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Sun Life Financial of Canada

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There is More to With-Profits Life than Non-Profit Conversion

Moving Endowments to Prospective and Other Simplifications

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Introduction

- History
- Simplifications programme
- Moving endowments to prospective
- Questions

History

- Sun Life Group demutualised in 2000
- 3 small funds have converted to non-profit
- SLOC With-Profits Fund:
  - Medium-sized, 100% / 0% fund
  - Whole of life with some GMDB
  - Endowment quickly running off
  - Pension with high guarantees.

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Simplifications programme

Reasons to significantly simplify

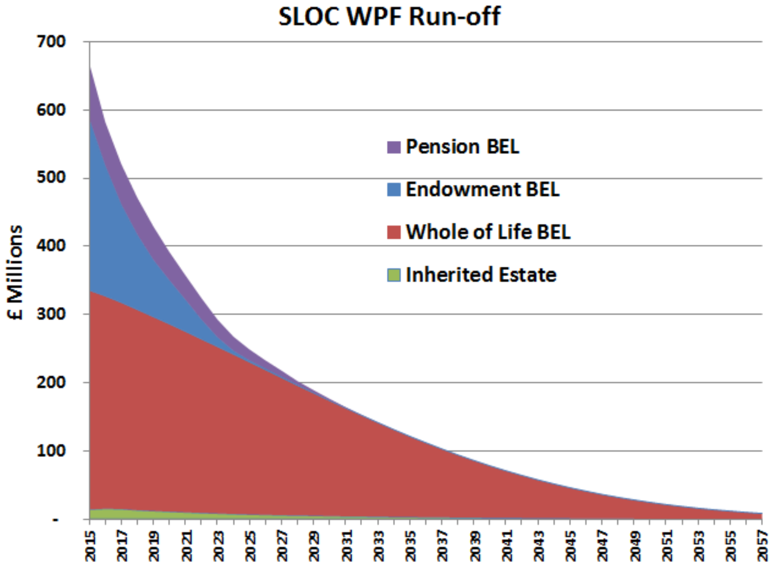
Customers benefit

- Reduced cost
- Fairer distribution of assets.

Shareholders benefit

- Reduced monitoring
- Simpler and easier to understand.

Benefits of complexities no longer material



Simplifications of the SLOC With-Profits Fund

Reduce frequency of WPC reports → Simplify investments → De-risk pension liabilities → Fully distribute inherited estate → Pension hedging

→ Endowment prospective bonus → Simplified management action plan → Frequency of WPC and WPMG meetings → Life fixed interest investment strategy → Expenses

→ Discontinue Life Consumer Guide → Cease stochastic modelling → Reduce frequency of risk appetite measure monitoring

2016 | 2017 | 2018

Changes to simplifications programme

- Some ideas came to us later
- Changed the order
- Retained frequency of customer outcomes WPC paper
- Retained Segregated Sub-Fund
- Renewed expense cap agreement.

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Moving endowments to prospective

The need for change

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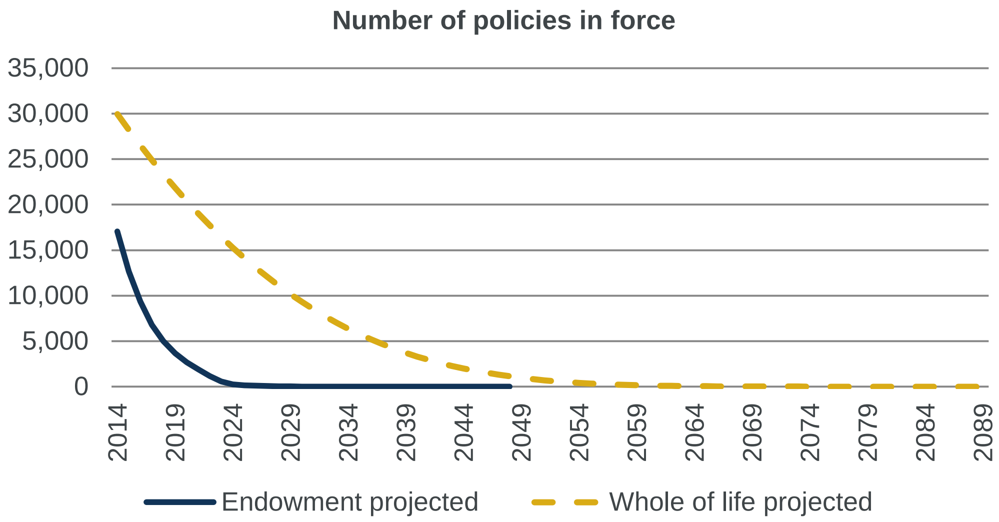
Endowment bonuses – *current asset share approach*

