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Significant Growth Potential in Equity Release/Reverse Mortgage Market but Change Is Required To Get There

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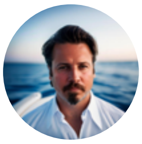

Chris Wells
Managing Editor
Life Risk News

The global equity release/reverse mortgage market could be worth $56bn by 2035, according to a new report from EY and industry body the European Pensions and Property Asset Release Group. *Greg Winterton* spoke to **Joe Kelly**, Partner at **New View Advisors**, and **Ben Grainger**, Partner at **EY**, to get their thoughts on the reality of the opportunity in the US and Europe in *Significant Growth Potential in Equity Release/Reverse Mortgage Market but Change is Required to Get There*.

After approximately £48-£50bn deals were struck in the UK pension risk transfer market last year, it is still too early to tell if a breach of the £50bn barrier will happen in 2025. Anecdotal and market data indicate, nonetheless, that activity in the past six months has been significant. *Mark McCord* spoke to **Gemma Millington**, Senior Director at **WTW**, and **Dean Wetton**, Managing Director at **Dean Wetton Advisory**, to get their thoughts on the state of the market at the halfway point of 2025 in *Insurance Capacity Boost and Growth in Small Deals Mark Busy First Half in UK Pension Risk Transfer Market*.

The life settlement cohort contains numerous features that distinguish it from the general population. *Greg Winterton* spoke to **Liam Bodemeaid**, Actuarial Consultant at **Actuarial Risk Management**, to learn more about the differences, and what might impact the future mortality rate of this group, in *Life Settlement Population Outlook Suggests Underwriting Frameworks Will Need to Continue to Adjust*.

Mental illness, particularly when left untreated, can have profound consequences not just on quality of life, but on how long a person might be expected to live and should therefore be factored in when calculating an insured's predicted life expectancy in the life settlement market. So says **Fergus Bescoby**, Head of Medical Underwriting at **CG Analysts**, in *Mental Health Illness and Its Impact on Life Expectancy in the USA*, a guest article this month.

Fast track... sounds appealing, doesn't it? What trustee board, overloaded with governance documents and new valuation requirements, wouldn't be attracted to an option that promises to save time and reduces enquiries about their work? But a name can be deceptive, and hundreds of defined benefit arrangements could be about to sleepwalk into adding a material and unnecessary financial burden on their sponsoring employers. More from **David Hamilton**, Chief Actuary at **Broadstone**, in *The Dangers of Defaulting to Fast Track*, our second guest article this month.

The life settlement secondary market saw reduced activity in 2024 for the first time in four years. *Greg Winterton* caught up with **Perry Koons**, Director of Capital Markets at life settlement provider **Maple Life Financial**, to get his thoughts on the state of the market as we enter the second half of the year in this month's *Q&A*.

At the end of June, the Continuous Mortality Investigation in the UK, which produces mortality data and analysis, issued its latest update, CMI_2024, which showed an increase in cohort life expectancies at age 65 in England and Wales. *Greg Winterton* spoke to **Stuart McDonald**, Partner at **Lane Clark & Peacock**, to get his thoughts in *Nuanced Impact of CMI Model Change on Pension Risk Transfer Market.*

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

Significant Growth Potential in Equity Release/Reverse Mortgage Market but Change is Required to Get There

Author:
Greg Winterton
Contributing Editor
Life Risk News

The global equity release/reverse mortgage market could be worth $56bn by 2035, according to a new report from EY and industry body the European Pensions and Property Asset Release Group. The Global Equity Release Survey Report, now in its third edition, analyses data received from market leaders across 13 countries internationally across Europe, North America and Australia with established or developing equity release markets and explores their growth potential.

Good news may be on the horizon. The US market is waiting for news on when the needle-moving HMBS 2.0 program comes into force; the initiative's main benefit is the increase of Ginnie Mae's required buyout percentage to 150% from the current 98%, reducing liquidity concerns. The new program if implemented will provide a tailwind for the primary market as well, and if the stars align in the next decade, the forecast in the report does not sound so wild.

And some insurers in the UK and US - the two largest equity release/reverse mortgage markets - have plenty of money to put to work thanks to ever-increasing premium receipts from the booming bulk purchase annuity market.

> **"HMBS 2.0 benefits the primary market because it would give HMBS issuers more assurance they have efficient and reliable financing at the end of the life cycle of each HECM loan. All else equal, this should enable a stronger bid in the primary market"**
> **- Joe Kelly, New View Advisors**

Whether the predictions in the report come true depends on a variety of factors. The US is predicted to grow to $14.2bn from the current $5.5bn, an almost threefold increase. But structural roadblocks currently exist; a common complaint among market participants being that the mortgage insurance premium paid at closing is prohibitive and therefore dampens demand, for example.

That does not mean that the forecast is unachievable, however.

"To achieve strong growth in the US market the reverse mortgage industry needs three things: first, the FHA must lower the initial Mortgage Insurance Premium for the US government insured HECM, which can cost over $24,000. The government guaranteed program will not grow without this change. Next, there needs to be continued product innovation in the non-agency/proprietary market. New production in this market probably exceeds the agency/HECM market in dollar volume, if not units and with each new securitization, the non-agency market is gaining new investors and improving liquidity. Lastly, macroeconomic conditions must continue to cooperate; a significant rise in interest rates or decrease in home prices would derail the industry's progress," said Joe Kelly, Partner at New View Advisors.

Interest rates are indeed something of a sword of Damocles hanging over this whole market; more specifically, the 10-year US treasury rate. Michael McCully, Partner at New View Advisors, told Life Risk News last October that, "Agency volume is highly correlated to the 10-year CMT [Constant Maturity Treasury] index because that is what is used to calculate the Expected Rate – the interest rate used to determine borrower proceeds."

Since rates began rising in 2022, the US has seen reverse mortgage volumes plummet as higher costs put homeowners off from entertaining this option. Indeed, the US Department of Housing and Urban Development's (HUD) financial year runs from 1st October to 30th September, and it publishes a list of Home Equity Conversion Mortgage (HECM) endorsements on its website; the data for fiscal year 2023-24 makes for rough reading, with only 26,521 endorsements, the lowest observed since 2003, according to data on industry group the National Reverse Mortgage Lenders Association's website.

