



## Pension Insurance Corporation announces Longevity Insurance for defined benefit pension funds

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Pension Corporation, a leading provider of pension solutions, today announces the launch of a new insurance product to protect defined benefit pension funds and their sponsors against the cost of pensioners living longer than expected. The comprehensive cover is offered by Pension Insurance Corporation, a fully authorised insurance company regulated by the FSA, and is the first of its kind to be provided to pension funds anywhere in the world. Pension Insurance Corporation is a wholly owned subsidiary of the Pension Corporation group.

Pension Insurance Corporation's longevity insurance policy will reimburse pension funds for the cost of any future pension payments that arise from pensioners living longer than expected. In return for this protection pension funds will pay fixed annual premiums set at the inception of the policy. The comprehensive policy will remain in force until the death of a pension fund's last covered pensioner or their dependant, such as a spouse.

Pension Corporation developed the longevity insurance product in recognition of the fact that life expectancy, or longevity, is increasing in the UK. Sixty-five-year-old British men can today expect to live 4.5 years and women 3.2 years longer than they did in 1980. This trend is accelerating and currently male life expectancy is increasing by one year every five years. The rate of improvement in male longevity continues to increase faster than for women.

It is estimated that an improvement in life expectancy by one year increases the liabilities of the average fund by more than 3.5%. Improving longevity means pensioners draw their benefits for longer and this increases pension fund liabilities.

The longevity insurance product differs from other products in the market because:

- It is an insurance policy from a fully FSA-regulated insurance company; it is not a derivative instrument
- The policy covers the specific longevity risk of the pension fund, rather than the longevity risk of the population at large, as in an index product
- The policy covers the pension fund for “whole of life,” until the death of a pension fund’s last covered pensioner or their dependant; as compared to products that provide cover for only ten years
- The policy requires no upfront payment, so 100% of the pension fund’s assets remain fully invested and earning returns for the fund

The policy should appeal to large pension funds that have no plans for buyout or those that plan to buyout in the future and want to retain 100% of their assets in the pension fund.

Longevity insurance will benefit these funds by:

- Eliminating the most significant long-term risk, that of pensioners living longer
- Mitigating the cost of more conservative longevity assumptions that may be required in the future
- Facilitating a future insurance buy-out where the payments to pensioners are certain

**Sir Mark Weinberg, Chairman of Pension Corporation, commented:**

“Pension Corporation is in business to create solutions for pension funds that protect members’ benefits by mitigating the significant risks they bear. We are pleased to offer an insurance product from Pension Insurance Corporation that comprehensively covers the specific risk of longevity. Pension Insurance Corporation has the capacity and expertise to insure longevity risk now. Our approach will be to work closely with a pension fund, its trustees and advisers to tailor solutions that are appropriate to a fund’s longevity profile and presented in a clear policy.”

**John Fitzpatrick, Partner of Pension Corporation and Director of Pension Insurance Corporation, said:**

“Comprehensive longevity insurance will protect pension funds against the risk of their pensioners living longer, providing cover for the lifetime of pensioners and their dependants. We are confident our team’s extensive experience of developing insurance risk transfer products backed by a fully regulated insurance company will prove compelling to those pension funds and corporate sponsors. We look forward to working with trustees, advisers and sponsors on this truly ground-breaking protection to the pension industry.”

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**Notes to Editors:**

The Pension Corporation group (“Pension Corporation” or “the Group”) provides the following solutions to defined benefit occupational pension schemes:

- Insurance Buy-out;
- Pension Fund Sponsorship;
- Asset Liability Management;
- Longevity Risk Transfer.

These solutions enable pension funds to protect their members' benefits by strengthening and stabilising their financial position, reducing their exposure to unrewarded volatility and making future cash flows more predictable.

Pension Corporation is built around the fully authorized and FSA-regulated insurance company Pension Insurance Corporation ("PIC") which offers longevity risk insurance as well as traditional pension insurance buy-out solutions. Pension Corporation Investments ("PCI") offers Pension Fund Sponsorship by assuming responsibility for a pension fund's corporate covenant, typically used where schemes cannot immediately afford insurance buy-out. Pension Corporation also provides Asset Liability Management solutions.

Pensioner security stems from Pension Corporation's near £1 billion of equity committed by its shareholders. Pension Corporation is backed by large blue chip financial services companies, including The Royal Bank of Scotland, HBOS and Swiss Re, and is managed by a number of expert and highly experienced insurance industry executives, including Sir Mark Weinberg, co-founder of St James's Place Wealth Management Group, John Coomber, former Chief Executive of Swiss Re and Sir Martin Jacomb, former chairman of the Prudential Assurance Group. It has the capacity to take on up to £25 billion of liabilities.

Many pension fund trustees believe the ultimate objective of any defined benefit occupational pension fund should be to secure the protection of insurance buy-out, where the corporate covenant is replaced by the insurance of an FSA-regulated provider and the Group is able to offer this through Pension Insurance Corporation. Pension Corporation can underwrite these solutions in a fast, flexible and effective manner.

Pension Insurance Corporation can alternatively underwrite pension risk transfers, including the pressing issue of longevity risk. Our comprehensive longevity policy is the first such insurance to be offered anywhere in the world.

Under pension Fund Sponsorship, Pension Corporate Investments becomes the owner of the sponsor of the pension fund. In this way, the fund gains the additional backing of the Pension Corporation Group while continuing to have the backing of the original sponsor and of the assets of the fund itself. Under this model financial returns to Pension Corporation can only

be drawn down once pension scheme members' benefits have been secured, in much the same manner as funds within an insurance company.

For each of the three pension schemes where Pension Corporation has acquired the corporate sponsor, Pension Corporation has advocated a reduction in the risk level of the pension fund assets. This emphasises Pension Corporation's conservatism in regard to risk and the prioritisation of pensioner security.

[www.pensioncorporation.com](http://www.pensioncorporation.com)