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Would the Senior Health Planning Account Act Have Been a Silver Bullet for the Life Settlement Market?

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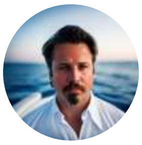

Chris Wells
Managing Editor
Life Risk News

This month marks the five-year anniversary of the introduction of H.R.5958 - Senior Health Planning Account Act, which would have allowed American seniors to put the proceeds of a life settlement into a tax-deferred/tax-free savings account for the senior and their family to use for health care and long-term care expenses. **Greg Winterton** spoke to **Michael Freedman**, CEO at **Lighthouse Life**, and **Rob Haynie**, Managing Director at **Life Insurance Settlements**, to get their thoughts on what could have been in *Would the Senior Health Planning Account Act Have Been a Silver Bullet for the Life Settlement Market?*

Growth in the purchase of bulk annuity contracts by small defined benefit pension schemes over the past couple of years in the UK has been accompanied by the emergence of templated transfer processes that speed up the closure of deals, enabling insurers to execute more of them. *Mark McCord* spoke to **Adam Davis**, Managing Director at **K3 Advisory**, for his views on the current and future state of this part of the market in *Streamlined Pension Risk Transfer Deals Widen Small Scheme Opportunities.*

Weight loss drugs such as Ozempic and Wegovy received significant media column inches last year, largely thanks to celebrities admitting to their use. But glucagon-like peptide 1 receptor agonists were also the talk of the town last year in the UK’s life and health insurance and pension circles. *Greg Winterton* spoke to **Nicky Draper**, Director of Longevity Consulting at **Crystallise** and **Stuart McDonald**, Partner at **Lane, Clark & Peacock** to get their insights into just how much these drugs could impact population mortality in *Weight Loss Drugs the Talk of the Town in Actuarial Circles.*

Life insurers in the US looking to write pension risk transfer business play on a competitive field, with 20-odd of them for US defined benefit pension plans to pick from. But increasingly, access to private market opportunities, whether that be through an affiliate or wholly owned asset manager, is being touted as a competitive edge. *Greg Winterton* spoke to **James Walton**, Managing Director at **Agilis**, for his thoughts on the potential for new entrants in *How Many More Asset Managers Can the US Pension Risk Transfer Market Absorb?*

Most bulk annuity transactions have been led by a risk transfer advisor selected by the trustees – be that an existing advisor or an external firm brought in to support this project. **Chris Hawley**, Risk Transfer Partner at **Barnett Waddingham**, explains some of the different advisory structures for leading a bulk annuity process in *Bulk Annuities: Who Steers the Ship?*, a guest article.

The third and final part of **WL Consulting** Managing Director **Roger Lawrence**’s deep dive into the nuances of the 2024 edition of the ACLI’s Life Insurer’s Fact Book appears this month. In *US Life Insurance Policy Cancellations Up Again but New Business Holding Steady*, Lawrence focuses on factors that could impact the life settlement market.

The pension risk transfer market in the UK delivered yet another solid year in 2024 with consultants WTW forecasting that, when all is said and done, £48-50bn of deals will have been completed, which could mean a record. *Greg Winterton* spoke to **Mark Sharkey**, BPA Origination Lead at **Royal London**, to get his views on the state of the market and its outlook for 2025 in this month’s *Q&A*.

Despite falling origination in the primary market in recent years, activity in reverse mortgage securitisations in the US have held steady, and a new development from Ginnie Mae could provide added fuel for the market. Add to that the re-emergence of securitisation activity in Australia, and suddenly, things are looking up. *Greg Winterton* spoke to **Michael McCully**, Partner at **New View Advisors** and **Joshua Funder**, CEO at **Household Capital** to get the bullish case in *Encouraging Signs for Institutional Investors Looking at Reverse Mortgage Securitisations*.

I hope you enjoy the latest issue of Life Risk News.

Would the Senior Health Planning Account Act Have Been a Silver Bullet for the Life Settlement Market?

Author:
Greg Winterton
Contributing Editor
Life Risk News

If you speak to a life settlement broker in the US, they will tell you that one of the most oft-cited reasons why an American senior sells their life insurance policy is to help towards funding their medical care in older age.

That medical care is, when compared to the rest of the world, expensive. In December last year, a survey conducted in 10 countries - Australia, Canada, France, Germany, the Netherlands, New Zealand, Sweden, Switzerland, the United Kingdom, and the United States - by the Commonwealth Fund found that Americans pay more and are more likely to postpone or skip needed care because of costs than their counterparts in most other wealthy countries.

"This study highlights how vital Medicare is for older adults in the US, but it also underscores the challenge of affording needed care. Rising costs are forcing many older Americans to pay more out of pocket, leading to delayed care, poorer health, and higher long term spending," said Gretchen Jacobson, Vice President, Medicare at The Commonwealth Fund in the accompanying press release.

> "The SHPAA helps seniors make the most effective use of valuable, but often overlooked, asset they already own – their life insurance policy – to fund their health care"
> - Michael Freedman, Lighthouse Life

Selling a life policy is one way for seniors to cover the expenses of health care and long-term care. When a policyholder does sell their policy, however, the taxman can come knocking. If they make gains over and above the premiums they have already paid, it is taxed in two ways; one tranche is taxed as ordinary income, and another as capital gains (different criteria apply to each). These sorts of tax consequences can serve to dissuade policyholders from even considering selling their policy.

Imagine, then, if there was a way that an American Senior could sell their life insurance policy to help them with their healthcare costs without having to worry about calculating or paying these taxes?

Five years ago this month, *H.R.5958 - Senior Health Planning Account Act* (SHPAA), was introduced by Representative Brian Higgins (D-NY) and Representative Gregory Steube (R-FL) which would have provided exactly that. (Representative Kenny Marchant had introduced a similar bill the prior Congress in 2018).

The SHPAA would have allowed seniors to put the proceeds of a life settlement into a tax-deferred/tax-free savings account for the senior and their family to use for health care and long-term care expenses. Advocates for the legislation, including the Alliance for Senior Health Care Financing (ASHCF), an industry-supported advocacy organization founded and led by Michael Freedman, CEO of Lighthouse Life Solutions, said that millions of seniors would be able to access billions of tax-free dollars to pay for their own health care, saving individuals, families and the government from paying these costs themselves.

"The SHPAA helps seniors make the most effective use of valuable, but often overlooked, asset they already own – their life insurance policy – to fund their health care, rather than relying on loved ones or taxpayers," Freedman said at the time.

A federally approved, tax-free mechanism such as the SHPAA would, arguably, make a big difference to many Americans.

"Healthcare costs in America are incredibly high. Already, many seniors cannot afford to move into a senior care home, which is forcing them to 'age in place', where they retrofit their home according to their individual needs," said Rob Haynie, Managing Director at Life Insurance Settlements.