And despite the reductions in the US Federal Funds Rate in September, November and December last year, the 10-year CMT has remained fairly flat, which has not helped the market stateside. Which means that origination is not looking much better this year, either; at the end of May, just 19,290 HECM's had been endorsed in the US, with only four months of the calendar year to go.

Good news is on the horizon, however. The US market is waiting for news on when the needle-moving HMBS 2.0 program comes into force; the initiative's main benefit is the increase of the maximum claim amount to 150% from the current 98%, which means that more of the loan will be FHA-guaranteed, reducing risk concern, and therefore investors get access to more of the full cash flow from each reverse mortgage. The program provides a tailwind for the primary market as well and if the stars align in the next decade, the forecast in the report does not sound so wild.

"HMBS 2.0 benefits the primary market because it would give HMBS issuers more assurance they have efficient and reliable financing at the end of the life cycle of each HECM loan. All else equal, this should enable a stronger bid in the primary market," said Kelly.

"A tripling in the size of the US market is very possible with the changes I mentioned previously, and also because the increase would be from a very small base of approximately 50,000 loans per annum in the entire USA," he added.

Things seem to be on the up and up in the UK, however. Industry group the Equity Release Council published data in April suggesting that total lending in the UK was up 32% on an annual basis in Q1 to £665m, the fourth successive quarter of growth in that market.

That is not all. Issuance volume set to grow amid rising prepayment risk, a recent report from Moody's Ratings from early June, suggested that the UK's new Solvency regime, which now permits "highly predictable" rather than the fixed cash flows that its predecessor Solvency II required, might mean that "the level of structuring required to make equity release mortgages satisfy matching adjustment eligibility criteria may decline, increasing the capital efficiency of equity release mortgage investments."

"Spain and Italy may currently be smaller markets, but they already have the regulatory infrastructure and the potential participating firms in place... However, the main thing lacking from these markets is funding"
- Ben Grainger, EY

Whilst the report raises concerns about the potential for heightened pre-payment risk – a perennial concern for mortgage-backed securities investors – any increase in ERM securitisations could provide a benefit to the UK market as capital can be freed up to deploy into originating more ERMs.

Other countries are also set to contribute significantly to the expected growth of the global ERM market. Canada and Australia both have small, but established markets already, and rank third and fourth respectively in the current league table in terms of size in US dollars; both markets also see securitisation activity, which restarted in Australia in the summer of 2024.

But Spain and Italy are set to go stratospheric. Current volumes are only $0.3bn and $0.1bn, respectively, but these could reach $8.3bn and $5.7bn if the survey respondents are correct. Whether the lofty numbers in the report reflect a realistic level or not, everything is in place for these markets to take off – they just need the capital.

"Spain and Italy may currently be smaller markets, but they already have the regulatory infrastructure and the potential participating firms in place," said Ben Grainger, Partner at EY.

"However, the main thing lacking from these markets is funding."

If the headline prediction in the report – that the global equity release market will be worth $56bn by 2035 – comes true, that will mean that it will be three times what it is today. And, while every market will need to grow to contribute, the biggest short-term opportunity, in terms of percentage growth, is in the EU.

"The structural challenges facing ageing homeowners are similar in most western European countries; they are often asset rich yet cash poor. This means that there is a substantial amount of home equity that can be unlocked, however, activity is at very low levels at the moment," said Grainger.

"In many European countries, the challenge is that without an institutional equity release product, it's difficult to secure the funding, and without funding, it's difficult to invest in the marketing and product development. However, if the right funding is in place, there is significant potential for growth across the European equity release market."

Insurance Capacity Boost and Growth in Small Deals Mark Busy First Half in UK Pension Risk Transfer Market

Author:
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Life Risk News

The UK's bulk purchase annuity (BPA) market has been marked this year by the intensification of two developments that gained momentum in 2024: expansion in insurer capacity and further growth at the smaller end of the market.

After £47.8bn of deals were struck last year, some market participants have predicted an even greater aggregate size this year. It is too early to tell if expectations will become reality, partly because deals aren't always publicised and estimates are partially drawn from contacts within the industry, but in terms of activity, as opposed to deal size, it has been a robust first half.

"Of course, the number of deals completed and announced does not fully capture the level of ongoing activity in the market, but from our perspective [that] is a lot, much busier than this time last year, when activity was very much weighted towards H2," said Gemma Millington, Senior Director in WTW's pensions de-risking team.

> **"The number of deals completed and announced does not fully capture the level of ongoing activity in the market, but from our perspective [that] is a lot, much busier than this time last year, when activity was very much weighted towards H2"**
> **- Gemma Millington, WTW**

The market has been given a new dynamic by the entry of Blumont Annuity in March, making it the third new insurer to enter a market which is seeing growing demand from scheme trustees for BPAs in the past 12 months. There are now 11 companies competing for the potential business of about 5,000 defined benefit pensions schemes holding assets of around £1.2tn, according to the Pension Protection Fund's Purple Book.

"I've spoken to some of the new entrants, and they've been really positive," said Dean Wetton, Founder and Managing Director of Dean Wetton Advisory.

"It's clear that they are new to the space, but I've not seen any fundamental problems."

Blumont entered the market shortly after Utmost, which itself followed Royal London (which entered the market in September last year)

Millington said that all the new entrants have completed their first deal and that the market was already benefiting from the increased capacity they bring.

"New entrants can offer schemes attractive pricing opportunities and personalised attention by virtue of not having the volume of schemes that more established participants might have," she said.

Earlier this year, speakers at the Life ILS Conference 2025 in London forecast that the growth of insurer capacity would put downward pressure on pricing.

LCP data lends weight to that prediction, indicating that full buy-in prices – when expressed as the added return on a buy-in relative to holding UK sovereign bonds – were almost 0.3% in April, the last full month for which the company has data. That's the highest level recorded outside of a period of crisis and compares with a 0.2% discount to gilts in early 2024, LCP's report said.

While the blockbuster £5bn-plus deals that marked 2024 have yet to be reported in 2025, a number of larger transactions stand out.

In January, Sanofi Pension Scheme completed a £1.4bn buy-in with Legal & General covering 4,900 pensioners and 5,600 deferred lives. Meanwhile, Baker Hughes completed three buy-ins totalling £900m, covering benefits for around 3,000 pensioners and almost 4,000 deferred members.

