The Aon Hewitt Longevity Model (AHLM)

Assessing longevity risk in the LGPS

QAS Institute and Faculty of Actuaries® Quality Assurance Scheme

AON Empower Results®

Why should you assess your Fund's longevity risk?

- With austerity and financial constraints for public sector employers set to continue, administering authorities and employers alike will want the fund actuaries to minimise unnecessary prudence in the assumptions used to value LGPS liabilities and hence to determine employer contributions to the LGPS.

  The mortality assumption is arguably the most important non-financial assumption. Aon Hewitt can provide a comprehensive analysis of the fund's experience, over a longer period than just the three years since the last valuation, to help improve the accuracy of the mortality assumptions.

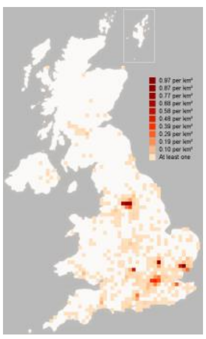
- Some funds may have substantial exposure to large private sector employers which do not admit new entrants, and for which there should be a plan in place to manage financial and longevity risk in the run up to the employer's exit.

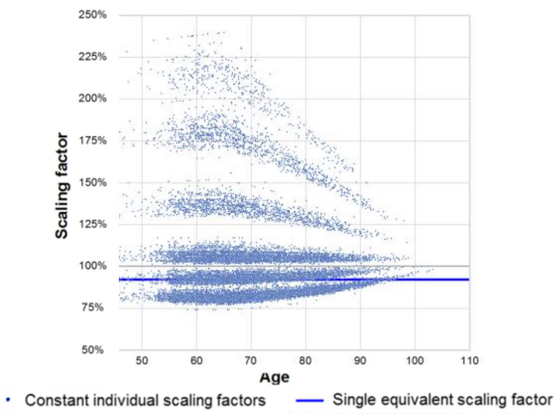
  Aon Hewitt's longevity specialists can help administering authorities and employers understanding their longevity risk and put this in the context of how insurers and reinsurers price that risk

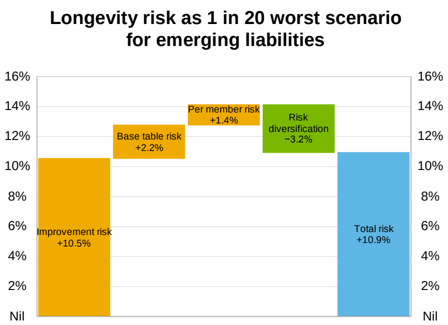
- The financial impact of longevity risk is magnified when prevailing asset yields are low. In the current era of historically low real yields, longevity merits a more thorough analysis.
- The options available to hedge longevity risk have multiplied over recent years – in particular, the explosion of medically underwritten bulk annuities with potentially attractive pricing from insurers. Funds need to have a clear picture of their longevity risk in order to weigh up the costs and benefits of such options.
- National mortality since 2012 has been persistently high relative to prevailing expectations, with particularly high death rates in 2015 and elevated mortality continuing into 2016 and 2017. This motivates a careful review of the fund's mortality assumptions, to ensure they are both up to date and robust to annual volatility in deaths.

Aon Hewitt's Longevity Model and Fund-specific analysis can

- help funds and their actuaries improve the accuracy of the mortality assumption
- help funds and employers better understand their longevity risk







Further details of AHLM and the specific features and benefits which distinguish it from the competition are set out below.

What is AHLM?

AHLM predicts life expectancy for pension schemes' members based on their individual circumstances and measures the risk they live longer than expected.

Robust

One objective postcode-based mortality model.

Fitted to over 600,000 deaths, across a 10 year period to ensure stability.

Tested against *actual* emerging mortality data to measure *genuine* predictiveness.

Proven

Used to advise pension schemes, insurers and reinsurers in over 1,000 cases internationally.

Market-tested against reinsurer pricing in the longevity swap market. Aon Hewitt has assessed £425bn+ of reinsurance pricing points, and advised insurers on £15bn+ of longevity swaps in the last two years alone. Aon Hewitt mortality curves underlie the world’s largest longevity transactions:

- £16bn BT longevity swap
- $26bn General Motors group annuity

Practical

Although AHLM is a sophisticated model with different mortality curves for individual members, we re-express the results using equivalent group assumptions which

- are much simpler for schemes to understand and their actuary to implement,
- are much easier to communicate to others (e.g. the Government Actuary's Department or the Scheme Advisory Board), and
- avoid the spurious complexity and knock-on actuarial valuation costs of the individual curves approach used by some of our competitors.

Complete

AHLM uses schemes' *own* recent mortality experience to enhance the predicted mortality.

AHLM quantifies schemes' *longevity risk*, i.e. how likely it is that the liabilities may be higher than best estimate.

Having the full picture helps your actuary set an informed, accurate assumption.

Trusted

The data is held on a dedicated secure database with highly restricted access.

Unlike some of our competitors, we do not sell your scheme’s data to third parties.

Value

A discounted fee has been negotiated for LGPS Funds which includes full AHLM analysis of scheme membership and mortality experience and the option for additional longevity risk analytics.

There's no annual subscription – you pay only for the advice you need.

Contact Information

If you would like further information from Aon Hewitt, please contact your usual consultant or alternatively an adviser from our Specialist Longevity team:

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