"Often, seniors move in with their adult children or the adult child is forced to leave the workforce to care for their aging parents. So, a life settlement without the worry of taxes would benefit the senior and the child in caring for their parent," Haynie added.

Indeed, the life settlement industry was quick to throw its support behind the legislation. In early March 2020, the Life Insurance Settlement

Association (LISA) supported the introduction of the SHPAA. LISA cited long-standing precedent in federal law that incentivised working Americans to save and invest in their health care with deferred income payments.

But then Covid-19 came along, and in mid-March 2020 the US began to lockdown, putting the country's legislative agenda – along with almost every other part of the economy and society - on pause. Consequently, bills such as the SHPAA essentially had no chance of being considered as the federal and state governments tried to figure out how to manage the impacts of the pandemic.

Representative Higgins tried to resurrect the bill in August 2021, but it never went anywhere. Since Rep. Higgins resigned in 2024 and the ASHCF disbanded, the legislation does not seem to have any advocates anymore.

Making the case for the benefits of a life settlement – i.e., an American Senior selling their life insurance policy for a sum greater than the cash surrender value of said policy – to offset the high cost of healthcare in the US pre-date the SHPAA, however.

> **"Too many seniors already surrender or lapse their policies for little or nothing in return, after years of premium payments. This legislation would have positively impacted millions of American Seniors for years to come, whether they used the proceeds for healthcare or not"**
> **- Rob Haynie, Life Insurance Settlements**

For instance, in July 2017, the National Association of Insurance Commissioners (NAIC), the collective body of US state insurance regulators, recommended that American seniors consider a life settlement to pay for long-term care.

"Policyowners who sell their policies receive a lump sum payment that is generally four or more times greater than if they lapsed or surrendered their policy," the NAIC wrote, citing various independent studies, in their report entitled *Private Market Options for Financing Long-Term Care Services*.

In the 1990s, the US Congress enacted a federal tax law (Internal Revenue Code Section 101(g)) that made life settlement proceeds tax-free for individuals with terminal or chronic illnesses. This law allowed people affected by AIDS and HIV to pay for their hospital and other healthcare costs.

So, there is clearly precedent and support in state and federal governments for the use of a life policy to help Americans generate their own resources to pay for their costs of care.

But as with all bills affecting US taxes, a significant consideration is the cost to the US government. If H.R.5958 were to pass, would it be a cost or benefit to the American public?

According to the ASHCF, the Senior Health Planning Account Act would actually benefit the US government. In a 2018 report issued by the organisation, the SHPAA would generate more than $2bn in additional tax revenue for the US Federal Government from the increase in transactions would have been $2.149bn and the impact on Federal Outlays would have been $2.042bn, so the US Government would have been marginally in profit if it were to have enacted this bill.

Additionally, the SHPAA would have been something of a silver bullet for the life settlement industry. The tax relief, while helpful for some, would have arguably been transformational for the industry as it would have created significant awareness that a life insurance policy can generate income for seniors in retirement.

"Passing the Act would have led to greater understanding and acceptance about life settlements among tax advisors like CPAs, as well as individual policyowners," said Haynie.

"Too many seniors already surrender or lapse their policies for little or nothing in return, after years of premium payments. This legislation would have positively impacted millions of American seniors for years to come, whether they used the proceeds for healthcare or not."

Concerns about lack of consumer awareness is an issue that life settlement market participants consistently cite as one of the biggest barriers to growth of the market. Industry groups like LISA and the European Life Settlement Association, publisher of Life Risk News, promote consumer awareness as much as they can. Many settlement providers and brokers engage in marketing and advertising, which also brings "eyeballs and clicks" from thousands of consumers each month.

The SHPAA would, therefore, have made a significant contribution to the life settlement market, and those in it remain hopeful that it has not seen the end of this 'silver bullet'.

"It would be an incredibly powerful tool for public awareness if the Senior Health Planning Account Act were to become law," said Michael Freedman, CEO at Lighthouse Life.

"Congress hopefully will consider enacting this legislation, which is a private sector solution that would benefit millions and millions of seniors and their families."

Streamlined Pension Risk Transfer Deals Widen Small Scheme Opportunities

Author:
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Life Risk News

Growth in the purchase of bulk purchase annuity (BPA) contracts by small defined benefit (DB) pension schemes over the past couple of years has been accompanied by the emergence of templated transfer processes that speed the closure of deals, enabling insurers to execute more of them.

In offerings that have been likened to 'off-the-shelf' products, a handful of insurers have created standardised pricing models and procedures that streamline the risk offset process for schemes with assets of £150m or less.

Templated procedures lower the cost of transaction for insurers and bring liquidity to a part of the market that has often been perceived as incapable of negotiating a good deal on bulk annuities.

Meanwhile, shorter completion times free resources and increase the capacity for insurers to pursue more deals without the need to commit more capital. They also enable sponsors to remove schemes from their books quicker.

Four insurers are offering templated services. Legal and General's Flow has been formulated to handle the transitions of schemes of £150m and less. Just Group's Beacon solution, Aviva's Clarity and Pension Insurance Corporation's Mosaic are offered to schemes of around £100m and less.

> “These solutions have been developed more about how insurers can offer a process that enables them to be efficient in the use of their resources, so that they can provide more schemes with this solution” - Adam Davis, K3 Advisory

Each offers a largely pre-formatted, streamlined buy-in solution within a lighter governance contract that nevertheless retains the scheme's benefit structures and customer experiences. They also feature faster quotation times, and some have begun providing support for progress to the buy-out phase. They differ from bespoke deals, where terms and pricing are negotiated over months as part of an expensive bidding and quotation process that usually involves several competing buyers.

“These solutions have been developed more about how insurers can offer a process that enables them to be efficient in the use of their resources, so that they can provide more schemes with this solution,” said Adam Davis, Managing Director of K3 Advisory, which has brokered deals at the smaller end of the market.

Schemes of £100m or less account for an estimated 75% of all the UK's 5,000 DB pensions, according to the PPF's Purple Book. De-risking demand from them has been resilient, with professional services consultancy Barnet Waddingham reporting that data from insurers showed that the first six months of 2024 saw an increase in the number of transactions involving such schemes.

They accounted for 80% of all completed deals and were, in large part, responsible for the record number of completions of all sizes in the period.

Debunking notions that the smaller end of the marker is struggling to find deals, DLA Piper found that success rates among eight consultants surveyed in 2023 had been strong, especially in the sub-£25m space.

“All consultants operating in the small schemes space have seen successful transaction rates for small schemes alongside good value for money,” the survey report's authors wrote, adding that it was unsure where the negative perceptions originated.

Templated approaches are not suitable for all schemes. Large ones are unlikely to transact in this way because their benefit structures are often too complex to cover in a pre-formatted contract. From the BPA purchaser's viewpoint, larger schemes carry greater governance risk too, which they would be uncomfortable incorporating into lighter contracts.