While sub-£100m deals accounted for about 80% of the 293 transactions struck in 2024, Millington said that completions this year have been evenly spread across scheme sizes. Schemes below the £100m mark are getting good uptake thanks to an increase in capacity and the use of templated "off-the-shelf" contracts, she said.

"Whilst [it] may incur additional costs for the trustees to prepare template data and align with different insurers' processes, the additional competitive tension that having more insurers involved in a process brings will likely more than offset these costs in terms of premium reduction achieved," she said.

Wetton has noticed a bias towards smaller schemes.

"It appears that the smaller insurers –

particularly the newer ones – don't really want to [bid for bigger schemes initially] because their entire book would then be one client; they want to diversify their exposure," he said.

Blumont's arrival marked the continuation of American private capital involvement in the UK insurance market, with a very recent news item - the acquisition of Pension Insurance Corporation Group (PIC) by Apollo-backed Athora, a large savings and retirement group that has operated across Europe for many years – providing a continuation of that trend.

The deal, valued at £5.7bn, makes PIC the largest subsidiary within the Athora Group, bringing about £50bn in assets and almost 400,000 policyholders.

> **"There's a flood of money coming in and insurers are much more open to smaller deals, but it is also true that they've got limited capacity in terms of the number of deals they can do"**
> **- Dean Wetton, Dean Wetton Advisory**

Unsurprisingly, the speed of growth in the UK market has attracted the attention of regulators and in April, Gareth Truran, Executive Director of Insurance Supervision at the Bank of England, signaled that the Prudential Regulation Authority (PRA) was continuing to take a serious look at risks within different parts of the BPA market.

Truran's remarks followed a "Dear CEO" letter issued last year warning bulk annuity providers to limit their exposures to risks. Life Insurance Stress Tests, currently underway, will be closely watched for any measures that could limit the growth of the PRT market.

Also on participants' minds will be the fate of government proposals to unlock surpluses from schemes, a move that could see more sponsors run on their schemes.

Wetton suggested a factor that might be a headwind to further growth would be a shortage of manpower among insurers, a common observation among market participants.

"There's a flood of money coming in and insurers are much more open to smaller deals, but it is also true that they've got limited capacity in terms of the number of deals they can do," he said.

Some of the consulting firms in the market publish half year data, as well as their full year reports, that attempt to put a definite number on the aggregate market size, but these reports are typically published with a lag, so it could be some weeks until the market gets an indicator into the extent to which 2025 is pacing versus last year.

Still, when the book closes on 2025, Millington says that it could be another year of record, or close to record, activity.

"Overall, our expectations are that similar volumes of business will be achieved in 2025 relative to 2024."

Life Settlement Population Outlook Suggests Underwriting Frameworks Will Need to Continue to Adjust

Author:
Greg Winterton
Contributing Editor
Life Risk News

According to a recent article in InsuranceNewsNet, The Life Mortality Improvement Subgroup of the Society of Actuaries' (SoA) Mortality and Longevity Oversight Advisory Council (MLOAC) is seeking to switch from general population data to insured population data as an input into its mortality modelling effort.

The reason cited in the article is because, despite the similarities in the data at age cohorts lower than 80, "insured population mortality improvement sharply drops" after that.

A change in approach by an actuarial body is hardly new; as the understanding of mortality evolves, as must the models. Indeed, the UK's Continuous Mortality Investigation made the most significant changes to its model in many years just this year, the result of a lengthy feedback process among participants. Pension schemes and insurers in Britain all use the CMI model as a fundamental input into their own approaches.

But, if the SoA does make the change, how much of an impact will this have on life expectancy (LE) forecasts in the life settlement market?

Little, because of the approach that some in the space already take.

> **"Many life settlement LE providers already rely heavily on their own proprietary, insured-population tables tailored to the life settlement cohort. They are not likely to change underwriting practices because of any changes to the general population mortality tables"**
> **- Liam Bodemeaid, Actuarial Risk Management**

"Many life settlement LE providers already rely heavily on their own proprietary, insured-population tables tailored to the life settlement cohort. They are not likely to change underwriting practices because of any changes to the general population mortality tables," said Liam Bodemeaid, Actuarial Consultant at Actuarial Risk Management (ARM).

The life settlement cohort is, in the grand scheme of insured populations, small. In 2023, 3,181 transactions closed the secondary market, compared with 9.5 million new life insurance policies issues in the USA in the same year.

That is not comparing apples to apples, as the latter includes all age cohorts. But still, it illustrates the small size of the life settlement market when compared to the overall space. Additionally, mortality nuances permeate the life settlement group which are a root cause of the aforementioned tailored approach that some life expectancy providers take – with a notable trend emerging.

"There are important distinctions between the general and life settlement populations. Life settlement insureds tend to come from higher socio-economic groups, they are typically wealthier, more educated, and have greater access to quality healthcare," said Bodemeaid.

"And the longevity gap between high and low-income groups has only widened in recent years, with evidence suggesting improved mortality outcomes among life settlement cohorts."

The nature of underwriting insureds in the life settlement market – in the sense that life expectancy predictions are very specific to the individual – also means that comorbidities have a significant impact on any given insured's projection. According to Bodemeaid, this reinforces a reason why a LE provider in the market is likely to be influenced less by a change in a broader dataset.

"In life settlements, mortality must be assessed on an impairment-specific basis. Medical advancements progress unevenly; some impairments see breakthrough treatments sooner than others. So, applying blanket adjustments risks introducing distortions into underwriting," he said.

There is another reason why life expectancy data for the life settlement cohort differs from the general population. In primary life insurance, selection occurs after policy issuance when insureds need to prove they are of an acceptable health at underwriting. This means that mortality is lower for an insured who recently took out a policy compared to someone else of the same gender, age and smoking status who took out their policy several years beforehand, generally. Not so in life settlements.

"The inverse is true in life settlements, in that insureds generally need to prove impairment to receive their settlement amounts. Therefore, the structure of the mortality tables between these two population subsets needs to be inherently different and is another reason why LE underwriters use bespoke life settlement mortality tables to underwrite on the secondary and tertiary markets," said Bodemeaid.

