HYMANS ROBERTSON

Buy-in monitoring service

Comprehensive analysis of the buy-in market - January 2020

Headlines

The return of the jumbo deals

Total buy-in and buy-out business is expected to come in at around £40bn for 2019, compared to 2018's £24bn. During the last year, the market has been significantly influenced by an unusual number of very large transactions, with five transactions over £3bn being completed. **BMS Insights this quarter highlights the appetite of different insurers at different transaction sizes.**

Quickly changing market requires trustees to be well informed and prepared

Whilst volumes will fluctuate year on year, we expect the demand from pension schemes will continue at a similar scale to that seen over the last couple of years. With high demand for business, insurers are being more selective over how they apply their resources and which transactions they compete for. In general, pension schemes may require more patience, a flexible transaction timescale and an agile broking process to work around fluctuations in insurer appetites and available resources. This again reinforces the advantages of having engaged and aligned stakeholders and clear objectives before approaching insurers.

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.

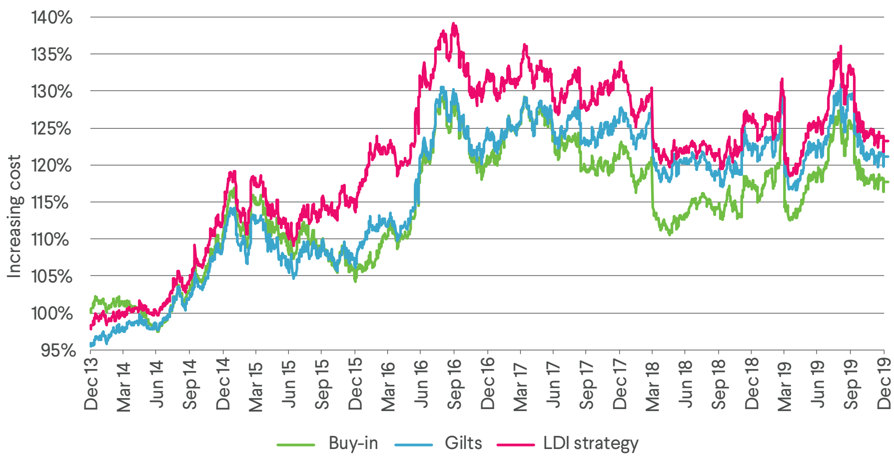
Pensioner buy-in pricing

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.

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 below 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.

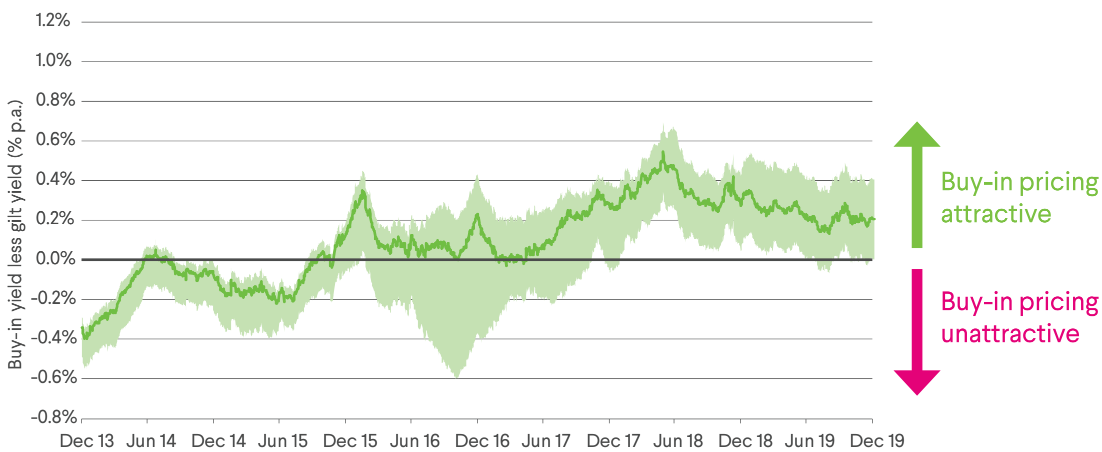
Pensioner scheme buy-in vs gilts and LDI strategies



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.

