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Buy-outs and buy-ins

Summer 2017

It has been a steady, rather than a spectacular, start for the UK bulk annuity insurers in the first part of 2017. However, in line with previous years, significant activity is expected in the remainder of the year with insurers reporting strong pipelines. For schemes considering a partial transaction, pensioner pricing continues to look attractive relative to gilt yields.

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For more information about buy-outs and buy-ins, please visit our website >

Buy-outs and buy-ins: market statistics

A summary of the bulk annuity business completed by the UK insurers with UK pension schemes in the second half of 2016, and for 2016 as a whole, is provided below. A number of insurers provide reporting on a six-monthly basis; therefore, official part-year figures for 2017 will become available in due course.

	Total transactions in H2 2016		Total transactions in 2016	
	Number of cases	Value of cases (£m)	Number of cases	Value of cases (£m)
Aviva	28	549	41	620
Canada Life	3	110	4	144
Just (note 1)	15	779	21	943
Legal & General	8	2,698	16	3,339
Pension Insurance Corporation	15	1,632	17	2,529
Phoenix Life (note 2)	1	1,164	1	1,164
Rothesay Life	0	0	0	0
Scottish Widows	1	590	4	1,474
Total	**71**	**7,522**	**104**	**10,213**

Notes
1. Just is the new brand name for JRP Group, the entity formed from the merger of Just Retirement and Partnership in April 2016. The separate figures for Just Retirement, Partnership and JRP Group/Just have been combined.

2. Phoenix Life's transaction is in respect of their own pension scheme and they are not currently actively quoting for schemes.

3. The numbers shown exclude any reinsurance transactions completed by the insurers.

The UK insurers have announced pension scheme transactions totalling over £1.5bn during the first part of 2017. This figure is expected to rise once the official insurer figures have been published.

Strong market performance is anticipated over the coming months, being supported by some favourable insurer pricing and also healthy market competition. Obtaining a degree of market engagement for smaller transactions (i.e. sub £5-10m) has also been possible in 2017.

The figures for 2016 shown above exclude Aegon's £9bn sale of their retail annuity book to Rothesay Life and Legal & General. With other insurers potentially looking to sell some or all of their annuity books, it was interesting to note Standard Life's recent comments that they would be happy to dispose of their annuity business (c.£16bn) if a suitable deal could be arranged.

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Our Bulk Annuity Annual Report 2016 can be found here >

Insurer news

Seven insurers are actively participating in the market at present and insurer competition for transactions of the order of a few £100m has been especially strong. There are also other insurers who are preparing for entry into the bulk annuity market and who are targeting a range of potential transaction sizes. Assuming that they enter, this will provide further positive competition for schemes.

Insurers have increased their focus on asset sourcing and investment in alternative assets such as equity release products, housing and infrastructure projects. This approach has helped to reduce pricing. These assets can produce predictable cashflows over the longer-term, which match the nature of the pension liabilities and can deliver higher risk-adjusted returns while also taking into account the insurer's capital reserving requirements.

Significant transactions

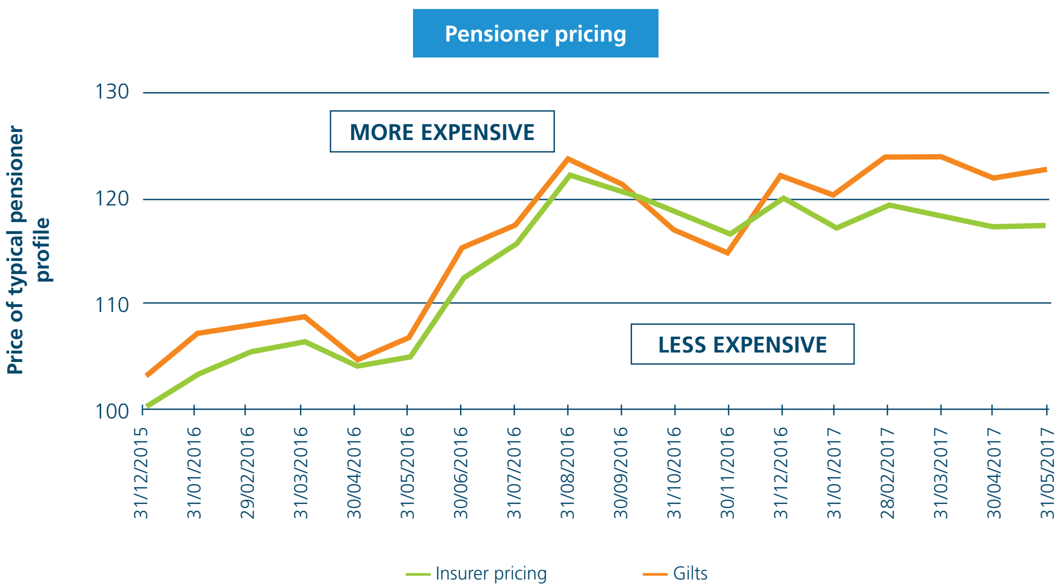
Rothesay Life has completed a £270m buy-in with the Tullett Prebon Pension Scheme covering virtually all of the Scheme's liabilities, including both deferred members and pensioners. The contract may be converted to a buy-out at some stage in the future.

Pension Insurance Corporation has completed a £200m pensioner buy-in with the 3i Group Pension Plan. The buy-in covers about 40% of the Plan's pensioner liabilities.

Scottish Widows has finalised a £100m pensioner buy-in with the Monsanto Pension Plan, which is sponsored by Pharmacia Limited, part of the Pfizer Group. This covers the liabilities of around 150 members. The transaction was structured such that the Plan retained the deflationary risk i.e. it is not possible to reduce pensions if inflation falls below zero. Scottish Widows has provided terms to enable the Plan Trustee to insure this risk in future.

Pricing

The following graph demonstrates possible pricing that may be achievable for a sample pensioner population. The green line shows the pricing that might be obtained while the orange line illustrates the equivalent liability for the same pensioner profile when valued using gilt yields.



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 on the right does not reflect the pricing which may be achieved from medical underwriting.

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The pricing line has fallen significantly below the gilt yield line in recent months, showing that the implied return underlying the insurer pricing has become increasingly attractive relative to gilt yields. Therefore, a number of schemes may be in a better position to exchange their gilt or low risk assets for a buy-in (removing both the financial and longevity risks associated with the liabilities), without worsening their funding position.

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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:

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