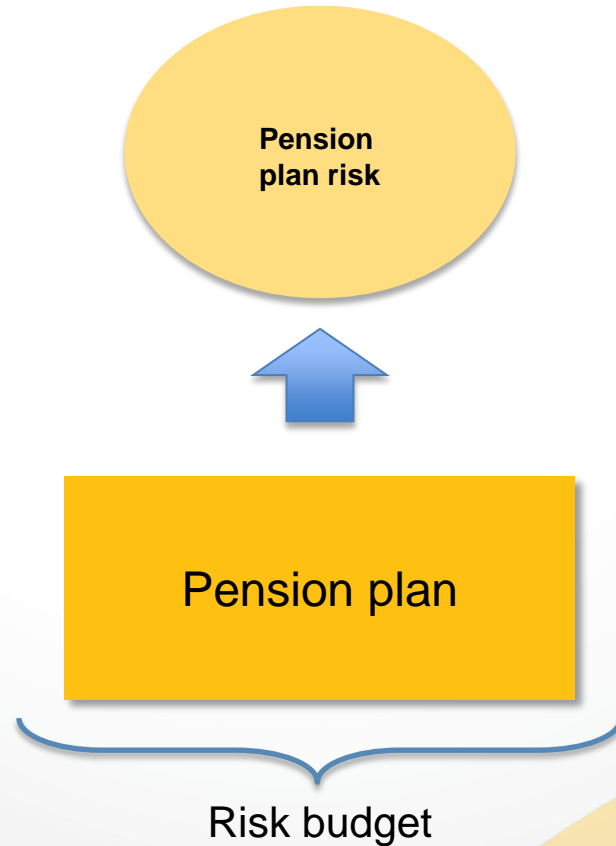
Calls being made:  
Long 60% equities + short 60%  
bonds



No calls being made:  
100% hedged

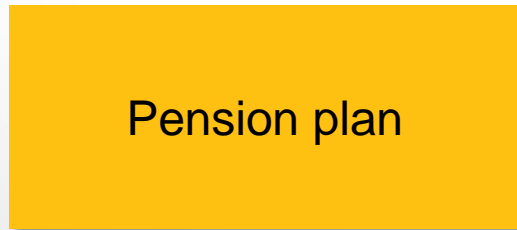


# LOOKING AT PENSION RISK IN ISOLATION CAN BE MISLEADING



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- Market risk
- No competitive advantage

