

HEALTH WEALTH CAREER

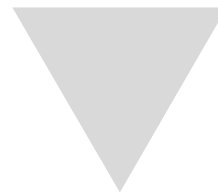
NIAGARA INSTITUTIONAL DIALOGUE

INTRODUCTION TO
LONGEVITY RISK

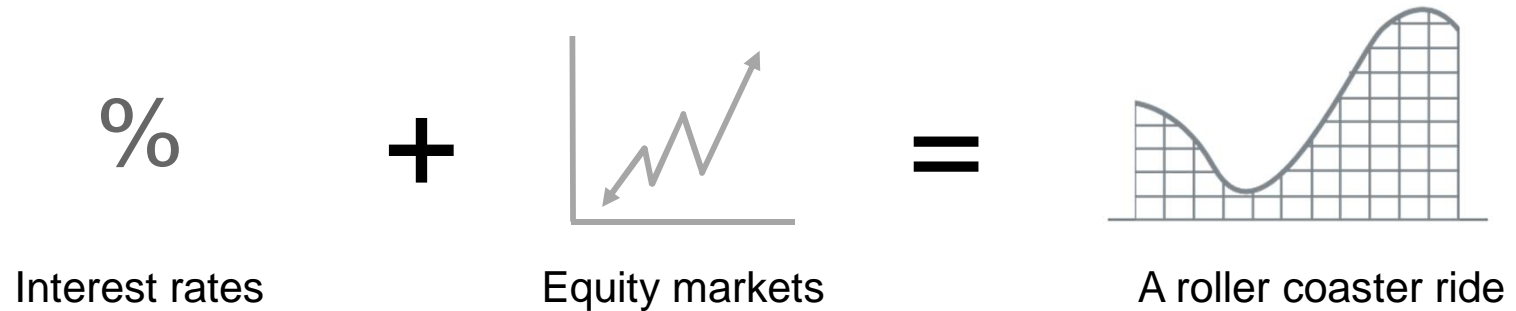
JUNE 10, 2015

Hrvoje Lakota
Principal

Toronto



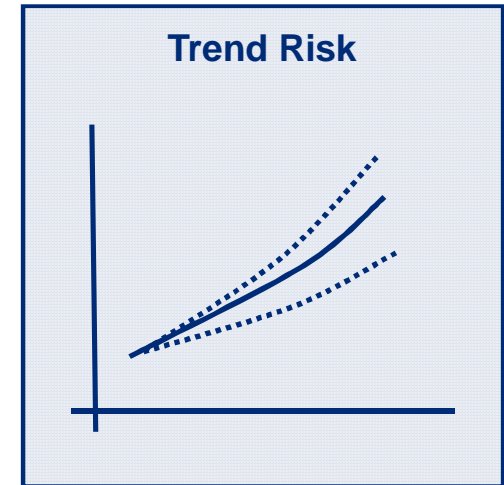
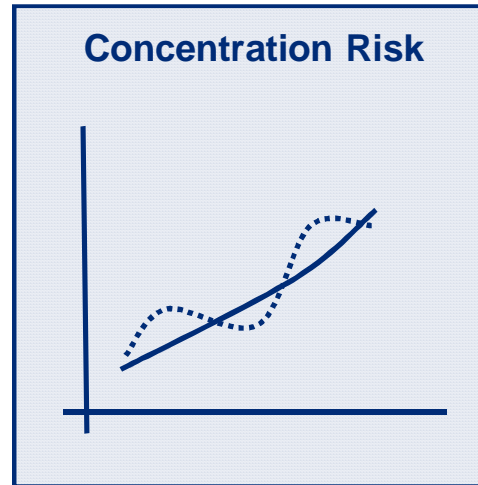
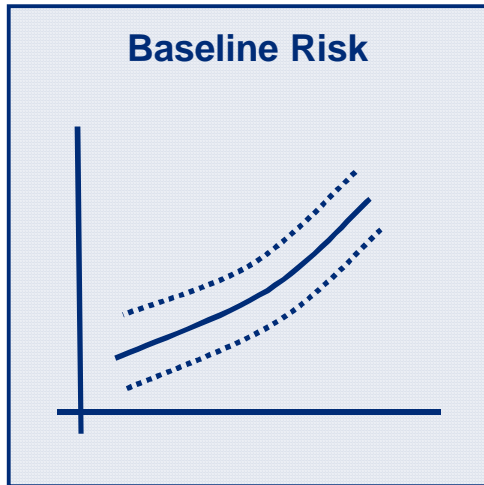
EVERYONE KNOWS THIS STORY ABOUT DEFINED BENEFIT PENSION PLANS...