> **"The life settlement population, by virtue of wealth and education, has more access to cutting-edge diagnostics, and generally follows more proactive and preventive health regimes. And as sequencing costs drop and datasets grow, therapies tailored to an individual's genetic profile will become increasingly common and high-net-worth individuals are more likely to benefit early from this next wave of healthcare personalisation"**
> **- Liam Bodemeaid, Actuarial Risk Management**

But despite the comparatively smaller cohort of insureds that the life settlement market deals with, one interesting thought experiment could be in whether pension plan sponsors and life insurers could use the data that the life settlement market has to tweak their mortality modelling even further.

That is because the life settlement market is regularly underwriting American Seniors, whereas the life insurance industry is not. And not every policy that comes to market is purchased by an investor or warehouser, so LE underwriters have much more data than the 3,000 or so policies that are sold on the secondary market each year – especially since these insureds are re-underwritten as and when their policies transact in the tertiary life settlement market.

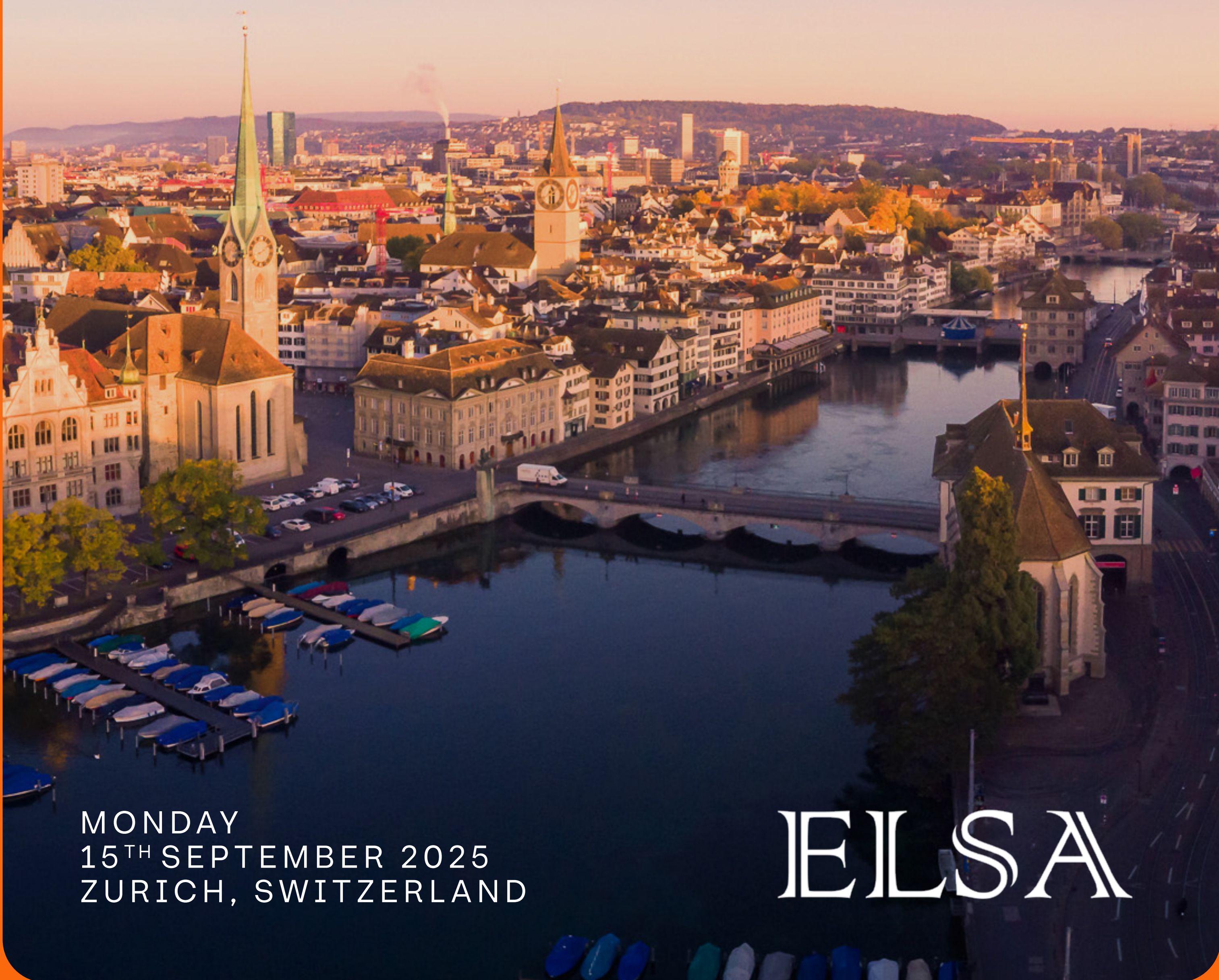
Still, if there was to be a 'mortality table' for the life settlement market specifically, it could well show additional gains over the coming years thanks to a list of emerging trends.

AI-driven medical innovation - the acceleration of drug discovery, diagnosis, and personalised treatment pathways – is just one. The targeting of the biology of ageing and the increasing take-up of weight loss and metabolic drugs are two others.

"The life settlement population, by virtue of wealth and education, has more access to cutting-edge diagnostics, and generally follows more proactive and preventive health regimes. And as sequencing costs drop and datasets grow, therapies tailored to an individual's genetic profile will become increasingly common and high-net-worth individuals are more likely to benefit early from this next wave of healthcare personalisation," said Bodemeaid.

"While these developments may not change actuarial assumptions overnight, they reinforce the need for underwriting frameworks to evolve with the times. They also present a long-term risk to mortality assumptions, particularly in life settlement portfolios with an older, affluent, and health-engaged insured base."

Secondary Life Markets Conference 2025



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ELSA

Mental Health Illness and Its Impact on Life Expectancy in the USA

Author:
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CG Analysts

"Mental illness, particularly when left untreated, can have profound consequences not just on quality of life, but on how long a person might be expected to live and should therefore be factored in when calculating an insured's predicted life expectancy in the life settlement market"

A mental disorder is characterized by a clinically significant disturbance in an individual's cognition, emotional regulation, or behaviour. It is usually associated with distress or impairment in important areas of functioning. There are many different types of mental disorders, which may also be referred to as mental health disorders.