They may also need to think more carefully about their capital requirements when bidding for larger deals and examine the impact of high-value transfers on their investment portfolios and strategies.

“When you get to those bigger sizes, it's hard to get away from the need to be a bit more bespoke in the way that you broke the solution and broke the insurance,” Davis said.

Trustees and sponsors of smaller schemes may also have reservations about templates because, in a small market, it would be difficult to find an insurer that shares the scheme's investment principles – a particular consideration for those with a strong ESG preference.

Nevertheless, Davis believes that as insurers get more comfortable with the templated approach, the size of schemes they will be willing to accommodate will increase, with deals potentially climbing into the £250m-plus bracket. And the ESG question has, in practice, been moot because insurers already have a good track record of 'trying to do the right thing'.

> **"These solutions are going to continue to develop, and some of the new entrants will adopt them in their own way as well"**
> **- Adam Davis, K3 Advisory**

"We are certainly not seeing any cases where, when an analysis has been done of what insurers are doing from an ESG perspective, anything has thrown up a red flag that would stop the scheme thinking it doesn't want to transact with that insurer," Davis said.

The market for templated deals is likely to expand further. In its 2025 de-risking report, consulting firm WTW noted that several new entrants, including some that have focussed solely on large deals, are poised to enter the fray.

And Davis said he knows of a handful that are looking seriously at such a prospect. More advisers are also entering the space; independent consultancy Dean Wetton Advisory announced in January that it would offer pension risk offset and bulk annuity advice to schemes of all sizes.

Further, the templates can be expected to evolve and already Davis said he is seeing some that are capturing post-transaction tasks that will bring down the time scales from buy-in to buy-out. Because long intervals erode sponsors' savings on the upfront insurance premium after a transfer, the speed to buy-out has become a more important factor than deal price to some schemes, according to PwC.

Davis hopes, too, to see standardisation between the templates. Despite their deep similarities, each is sufficiently different to place additional administrative burdens on deal administrators. Agreement among providers to eliminate those differences would bring huge resource benefits to both sides of a transaction.

"These solutions are going to continue to develop, and some of the new entrants will adopt them in their own way as well," Davis said.

"The key bit is, that as we're getting more and more insurers and getting more and more different templates, I'm just not sure it's the absolute perfect solution. If we could just get the insurers to band together a little bit just in terms of agreeing an industry standard, I think that would be a game changer."

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Weight Loss Drugs the Talk of the Town in Actuarial Circles

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Life Risk News

Google recently published its list of terms most searched for in 2024, one unsurprisingly dominated by sport, with football's Copa America and the UEFA European Championship occupying the top two spots, followed by cricket's ICC Men's T20 World Cup.

What will also not be a surprise to those in the health and mortality industries is that Ozempic saw a 35% increase in searching in 2024, with 13 million searches per month, according to Glimpse; the power of social media is widely attributed to be behind the explosion of awareness of what was originally approved as a diabetes drug, as numerous celebrities touted the weight loss benefits of these drugs.

And glucagon-like peptide 1 receptor agonists (GLP-1RAs) were also the talk of the town last year in the UK's life and health insurance and pension circles.

"Actuaries advising insurance companies and pension schemes on mortality are paying very close attention to developments with anti-obesity medicines," said Stuart McDonald, Partner at Lane, Clark & Peacock.

More than one in four adult Brits were living with obesity in 2022 and a study by Frontier Economics published in the same year suggested that the current annual full cost of obesity in the UK is an estimated £58bn.

> **"The wider application of GLP-1RAs may well lead to an inflection point, not only in terms of cardiovascular disease, but in other indications. The ability of these drugs to tackle all parts of the metabolic pathway could have a hugely positive impact on population mortality"**
> **- Nicky Draper, Crystallise**

Anti-obesity medicines (AOMs) including Semaglutide (branded as Wegovy or Ozempic) and Tirzepatide (branded as Mounjaro) are available on the NHS for eligible patients (broadly, those with a body mass index (BMI) of greater than 35 and a weight-related comorbidity) as well as privately; a recent article in the Financial Times suggests that up to half a million Brits have already taken the plunge privately.

And, while the cohort of lives involved in bulk purchase annuity deals in the UK tend to have slightly longer life expectancies (they are healthier and wealthier on average), than the median scheme member, the higher average income is exactly why usage of these drugs could continue to see strong take-up.

"Pension scheme liabilities are typically dominated by a relatively small number of individuals with large pensions. Such individuals, where they might benefit from AOMs, are unlikely to find the cost of a private prescription prohibitive," said McDonald.

A recent study conducted in the US found numerous other benefits of taking GLP-1RAs – the type of drug that brand names Ozempic and Wegovy are based on – and found that "compared to usual care, GLP-1RA use was associated with a reduced risk of substance use and psychotic disorders, seizures, neurocognitive disorders (including Alzheimer's disease and dementia), coagulation disorders, cardiometabolic disorders, infectious illnesses and several respiratory conditions".

Obesity is linked to a wide range of health conditions, including cardiovascular disease, so the study results could have an even more pronounced impact on mortality. It is a welcome development in an area that, according to Nicky Draper, Director of Longevity Consulting at Crystallise, has seen slower progress in recent years.

"We witnessed remarkable gains in mortality improvements in the 1980s and 1990s through to the 2000s largely due to the management of cardiovascular disease, (CVD), such as the wider application of statins, improved surgical techniques, and reductions in smoking rates. It is thought that 60% of these gains were lifestyle driven, the remaining 40% from management of CVD. But then, things plateaued, because we achieved all we could with those specific interventions, and smoking rates are reducing at a much slower rate," she said.

"The wider application of GLP-1RAs may well lead to an inflection point, not only in terms of cardiovascular disease, but in other indications. The ability of these drugs to tackle all parts of the metabolic pathway could have a hugely positive impact on population mortality."

Indeed, just at the end of January, the US Food and Drug Administration (FDA) approved Ozempic for use in the fight against kidney disease, the third time the FDA has approved Ozempic for a specific reason (the first two being diabetes in 2017 and then cardiovascular disease in 2020).

“What started as a drug to help manage diabetes now seemingly has multiple applications. Sometimes, these things do come around by chance and the recent approval by the FDA for Ozempic’s use to combat kidney disease is another encouraging development for population health,” said Draper.

It is not all good, of course. The research also showed that there was “an increased risk of gastrointestinal disorders, hypotension, syncope, arthritic disorders, nephrolithiasis, interstitial nephritis and drug-induced pancreatitis”.

And last summer, the World Health Organization published a product alert relating to three falsified batches of semaglutide, and the internet is awash with nay-sayers who caution against the use of these products.

