Bulk annuity briefing, Quarter 3 2021

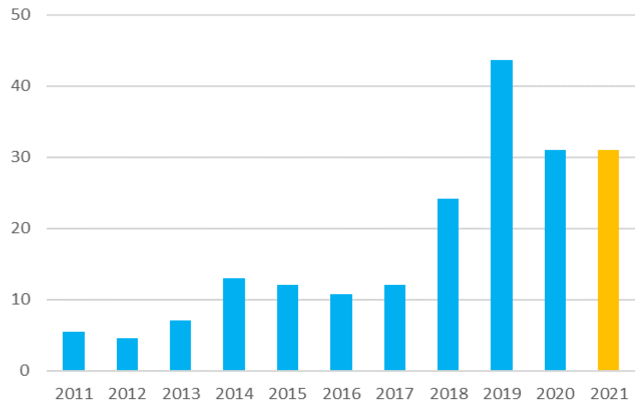
In this briefing, we review activity in the bulk annuity market during 2021, discuss how smaller schemes can make themselves more attractive to insurers in a competitive market, and provide an update on how insurers are approaching GMP equalisation.

We also look at the First Actuarial Bulk Annuity Index, which monitors pricing trends in bulk annuity transactions relative to self-sufficiency liabilities.

Review of 2021

Based on our analysis of published deals and conversations with insurers, we anticipate that total buy-in and buy-out volumes for 2021 will be at a similar level to 2020.

Total value of bulk annuity transactions (£bn)



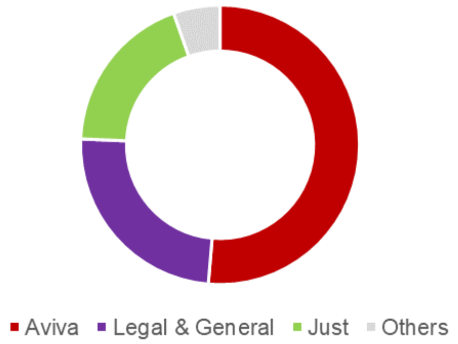
Smaller schemes

Smaller schemes need to be well prepared and approach the market when they are ready to transact, with a clear decision-making process involving both the trustees and sponsoring employer.

Insurers go through a triaging process when deciding whether to participate in any quotation process. It's essential that smaller schemes have carried out all the preparatory work upfront, such as correcting any known data issues, collecting marital information, and calculating contingent spouses' pensions. The benefit specification should also have been signed off by the trustees' legal adviser.

Although there are currently eight insurers operating in the bulk annuity market, three insurers – Aviva, Legal & General and Just – wrote around 95% of sub £100m deals over the first half of 2021.

Number of transactions under £100m, during the first half of 2021, split by insurer



First Actuarial has helped many smaller schemes to transact over the last few years. We therefore believe that we are particularly well placed to help smaller schemes navigate the bulk annuity market.

GMP Equalisation

Since the Lloyds High Court ruling in 2018, schemes have been required to equalise benefits to allow for unequal GMPs.

Initially, insurers favoured conversion to avoid the additional complexity associated with holding dual records. However, insurers are now updating their administration systems to hold dual records.

Insurers are generally comfortable with trustees carrying out the detailed individual calculations required to equalise benefits post transaction. However, they will expect trustees to have considered the key strategic decisions and to have decided which of the methods they wish to employ before approaching the market.

First Actuarial Bulk Annuity Index

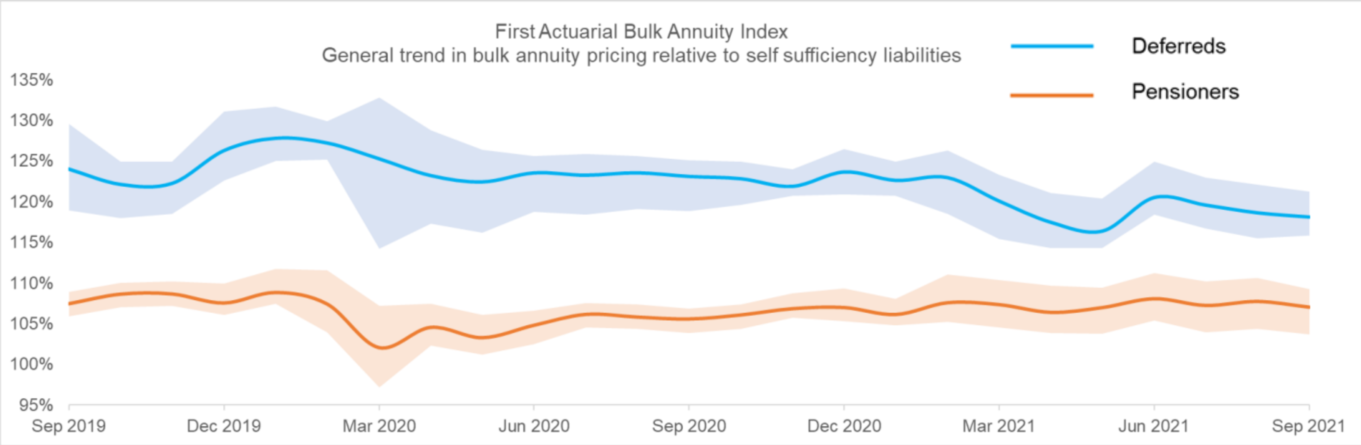
The chart below shows the average price of a £50 million bulk annuity transaction (with a mixture of fixed and inflation-linked liabilities) as a percentage of the liabilities measured on a self-sufficiency basis, using a discount rate of 0.5% pa above gilt yields.

The solid lines represent our estimate of the average price relative to self-sufficiency liabilities. The shaded area shows the range of sample pricing submitted by 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 September 2021, we estimate that the average price of a bulk annuity covering pensioners would be 7% 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 £0.7m of funding would be required. However, for every £10 million of deferred liabilities, we estimate an additional £1.8m 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 **enquire.buyout@firstactuarial.co.uk**.