Mental health disorders have become one of the most significant public health challenges, both in the US and the rest of the world. While much of the conversation about health outcomes often focuses on physical conditions such as heart disease, diabetes, and cancer, the impact of mental health on overall life expectancy has emerged as a crucial area of study. Mental illness, particularly when left untreated, can have profound consequences not just on quality of life, but on how long a person might be expected to live and should therefore be factored in when calculating an insured's predicted life expectancy in the life settlement market.

The growing burden of mental health illness in the US

Mental health issues affect millions of Americans each year. According to the National Institute of Mental Health (NIMH), it is estimated that more than one in five adults in the US lives with a mental illness. This amounted to 59.3 million in 2022, or 23.1% of the US adult population. One in 25 adults live with a serious mental illness that significantly disrupts their daily lives.[1]

Mental illnesses include many different conditions that vary in degree of severity, ranging from mild to moderate to severe. Two broad categories can be used to describe these conditions:

- Any Mental Illness (AMI). Defined as a mental, behavioural, or emotional disorder and encompassing all recognised mental illnesses. AMI can vary in impact, ranging from no impairment to mild, moderate, and even severe impairment (individuals with serious mental illness as defined below).
- Serious Mental Illness (SMI). A smaller and more severe subset of AMI. Defined as a mental, behavioural, or emotional disorder resulting in serious functional impairment, which substantially interferes with or limits one or more major life activities. The burden of mental illnesses is particularly concentrated among those who experience disability due to SMI.

Cause of mental health disorders

There is not simply one cause, and often it is a complex mix of factors. These can include genetics and aspects of social learning, such as how someone grew up. Mental health can also be impacted by how the brain works and the interplay with environment. Someone's social group, culture and life experience can also play a part in the development of a mental illness. Some examples of these factors are noted below:

- Genetic factors. Having a close family member with a mental illness can increase the chances that someone might develop a mental illness. However, just because one family member has a mental illness does not mean that others will.
- Drug and alcohol abuse. Illicit drug use can trigger a manic episode (often associated with bipolar disorder) or an episode of psychosis. Drugs such as cocaine, marijuana and amphetamines can cause paranoia.

- Other biological factors. Some medical conditions or hormonal changes can cause mental health problems.
- Early life environment. Negative childhood experiences can increase the risk of some mental illnesses. Examples of negative childhood experiences are abuse or neglect.
- Trauma and stress. In adulthood, traumatic life events or ongoing stress can increase the risk of mental illness. Issues such as social isolation, domestic violence, relationship breakdown and financial or work problems can all have an impact on mental health. Traumatic experiences such as experiencing or witnessing a serious accident can increase the risk of post-traumatic stress disorder (PTSD).
- Personality factors. Some traits such as perfectionism or low self-esteem can increase the risk of depression or anxiety.

Common mental health disorders

Mental illnesses range from generalised anxiety disorder, depression, and stress-related disorders to more severe conditions such as schizophrenia, bipolar disorder and post-traumatic stress disorder (PTSD). There are far too many specific conditions to cover in this article, however some of the more common disorders are briefly described below:

- Anxiety disorders. Anxiety disorders are characterised by excessive fear and worry and related behavioural disturbances. Symptoms are severe enough to result in significant distress or significant impairment in functioning. There are several different kinds of anxiety disorders, such as generalised anxiety disorder (GAD), panic disorder, social anxiety and separational anxiety.
- Depression. Depression is different from usual mood fluctuations and short-lived emotional responses to challenges in everyday life. During a depressive episode, the person experiences depressed mood (feeling sad, irritable, empty) or a loss of pleasure or interest in activities, for most of the day, nearly every day, for at least two weeks. Several other symptoms are also present, which may include poor concentration, feelings of excessive guilt or low self-worth, hopelessness about the future, thoughts about dying or suicide, disrupted sleep, changes in appetite or weight, and feeling especially tired or low in energy.

"Depression is different from usual mood fluctuations and short-lived emotional responses to challenges in everyday life. During a depressive episode, the person experiences depressed mood (feeling sad, irritable, empty) or a loss of pleasure or interest in activities, for most of the day, nearly every day, for at least two weeks"

- Bipolar disorder. People with bipolar disorder experience alternating depressive episodes with periods of manic symptoms. The symptoms of depression have already been mentioned above. Manic symptoms may include euphoria or irritability, increased activity or energy, and other symptoms such as increased talkativeness, racing thoughts, increased self-esteem, decreased need for sleep, distractibility, and impulsive reckless behaviour.
- Schizophrenia. Schizophrenia is characterised by significant impairments in perception and changes in behaviour. Symptoms may include persistent delusions, hallucinations, disorganised thinking, highly disorganised behaviour, or extreme agitation. People with schizophrenia may experience persistent difficulties with their cognitive functioning.
- Post-Traumatic Stress Disorder (PTSD)

The prevalence of PTSD and other mental disorders is high in conflict-affected settings. PTSD may develop following exposure to an extremely threatening or horrific event or series of events. It is characterised by any or all of the following:

1. re-experiencing the traumatic event or events in the present (intrusive memories, flashbacks, or nightmares);
2. avoidance of thoughts and memories of the event(s), or avoidance of activities, situations, or people reminiscent of the event(s); and

> "Research has shown that individuals with mental illnesses tend to have a shorter life expectancy than those without. Patients suffering from severe mental disorders, including schizophrenia, major depression and bipolar disorders, have a reduced life expectancy compared to the general population of up to 10–25 years"

3. persistent perceptions of heightened current threat. These symptoms persist for at least several weeks (often much longer) and cause significant impairment in functioning.[2]

Mental health and life expectancy: The unseen connection

Research has shown that individuals with mental illnesses tend to have a shorter life expectancy than those without. Patients suffering from severe mental disorders, including schizophrenia, major depression and bipolar disorders, have a reduced life expectancy compared to the general population of up to 10–25 years.[3] This disparity in life expectancy can be attributed to several factors, including the following:

- Higher Risk of Physical Health Conditions

Mental health disorders, especially chronic conditions like depression, are often linked to physical health issues. For example, depression has been shown to increase the risk of heart disease, stroke, and diabetes, all of which can lead to premature death. People with mental health disorders may also be less likely to seek medical care or follow through with treatment for physical conditions, contributing to worse outcomes.