- AS calculated for each maturing endowment policy, accruing premiums paid less cost of life cover, commission paid and expenses incurred (net of tax relief), using asset investment returns
- Policies including AS are grouped by duration at maturity, using 5-year groupings
- Terminal bonus rates are set by comparing projected guaranteed benefits to projected AS, by groupings.



Endowment bonuses – *the need for change*

- Few policies in some groupings
- Hand smoothing of terminal bonus rates required to mitigate volatility between bonus years and policy years
- Led to subjectivity and manual intervention: we used expert judgement to ensure that teminal bonus scales appear reasonable and in order to achieve target of 90% of maturity payouts being in 80% - 120% range of AS
- As endowment business runs off further, problem would worsen for all policies.

Endowment bonuses – *the BRV method*

Aims

- Fair, smooth, stable, predictable and objective customer payouts
- Remove manual intervention
- Reduce effort required – Whole of life already uses BRV
- Reduce expenditure.

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Moving endowments to prospective

How it works

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Endowment bonuses – *the BRV method*

How BRV meets these aims

- Terminal bonuses are solved for such that the present value of future liability cash flows = distributable assets
- Terminal bonuses remain unchanged over time should economic conditions meet expectations.

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The BRV method – *how it works*

Current BRV methodology used for Whole of Life

- TBs are solved for by setting an initial terminal bonus scale and scaling it using a parameter λ
- λ is solved for at each bonus declaration and is the same for all policies.

whole of life assets – current liabilities – Solvency Capital Requirement – Risk Margin =

$$\sum_{\text{i=policy}}^{\substack{\text{number}\\\text{of}\\\text{whole of life}\\\text{policies}}} [(1+\lambda)*(1+\mathrm{TB_i})*(\mathrm{SA_i}+\mathrm{RB_i})*\bar{\mathrm{A}}_\mathrm{i}-(\mathrm{P_i}-\mathrm{E_i})*\ddot{\mathrm{a}}_\mathrm{i}]$$

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The BRV method – *for Endowments*

Considerations:

- Separate calculation to whole of life?
  - Separate assets backing endowment and whole of life business and solving for **two values of λ**
  - Leads to a **tontine effect.**

- Proposal is to use one calculation for both endowment and whole of life business
  - Single pot of assets and **single λ**
  - Cross-subsidy between whole of life and endowment.

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Moving endowments to prospective

Bonus scales and design constraints

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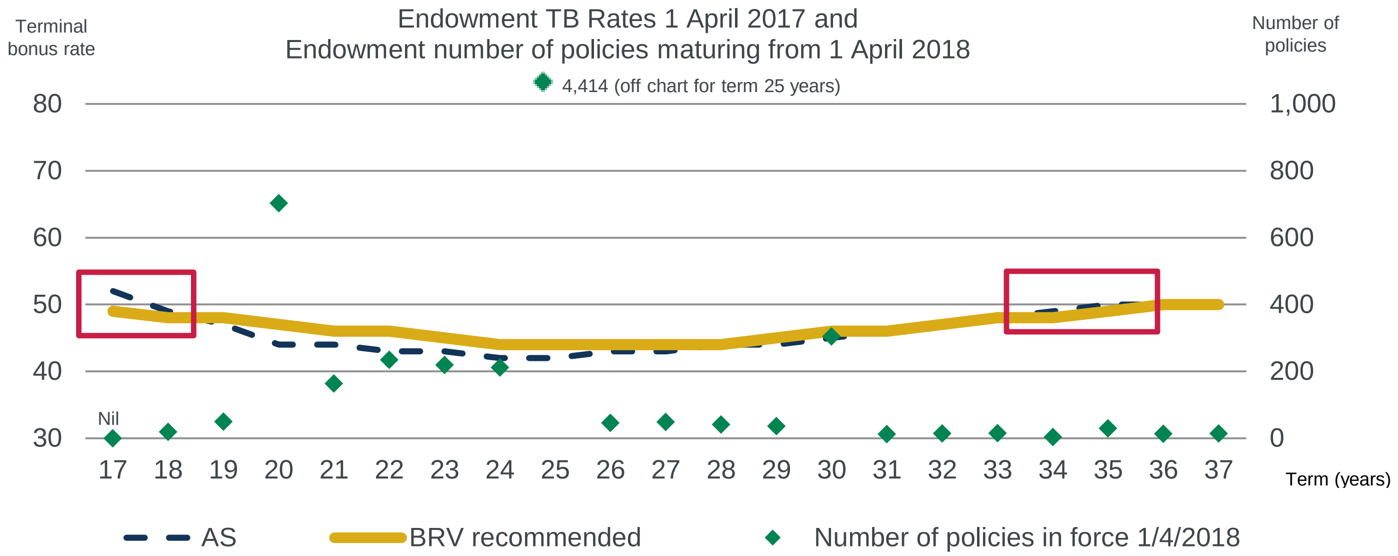
Design constraints