> **“I’d expect the uptake of AOMs to continue to increase rapidly around the world, to the point where they become the biggest selling drugs of all time; the widespread adoption of AOMs seems likely to directly reduce mortality rates from a significant number of causes of death”**
> **- Stuart McDonald, Lane, Clark & Peacock**

In drug terms, we are still in the early days of understanding the micro and macro impacts of GLP-1RAs. And it will be many years until those in the medical and science industries do.

So, it is almost a given that numerous other studies will be conducted in numerous countries that analyse the pros and cons of GLP-1RAs, but the current thinking is that the impact on mortality - and consequently, the pricing of transactions in the bulk purchase annuity market and the reinsurance market - could be profound given that there would be both primary and secondary impacts of these drugs.

“I’d expect the uptake of AOMs to continue to increase rapidly around the world, to the point where they become the biggest selling drugs of all time; the widespread adoption of AOMs seems likely to directly reduce mortality rates from a significant number of causes of death,” said McDonald.

“But also, a reduced prevalence of obesity among the population could also be expected to reduce pressure on the health system, which in turn improves health and mortality outcomes.”

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How Many More Asset Managers Can the US Pension Risk Transfer Market Absorb?

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The increasing role - and influence - of 'private equity' firms in the US pension risk transfer (PRT) market in recent years has caught the attention of the media, regulators, and litigators, as questions have arisen about the suitability of the private investments that these firms make as the assets that they invest in underpin literally millions of American retirees' pensions.

Only that 'private equity' is not really the correct term to use. Whilst firms in the space such as Apollo (which has merged with insurance company Athene), Blackstone and KKR might have got their start in the leveraged buyout world, these firms are now multi-asset managers, and listed companies, so the terminology is wrong for starters.

'Asset managers' is closer to correct. But terminology aside, what is the reality of more of these firms coming into the US PRT market? After all, in the primary market – defined benefit (DB) pension to insurer - there were 21 insurance companies writing business as of December last year, according to WTW. On the surface, numbers-wise, that would seem like a competitive field (at least compared to the UK, where there were only ten at press time).

> "From the pension plan perspective, there is still room for more insurers. On a given deal you don't often see more than five, six or so bidding as insurers operate at different ends of the market"
> - James Walton, Agilis

So, if you're an asset manager looking at buying an insurer now, are you too late?

"From the pension plan perspective, there is still room for more insurers. On a given deal you don't often see more than five, six or so bidding as insurers operate at different ends of the market," said James Walton, Managing Director at consultants Agilis.

"We see PRT market growth in the US as robust - growing by double digits, as strong equity returns, and interest rate rises of recent years are likely to spur further pension plans to transact in coming years. If you're talking about coming in and taking a 20% share then I think those day are gone, but I don't see why a few more insurers couldn't enter and pick up some share that's enough to justify entering - but any new insurer would be required to have some kind of pricing edge if they are to compete in the market," Walton added.

That pricing edge depends on the ability of the insurer to generate returns on the underlying assets. The greater the return, the lower the premium they can charge to the defined benefit pension scheme, other things being equal. And one of the ways that insurers differentiate themselves is through access to private market opportunities, whether that be through an affiliate or wholly owned asset manager, or whether the arrangement is through some kind of partnership.

The regulatory burden placed on life insurers in the US, while strong, is arguably less onerous than those placed by the Solvency II (S2) regime in the EU. Even the UK's adjustments to the regulation - Solvency UK - has maintained many of the original features of S2, the result of which means that a significant amount of the assets backing schemes across the pond are more liquid fixed income, such as government and corporate bonds. Whilst private assets still make it onto the balance sheet of life insurers in Europe, there is more scope for these opportunities stateside, which is what is driving the increased participation from asset management firms.

"The involvement of asset managers in insurance to date has been about utilizing their investment capabilities in forms of private credit and structured credit. Insurers in the US generally don't need help with public bonds as they have their own teams already for this. But they don't always have a competitive advantage in private asset opportunities. Any new entrant would likely need these capabilities in order to be successful," said Walton.

The term 'private equity' is arguably more a political term these days. Indeed, the SECURE 2.0 Act of 2022, which came into law in late December of that year, directed the Department of Labor to review the Employee Benefits Security Administration's Interpretive Bulletin 95-1 'to determine whether amendments to Interpretive

Bulletin 95-1 are warranted.' The report, published in June last year, uses the term 'private equity' 54 times.

IB 95-1 is a foundational regulatory pillar of the US market as it states that DB schemes transacting with an insurer must use the 'safest annuity available', and lawsuits have been filed against plan sponsors that claim otherwise.

Just recently, the ERISA Industry Committee (ERIC) and coalition allies (the amici) filed an amicus brief in the US District Court of the Southern District of New York to dismiss Doherty v. Bristol-Myers Squibb (Doherty). In its brief, the amici asserted that the plaintiffs lack standing and argued there was no viable claim for relief.

> **"Any new entrant will likely need some kind of pricing edge. But, thanks to the macroeconomic environment of the past few years, combined in many cases with contributions paid into plans, there are an enormous amount of US DB plans that will be looking to transact"**
> **- James Walton, Agilis**

"Like the 401(k) fee class actions that came before them, this new wave of pension risk transfer litigation appears to be the next proverbial pot of gold for the plaintiffs' bar," said Tom Christina, Executive Director of the ERIC Legal Center.

"If meritless claims like this advance beyond swift dismissal, there is significant risk the floodgates will burst open, and plaintiffs' firms will get a big payday while employers and employees will be faced with big legal bills and an even bigger threat to the retirement system we know today. This would be devastating to plan sponsors and, in turn, to the participants who rely on them for jobs and benefits."

Market participants will likely be keeping a close eye on any developments here. But regardless of the outcome and the potential impact of the outcome, for Walton, there is still scope for more asset managers to enter the market.

"It is important to remember that only around 10% of the entire universe of DB schemes in the US has transacted so far," he said.

"As I said, any new entrant will likely need some kind of pricing edge. But, thanks to the macroeconomic environment of the past few years, combined in many cases with contributions paid into plans, there are an enormous amount of US DB plans that will be looking to transact. I've seen some insurers turn away bids because they were simply too busy working on other deals. There is room for more insurers, but they will have to differentiate their offering and have reasonable expectations around overall volume."

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TUESDAY 20TH MAY 2025

LONDON, UK

Life Risk News

Bulk Annuities: Who Steers the Ship?

Author:
Chris Hawley
Risk Transfer Partner
Barnett Waddingham

A well-run bulk annuity process can look plain sailing, whilst a badly run one is very much battling choppier waters.

Below, we consider some of the different advisory structures for leading a bulk annuity process, including the rise of co-led processes. It's important to use an experienced team to avoid those icebergs in the water.

