

Buy-outs and buy-ins – Spring 2016

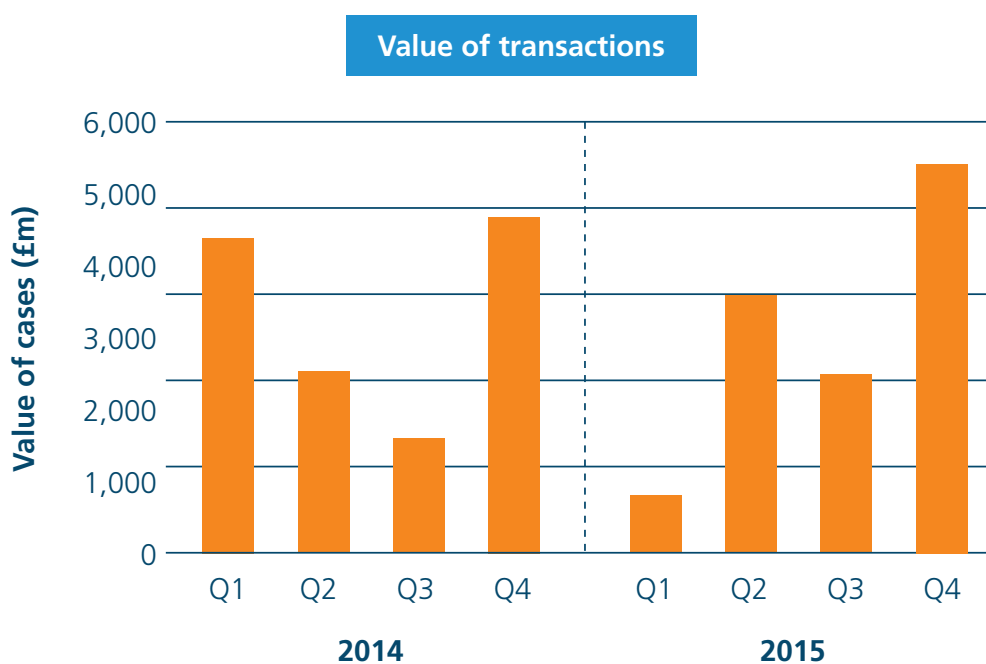
Quarter 4 of 2015 saw a very strong finish to the year for the UK bulk annuity market. Overall, the value of business in 2015 fell just short of the record set in 2014, but was considerably above previous years. Meanwhile, two insurers have merged while another insurer has decided not to join the market.



For more information about buy-outs and buy-ins, please visit our [website](#) >

Buy-outs and buy-ins: market statistics

Here are the latest business statistics for the UK bulk annuity market.



In the fourth quarter of 2015, 66 transactions totalling over £5.4 billion were completed by the bulk annuity insurers. In terms of the value of business written, this is a new record for a single quarter. The total business written in 2015 was nearly £12.3 billion, not far short of the £13.2 billion record set in 2014.

Pension Insurance Corporation comfortably completed the greatest value of business in Q4, with five transactions worth nearly £2.9 billion. This included the £2.4 billion buy-out with the Philips Pension Fund which was noted in our previous update. In second place during Q4 were Legal & General who completed 14 transactions with UK pension schemes worth £739 million.



Our recent blog on the Budget 2016: introducing the Lifetime ISA and Pensions Dashboard, can be found [here](#) >

A summary of the transactions completed by the insurers in Quarter 4 and for all of 2015 is below:

	Quarter 4 2015 transactions		Total transactions in 2015	
	Number of cases	Value of cases (£m)	Number of cases	Value of cases (£m)
Aviva	14	499	34	984
Canada Life	1	27	2	32
Just Retirement	18	598	36	956
Legal & General	14	739	52	1,977
Partnership	9	186	15	278
Pension Insurance Corporation	5	2,872	13	3,811
Prudential	2	21	6	1,508
Rothsay Life	2	63	4	2,338
Scottish Widows	1	400	1	400

Provider news

As a result of the new Solvency II capital requirements for insurers that came into force on 1 January 2016, Prudential announced that they expect to reduce the volume of new bulk annuity business they are looking to write.

Just Retirement and Partnership have now completed their merger. The new entity will be known as JRP Group and will continue to offer medically underwritten bulk annuities alongside other product lines.

