

Buy-outs and buy-ins – Winter 2015

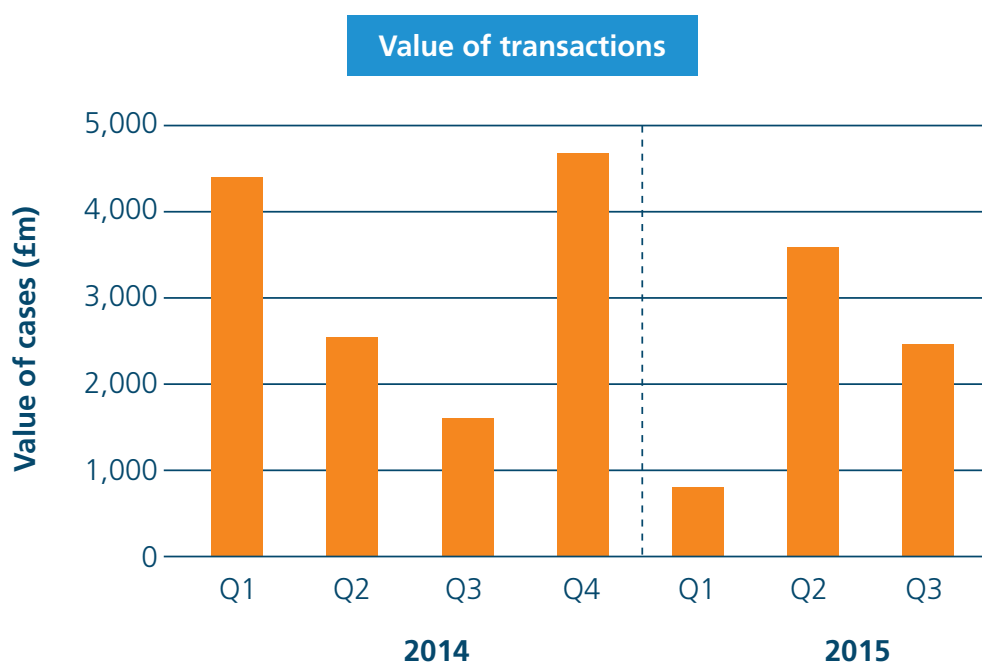
Quarter 3 of 2015 was another strong quarter for the UK bulk annuity insurers, and while 2015 may not surpass the record-breaking volumes of 2014, it is already the second highest year on record. Two new entrants to the market also completed their first transactions during the quarter.



For more information about buy-outs and buy-ins, please visit our [website](#) > Our annual bulk annuity report for 2015 can be found [here](#) >

Buy-outs and buy-ins: market statistics

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



In the third quarter of 2015, 32 transactions totalling nearly £2.5bn were completed by the bulk annuity insurers. Since the end of the quarter, some further significant deals have been completed and the total for the year will be over £10bn.

Rothesay Life comfortably completed the greatest value of business in Q3, with a single buy-in transaction with the Civil Aviation Authority Pension Scheme for £1.6bn. They were followed by Prudential with two transactions with a total value of £317m.



Our recent blog on the new entrants to the market can be found [here](#) >

A summary of the transactions completed by the insurers in Quarter 3 and for the first three quarters of the year is below:

	Quarter 3 2015 transactions		Transactions in first three quarters of 2015	
	Number of cases	Value of cases (£m)	Number of cases	Value of cases (£m)
Aviva	7	78	20	485
Canada Life	1	5	1	5
Just Retirement	6	104	18	358
Legal & General	11	92	38	1,238
Partnership	2	24	6	92
Pension Insurance Corporation	2	259	8	940
Prudential	2	317	4	1,487
Rothsay Life	1	1,600	2	2,275

Provider news

The new Solvency II capital requirements for insurers will come into force on 1 January 2016. The insurers have been finalising their capital models, and planning for their pricing and reserving approaches following the change. Even after approvals from the Prudential Regulation Authority, it is likely that the market will take some time into 2016 to adjust more fully to the new regime.

From a pricing perspective, the impact of Solvency II is expected to be immaterial for pensioners while for deferred members the impact is likely to be more significant – potentially of the order of 5% or so, with the impact varying between insurers.