The 'buyer' of a bulk annuity contact is the scheme's trustees, who are required to take formal advice as part of the process. However, the views of the sponsor are important for any bulk annuity purchase, and they should be involved from the outset, particularly if additional funds need to be paid into the scheme.

Traditional Approach

In our experience, most bulk annuity transactions have been led by a risk transfer advisor selected by the trustees – be that an existing advisor or an external firm brought in to support this project.

One of two approaches is typically taken:

1. A Joint Working Group (JWG)

A JWG would include representation from both the trustee board and sponsor.

In some cases, the trustees' risk transfer advisor will advise the whole JWG, while in others the sponsor will appoint a separate advisor who might join meetings and feed into discussions. The decision on which approach to adopt ultimately depends on the extent to which the trustee board and sponsor's objectives are aligned, and the advice the sponsor needs to manage internal stakeholders.

> "In some cases, the trustees' risk transfer advisor will advise the whole JWG, while in others the sponsor will appoint a separate advisor who might join meetings and feed into discussions. The decision on which approach to adopt ultimately depends on the extent to which the trustee board and sponsor's objectives are aligned"

The JWG structure can be used for pension schemes of all sizes but is typically not used by the smallest schemes where processes are streamlined to help control costs.

Where the same party is advising both the trustees and sponsor, the specific nuances around this will depend on the level and nature of the work required and the conflict policy of the relevant advisory firm. Where this approach is being taken, it is important to have clearly drawn-out conflict lines to help should there be any ambiguity.

2. Working collaboratively in a light touch way

Many trustee boards, particularly small schemes or those associated with family-run businesses, will share the advice they receive with the scheme sponsor (on a non-reliance basis) and allow them to input their views - essentially, facilitating a light touch JWG.

In our experience, this approach works well, enabling a proportionate advisory process to be followed with both parties receiving the advice/information they require without doubling up on advisory fees. Where there is a strong working relationship, it also facilitates a quick and efficient decision-making process.

The Corporate Captaincy

In recent years, sponsors increasingly commit to supporting a transaction but often request that their advisory team lead insurer discussions and provide advice to the trustees.

From a sponsor perspective it's not an unreasonable ask where they are paying in a contribution and believe their advisory team will better represent their interests with insurers. This approach can be an appropriate, particularly if a specific corporate governance route needs to be followed, or if the trustee advisory team doesn't have sufficient experience to support.

However, this approach can risk friction with trustees who need formal advice and would have to appoint the sponsor's advisers, potentially straining the trustee-sponsor relationship. A robust conflict policy is needed, otherwise trustees could be left 'high and dry' mid-way through a transaction.

A further risk is where the sponsor's focus is on completing the transaction quickly, potentially overlooking the scheme's long-term objectives. In some cases, this could result in trustees struggling to meet post-transaction requirements e.g., where data correction requirements were not fully understood. Ensuring trustee input at every stage is crucial to avoid surprises and manage residual risks effectively through any scheme's wind-up.

Joint Navigation Strategies

Given some of the challenges around a single corporate driven appointment, it has become increasingly popular to use a 'co-led' structure. Historically the domain of larger schemes, more recently this has been adopted by the smaller end of the market. Each party has their adviser who sits on a JWG and are also involved in the market approach and insurer negotiations. This approach can come about when the sponsors and trustees want to receive independent advice and have trusted advisory teams.

The key challenge of this approach is cost, as more hands-on deck risk duplicated work and extended negotiations. However, having two advisers may increase pressure on the insurer to perform. Insurers may find the process frustrating if the objectives are mixed. Establishing a clear protocol for information sharing and negotiation is essential for success.

It's essential to ensure everyone aligns on the same goals. Advisors competing only causes frustration, delays, and poorer results. Key details, like setting up data-sharing processes and deciding which advisor will handle the data room, also need careful planning.

Role of the Independent Trustee (IT)

Many trustee boards now appoint an IT, either as part of the trustee board or as sole trustee. This role is crucial in setting the overall advisory structure - they know the consultants what works well. Given their experience of completing transactions, they can help ensure a quick and efficient process, enhancing the outcome.

ITs will likely work with the sponsor closely to agree an approach that works for both parties.

> "There's no right answer to the question "what's the best advisory structure?". It depends on the situation and parties involved"

How To Secure the Best Advisory Structure

There's no right answer to the question "what's the best advisory structure?". It depends on the situation and parties involved. At the outset of a bulk annuity transaction project, we work with our clients to identify what approach will work best for them, and to ensure that the other party is supportive to prevent the process from becoming derailed.

Our three top tips, regardless of the structure adopted, are:

Use an experienced advisory team who know how to run a process and knows the market

Ensure the different parties involved are working collaboratively to the same goal

Remember the transaction journey extends beyond the day you sign the deal.

Chris Hawley is a Risk Transfer Partner at **Barnett Waddingham** in Birmingham

Any views expressed in this article are those of the author(s) and may not necessarily represent those of Life Risk News or its publisher, the European Life Settlement Association

US Life Insurance Policy Cancellations Up Again But New Business Holding Steady

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> “The types of policy most commonly traded in the life settlement secondary market are only a sub-set of the whole range of life insurance products issued, so a trend in total business may not perfectly reflect the trend in tradeable products alone”

My previous article looking at the American Council of Life Insurers’ (ACLI) 2024 Life Insurers Fact Book ACLI showed an industry in good health from a balance sheet perspective. New annuity business continued to dominate with strong growth although, for life insurance, the picture was a little more mixed.

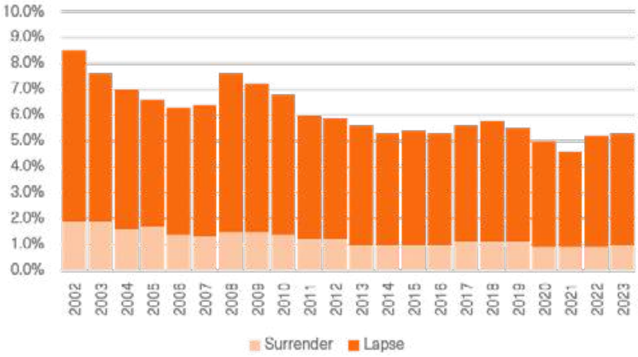
The third of our reviews of the Life Insurers Fact Book 2024 focusses on how factors that could impact the life settlement market are developing. Key amongst these are the surrender volumes, which help indicate the volumes of policies that could be available to trade, and the rate of new life insurance business which will provide the fuel for the market in future.

The ACLI data are all retrospective and the latest set refers to the year 2023 which, by now, is already just over a year old compared to market participants’ current experience, and it is information of a low granularity, so one needs to be aware that there are some generalisations being used to imply trends. The types of policy most commonly traded in the life settlement secondary market are only a sub-set of the whole range of life insurance products issued, so a trend in total business may not perfectly reflect the trend in tradeable products alone.

