

Bulk annuity briefing, Quarter 1 2022

Despite the continuing impact of the Covid-19 pandemic, the total value of bulk annuity transactions reached around £30bn in 2021.

As 2022 is likely to be another extremely busy year, it's important to be transaction-ready if you want insurers to view your scheme favourably.

In this briefing, we look at the importance of having high quality and accurate membership data, and why schemes should collect marital data before approaching the insurance market.

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

High quality membership data

Trustees are responsible for paying the correct benefits to all their members. It is therefore important to start early on the process of getting a scheme's benefits and data correct. Trustees should put in place processes to track down missing data and members.

Insurers go through a triaging process when deciding whether to participate in any quotation process. It's therefore essential that smaller schemes have carried out all the preparatory work upfront and that the membership data is up to scratch. The cleaner the data, the more attractive the scheme is to insurers and the more likely they are to quote.

Why is marital data important?

Marital data includes information on marital and civil partnership statuses and spouses' dates of birth where applicable.

When insurers calculate the premium for the buy-out contract, they make assumptions on how long people will live and the likelihood of a spouse's or dependant's pension being paid on their death.

Current marital status is the best predictor for marital status at death, and therefore having accurate and up-to-date marital data is important.

Other information is equally important, but as most schemes don't collect or maintain marital data (except perhaps at life events such as retirement), this data is often missing when a decision is made to approach the insurance market.

If marital data is missing or out of date, insurers will build margins for prudence into their assumptions, and in extreme cases, may not even be willing to provide a quotation.

How to collect marital data

The best way to collect marital data is to write to members and ask them. This involves sending members a form (or the digital equivalent) and asking them to return it with their marital data. Wider data held by the scheme can be validated at the same time.

Marital data collected at retirement will often be out of date as members' circumstances may have changed. It is therefore important to write to all members, including deferred members, and to encourage responses by chasing non-responders.

For schemes that pay benefits to financial dependants (not only to members who are legally married or in a civil partnership), it is important to provide an opportunity for members to disclose relationships of mutual financial dependency (such as partners living at the same address).

Even well-run exercises are unlikely to have a 100% response rate and insurers are still likely to have to make some assumptions. But the more complete and up-to-date the marital data is, the more likely that keener pricing will result.

First Actuarial Bulk Annuity Index

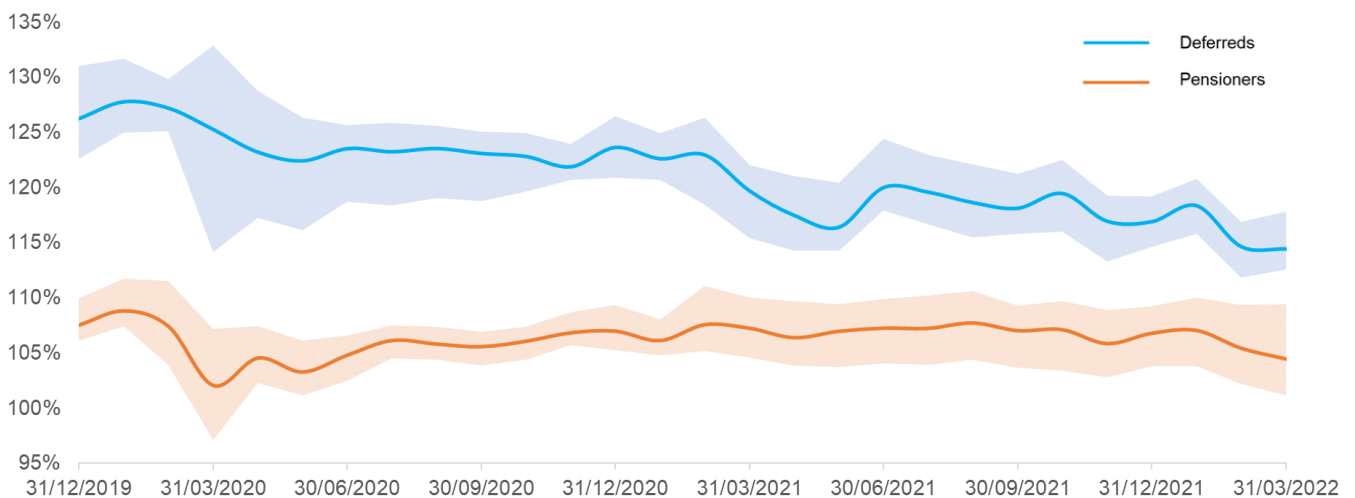
The chart below shows the average price of a £50 million bulk annuity transaction (with a mixture of fixed and inflation-linked liabilities) as a percentage of the liabilities measured on a self-sufficiency basis, using a discount rate of 0.5% pa above gilt yields.

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



Over recent times, pricing has generally been attractive. Schemes that were 'buy-out ready' were able to obtain extremely attractive pricing on the back of the initial market shock caused by Covid-19.

Following the widening of credit spreads during the first quarter of 2022, pricing has become more favourable.

As at 31 March 2022, we estimate that the average price of a bulk annuity covering pensioners would be 4% 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 pensioner liabilities, an additional £0.4m of funding would be required. However, for every £10 million of deferred liabilities, we estimate an additional £1.4m 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.