Just Retirement and Partnership have announced a delay to their proposed merger which is now anticipated to be towards the end of January 2016 - the merged entity will be known as JRP Group. In the meantime, the two specialist insurers have been very active in the market as schemes look to take advantage of the very attractive pricing which has been available for medically-underwritten transactions for pensioners.

Significant transactions

Pension Insurance Corporation have completed a £2.4bn buy-out with the Philips Pension Fund which covered 26,000 members, following a sequence of previous transactions. The longevity risk of the members was reinsured with Hannover Re as part of the transaction.

The RAC (2003) Pension Scheme has finalised a longevity swap with Scor SE covering £600m of pensioner liabilities. This transaction was brokered directly with the reinsurance market via Aviva Life.

Scottish Widows have completed their first bulk annuity transaction following their entry into the market – a £400m buy-in with the Wiggins Teape Pension Scheme.

Canada Life have also concluded their first transaction since re-joining the market – a £5m pensioner buyout with the Oundle School Pension and Life Assurance Plan for Non-Teaching Staff.

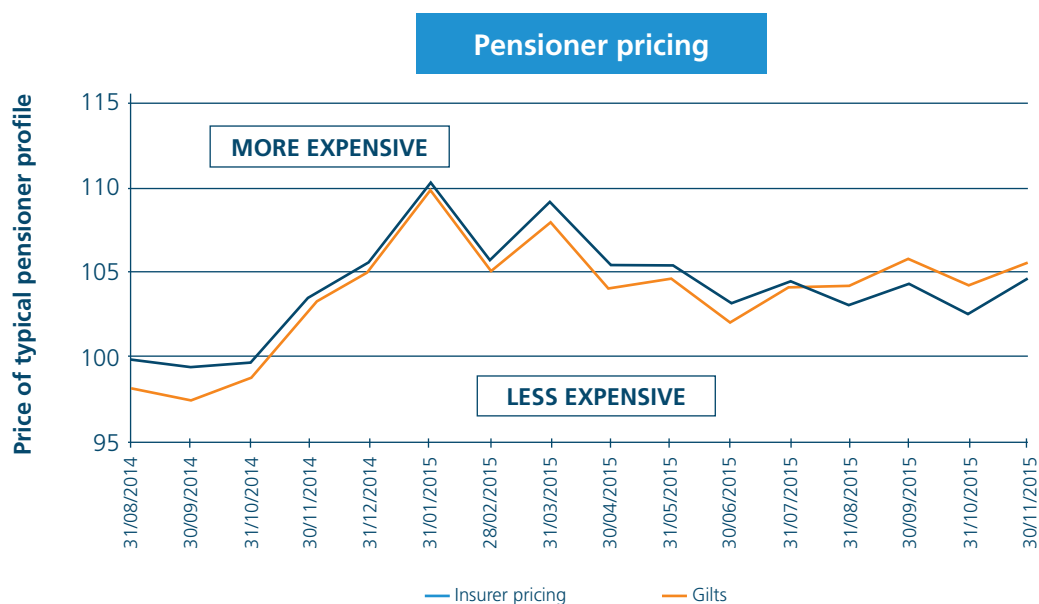
Further afield, Legal & General have agreed to take on €200m of pension obligations in a transaction with a Dutch insurer, ASR Nederland NV. The transaction was completed through Legal & General Re and is Legal & General's first pension risk transfer with a European entity.

Pricing

Over the last few months, typical pensioner pricing has been reasonably stable and continues to be priced attractively.

The chart below demonstrates this. It illustrates the movement of insurer pricing for a typical pensioner membership profile. The insurer pricing is shown compared to the corresponding value of the pensioner liability calculated using an investment return assumption based on prevailing gilt yields.

This chart shows that schemes who are looking to swap gilts for a pensioner buy-in could potentially achieve a better implied return, so such a transaction would have no (or even a beneficial) impact on their scheme's funding position.



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.

The use of medical underwriting has continued to deliver some very favourable pensioner pricing, achieving effective yields significantly in excess of gilt yields plus 0.5% p.a. This was evidenced by the Renold Pension Scheme which recently completed their second medically underwritten pensioner buy-in during 2015.



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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:

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