- Unhealthy Behaviours

Individuals with mental illness are more likely to engage in unhealthy behaviours such as smoking, poor diet, lack of exercise, and substance abuse. These behaviours, often exacerbated by the emotional strain of living with a mental health condition, can significantly shorten life expectancy. The prevalence of smoking, for example, is notably higher among people with mental health disorders, and smoking-related illnesses are a leading cause of preventable death in the US.

- Suicide

One of the most tragic impacts of mental illness is its connection to suicide. Mental health disorders, particularly depression, bipolar disorder, and schizophrenia, have high rates of suicide. An article published by the Harvard Gazette states that adults aged 75 and older have one of the highest suicide rates (20.3 per 100,000), according to the Centers for Disease Control and Prevention. CDC estimates have revealed declines in suicide rates in several age groups under 34 in recent years, whereas the rate in adults over 75 has increased.[4] The loss of life through suicide is a direct contributor to the reduction in life expectancy among people with mental illness.

- Delayed Diagnosis and Treatment

Although the attitude towards mental health appears to be improving, a stigma still exists. This stigma surrounding mental illness often leads to delays in diagnosis and treatment, meaning that mental health conditions are not addressed early when interventions are most effective. Chronic, untreated mental health conditions are far more difficult to manage and have greater long-term impacts on both mental and physical health. This delayed care can lead to greater physical health problems and a lower overall life expectancy.

The impact of mental health on specific demographics

The intersection of mental health and life expectancy is not uniform across all populations. Several factors, including gender, age, race, socioeconomic status, and access to healthcare, can influence the severity of the impact.

- Youth and Adolescents. Mental health issues during adolescence, such as depression and anxiety, can lead to significant challenges, both in terms of emotional development and physical health outcomes. Young people with untreated mental health conditions are at greater risk of engaging in risky behaviours, including substance abuse and suicidal tendencies.
- Gender. In 2022, the observed prevalence of serious mental illness in the US was higher among females (7.1%) than males (4.8%).[5]

- Socioeconomic Status. People living in poverty or facing economic instability are at higher risk of developing mental health issues due to stress, lack of access to healthcare, and living in environments with fewer resources. For these individuals, the consequences of untreated mental illness are particularly severe, affecting both their life expectancy and quality of life.

Conclusion

Mental Health Illness has a profound and lasting Impact on life expectancy.

People with mental health conditions often suffer from worse physical health, have more age-related diseases, and have a lower average life expectancy than people without a mental illness.

"Mental Health Illness has a profound and lasting Impact on life expectancy. People with mental health conditions often suffer from worse physical health, have more age-related diseases, and have a lower average life expectancy than people without a mental illness"

According to an article entitled *Molecular Ageing Clocks – Making the Links between Mental Illness and Shorter Lifespans* by Dr Julian Mutz and Professor Cathryn Lewis: "Research into the relationship between mental health and lifespan has shown that there are many different factors that contribute to this difference in life expectancy, for example higher rates of suicide and fatal accidents and higher smoking rates among individuals with mental health conditions".[6]

As is always the case, in order to make the most accurate underwriting assessment as possible, all risk factors need to be taken into account, for example the insured's lifestyle, social interaction, history of substance abuse, length of time since diagnosis, type of treatment, history of hospitalisation and any suicidal tendencies.

With a detailed medical report confirming the diagnosis and severity of the condition, along with as much information as possible regarding the associated risk factors, a more accurate life expectancy estimation should be possible.

Fergus Bescoby is Head of Medical Underwriting at **CG Analysts**

Footnotes:

1 https://www.nimh.nih.gov/health/statistics/mental-illness

2 https://www.who.int/news-room/fact-sheets/detail/mental-disorders

3 https://annals-general-psychiatry.biomedcentral.com/articles/10.1186/s12991-021-00374-y

4 https://news.harvard.edu/gazette/story/2025/02/older-adults-at-highest-risk-for-suicide-yet-have-fewest-resources/

5 https://www.nimh.nih.gov/health/statistics/mental-illness

6 https://www.kcl.ac.uk/molecular-ageing-clocks-making-the-links-between-mental-illness-and-shorter-lifespans

The Dangers of Defaulting to Fast Track

Author:
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Chief Actuary
Broadstone

> **"The temptation to reach blindly for the 'quick and easy' option is high, particularly for smaller schemes. This could result in requests for contributions from sponsors that are not strictly required, and lower returning investment strategies being implemented"**

Fast track... sounds appealing, doesn't it? What trustee board, overloaded with governance documents and new valuation requirements, wouldn't be attracted to an option that promises to save time and reduces enquiries about their work? But a name can be deceptive, and hundreds of DB arrangements could be about to sleepwalk into adding a material and unnecessary financial burden on their sponsoring employers.

For the majority of schemes, given the positive funding news in recent years, it will probably be perfectly sensible to head straight for fast track. They are well funded and in a low-risk investment strategy already, or so close as to make minimal difference, so they meet the criteria without even trying. For them it's a simple case of ticking the relevant boxes and away you go.

At the other end of the scale, some know that they won't have the option to consider fast track. Their recovery plan is too long to qualify, or they are reliant on (or committed to) a higher risk investment strategy.

For a significant number of schemes in between, the position is rather more complicated. Nevertheless, the temptation to reach blindly for the 'quick and easy' option is high, particularly for smaller schemes. This could result in requests for contributions from sponsors that are not strictly required, and lower returning investment strategies being implemented.

This, in turn, has the potential consequence of slowing the path to buyout, leading to additional running costs or potentially even preventing discretionary benefits being awarded to members.

Let's look at this another way. Suppose instead of 'bespoke' and 'fast track' these were described as the Regulator's 'basic' or 'premium' approval service. Essentially the Regulator is saying that if you're willing to pay a bit more money into your scheme and take a less risky approach then they will ask you fewer questions and expedite your valuation signoff. Fair enough, but the different labelling would, I suspect, mean many more schemes would default their discussions to the 'basic' service. Crucially, they would also ask how much it costs to upgrade to the 'premium' service before rushing towards that option.

Let's just take one simple example based on a recent case. The trustees were historically funding on a 'gilts + 1%' approach, with a diversified investment portfolio hedging all of their key investment risks. Their funding had improved so they would have a small surplus on their old valuation basis but the temptation was strong – let's just go fast track so that it's all a bit easier.