BUT, DOES THIS TELL THE WHOLE STORY?

LONGEVITY RISK

THREE TYPES



Risk:

The current life expectancy is misstated

Experience correct “on average”, but individual high earners create risk

Future improvements are different than assumed

LONGEVITY RISK

GOOD NEWS AND BAD NEWS

GOOD NEWS

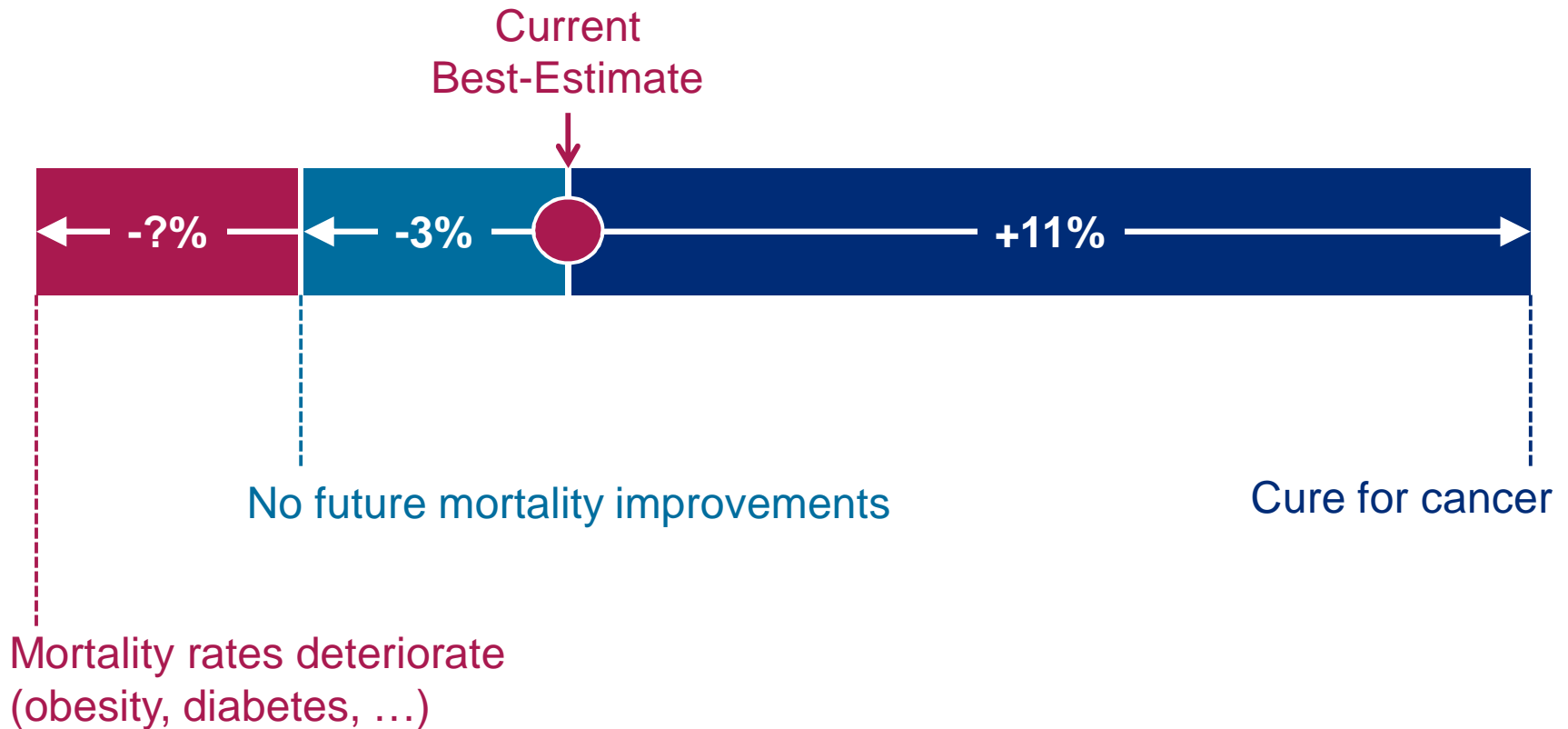
- Life expectancy is improving faster than expected