- Minimise cross-subsidy between whole of life and endowment, and where possible between sub-groups therein
- Minimise number of endowment policies whose benefits are materially impacted by the move from AS to BRV
- Minimise the number of whole of life policies whose benefits are materially impacted by combining the endowment and whole of life policies.
- Terminal bonuses will increase for any one policy from each policy year to the next, unless this would create material cross-subsidy between sub-groups
- Initial total BRV for endowments is set equal to total AS.

Terminal bonus scales



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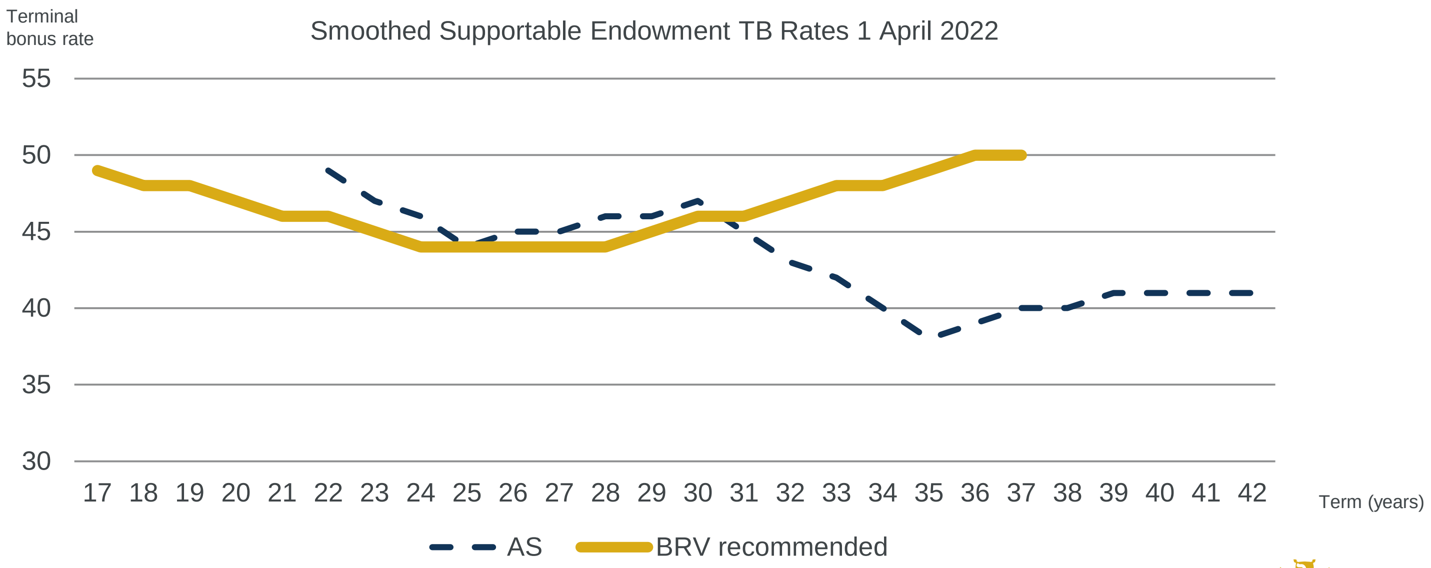
Endowment prospective (BRV) vs AS bonus

Terminal bonus scales in 5 years



Conclusion

- Simplifications programme
- Moving endowments to prospective
- Benefits

Questions

Comments

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