So, the numbers were run accordingly, including the required expense reserve. Amend the discount rate tweak a few other areas for fast track compliance and suddenly their liabilities were 4% higher. Just like that, the surplus had been eliminated and a request was going to the sponsor for additional money. I suspect you can picture the scene in the boardroom:

Chair of Trustees – "We need more money into the scheme."

Finance Director (Employer) – "What? Why? I thought the scheme was in surplus?"

In this instance, the diplomatic, if not entirely correct, response given is: "The Regulator's new funding regime required us to add more prudence," eliciting the inevitable grumble from the other side of the table. But what if the Trustee had said, "We just decided to opt for the Regulator's premium service so that we could make the reporting a bit easier. We didn't think you'd mind, and it means the Scheme will be even more secure"? I suspect the Employer's response in that scenario, after battling through years of deficit contributions, may have been rather more challenging!

There is of course a balance to be struck. No one can deny that there will be advisory costs associated with the additional reporting for bespoke submissions. But how many tens (or even hundreds) of thousands of pounds is it worth sponsors paying to avoid that?

And do you really expect a lot of engagement once you've submitted the new Statement of Strategy summary document to the Regulator if you can describe a reasonable approach? I suspect that some lay trustees may quake in fear at the thought of being summoned into the presence of TPR, the almighty Wizard(s) of Brighton. However, those who have seen behind the curtain and understand the Regulator is juggling piles of casework, often with much larger schemes needing its attention, may be somewhat more relaxed. As long as they have been through a reasonable process, of course. After all, they probably already know they'll have a stronger, and more supportive, employer to work through it with them.

And remember, much of the 'extra work' that you will be reporting on for bespoke cases is still expected to be part of the trustees' process (proportionate assessment of the employer covenant etc.). It's just that it isn't disclosed in the fast track scenario. Sure, there will be some trustees who decide to take short cuts (if no one's marking the homework then will you really do it to the same standard?) but this should be actively decided on as part of the process. Otherwise, they face exposure if, heaven forbid, something major does go wrong or if the Regulator just happens to do one of its spot checks.

So, if you are one of those schemes who genuinely have a decision to make on which route to go down with your first valuation under the new regime, I challenge you to pause. If these were called 'basic' and 'premium' services rather than 'bespoke' and 'fast track' would you be quite so quick to blindly jump on the 'fast track' bandwagon?

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David Hamilton is Chief Actuary at **Broadstone**

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Q&A

Perry Koons
Director of Capital Markets, Maple Life Financial

Author:
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Life Risk News

The life settlement secondary market saw reduced activity in 2024 for the first time in four years. Greg Winterton caught up with Perry Koons, Director of Capital Markets at life settlement provider Maple Life Financial, to get his thoughts on the state of the market as we enter the second half of the year.

GW: Perry, let's start with a look back on 2024. The downturn in activity has been quite notable, but that is an aggregate view. What was the situation in the broker channel specifically last year?

PK: Thanks Greg. I would generally agree that the aggregate downturn the market faced last year was mirrored in the policy flow from the broker channel as well, but with a few caveats. We saw a very specific drop off in policy submissions a few months into 2024, which levelled off quickly once market pricing levels and yield requirements were reestablished. As interest rate increases resulted in less available capital in 2024, the broker channel was able to respond and avoid taking marginal value or high expectation cases to market – cases which likely would have sold in 2023 but were pricing much less attractively in 2024.

GW: When we spoke a couple of years ago, you mentioned that there was a trend towards concentration and maybe consolidation. Has that trend continued, and if so, will it continue still, and what might the impact be of this on the market overall?

PK: Yes, I think the market is still trending in that direction overall, but at a slower pace than expected. We have not seen the consolidation aspect come into play yet, more of a gentle stagnation last year when it was a down year for the market. Publicly available market data indicated the exact same number of life settlement providers reporting transactions in 2023 and 2024, just lower volume for the vast majority of them. Additionally, we did not see any notable change in the number of brokers we completed transactions with on a year over year basis. Based on this, I believe we may still be a year or two away from any significant changes, but I still believe we are heading in that direction.

GW: What are some of the notable trends you are seeing in terms of the features of the paper in the secondary market? Anything interesting in terms of face value, age of the insured, or carriers for example?

PK: Recent statistics show exactly what I would have anecdotally expected – a market that looks similar to prior years in terms of aggregate numbers, but policies with high success rates are skewing towards slightly smaller face and younger insureds than in past years. The average policy submission we have seen in 2025 averages around $1.8m, and the average insured age is 75, which sounds pretty typical. However, the average closed face amount is closer to $1.5m and we are seeing a greater number of submissions and offers on insureds below age 60 than ever before. I would also note that the average policy submitted is over 16 years from issuance, and from carriers rated A- or better with very few exceptions. So, we are dealing with very seasoned policies, more so than I've seen at any other point in my 20 years in the market.

Continued on next page...

GW: Many parties on both the broker and provider side mention the value of speeding up the process of completing a secondary market transaction. Shorter processes including reduced document packages and usage of electronic documents have been discussed as methods to achieve this goal. Have you noticed any improvements in this area?

PK: Yes, absolutely. A big part of our refocus at Maple in 2024 was along those exact lines. We refiled the vast majority of our state filed contract documents to allow for shorter document packages and fewer notary requirements, which benefits the end consumers as well as the brokers who serve them. We've also collaborated with our fund clients to be much more nimble with e-copies of documents and solving challenges with document requests from difficult insurance carriers – those delays are sometimes inevitable and understandable on 20+ year old policies but often requiring a creative solution that we can provide from our history of purchasing and diligencing thousands of policies (rather than simply playing the waiting game). I think the industry as a whole mirrors the commitment to closing more expeditiously than past years to give first time advisors and policy sellers a good experience.

GW: Lastly, Perry, what is the outlook for the remainder of the year in terms of secondary market activity in the broker channel?

