Bulk annuity briefing, Quarter 3 2020

In this briefing, we look at the First Actuarial Bulk Annuity Index, which monitors the general trend in the pricing of bulk annuity transactions relative to self-sufficiency liabilities.

The chart below shows the average price of a £50 million bulk annuity transaction (with a mixture of fixed and inflation-linked liabilities) as a percentage of the liabilities measured on a self-sufficiency basis, using a discount rate of 0.5% pa above gilt yields.

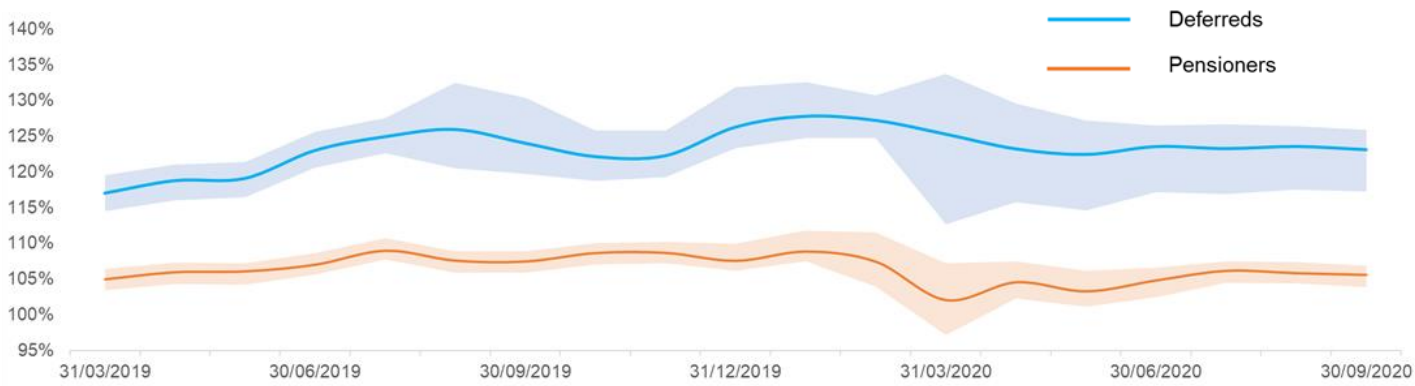
The solid lines represent our estimate of the average price relative to self-sufficiency liabilities. The shaded area shows the range of sample pricing received, which illustrates that pricing between insurers can vary materially.

Every month, we receive pricing information from the key insurers operating in the bulk annuity market. We use this information, together with our experience of actual quotations, to work out average bulk annuity prices for pensioners and deferred members.

Insurers charge a higher premium for deferred members than pensioners of the same age. This is because it is more difficult to predict the benefit outlay, as deferred members are entitled to exercise options around when to retire and whether to take part of their benefits as a tax-free cash lump sum.

For many schemes, the cost of a full buy-out can be prohibitive. But generally, as schemes mature and approach a self-sufficiency target, the extra funding required to reach buy-out reduces.

First Actuarial Bulk Annuity Index (£50 million transaction) – pricing relative to self-sufficiency liabilities



Pricing has generally been attractive throughout 2020, particularly for pensioners. Schemes that were 'buy-out ready' were able to obtain some extremely attractive pricing from late March to early May on the back of the market shock caused by Covid-19.

At 30 September 2020, we estimate that the average price of a bulk annuity covering pensioners would be 6% higher than the equivalent self-sufficiency liabilities. In other words, for a scheme which was 100% funded on a typical self-sufficiency basis, we estimate that for every £10 million of liabilities an additional £0.6m of funding would be required. However, for every £10 million of deferred liabilities we estimate an additional £2.3m of funding would be required.

Find out more about [our buy-in and buy-out services](#).

To discuss bulk annuities with us, contact your usual First Actuarial consultant or [email our bulk annuity team](#).