

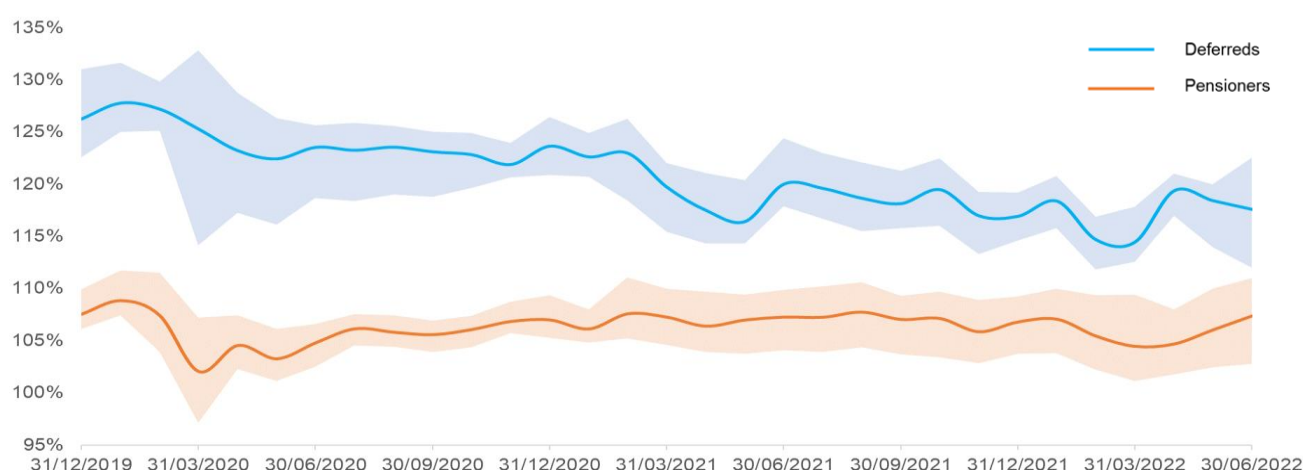
Bulk annuity briefing, Quarter 2 2022

In this briefing, we look at our recently updated First Actuarial Bulk Annuity Index, which monitors trends 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 from different insurers.

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



Insurers charge a higher premium for deferred members than for pensioners of the same age. This is because it is harder to predict the benefit outlay; 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.

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

As at 30 June 2022, 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 pensioner 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 our buy-out team](#).

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