Policy Cancellations

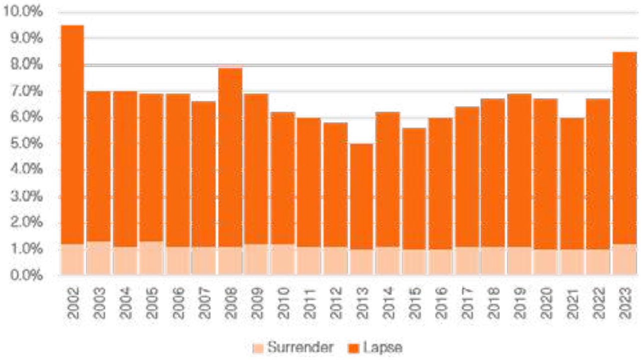
Policy exits will come about as death or maturity claims and, possibly most commonly, through lapse (with no value) or surrender (if there is an intrinsic value) although the two may be aggregated in some statistics. The ACLI provide cancellation rates split by surrender and lapse and split the figures between individual and group policies. This article will focus on individual policies, but there is no further granularity between product types.

Figure 1: Individual Policy Cancellations by Face Amount



Source: ACLI Life Insurer’s Fact Book, 2024 Edition

Figure 2: Individual Policy Cancellations by Number



Source: ACLI Life Insurer's Fact Book, 2024 Edition

The year 2023 saw an uptick in both lapse and surrender rates and given the stress on household finances, particularly at the lower end of the income spectrum, that is perhaps unsurprising.

Figures 1 and 2 above both show a rise in all cancellations. However, the latter chart, using just policy numbers shows a much more pronounced rise compared to the chart showing cancellations by volume. This clearly demonstrates that smaller policies were the ones being jettisoned; reasons for this could be either lower income households electing to abandon their cover, perhaps with a view to joining an employer scheme, or higher income households merely cancelling smaller policies and retaining larger ones, or both.

> "Smaller policies were the ones being jettisoned; reasons for this could be either lower income households electing to abandon their cover, perhaps with a view to joining an employer scheme, or higher income households merely cancelling smaller policies and retaining larger ones, or both"

By number, the effect is quite dramatic and means that the 2023 rate of cancellations was the highest in 20 years. The rise in surrender values paid out was notably large with surrender payments rising from $28.8bn to $35.8bn (+24.1%). These figures suggest that there has been reward for those providers within the life settlement market tapping the smaller policy segment of the market.

These cancellation rates do come with a caveat. They cover all individual policies, not just whole of life policies, which are those most frequently traded in the marketplace. But they also cover term policies, which most frequently are those which lapse with zero value, whereas those surrendered for value are those from the whole life (or comparatively smaller endowment) policy population. Whereas the lapse rate by policy number rose from 5.7% in 2022 to 7.3% in 2023 (a rise of 28%) the surrender rate only rose from 1.0% to 1.2% (a rise of 20%). Whilst the surrender rate was lower, it was by no means insignificant for the life settlement market.

By volume, the changes in these rates were 4.3% to 4.3% for lapses (which after rounding is no change) and for surrenders, 0.9% to 1.0%. It would also appear that amongst policies surrendered for value, this was not motivated primarily by people seeking to realise capital, but instead by the aim to trim outgoings. We don't have the granularity of data to find further evidence to draw firm conclusions as to which sections of the population engaged in this, but one can speculate that it is a combination of harder hit families, those in middle age, and/or the very elderly, who would have been faced with rapidly escalating cost of insurance. The latter will be of greatest interest to the life settlement market.

New Policy Sales and In Force

While those policyholders seeking to cease maintaining their policies is of immediate interest to the life settlement market, and clearly the fuel for today's activity, tomorrow's fuel is the inforce book, and the day after tomorrow's fuel is the new business being put on the books.

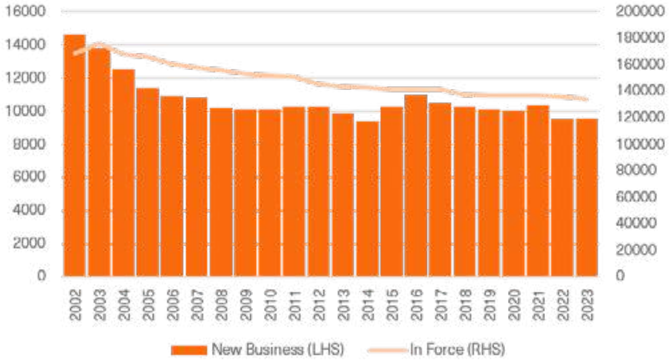
Last month, we compared the growth in in-force life policy reserves with general US gross domestic product (GDP) and saw that in the last two or three years, it has slightly decoupled. Whether that fall away was down to decreasing new business not fully replacing policy cancellations and maturities or that recent years' GDP figures have been temporarily boosted by government

> “By policy numbers, there is a tail off, notably in 2022 and again in 2023... measured by face amount, however, the picture is still a rising one”

stimuli that has not fully trickled down to the wider population (e.g., the various green project subsidies), is a moot point.

What we can see from Figure 3 below is that by policy numbers, there is a tail off, notably in 2022 and again in 2023.

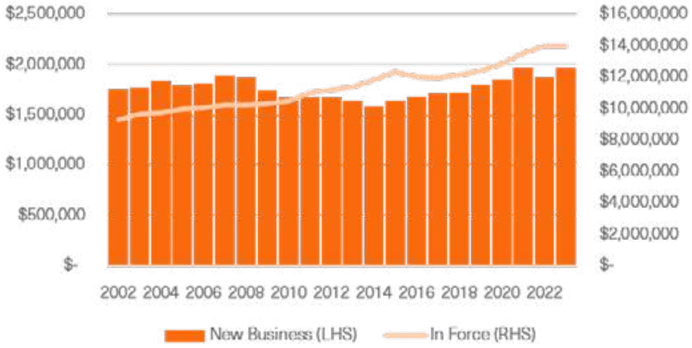
Figure 3: Individual Policies – Numbers (000’s)



Source: ACLI Life Insurer’s Fact Book, 2024 Edition

Measured by face amount, however, the picture is still a rising one, as can be seen in Figure 4 below.

Figure 4: Individual Policies, Aggregate Face Amount ($000,000’s)

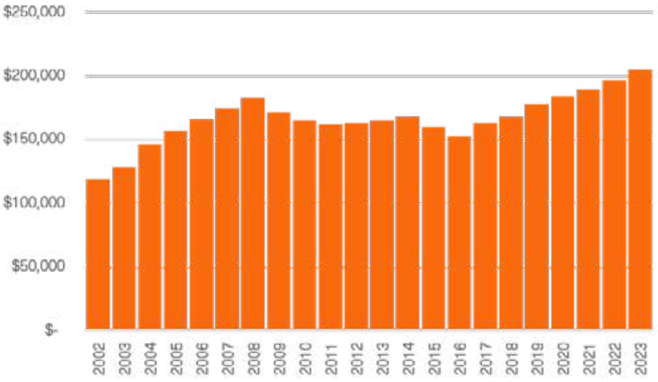


Source: ACLI Life Insurer’s Fact Book, 2024 Edition

Taken together, these paint a picture of slower new policy sales by policy number, but a small rise by volume or face amount. For the built up book of in force, the numbers of policies continue a slow, but long standing decline, but by absolute face amount, it continues to hold up.