BAD NEWS

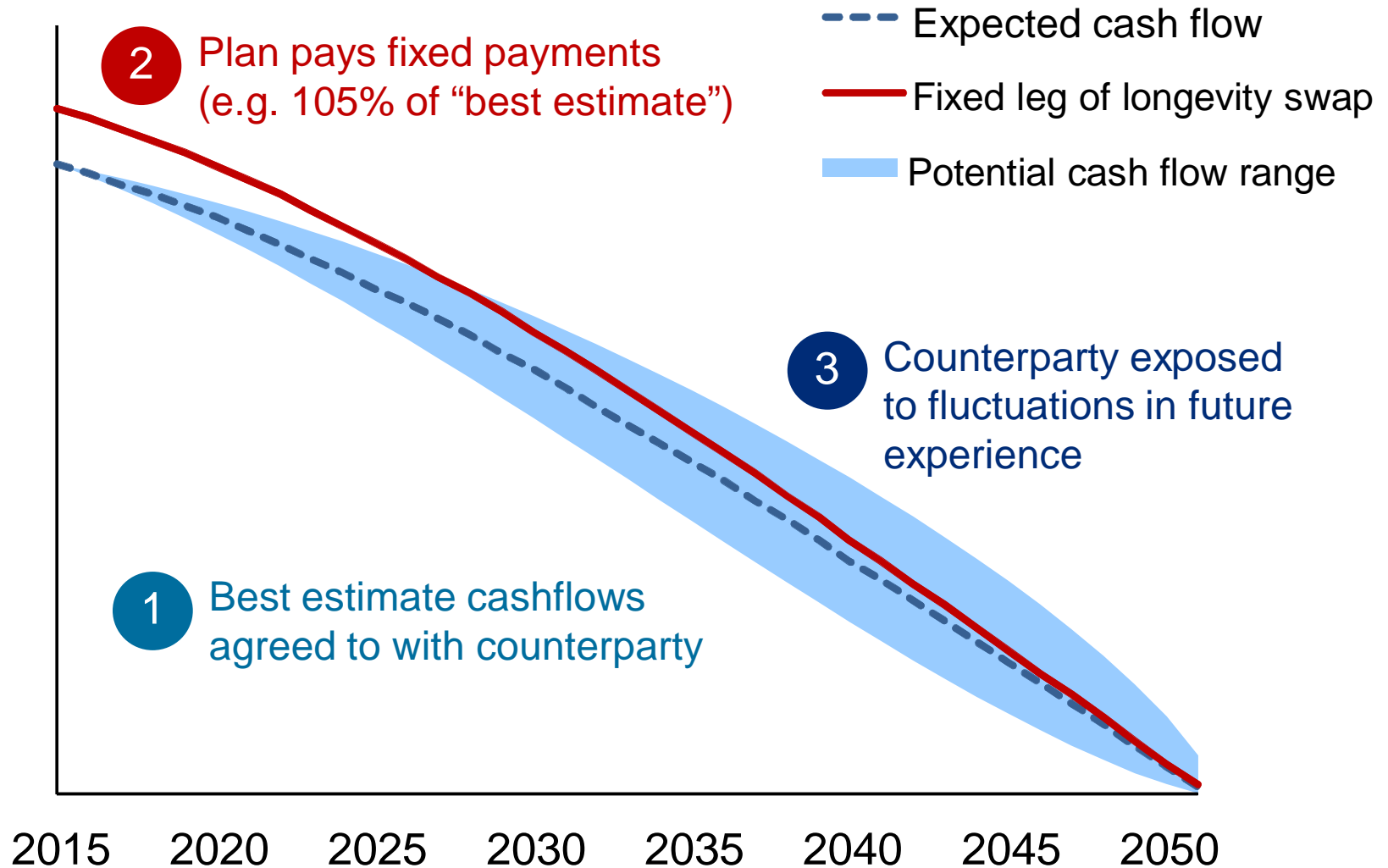
- Each additional year of life expectancy increases pension liabilities by 2 to 4%
- We don't know:
 - Will life expectancy continue to improve?
 - How fast?
 - For how long?
 - Will everyone benefit to the same extent?
 - What will it cost?