Following considerable analysis, LV have decided not to join the bulk annuity market for the time being. Instead, they are focussing on other products but have commented that they may review their options in 2017.

Significant transactions

Legal & General have completed a £330 million buy-in with an unnamed scheme. They have also completed a £230 million medically underwritten buy-in with the Kingfisher Pension Scheme. This second transaction is the largest medically underwritten deal completed in the market so far, continuing to reinforce the growth of this area.

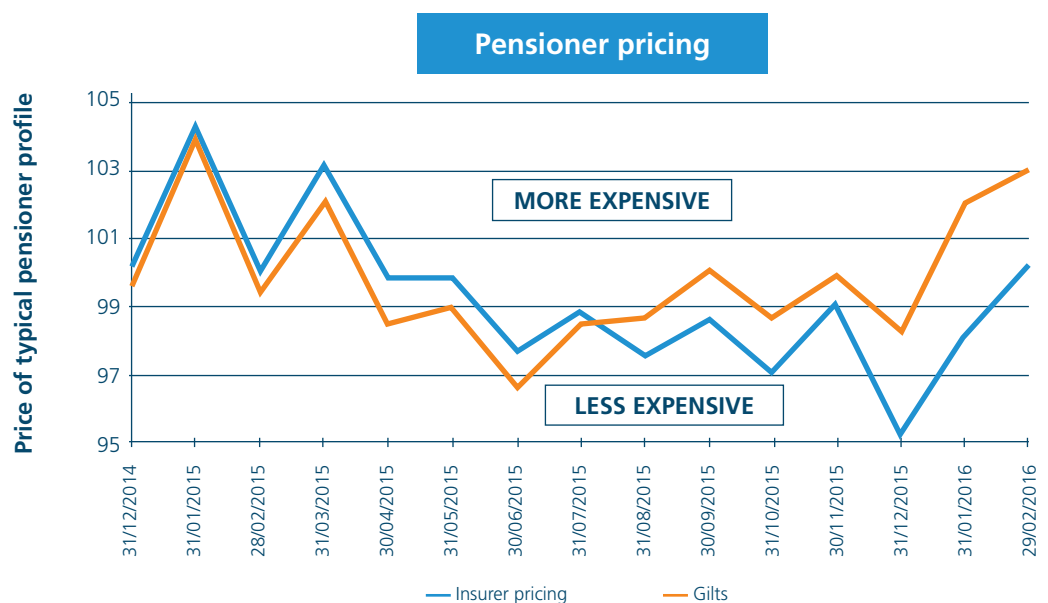
Legal & General have also completed their second transaction in America with a US scheme. This deal was worth approximately \$65 million.

Aviva have completed a £300 million buy-out transaction with the TKM Staff Pension Scheme. This deal insured the liabilities of nearly 5,000 members. Aviva also announced a £300 million pensioner buy-in with the Alcatel-Lucent Pension Scheme which was completed during the summer of 2015.

Pricing

Over the last few months, typical pensioner pricing has become very competitive for schemes that back their pensioner liabilities with gilt holdings. This is because pricing has been well below the value of annuity factors calculated using gilt yields. We expect this to be particularly true for larger schemes where competition between insurers is greater. This means that some schemes have been able to swap their gilt holdings for a pensioner buy-in policy (removing longevity risk) without worsening their scheme's funding position.

The chart below demonstrates pricing over the last few months. The indicative insurer pricing (blue line) remains below the equivalent "gilts-based" price (yellow line), indicating the current favourable level of pricing. However, please note that for small schemes, pricing may not be so favourable. We have been finding that insurers are very busy at the moment and smaller schemes are sometimes struggling to obtain a reasonable number of quotations. As a result, the competitive tension for these transactions has been reduced.



Source: Barnett Waddingham model using pricing information from a range of leading insurers. In practice, any pricing will depend on the specific characteristics of the scheme and can only be determined by obtaining actual quotations. The chart above does not reflect the improved pricing which may be achieved from medical underwriting.



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Our dynamic online analytical tool, Illuminate, can be used to monitor movements in insurer pricing and how this relates to your scheme's assets and liabilities. Feel free to contact us if you would like some more information.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact Gavin Markham, Chris Hawley or Mark Paxton via the following:

✉ bulkannuityteam@barnett-waddingham.co.uk

☎ 0207 776 2200

🖱 www.barnett-waddingham.co.uk



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