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Worsening life expectancy drives Legal & General profit rise

Insurers need to set aside less cash for pension payments as century-long rise in UK life expectancy stalls due to bad diet, stress and austerity

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A slowdown in improvements in life expectancy in Britain has driven a sharp rise in annual profits at the insurance and pensions firm Legal & General.

Worsening life expectancy means insurers need to set aside less cash for pension payments and allowed L&G to release £332m of reserves last year it had previously held back to pay customers.

Operating profit at the firm, which manages pensions for 1.1 million people, jumped 32% to £2.1bn in 2017 after the release of the “mortality” reserves, beating City expectations.

“People aren’t dying quicker ... but [the figures] aren’t improving quite as quickly,” L&G’s chief financial officer Jeff Davies told reporters. “We are factoring in a slightly lower life expectancy.”

The century-long rise in UK life expectancy has stalled in recent years, with experts blaming a number of factors such as rising obesity, dementia, stress, a lack of exercise and alcohol intake, as well as the government’s austerity drive that has led to cuts in health and social spending.

“The rate of increase in life expectancy in the UK has slowed in recent years,” the Office for National Statistics said in September when it released its latest data for 2014-2016. It showed the average life expectancy for a child born in that period was 79.2 years for males and 82.9 years for females.

Improvements in life expectancy for men have more than halved from 13.6 weeks a year between 1980 to 1982 and 2009 to 2011, to six weeks a year between 2010 to 2012 and 2014 to 2016; for women improvements have slowed from 10 weeks to 3.6 weeks a year for the same periods.

But L&G’s chief executive Nigel Wilson has pointed out that rising mortality rates also mean it has to pay out on life insurance policies earlier.

In August, the company said it had changed its assumption for mortality rates but had not made any changes to the tables it uses - its longevity assumptions for the future. It has now moved to a different mortality table and continues to monitor the situation, a spokesman said.

On this basis, its male customers aged 65 are expected to live a further 23.5 years rather than 23.6 as before, while women are now assumed to live a further 24.6 years, rather than 24.8. L&G’s customers have a longer life expectancy than the UK population because they are wealthier than the average.

If L&G decides to shift again to a new table called CMI 2017, there would be a further, similar release of mortality reserves.

LIFE EXPECTANCIES ¹	CMI 2015	CMI 2014	Change
Male aged 65	23.5	23.6	(0.1)
Female aged 65	24.6	24.8	(0.2)

1. Illustrative figures based on Bulk Annuity population at 31.12.17

Longevity assumptions Photograph: Legal & General

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