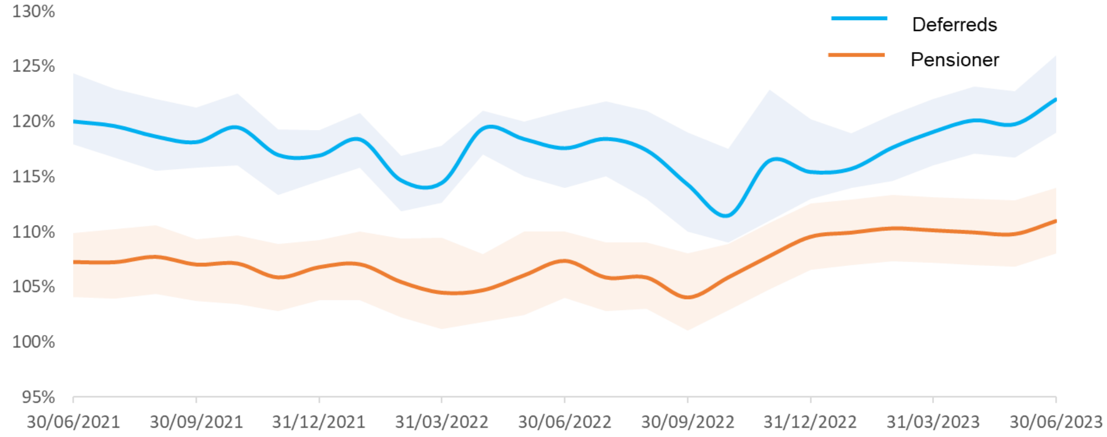
Bulk annuity briefing, Quarter 2 2023

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'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 in these other variables has been to increase the cost of buy-out relative to gilt-based liabilities over the last two quarters.

As at 30 June 2023, we estimate that the average price of a bulk annuity covering pensioners would be 11% 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 £1.1m of funding would be required. However, for every £10 million of deferred liabilities, we estimate that an additional £2.2m of funding would be required.

Further information

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

To discuss bulk annuities, please contact your usual consultant or **email our risk transfer team**.