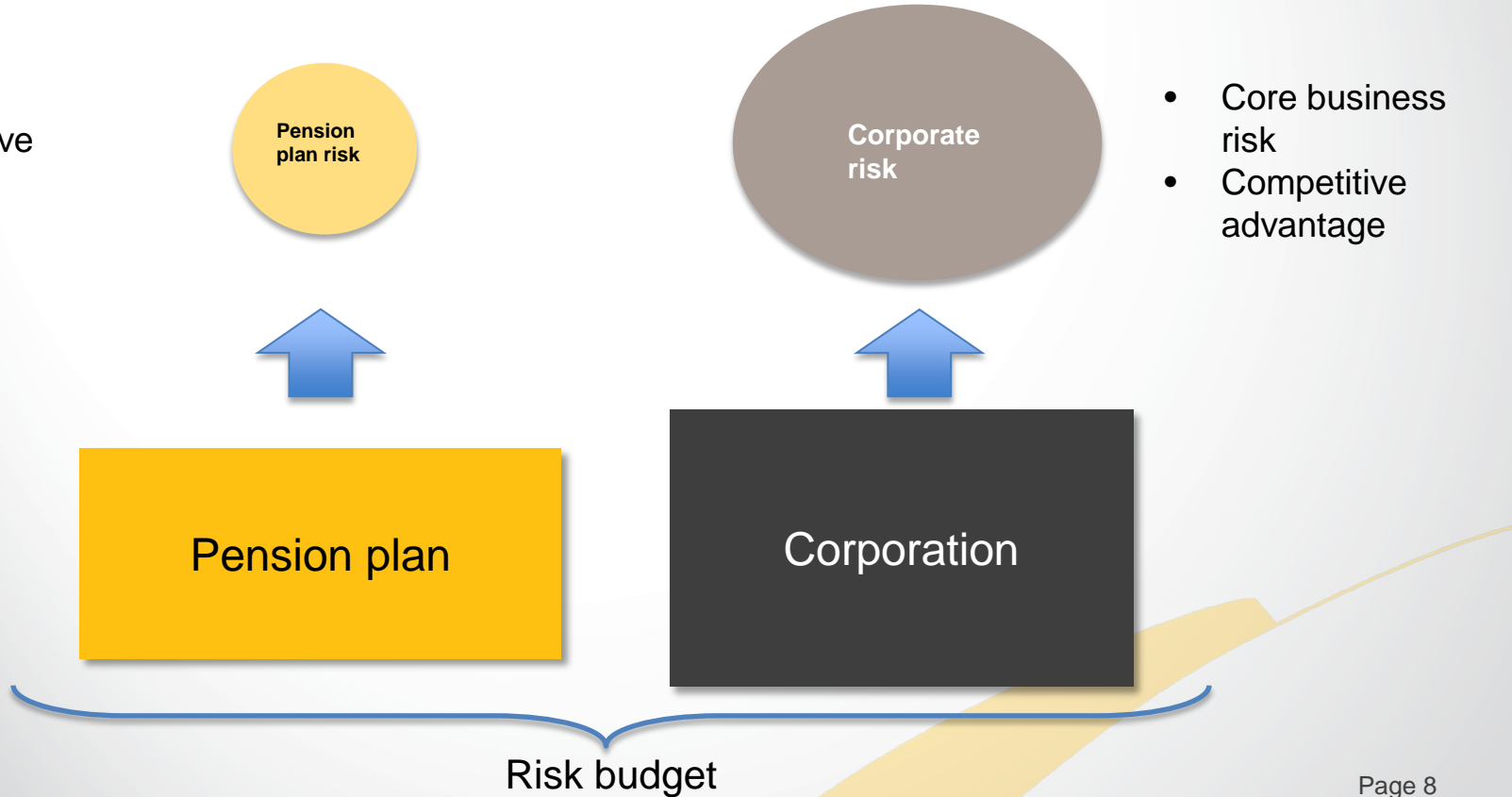


- Core business risk
- Competitive advantage



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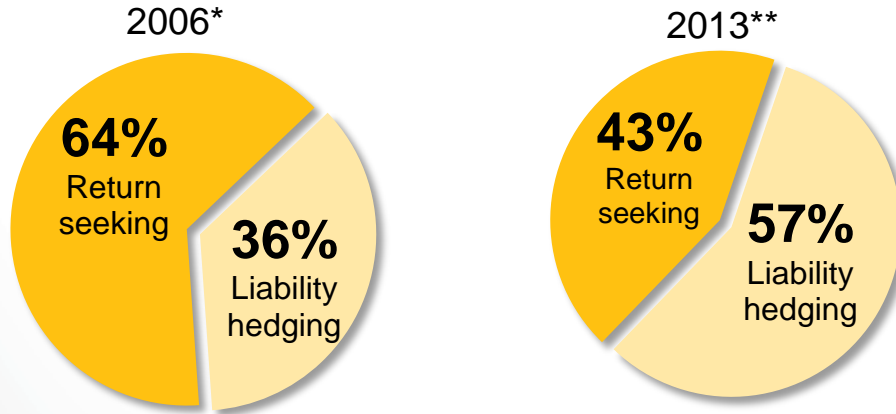


- Core business risk
- Competitive advantage



# TIME FOR A CHANGE OF PHILOSOPHY?

## DB asset allocation in the U.K.



£ **446**  
BILLION  
U.K. pension assets  
managed with reference  
to their liabilities

**The U.K. is concluding that employers should make fewer calls on equities and interest rates**

**Notes:**

\* Return seeking: 61% equities and 3% other investments; Liability hedging: 29% gilts and fixed interest, 2% cash and deposits, 4% property and 1% insurance policies

\*\* Return seeking: 35% equities and 8% other investments; Liability hedging: 45% gilts and fixed interest, 7% cash and deposits and 5% property

Sources: The Purple Book, 2013 and 2013 KPMG LDI Survey

# HOW TO BETTER MATCH PENSION LIABILITIES

**Alternative  
investments**

**LDI strategies**

**Annuities  
and  
longevity  
insurance**

**Enhance  
yield**

**Reduce  
volatility**

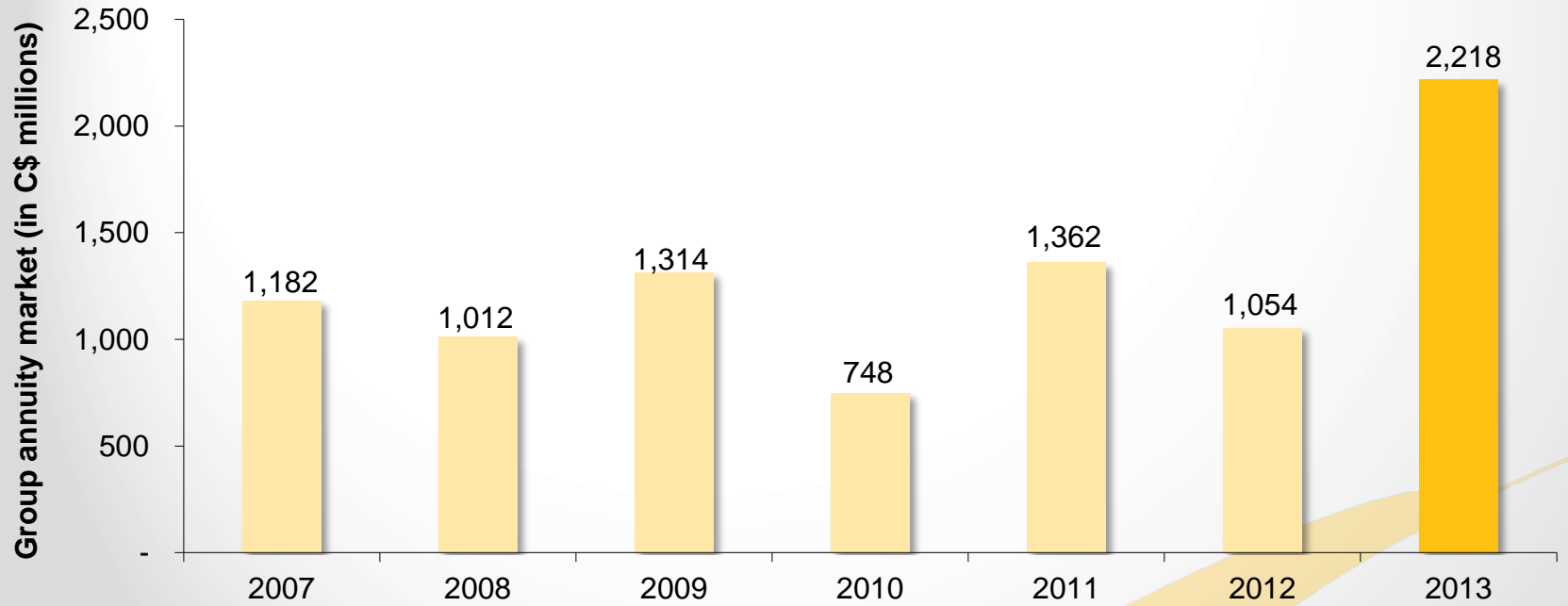
**Transfer  
risk**

## DE-RISKING CAN IMPROVE SHARE PRICE

Company	Date	Type of de-risking	Transaction size	Change in share price
Babcock	May 2009	Longevity swap	£1.9bn	16.5%
Dairy Crest	June 2009	Annuity buy-in	£310m	16%
Royal Sun Alliance	July 2009	Longevity swap	£1.2bn	15%
British Airways	July 2010	Synthetic annuity buy-in	£1.3bn	10%
Denso	September 2009	Annuity buy-in	£140m	6%
BMW	February 2010	Longevity swap	£3.0bn	6%
Cadbury	December 2009	Annuity buy-in	£500m	6%
			<b>Average</b>	<b>10.2%</b>