The divergence between new business by policy number and by face amount is further illustrated by rising average face amount in Figure 5 below.

Figure 5: New Business, Average Face Amount ($000’s)



Source: ACLI Life Insurer’s Fact Book, 2024 Edition

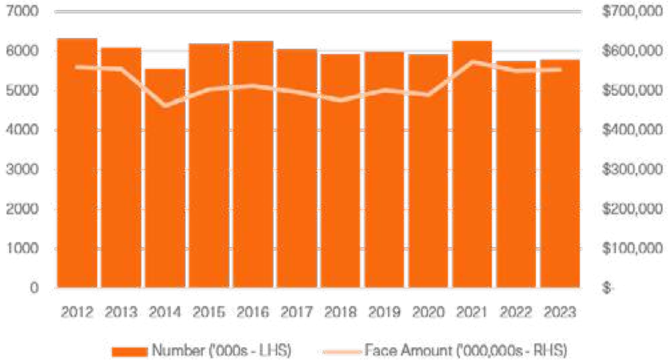
This chart shows quite a significant rise in average face amount. In 2023, this was $206,000, compared to $197,000 in 2022, a rise of 4.6%. This is lower than the peak rate of consumer price index inflation in the US at 9.1% in June 2022 but was higher than every month in 2023 from May onwards. Price inflation might help explain household financial stress, but it is not likely to be the most important driver here. Affordability from wage increases will be important and the average pay rise index in the US peaked at 5.9% in March 2022 and was hovering around the 4% mark during 2023. Other factors such as outstanding house purchase loans or any other liabilities related to earnings are also likely to be drivers.

Overall, the conclusions to draw here are that, at present, we are in a cycle where the levels of life insurance coverage are still declining. This may not be in absolute terms, but in real terms. The average policy size is increasing albeit that the average real terms policy size in 2008 was still higher than now. Nevertheless, any decline is very gradual and could easily reverse.

Whole of Life and Endowments Specifically

The aggregates for individual policies include all business including term policies of differing types. These polices make up roughly half of the total new business and typically carry larger face amounts than whole of life or endowment policies. The data available aggregate WOL and Endowment although sales of the latter are a relatively small proportion.

Figure 6: Individual Whole of Like and Endowments – New Business



Source: ACLI Life Insurer's Fact Book, 2024 Edition

We are only able to show data back to 2012 for this specific subset of all life policies, but the picture continues to mirror life policies as a whole with marginally lower numbers of new policies sold in 2023 than 2021 but marginally higher new policy sales compared to 2022 (5,797,000 compared to 5,766,000). For this group. the levels of new face amount per policy remain similar year on year.

Summary

If elevated policy cancellation rates in 2022 suggested some financial stress amongst households, 2023 implied continued stress, although this may have been due to people taking corrective action in arrears rather than immediately when their problems struck. For that reason, it is hard to draw any conclusion of permanence, and it is reasonable to suggest that we should be expecting a drop off in cancellation rates in the near future. The disparity between the rise in cancellation rates by number and by volume clearly shows that smaller policies are the ones being cancelled and those market participants in that section of the market will be benefitting.

New business levels are lower than historically and there is no immediate sign of a reversal, but at the same time, as with last year, it is reasonable to say that new business levels remain significant, which should lead to a healthy supply of paper for the life settlement secondary market for some considerable time to come, all other things being equal.

> "As with last year, it is reasonable to say that new business levels remain significant, which should lead to a healthy supply of paper for the life settlement secondary market for some considerable time to come"

Roger Lawrence is Managing Director at **WL Consulting**

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Q&A

Mark Sharkey

BPA Origination Lead, Royal London

Author:
Greg Winterton
Contributing Editor
Life Risk News

The pension risk transfer market in the UK delivered yet another solid year in 2024 with consultants WTW forecasting that, when all is said and done, £48-50bn of deals will have been completed, which could mean a record. Greg Winterton spoke to Mark Sharkey, BPA Origination Lead at Royal London, to get his views on the state of the market and its outlook for 2025.

GW: Mark, last year was yet another high-activity year in the UK's bulk purchase annuity market. Just how long can this go on for?

MS: There is every reason to expect the bulk annuity market will be as vibrant in 2025 as it has been in recent years. There are lots of pension schemes now ready to transact or preparing to in the months and years ahead. We also now have more insurers in the market than ever before. So, there is plenty of supply and plenty of demand. It's worth remembering that around £1trn of defined benefit pension liabilities remain uninsured in the UK, so the potential demand is significant.

We expect to see £40-50bn of business across the market again this year, but there could be fewer multi-billion transactions with more sub-£500 million transactions making up the difference.

GW: Royal London itself entered the market officially in 2024, writing deals mainly in the smaller end of the market so far. What are some of your thoughts on what should be top of mind for smaller scheme trustees as they approach the BPA market for a quotation?

MS: The market is very busy right now, with over 200 transactions being completed each year for pension schemes within our target premium range of up to £500m. However, we don't envisage a scenario where a well-prepared smaller pension scheme is unable to gain traction with an insurer, and that's backed up by what we're observing in the market.

Most insurers in the market run similar triaging processes when deciding which pension schemes to provide a quote to. Generally, insurers will prioritise opportunities with good quality data, a clear presentation of scheme benefits and good governance and brokering processes.

What we'd also recommend to trustees is that they can demonstrate they have taken the time up front to understand the offerings from insurers and how they differ. This encourages insurers to reciprocate and lean in to work with trustees that are well aligned to their proposition.

View Our Archive

View Archive

GW: Given the excellent funding status of many schemes, there has been a growing amount of talk around whether to de-risk at all. What's your message here?

MS: Ultimately the decision on whether to de-risk is one for the pension scheme trustees to make, as they carry out their fiduciary duties and ensure the long-term security of members' benefits. There will be instances when a bulk annuity transaction isn't the optimum outcome for a pension scheme and trustee board. However, many of the trustees we speak to are keen to lock in the funding gains that have emerged over the last few years. Many trustees remember the surpluses of the 1990s and how quickly they disappeared.

Most trustees I speak to are from pension schemes of up to a few hundred million pounds. The cost of running these pension schemes on can be prohibitively high and often the corporate sponsors just simply don't want to be investing so much of their time managing these pension schemes, they'd much rather be focused on growing their businesses.

