Buy-out Briefing
May 2017

First Actuarial LLP

Introduction

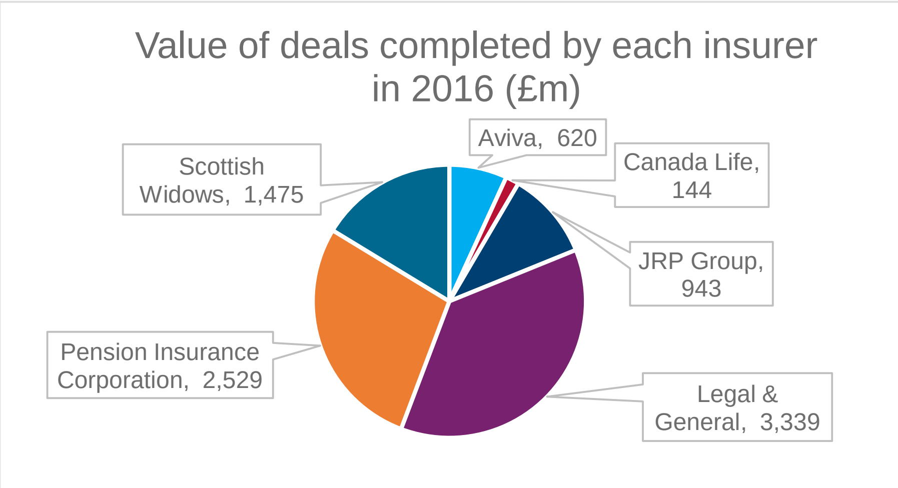
Welcome to First Actuarial's review of the latest developments in the buy-in and buy-out market.

In this briefing, we look back at the activity in the market over 2016 and look forward to how the market might continue to develop during 2017.

Review of 2016

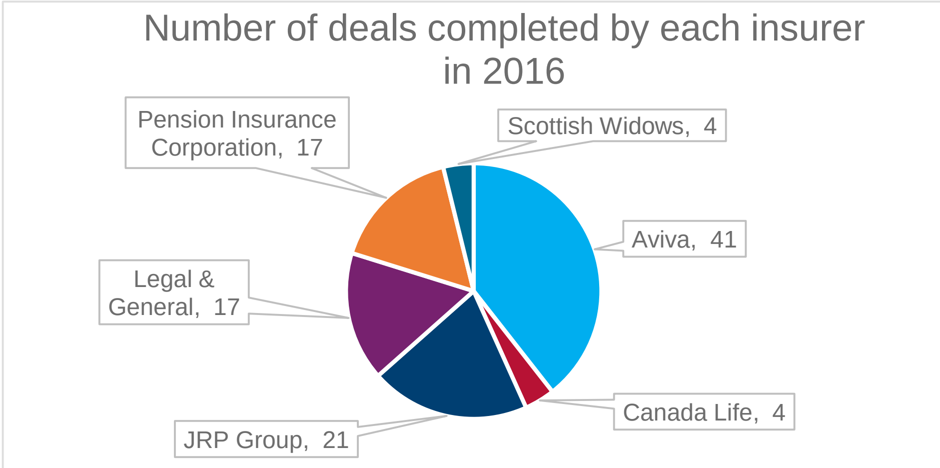
There are currently seven insurers in the bulk annuity market, compared to nine at the start of 2016.

- Just Retirement and Partnership merged in April 2016 to form JRP Group.
- Prudential withdrew from the bulk annuity market in August 2016 due to the more onerous requirements of Solvency II.



By size, Legal & General and Pension Insurance Corporation led the way in the 2016 bulk annuity market.

In particular, Legal & General completed a £1.1bn buy-out with the Vickers Group Pension Scheme, part of the Rolls-Royce Group.



By number, Aviva were out in front in 2016, completing 41 deals.

Rothesay Life did not complete any buy-ins or buy-outs, but were busy on other bulk annuity activity, discussed on the next page.

Phoenix Life completed one deal worth £1.2bn, for one of its own pension schemes. However, they do not offer bulk annuities to the wider market and so have not been included in the charts on this page.

Solvency II: New rules for insurers

From 1 January 2016, insurers have had to follow a new set of rules to reduce their chances of becoming insolvent, known as Solvency II.

Under these rules, they must now hold enough capital to cover a financial crisis that would only be expected to occur once every two hundred years.

To be able to continue to offer the best price and remain competitive, insurers need to hold assets which will produce very similar cash flows to their liabilities. This means that certain features of pension schemes, such as member options that are fixed (and which cannot be varied with market conditions) are now more expensive to insure as assets cannot match the liabilities.

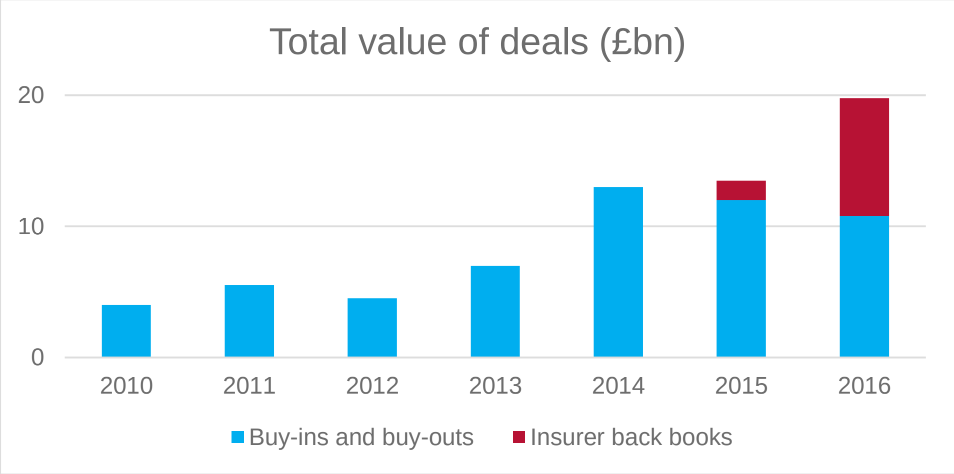
The new rules have also led to insurers holding alternative assets with stable long term cash flows. For example, infrastructure and lifetime mortgages.

Insurer pricing for pensioners has been largely unchanged, where it is more straightforward to match asset and liability cash flows.

However, pricing for deferred members has increased slightly (particularly for younger members).

Looking forward to 2017

The bulk annuity market has grown quickly over recent years.



During 2015 and 2016 some insurers were keen to get rid of any longevity risk they held, before Solvency II came into effect. This has given the opportunity for other insurers to take on another insurer's back book. Rothesay Life focussed their resources on acquiring business in this way during 2016.

Although the economic outlook for the UK in 2017 remains uncertain due to Brexit, the early days of the Trump presidency and our own general election, we believe there are still opportunities for competitive pricing.

However, in order to maximise interest from the insurers it is imperative for schemes to have done the necessary preparation before coming to market.

Smaller schemes

Smaller schemes face additional challenges in the current environment. Insurers naturally want to focus their limited resources on larger schemes, which help to maximise their business. It is therefore extremely important that smaller schemes have completed all the preparatory work and are ready to transact before asking for quotations.

First Actuarial have helped a number of smaller schemes to transact over the last few years and we believe that with our “streamlined process” we are particularly well placed to help smaller schemes to buy-out.

Further Information

For further information, please contact your usual First Actuarial consultant.