LONGEVITY RISK

POTENTIAL IMPACTS ON PENSION LIABILITIES



LONGEVITY RISK TRANSFERS GENERAL CONCEPT



LONGEVITY RISK GLOBAL IMPACT

Global annuity and pension-related longevity risk exposure

Source: Bank for International Settlements (2013)

\$15T to \$25T



1 year of life
expectancy

\$500B to \$1T



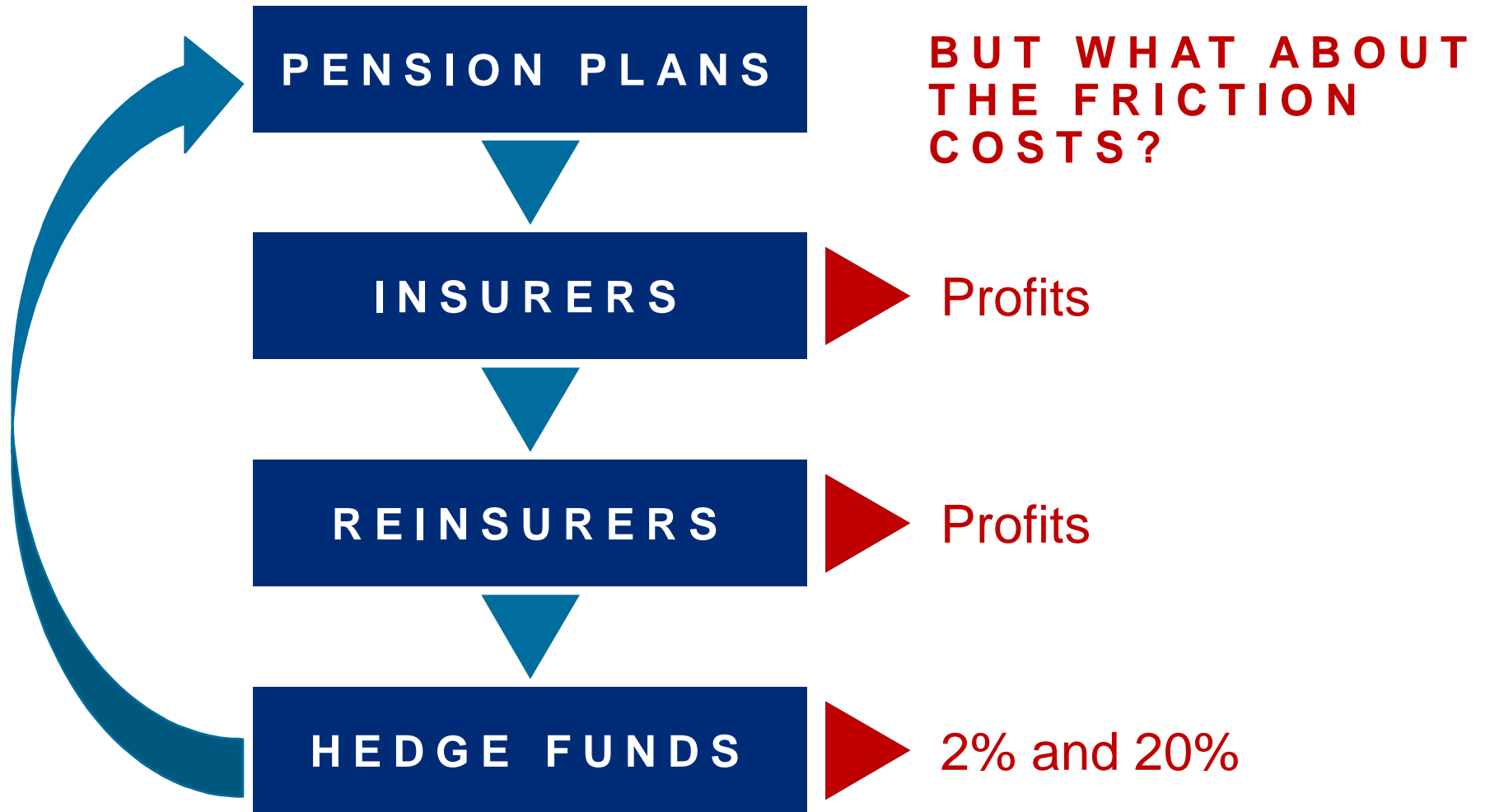
Market Capitalization

Apple Inc.	\$647B
Exxon Mobil	\$392B
Microsoft	\$382B
Berkshire Hathaway	\$371B
Google	\$330B