# RISK TRANSFER INNOVATIONS

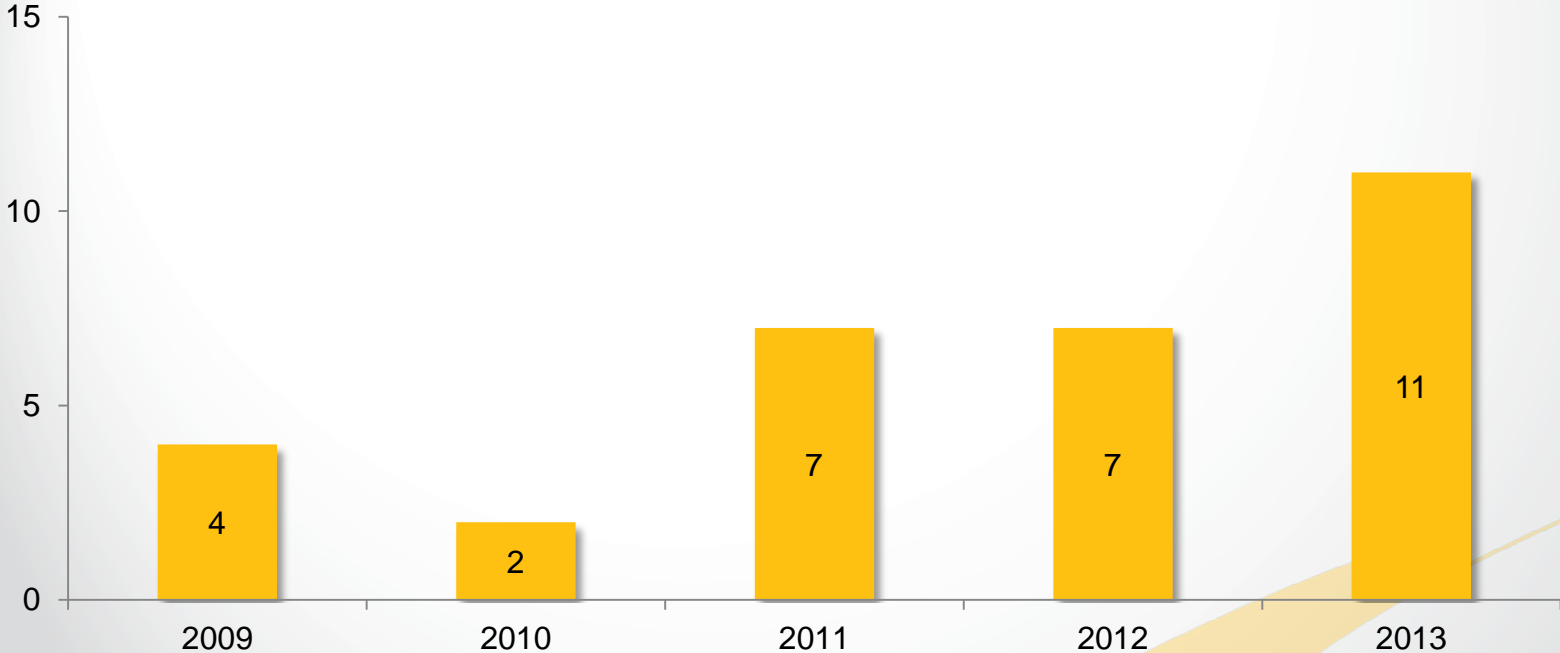
# THE CANADIAN GROUP ANNUITY MARKET IS GROWING



