

# Buy-in monitoring service

Comprehensive analysis of the buy-in market - March 2021

## Headlines

### Pensioner buy-in pricing dips

Credit spreads continued to narrow back down which led to average pricing hardening slightly compared to the pricing seen at times over 2020. See our “Buy-in pricing” section for more details.

### 2021 set to begin trend of £40bn+ volumes

Despite the pandemic, 2020 was a busy year for the bulk annuity market with c£30bn of transactions. We anticipate regular annual volumes of c£40bn+ p.a. are likely for this coming decade as schemes mature and funding levels improve. Some schemes which had put projects on hold due to COVID may be looking to reengage with the market.

[More information is available in our 2021 risk transfer report.](#)

### Range of de-risking solutions

Different pension schemes will have different challenges to navigate and different risk preferences on their journey to buy-out. The market continues to develop a range of de-risking solutions to suit different pension schemes’ needs and allow a more refined de-risking route to buy-out. Trustees will benefit from being well informed and up to date on the latest market solutions and regulatory backdrop.

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Hyman Robertson's online 3D Analytics tools allow trustees and sponsors to track buy-in pricing and yield analysis tailored specifically to their individual scheme population

# Buy-in pricing

A buy-in policy insures against all risks associated with a subset of pensioner liabilities. When considering whether to undertake a buy-in, pricing is best assessed against returns on other very low risk assets.

## Pensioner buy-in pricing

The chart below plots the relative cost of hedging pensioner liabilities with a buy-in policy, a portfolio of gilts, or a swaps and cash based LDI strategy.

### Pensioner scheme buy-in vs gilts and LDI strategies



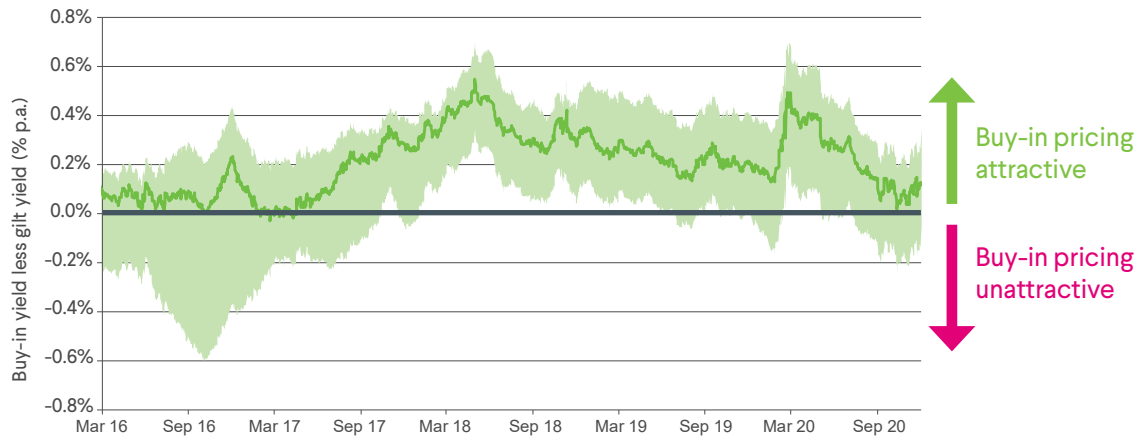
## Pricing analysis

For those schemes able to secure attractive terms, average pricing remains cheaper than the value of gilts needed to match the same liabilities (the green line is below the blue line in the above chart). This means that schemes can exchange gilts for a buy-in policy, maintaining or improving the return on the overall asset portfolio, obtaining a better cashflow matching asset and addressing demographic risks.

## Buy-in yield analysis

Although tailored to meet the benefits of a subset of members, a buy-in contract remains an asset of the scheme. In assessing the attractiveness of a buy-in, it is useful to understand the investment return (yield) implied by the price.

### Buy-in yield relative to gilt yields



The chart above shows the yield locked into based on typical buy-in pricing. This analysis varies depending on the schemes' characteristics and views over members' life expectancies; this variation is reflected on the chart, with the solid green line the position for the "typical" scheme.

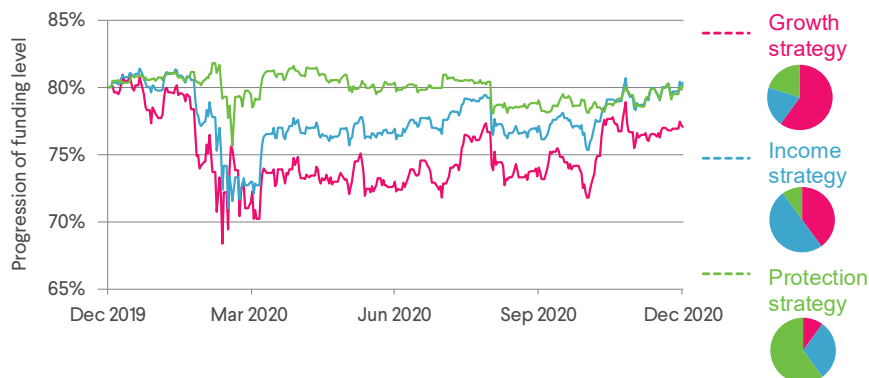
A buy-in yield of 0.1% p.a. to 0.2% p.a. below gilt yields might be viewed as a "fair" price to pay, given the reduction in longevity risk, other demographic risks and level of cashflow matching achieved.

# Buy-out affordability

The chart below shows progress towards full buy-out funding for pension schemes at different stages in their de-risking journey.

## Buy-out affordability for different investment strategies

### Affordability analysis



Schemes will have seen significant volatility in their buy-out funding level during 2020. Over the most recent quarter, the initial post-lockdown bounce back has slowed but buy-out funding levels continued to improve as assets recovered from the lows seen in late March.

# Buy-in contact

If you would like to discuss this quarterly update in more detail please contact your usual Hymans Robertson contact or:



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