Bulk annuity briefing, Quarter 1 2024

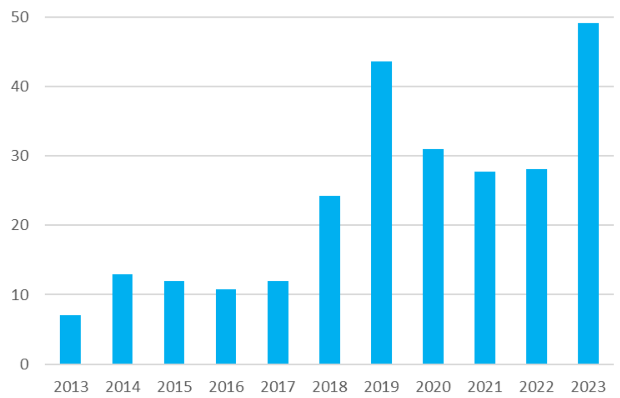
In this briefing, we review the transaction volumes in 2024 and consider developments in the bulk annuity market in the year so far.

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

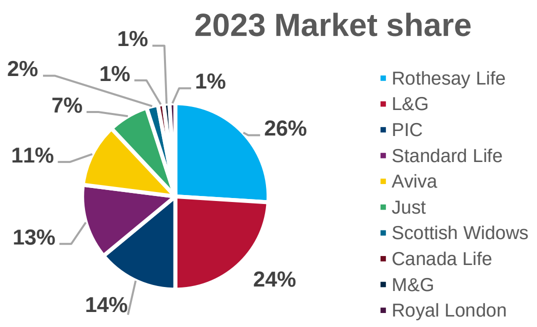
2023 in review

Total volumes for 2023 reached £49.1bn across more than 200 transactions, in line with predictions. Included in this figure is the single largest buy-in, for the RSA deal in February (at £6.5bn), which was completed with Pension Insurance Corporation (PIC).

Total value of bulk annuity transactions (£bn)



Other notable transactions include the £4.7bn Boots deal with L&G, and the £4.0bn Co-op transaction with Rothesay.



With only a 7% market share, Just completed the greatest number of transactions for ‘small’ schemes under £100m, with 73 deals (91% of the transactions they completed). The three main insurers operating at the smaller end of the market (Just, Aviva and L&G) were responsible for around 85% of the total number of deals under £100m throughout 2023.

Other highlights of the year include:

- Canada Life’s first full-scheme buy-in (a deal including both current and future pensioners)
- M&G’s re-entry to the market with two deals totalling £600m
- The first superfund transaction, worth £590m, completed between Clara-Pensions and the Sears Retail Pension Scheme.

And a little closer to home, First Actuarial’s Risk Transfer team celebrated the completion of its 40th transaction this quarter.

2024 so far

In what has been one of the busiest starts to any year, sustained demand for risk transfer has led to a number of headlines in and beyond the pensions press.

March saw the announcement that Royal London will soon enter the bulk annuity market, after two deals with its own pension schemes totalling £650m. Less than a week later, it was announced that Rothesay will acquire the £6bn Scottish Widows bulk annuity portfolio, essentially removing Scottish Widows from the bulk annuity market.

Also in March, Clara-Pensions completed its second transaction, with the Debenhams Retirement Scheme.

Smaller schemes have come into focus, with the established small schemes processes of Just and L&G bolstered by Aviva’s announcement of its Clarity service, and PIC’s Mosaic proposition.

The year ahead

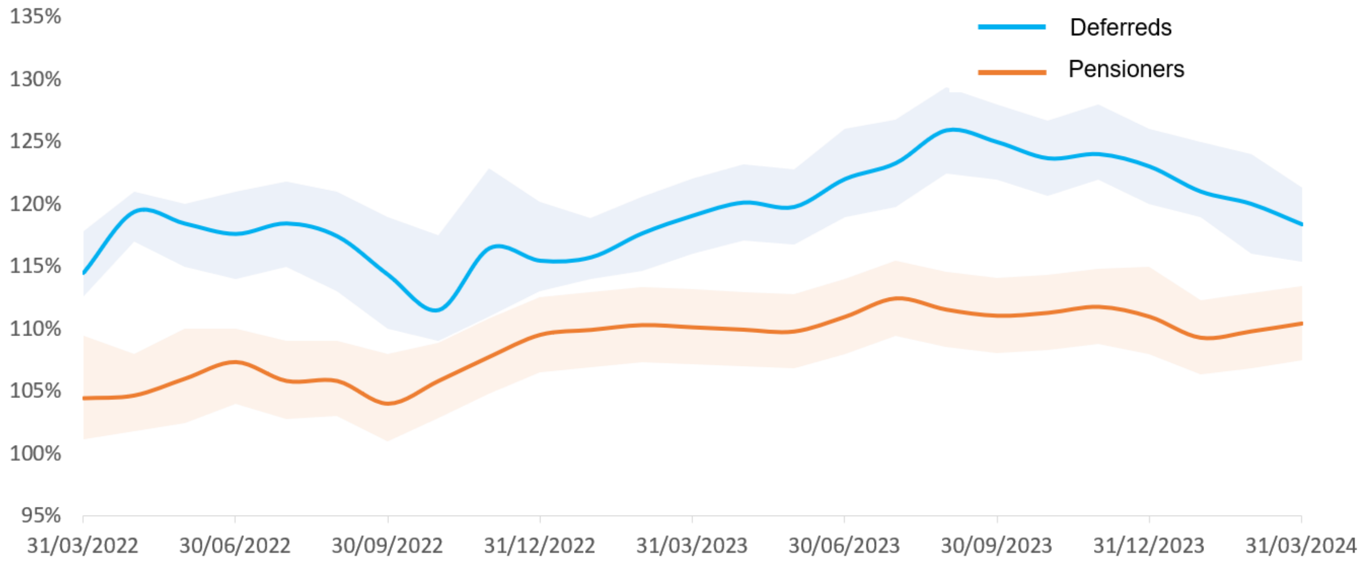
Industry expectations for 2024 are that the total volume of deals may exceed the record set in 2023.

This is likely to be dependent on the timing of 10 or more £1bn+ transactions which are expected to complete this year.

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 received from different 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. 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.

The increase in gilt yields has materially reduced the cost of buy-out and increased demand. However, buy-out pricing is also affected by other variables such as credit spreads, competition, insurer capacity and reinsurance pricing. The net effect of changes to these other variables has been to increase the cost of buy-out relative to gilts-based liabilities over the last 18 months. Towards the start of 2024, an increased appetite for schemes at the smaller end of the market led to a slight weakening of insurer pricing relative to self-sufficiency liabilities.

As at 31 March 2024, we estimate that the average price of a bulk annuity covering pensioners will be 10% higher than the equivalent self-sufficiency liabilities. In other words, for a scheme that is 100% funded on a typical self-sufficiency basis, we estimate that for every £10m of pensioner liabilities, an additional £1.0m of funding will be required. However, for every £10m of deferred liabilities, we estimate an additional £1.8m of funding will be required.

Further information

Over the past 12 months, First Actuarial has helped schemes secure bulk annuities with each of the insurers operating at the smaller end of the market. We believe that we are ideally placed to help smaller schemes under £100m navigate the bulk annuity market.

Find out more about **First Actuarial's risk transfer services**.

To discuss how we can help your scheme with a potential bulk annuity, please contact your usual consultant or **email our risk transfer team**.