Source: LIMRA

# MORE AND MORE LARGE DEALS ARE BEING DONE

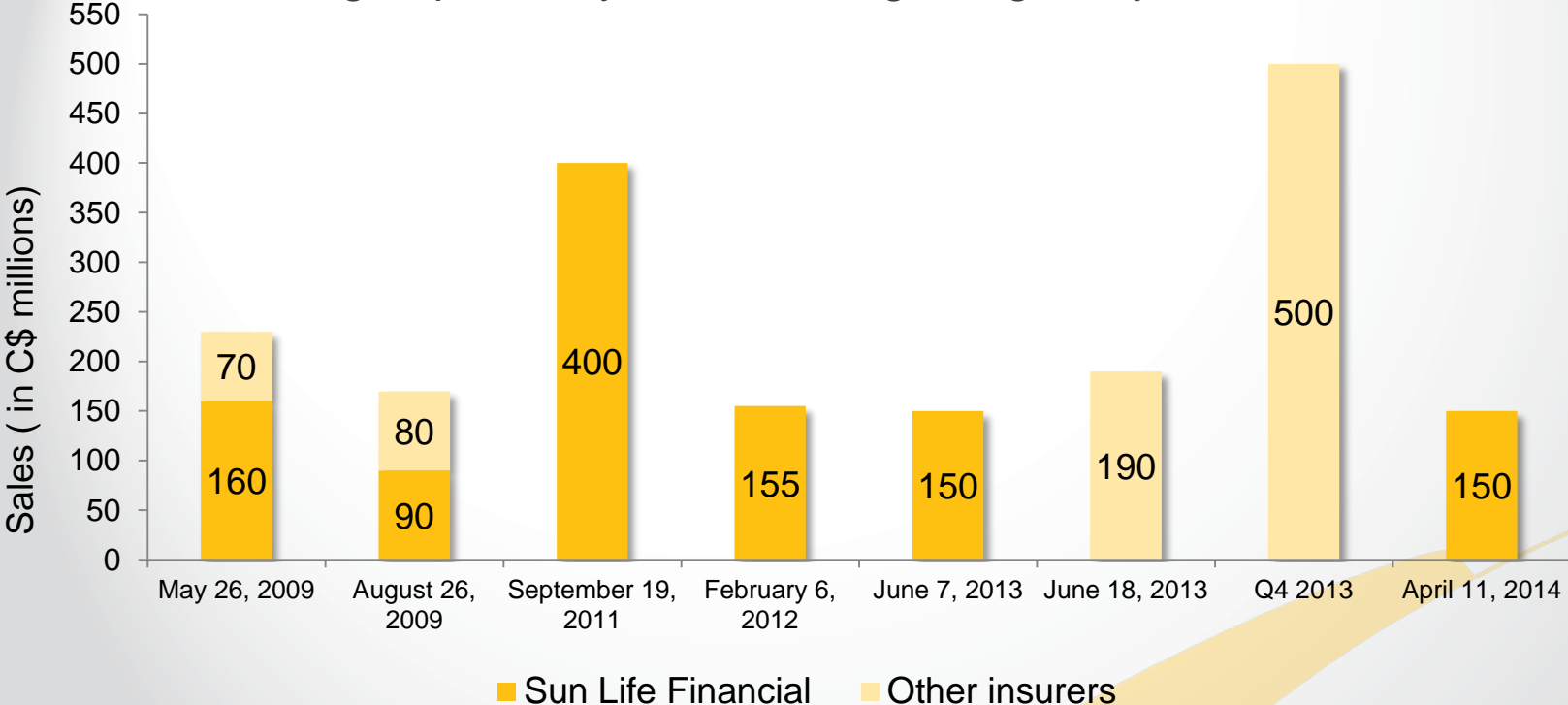
Canadian group annuity market – estimated number of transactions over \$50 million



Source: Sun Life Financial estimates

# DEAL SIZE IS INCREASING

## Canadian group annuity market – large single day transactions

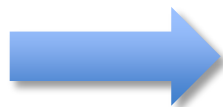


Source: Sun Life Financial estimates and media reports

# INNOVATION HAS GROWN RAPIDLY

2008

Annuity  
buy-outs



2014

Annuity  
buy-outs

Annuity  
buy-ins

Longevity  
insurance

LDI and in-kind  
asset transfers  
for annuities

Solutions for CPI  
indexed  
annuities

Reinsurance  
syndicates



# ANNUITY BUY-INS HAVE EXPLODED

**SINCE 2009**

(Approximate)

