News release

Swiss Re

Canadian pension funds and insurers should assess and mitigate their longevity risk exposure, says a new report from Swiss Re

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Toronto, 24 October 2011 — Many public and private employer pension funds have under-reserved for longevity risk, a new Swiss Re Economic Research & Consulting report reveals. Annuity books of business also carry longevity risk. The report, "Longevity risk and protection for Canada," explains that, fortunately, there are longevity re/insurance solutions to help these bodies address their exposure when funding citizens' longer lives.

The report identified over CAD 1 trillion (about USD 1 trillion) of pension assets and immediate annuity reserves as "at risk" in Canada as of 2010. It recommends that pension plans assess their exposure to longevity risk and decide whether and how to pass this risk on to a third party. The report also notes that insurers can work in partnership with reinsurers to develop robust approaches to mitigating longevity risk.

Underestimating life expectancy by just one year – a seemingly small miscalculation – can increase a pension fund's liabilities by up to five percent.

"Increasing life expectancy is one of the greatest achievements of the 20th and 21st centuries, however, pension funds and annuity providers may have underestimated how long their members and policyholders will live. To protect their solvency and ensure they can continue to provide retirement income, these entities can now transfer some of their longevity risk," explains Kurt Karl, Head of Economic Research & Consulting at Swiss Re.

The report clarifies that longevity risk is not a diversifiable risk. Yet longevity risk solutions, including re/insurance, can be used to transfer this risk to a third party. By indemnifying themselves against future unexpected life expectancy increases, pension plans and insurers can focus on other issues, such as their asset risk exposure.

"Reinsurers have an important role to play in helping pension plans and insurers manage their longevity risk. However, on its own this will not address the financial issues associated with longer lives. It is only through public and private entities working together that a sustainable, long-term solution can be achieved," says Sharon Ludlow, CEO of Swiss Re in Canada.

Key figures

- Global pension assets exceed CAD 20 trillion, including about one trillion in Canada
- Global reserves backing immediate annuity books of business exceed CAD 637 bn, including about CAD 60 bn in Canada
- The market for longevity risk solutions – including buy-outs, buy-ins, longevity re/insurance, longevity swaps, and longevity bonds – is expected to grow to CAD 180-315 bn in total assets transferred by 2020
- The above volume of transactions, assuming Canada shared proportionally in the total volume of deals, would imply a notional outstanding amount of around CAD 10-20 bn for longevity risk transferred in Canada over the decade through 2020

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