PK: I am seeing a positive trend in market activity using a number of indicators. Case submission volume and total face amount submitted is up in the first six months of 2025 as compared to the six months prior. And in regard to the previous question where we discussed case trends, we are seeing the wider "buy box" driving more unique case studies and giving the broker channel additional sales strategies to pursue. In the past few months, we've purchased insureds in their 40s, insureds with life expectancies over 200 months, policies with face amounts below $100k, and policies over $10m – many of which received multiple offers from Maple as well as competing providers. I mention this as I still believe a healthy market is sustained by sellers having access to quality representation from the broker channel, as well as institutional capital sources having access to quality representation from the provider channel. We are optimistic this trend will continue and that policy flow will continue to increase back to levels from two-to-three years ago.

Perry Koons is Director of Capital Markets at **Maple Life Financial**

Nuanced Impact of CMI Model Change on Pension Risk Transfer Market

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Life insurers in the UK have taken on pension liabilities worth hundreds of billions of pounds across hundreds of thousands of lives in the past decade or so, and therefore, any increase in life expectancy (i.e., a decrease in mortality rates) would, other things being equal, increase the aggregate payouts over time.

At the end of June, the Continuous Mortality Investigation (CMI) in the UK, which produces mortality data and analysis, issued its latest update, CMI_2024, which indeed showed an increase in cohort life expectancies at age 65 in England and Wales; men gained approximately three months (1.3%), and women, two weeks (0.1%).

While there are sub-trends within the new data, life insurers tend to see the CMI data as a useful benchmark, as opposed to a bible.

> **“The headline change in life expectancy between CMI_2023 and CMI_2024 is an increase of three months for males and two weeks for females at age 65. All else being equal, an insurer using the core CMI model could see an increase in liabilities of around 1% moving from CMI_2023 to CMI_2024, albeit this would vary depending on the maturity of their liabilities”**
> **- Stuart McDonald, Lane Clark & Peacock**

“The headline change in life expectancy between CMI_2023 and CMI_2024 is an increase of three months for males and two weeks for females at age 65. All else being equal, an insurer using the core CMI model could see an increase in liabilities of around 1% moving from CMI_2023 to CMI_2024, albeit this would vary depending on the maturity of their liabilities,” said Stuart McDonald, Partner at Lane Clark & Peacock.

“Importantly though, many insurers and reinsurers form their view on life expectancy independently, and the majority of insurers and reinsurers who responded to the CMI_2024 consultation indicated that their own view on life expectancy was higher than proposed in the consultation. So, in practice there may be limited impact on insurer liabilities.”

Still, the CMI data is certainly a foundational pillar in the insurance and pensions actuarial world. It is deeply embedded in Solvency II valuation frameworks for insurers, funding valuations for pension schemes, pricing models for annuities and protection products, and stress/scenario testing, for example.

This latest iteration is considered to be the result of the most significant changes to the model – announced in a consultation request in February – in many years. Specifically, the structure of the CMI Model now allows for different mortality trends at young, middle, and old ages to better reflect recent experience, and includes an explicit mortality shock in 2020 – the height of the Covid-19 pandemic – with the impact reducing in each successive year. Previous iterations of the model disregarded data from 2020 and 2021 entirely.

The consultation received plenty of feedback from members to help shape how the latest edition looks.

“The CMI had good engagement with its consultation on the proposed changes, with 27 respondents including insurers, reinsurers and actuarial consultants advising pension schemes. Consequently, the model now better reflects recent real-world data such as the impact of the Covid-19 pandemic and differences in mortality trends seen between groups. For example, mortality has been improving more rapidly for pensioners than for people of working age,” said McDonald.

As McDonald states above, CMI_2024 provides good news for pensioners and less encouraging signs for those in the age cohorts below. But the life insurer’s back book is weighted toward retirees – the last vestiges of the defined benefit pension industry, which began to decline in the late 1990s and early 2000s – of which the majority are men.

That means that, despite what seems, at just 1.3%, a small increase in life expectancy for males, the back book is more exposed to this cohort from a liability perspective.

Not quite.

“Life insurers hold significant capital buffers and risk margin against the risk of increases to life expectancies. The increase in life expectancy between CMI_2023 and CMI_2024 is very small relative to these buffers. The increase is also small relative to the falls in life expectancy seen over the last decade," said McDonald.

Still, an increase in liabilities, even an expected one, is an increase in liabilities. And it is not only the life insurers that use the CMI model as a baseline for their own – the pensions trustees do so as well.

In recent months, there has been talk in the pensions industry about the benefits to the corporate sponsor of running on, as opposed to winding up, the scheme via a bulk purchase annuity buy-out. Lower costs (in the short term), investment flexibility and the ability to generate a funding surplus – which could benefit members (via discretionary increases) or even be refunded to the sponsor – all have their own appeal to trustees.

> **"The impact of the update to the CMI model on PRT pricing is nuanced as it depends on the extent to which both the pension scheme and the insurer reflect the change in life expectancies. PRT pricing may now appear better value to pension schemes if the CMI model change has a larger impact on their view than it does on life insurer pricing, for example"**
> **- Stuart McDonald, Lane Clark & Peacock**

But the news that mortality rates are down, particularly in the older cohorts, might provide additional support for increased activity in the longevity swap market.

"Trustees and corporates have become accustomed to seeing successive CMI models reduce life expectancies. For the first time, the new model will lead to a significant increase in liabilities for many schemes if they choose to use the core model "out-of-the-box"," said McDonald.

"This increase in life expectancies may serve as a reminder that longevity, which is often the largest unhedged risk that schemes face, is not a one-way bet. This potentially increases the appeal of longevity hedging for schemes pursuing a run-on strategy."

The CMI Mortality Projections Model was introduced in 2009 to replace previous projections and has been updated on a broadly annual basis since then. There was a pronounced steady fall in mortality until 2011, but falls were more modest from 2011 to 2019. The increase in mortality from 2019 to 2020 was exceptional, with mortality in 2020 returning to levels previously seen in 2008 before falling again between 2020 and 2024, returning to levels similar to the previous record low mortality observed in 2019.

So, record low mortality means, in a nutshell, that pricing for DB pensions looking at a buy-in or a buy-out will go back up, right?

It is not nearly that straightforward.

"The impact of the update to the CMI model on PRT pricing is nuanced as it depends on the extent to which both the pension scheme and the insurer reflect the change in life expectancies," said McDonald.

"PRT pricing may now appear better value to pension schemes if the CMI model change has a larger impact on their view than it does on life insurer pricing, for example."

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