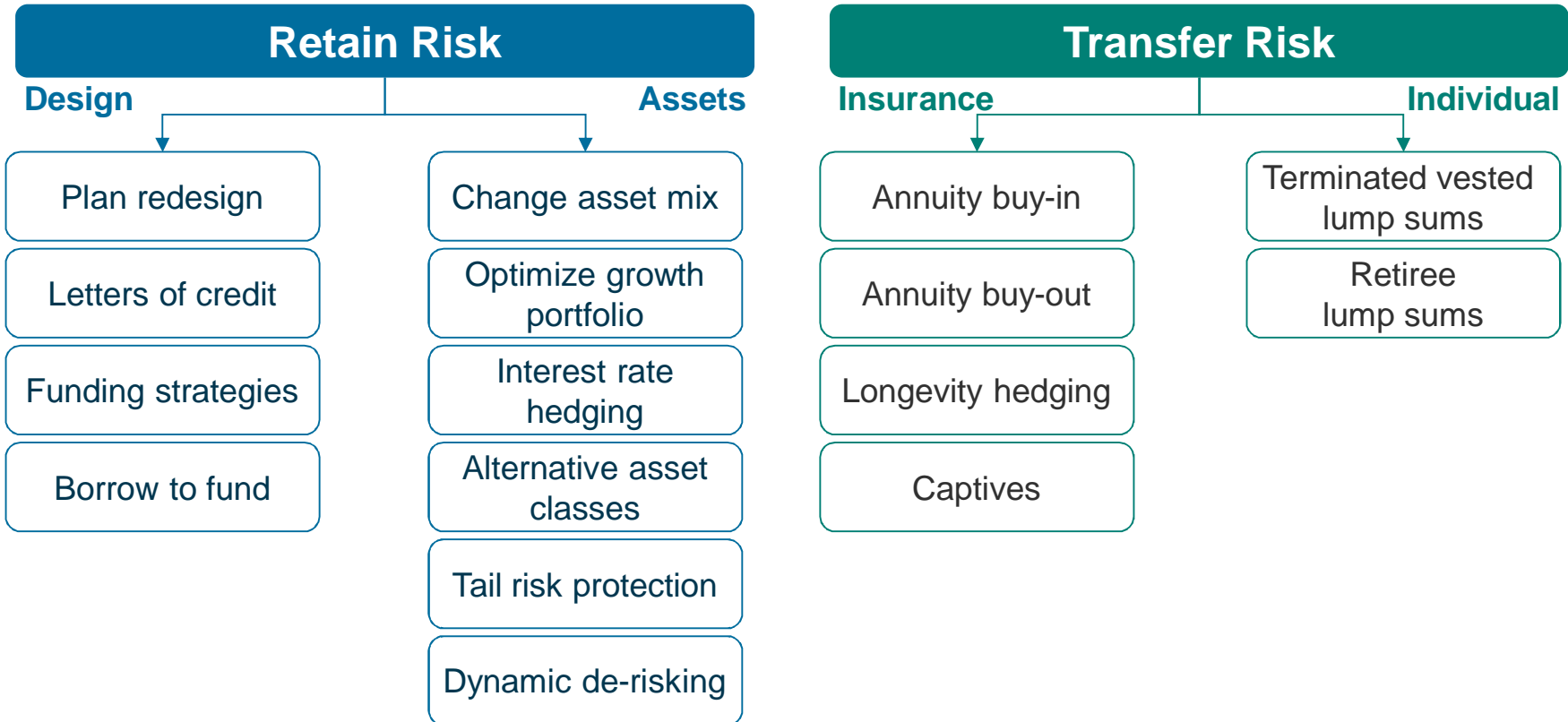
Source: Wikipedia, largest corporations by market capitalization, Q4, 2014

LONGEVITY RISK

SO... WHO WANTS THIS RISK?



HOLISTIC RISK MANAGEMENT SHOULD CONSIDER FULL SUITE OF TOOLS



140 annuity transactions completed in 2014
(up from 90 annually in 2010 – 2012)

50% of annuity transactions now done by ongoing plans
(up from 20% in 2010 – 2012)

+1 first longevity transaction involving a pension plan outside of the UK
(\$5B from Bell Canada to Sun Life)

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**TOMORROW,
TODAY**