GW: How much are smaller schemes paying attention to the investment strategy of the insurers that they might eventually transact with? Are there any misconceptions here, or lack of understanding on behalf of the scheme trustees?

MS: The investment strategies adopted by bulk annuity providers need to balance the returns required to offer attractive pricing with the regulatory regime they must comply with. This can often lead to differences between the assets held by a pension scheme compared with the typical insurer, even though both seek to match defined benefit cashflows. Insurers might typically weight their portfolio more towards credit and less towards gilts compared to the typical pension scheme, whilst certain illiquid assets held by pension schemes are not permissible under Solvency UK.

However, I think investment consultants have really upped their game in recent years, in terms of getting pension schemes of all sizes 'transaction ready'. Many trustees we speak to have already undergone a process of aligning their portfolio to something that looks more like an insurer strategy, but good insurance partners will still do their best to retain an element of flexibility when working with pension schemes on a transaction.

GW: Lastly, Mark, what is yours and Royal London's outlook for activity in the space this year? When 2025 is said and done, do you think a new record will be set in terms of aggregate deal value, or will there be a plateauing? Or a contraction?

MS: I think aggregate volumes have reached a fairly steady level, so would expect something similar to previous years when the industry gets the calculator out and tots up the final scores.

Whether 2025 represents a new record, a contraction or a plateau, I'm sure all the headlines will reference the total amount of liability that has transferred to the bulk annuity market. But ultimately, the main focus should be on the number of members that have reached buy-in and achieved greater benefit security as a result.

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Encouraging Signs for Institutional Investors Looking at Reverse Mortgage Securitisations

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The trend in reverse mortgage origination in the US in the past decade or so has been down, down, down. According to the National Reverse Mortgage Lenders Association, fiscal year 2024 - which, for the Department of Housing and Urban Development (HUD), ended on 30th September last year - delivered just 26,521 HECM mortgages, the lowest number since 2003 (18,097).

The story in the securitisation market has not been quite so negative, however. Tail issuance and growing loan balances over time provide additional capital that can be securitised to maintain healthy activity in the market. Indeed, HMBS issuance data from Ginnie Mae shows that December saw $575m worth of activity, the third best month since 2023.

"Over time, the HMBS market has expanded, despite lackluster HECM origination volume," said Michael McCully, Partner at New View Advisors, "with the notable exception to that trend during the pandemic."

"Because of agency - and particularly Ginnie Mae - liquidity in the secondary markets, lower volume has not proven to affect the depth of the market, trading, or pricing in HMBS. Low volume was a fear in 2010 when FHA made its first (and most dramatic) PLF reductions, but it proved not to be true."

Then, in November, the market received a very welcome shot in the arm, as Ginnie Mae announced the terms for 'HMBS 2.0', the agency's attempt at providing additional liquidity to the market.

> "Based on the final HMBS 2.0 term sheet, up to $431m per month of buyouts would have been eligible for HMBS 2.0 in 2024. That almost doubles HMBS volume, which was $6bn last year"
> - Michael McCully, New View Advisors

First mooted more than a year ago, HMBS 2.0 notably increases the mandatory buyout threshold to 150% of the maximum claim amount (MCA, up from 98%), which, in aggregate, will provide significantly more flexibility to HMBS issuers before mandatory buyouts are required.

The impact of this on the availability of HMBS products for investors could be significant.

"Based on the final HMBS 2.0 term sheet, up to $431m per month of buyouts would have been eligible for HMBS 2.0 in 2024. That almost doubles HMBS volume, which was $6bn last year," said McCully.

Other benefits of this development accrue to the institutional investor. The repurchase of loans at the original 98% MCA threshold leads to an acceleration of prepayments within the HMBS pool, so investors receive their principal back sooner than anticipated, which can affect the expected yield of the security. Additionally, early loan buyouts can disrupt the anticipated cash flows to investors, potentially leading to reinvestment risk, and by repurchasing the loans, issuers assume the associated credit risks until the loans are either assigned to HUD or otherwise resolved.

So, an encouraging development for capital allocators. But 2024 did not only deliver good news from the US market. Last July, the Australian market saw its first securitisation of reverse mortgages in many years when non-bank lender Household Capital issued securitised product rated by Moody's. Joshua Funder, CEO at Household Capital, says that this is just the beginning.

"We expect to return to the securitisation market annually for the foreseeable future with increasing volumes of high quality, rated Australian variable rate reverse mortgage portfolios," he said.

An interesting difference between the US and Australian markets is that the latter does not enjoy the benefits of having a federal backstop, something which provides great comfort to those with exposure to the US HMBS market.

That doesn't mean that the risk profile of Australian product is significantly lower, however.

The passing of the Consumer Credit Legislation Amendment (Enhancements) Bill in 2012 by the country's lawmakers provided a swath of consumer protections which, for the country's reverse mortgage market, meant Australia has among the lowest loan-to-value reverse mortgage ratios in the world.

In 2018, the market received an additional boost as the Australian Securities and Investment

Commission's review of the performance of these regulations found no material breach, but it is not only the regulatory environment that supports risk management in the space.

"Australian reverse mortgages are variable rate, and those variable rates are correlated with long-term property price appreciation. This provides additional risk reduction for negative equity, equity erosion and bequest reduction," said Funder.

> **"Australian reverse mortgages are variable rate, and those variable rates are correlated with long term property price appreciation. This provides additional risk reduction for negative equity, equity erosion and bequest reduction"**
> **- Joshua Funder, Household Capital**

"Additionally, Australian equity release customers tend to discharge voluntarily around 12% per annum, making the average weighted life around 8-9 years and de-coupling discharge from mortality alone and break fees."

It is not just Funder who appears bullish on the market; an article in the November 2024 issue of the Australian Securitisation Journal by Moody's says that the firm "expects Australian reverse mortgage and other equity release securitisation issuance to grow over time".

The news story of the past few years in the primary equity release/reverse mortgages market has indeed been falling numbers of origination, as higher interest rates made these products more expensive for the consumer.

But now, things are looking up. Stateside, the Federal Reserve cut the Federal Funds Rate by 100bps in total in 2024, which should, other things being equal, drive demand; activity is pacing to deliver an increase this year. In the UK, green shoots appeared in the fourth quarter of last year.

And they are certainly looking up for the securitisation market, at least, in theory. US President Donald Trump's federal hiring freeze, along with a raft of potential retirements, could delay the implementation of HMBS 2.0. But when it is finally implemented, institutional investors will have a larger menu from which to choose.

"As I said, we could see a doubling of HMBS volume thanks to the changes made by Ginnie Mae," said McCully.

"More securitisation issuance provides more options to more investors. That, coupled with the expected increase in activity in the primary market, means that the next few years could see activity in the securitisation market reach new highs."

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