**18**  
**ANNUITY**  
**BUY-INS**  
IN CANADA



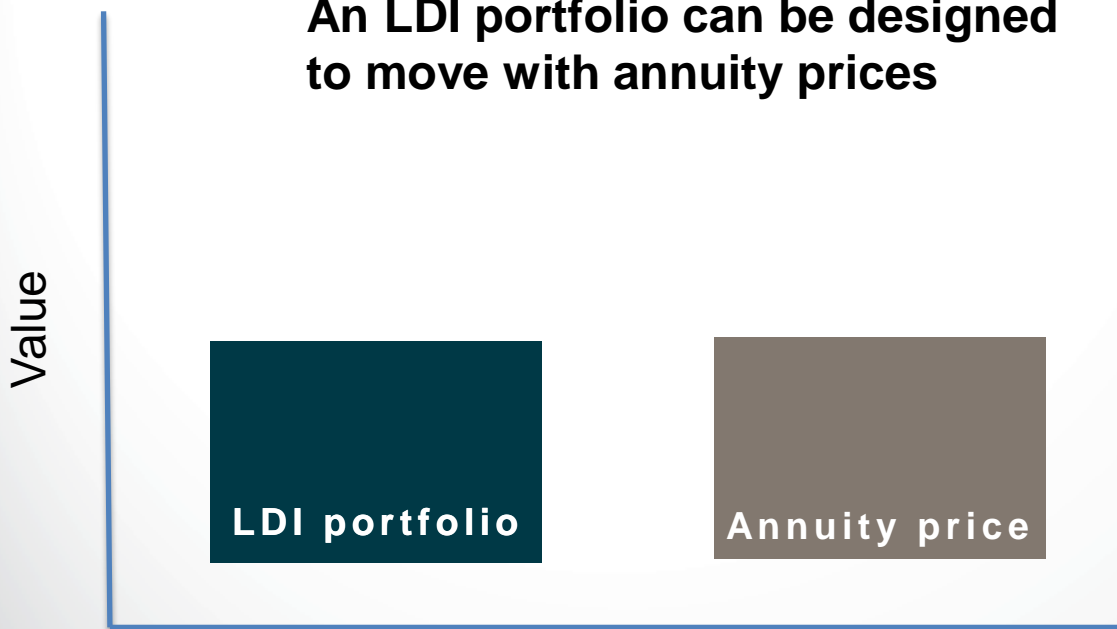
**\$ 810**  
**MILLION**  
LIABILITIES

## ANNUITY BUY-IN ADVANTAGES

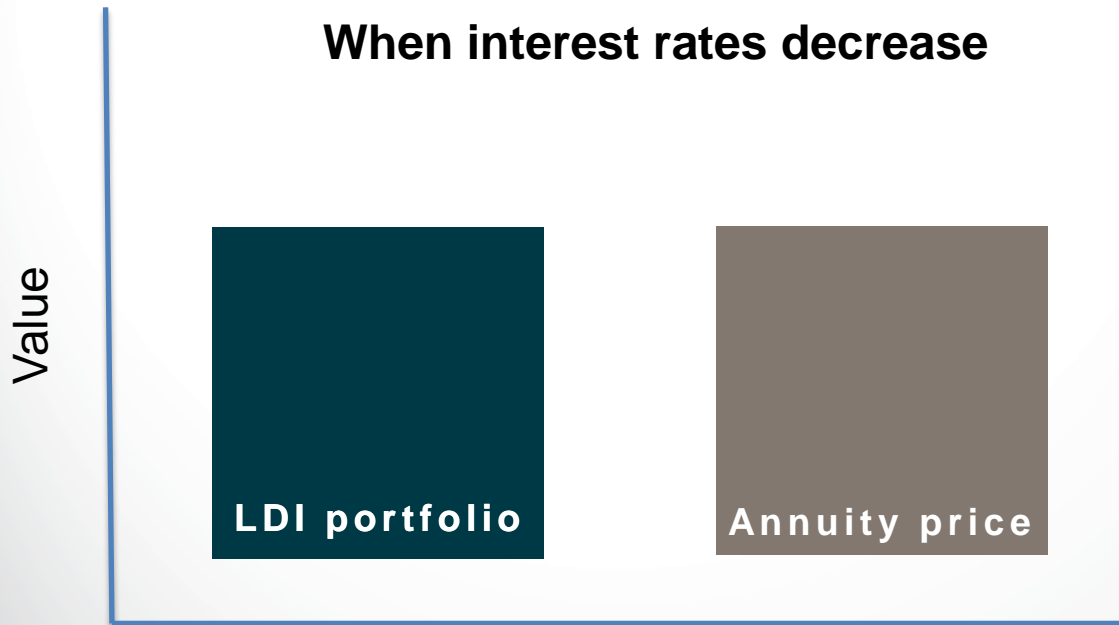
- Longevity and investment risk transferred to insurer
- No top-up contribution required for under funded plans
- No settlement accounting impact (confirm with your auditor)
- Can be used during a wind-up prior to approval
- Convert to annuity buy-out at any time

# LDI PORTFOLIO PROVIDES OPTIONALITY FOR AN IN-KIND TRANSFER

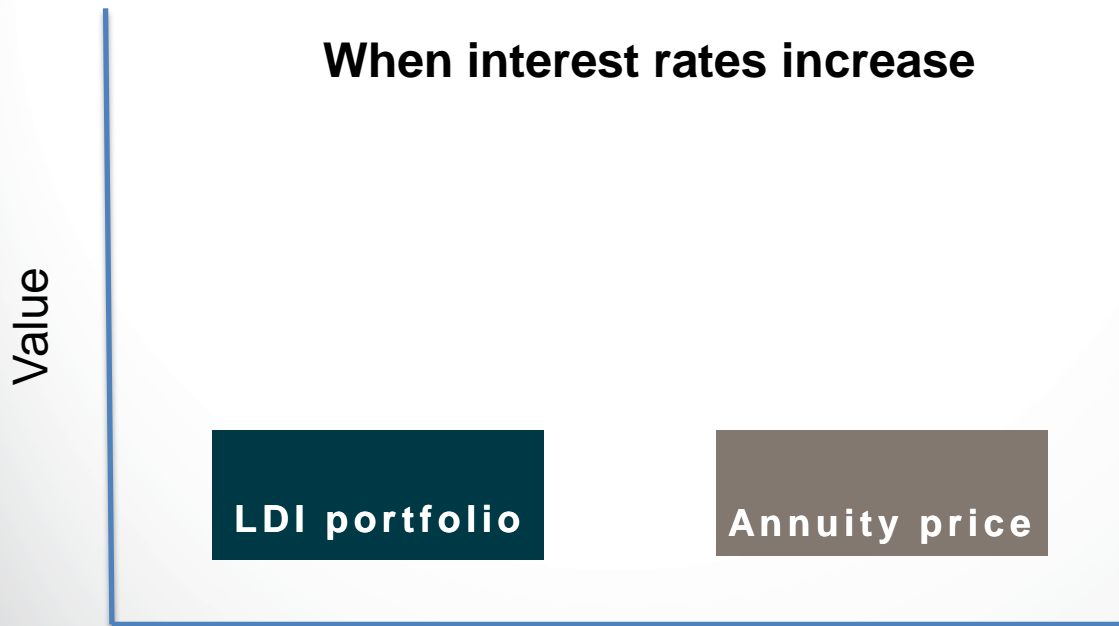
**An LDI portfolio can be designed to move with annuity prices**



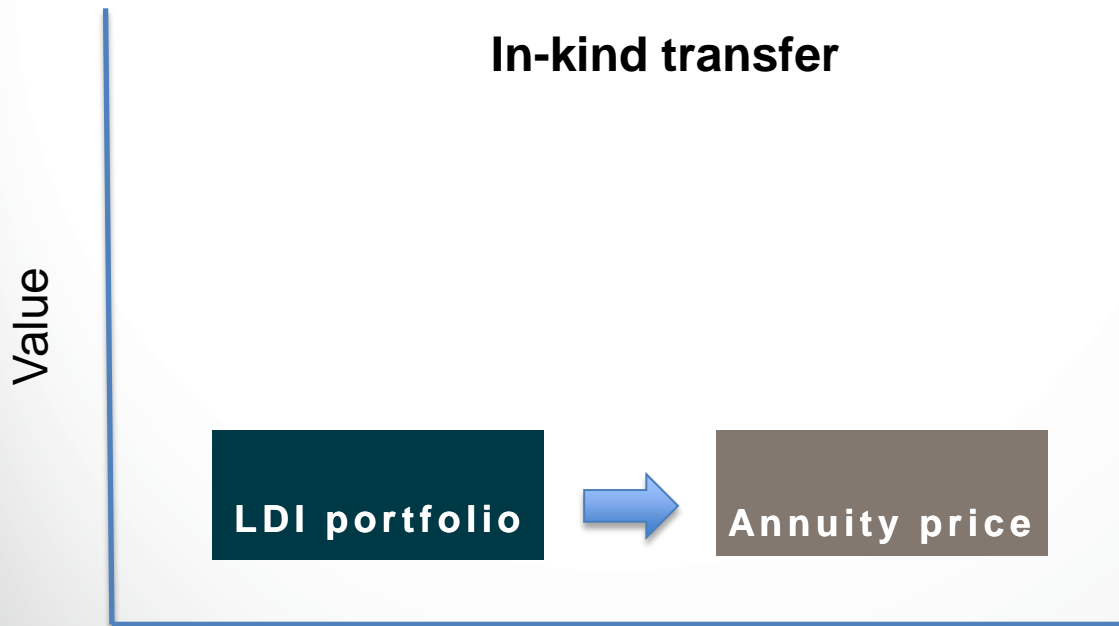
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# REINSURANCE SYNDICATES PROVIDE ADDITIONAL CAPACITY

