

## Buy-outs and buy-ins

Winter 2016

After a relatively quiet start to the year, a number of pension schemes have completed significant bulk annuity transactions in the second half of the year. Taken together with the reinsurance transactions for retail annuity books of other insurers, 2016 will be another substantial year for the bulk annuity providers.

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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 in the first half of 2016 with UK pension schemes is as follows:

	Total transactions in H1 2016	
	Number of cases	Value of cases (£m)
<b>Aviva</b>	13	71
<b>Canada Life</b>	1	35
<b>JRP Group</b> (note 1)	6	164
<b>Legal &amp; General</b>	8	641
<b>Pension Insurance Corporation</b>	2	897
<b>Rothesay Life</b>	-	-
<b>Scottish Widows</b>	3	884

*Notes*

1. The separate figures for Just Retirement and Partnership prior to their merger in April have been combined.
2. Certain insurers provide reporting on a six-monthly basis and figures will be updated after the year end.

Since the end of Quarter 2, several significant transactions with pension schemes have been completed with the total business announced this year now comfortably exceeding £6bn. This excludes the reinsurance transactions (totalling around £9bn) completed by certain insurers earlier in the year in respect of retail annuity back books.

As in previous years, there has been a marked increase in activity towards the year-end as insurers look to complete their annual business volumes.

### Insurer news

Following the merger of Just Retirement and Partnership in April, the new entity JRP Group has been going through a period of integration and rationalisation for the two companies. After a fairly subdued first half, they had a strong third quarter, completing seven bulk annuity transactions totalling over £400m.



## Significant transactions

Legal & General has completed a £1.1bn buy-out transaction with the Vickers Group Pension Scheme, part of the Rolls-Royce Group. This transaction covers 11,000 members and is the largest bulk annuity transaction completed with a pension scheme that has been announced so far in 2016. This demonstrated the ability of schemes which have been on a de-risking path for a considerable period of time to ultimately complete a buy-out of their liabilities.

Pension Insurance Corporation has concluded a £250m pensioner buy-in with the Smiths Industries Pension Scheme, covering the liabilities of 3,000 pensioners. The sponsoring employer, Smiths Group, previously insured the liabilities of one of its other schemes with PIC in 2013.

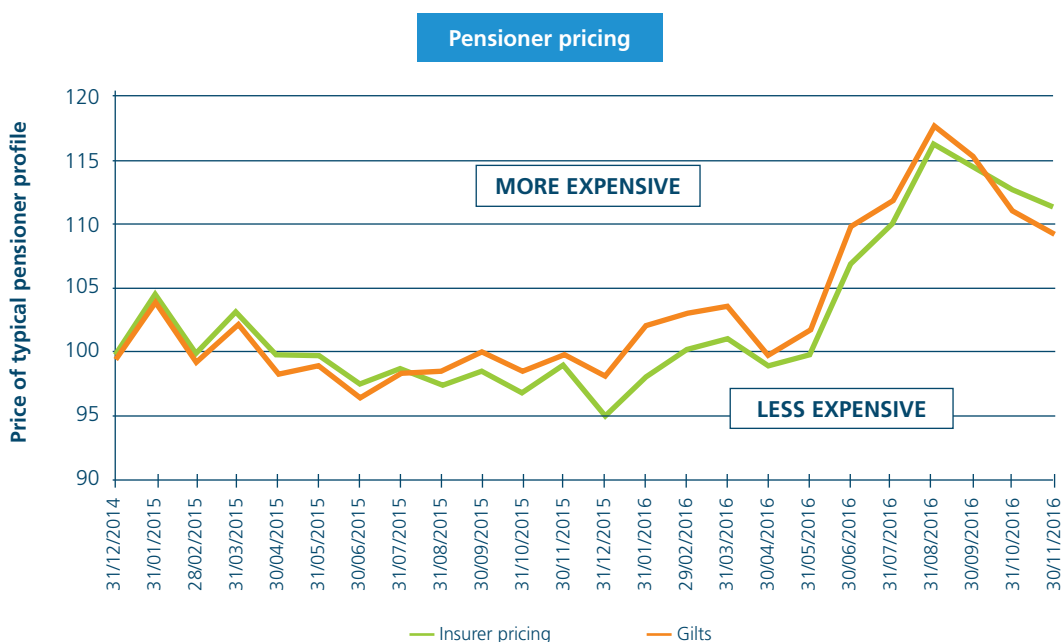
Pension Insurance Corporation has also finalised two other significant transactions – a £150m pensioner buy-in with an unnamed scheme and a £140m pensioner buy-in with the ICI Specialty Chemicals Pension Fund.

Just Retirement has completed a £135m pensioner buy-in with the Aggregate Industries Pension Plan. The buy-in policy covers the liabilities of over 750 members. This transaction follows a £210m pensioner buy-in that the plan completed with Pension Insurance Corporation in 2010.

## Pricing

Following the EU referendum, insurer pricing increased dramatically as long-term bond yields fell. However, since then absolute pricing has improved to some extent as yields have risen. Pensioner pricing for a representative pensioner population is shown below (green line).

The orange line illustrates the equivalent liability assessed when valued using gilt yields. This shows that pensioner buy-ins remain a potentially attractive option for those schemes who are able to use gilts to purchase a buy-in policy. This can provide improved cashflow matching, removal of the demographic risks associated with the members insured and represents a tangible step towards buy-out.



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 pricing which may be achieved from medical underwriting.



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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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