

## Bulk annuity briefing, Quarter 2 2021

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

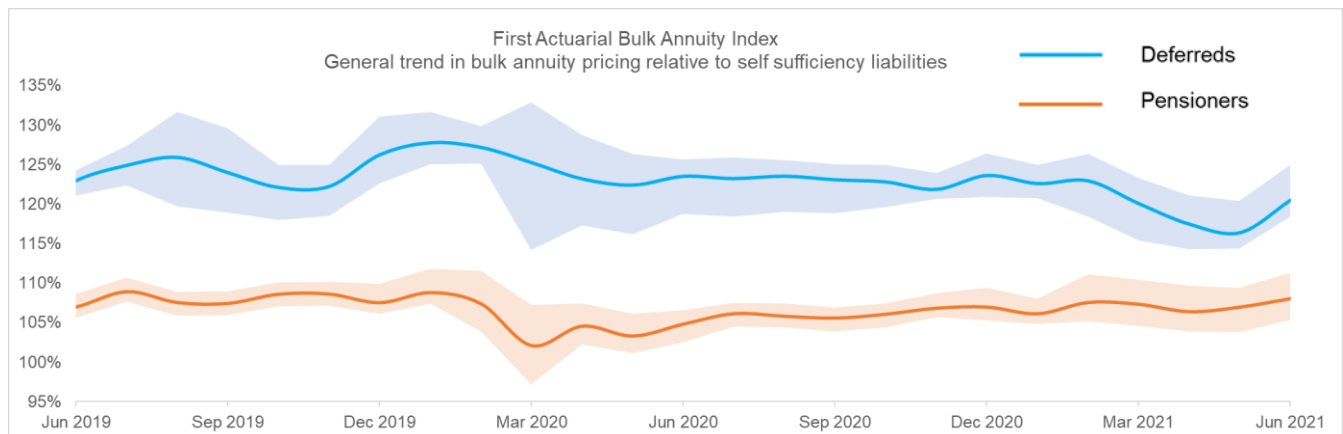
The chart below shows the average price of a £50 million bulk annuity transaction (with a mixture of fixed and inflation-linked liabilities) as a percentage of liabilities measured on a self-sufficiency basis. For the self-sufficiency basis, we've used a discount rate of 0.5% pa above gilt yields.

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 from various insurers.

Insurers charge a higher premium for deferred members than for pensioners of the same age. This is because it's harder 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 decreases.

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



Pricing has generally been attractive over the last 24 months. Schemes that were 'buy-out ready' were able to obtain extremely attractive pricing from late March to early May 2020, on the back of the market shock caused by Covid-19.

At 30 June 2021, we estimate that the average price of a bulk annuity covering pensioners would be 8% higher than the equivalent self-sufficiency liabilities. In other words, for a scheme that was 100% funded on a typical self-sufficiency basis, we estimate that for every £10 million of liabilities, an additional £0.8m of funding would be required. However, for every £10 million of deferred liabilities, we estimate an additional £2.1m of funding would be required.

### Further information

Find out more about [First Actuarial's buy-in and buy-out services](#).

To discuss bulk annuities, please contact your usual consultant or [email the bulk annuity team](#).

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