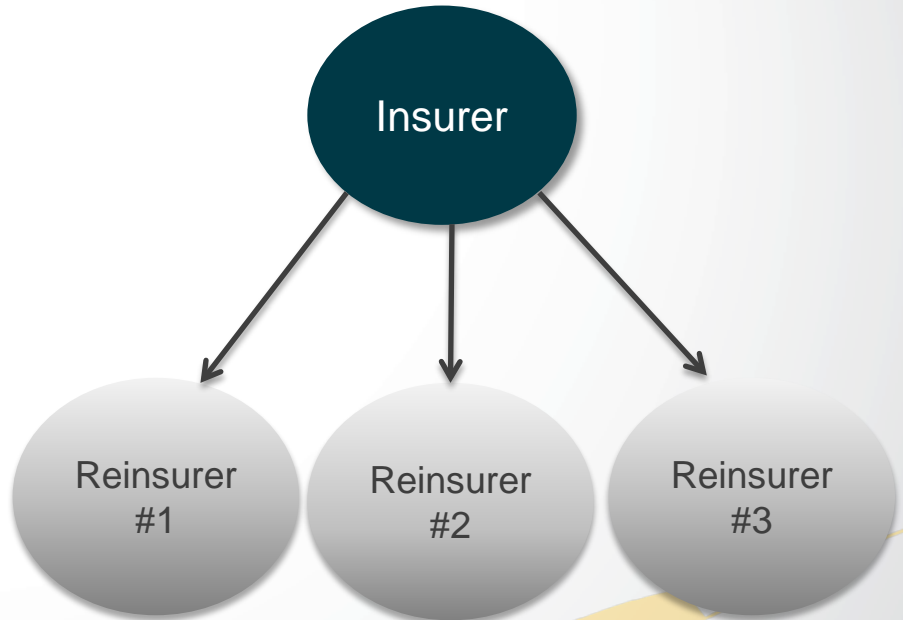
2013

\$2.2 billion of group annuity purchases

=

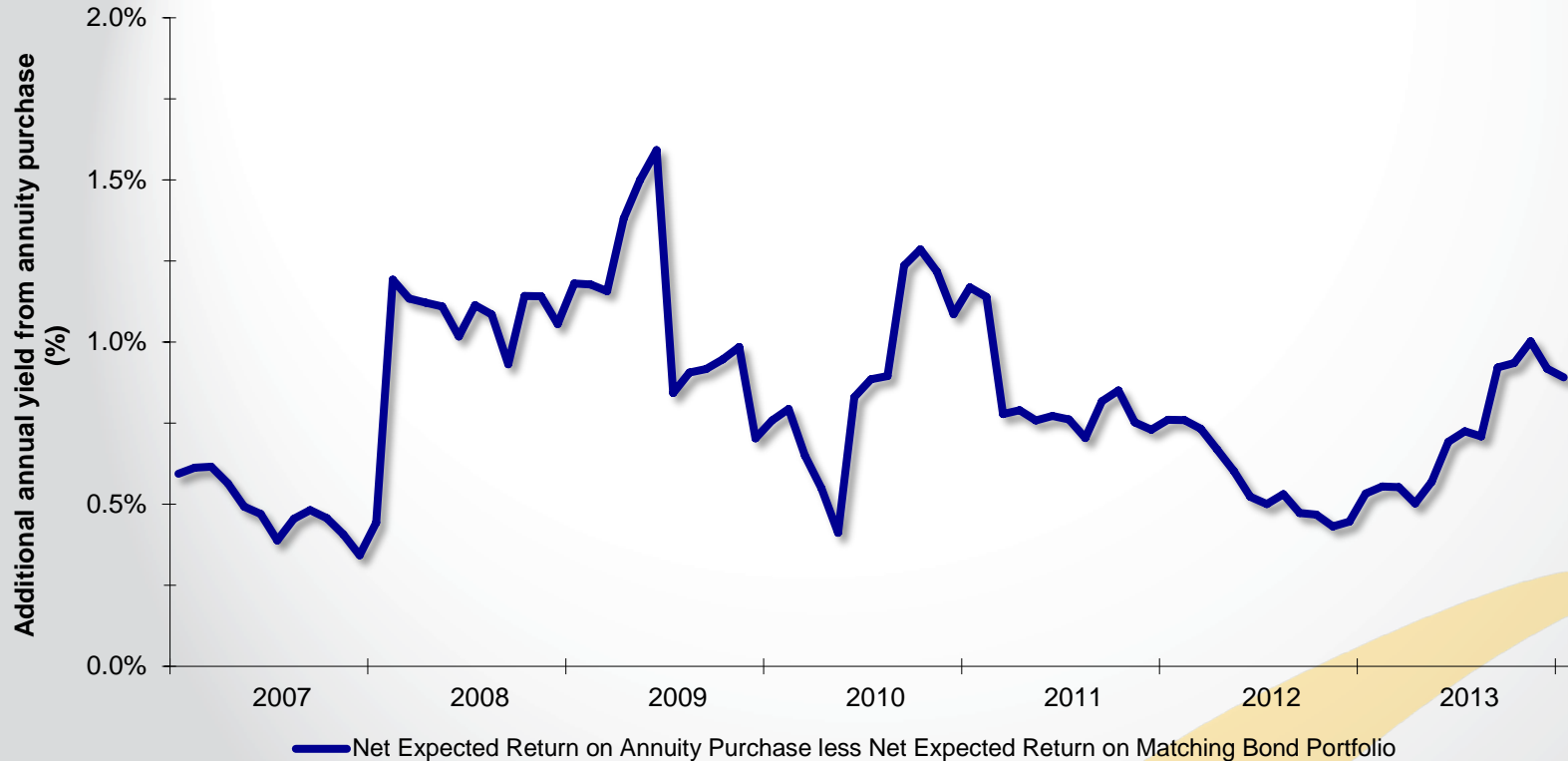
0.16%

\$1.4 trillion of Canadian defined benefit liabilities



# PRICING INSIGHTS

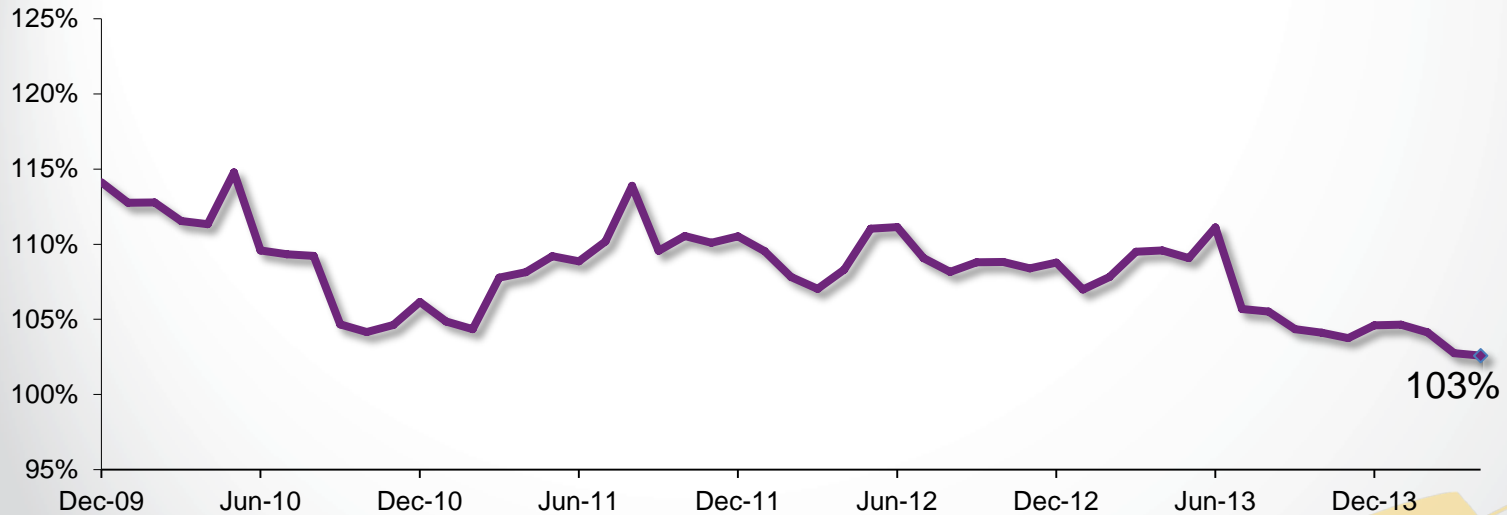
# ANNUITIES ARE GREAT VALUE VS. BONDS





# ANNUITIES ARE GREAT VALUE VS. THE PAST

## Canadian annuity purchase premiums over accounting liabilities



Source: Aon Hewitt

# ANNUITIES ARE GREAT VALUE VS. GLOBAL MARKETS

## Annuity purchase premium over accounting liabilities

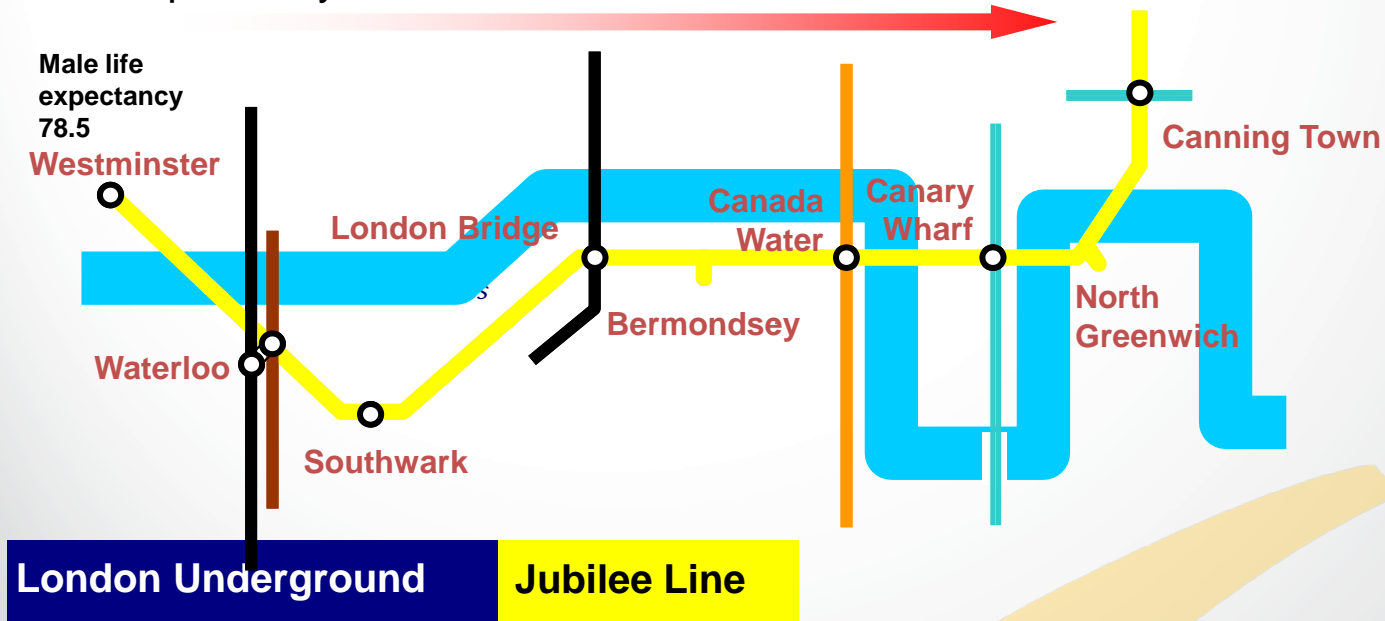
Canada	3%
U.S.	10%

Source: Aon Hewitt

# THE LONDON EFFECT

## Differences in male life expectancy within a small area in London

Travelling east from Westminster, every two tube stops represent over one year of life expectancy lost



# THE TORONTO EFFECT



# MISCALCULATING LONGEVITY CAN BE COSTLY

**1 year**

**=**

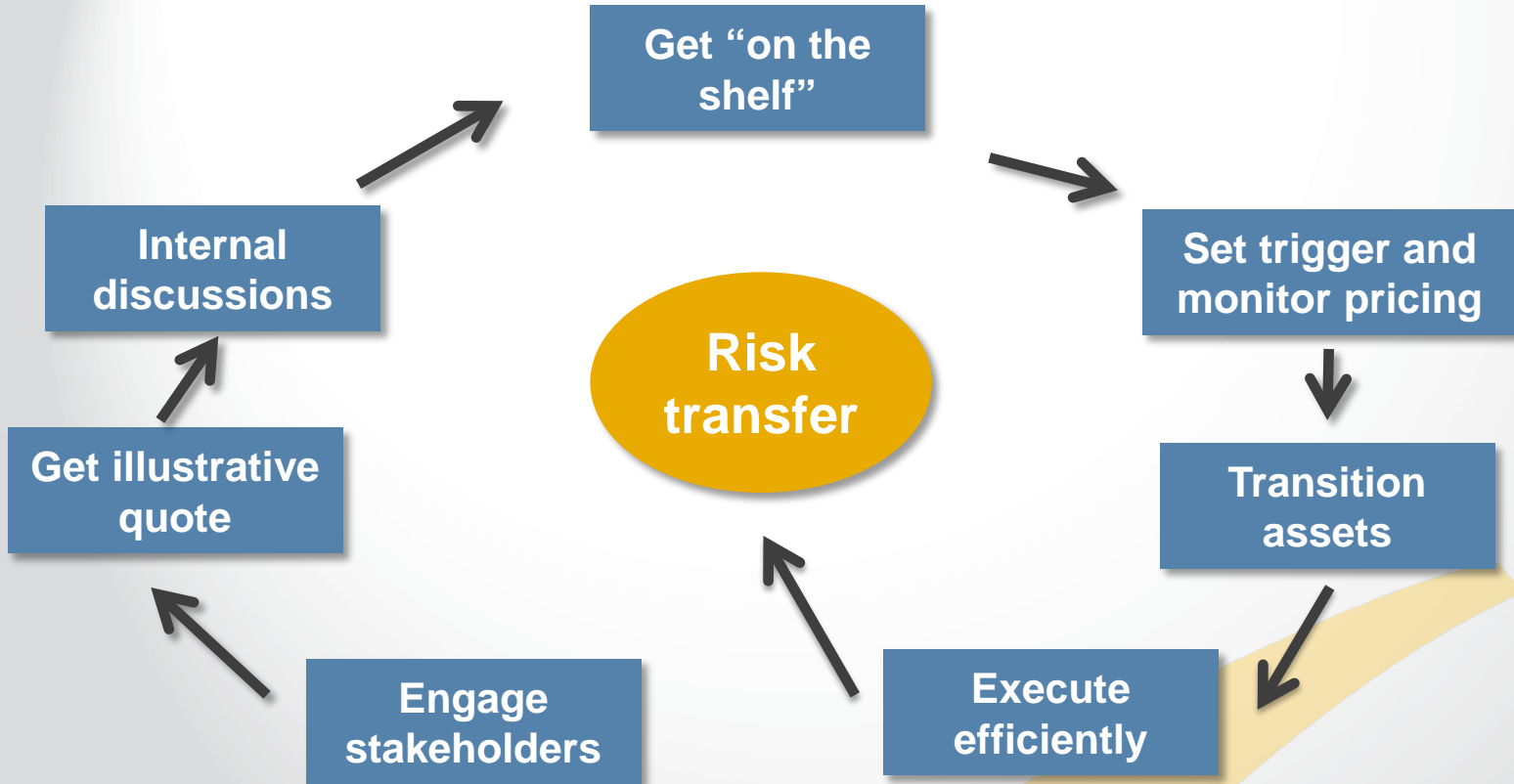
**3.5%**

Increase in life  
expectancy

Increase in cost

Note: Actual increase will depend on plan demographics and assumptions

# PLAN AHEAD AND BE STRATEGIC



## THE TAKEAWAYS...

- 1 Should I take less risk in my pension plan?  
.....
- 2 Should I transfer some or all of my pension risk?  
.....
- 3 Do I understand my plan's longevity risk?



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Senior Managing Director, Defined  
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