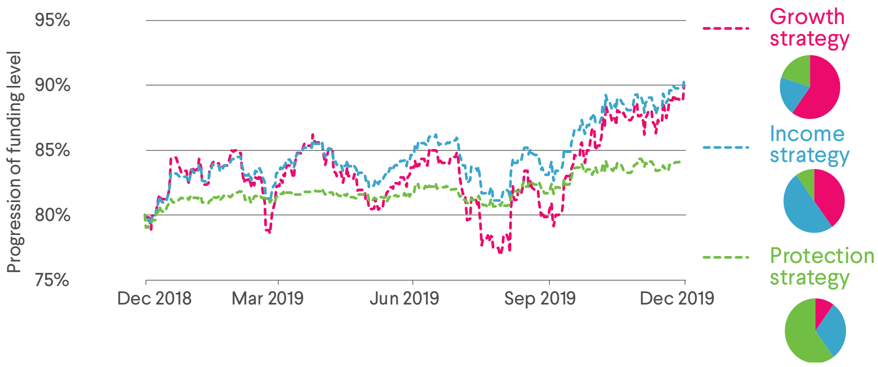
Hymans Robertson's online 3D Analytics tools allow trustees and sponsors to track buy-in pricing and yield analysis tailored specifically to their individual scheme population

Buy-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



Over the last 12 months many pension schemes will have found that the affordability of buy-out has been volatile but, for most, their buy-out funding level will have improved. Equity markets performed well towards the end of 2019 meaning that schemes with high growth asset exposures will have fared particularly well compared to earlier on in the year. The journey will have been more stable for schemes following a protection-based strategy.

Buy-in insights

Competition and appetite

The table below shows the current appetite of different insurers for buy-in and buy-out transactions of different sizes.

		Appetite by transaction size				
	Deferreds?	<£50m	£50m - £100m	£100m - £500m	<£500m - £2bn	>£2bn
Aviva	✓	More likely to quote	More likely to quote	More likely to quote	More likely to quote	Unlikely to quote
Canada Life	✗	More likely to quote	More likely to quote	More likely to quote	Unlikely to quote	Unlikely to quote
Just	?	More likely to quote	More likely to quote	More likely to quote / More selective	Unlikely to quote	Unlikely to quote
Legal & General	✓	More likely to quote	More likely to quote	More likely to quote	More likely to quote	More likely to quote
Phoenix Life	✗	Unlikely to quote	More selective	More selective / More likely to quote	More likely to quote	Unlikely to quote
Pension Insurance Corporation	✓	More selective	More likely to quote	More likely to quote	More likely to quote	More likely to quote
Rothesay Life	✓	Unlikely to quote	Unlikely to quote	More selective / More likely to quote	More likely to quote	More likely to quote
Scottish Widows	✓	Unlikely to quote	More likely to quote	More likely to quote	More likely to quote	Unlikely to quote

Key

✓ Able to write

? More selective

✗ Unable to write

● More likely to quote ● More selective ● Unlikely to quote

The increased demand has led to insurers being more selective on which transactions they provide a quotation. For example, whilst all insurers would consider a c£300m buy-in, it is unlikely all insurers would quote on any given transaction of this size coming to market. It is therefore becoming increasingly important for pension schemes to demonstrate their ability to make decisions within expected timescales and to transact efficiently.

Whilst insurers continue to target different transaction sizes, 2019 saw some insurers turn their attention to larger schemes in the market. There were five transactions over £3bn in 2019 and we expect some more to come in 2020/21.

Buy-in contact

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

James Mullins
Partner
Head of Risk Transfer Solutions
T 0121 210 4379
E james.mullins@hymans.co.uk

Richard Wellard
Partner
Risk Transfer Specialist
T 0121 210 4355
E richard.wellard@hymans.co.uk

Michael Abramson
Partner
Risk Transfer Specialist
T 020 7082 6155
E michael.abramson@hymans.co.uk

Alan Garbarino
Risk Transfer Specialist
T 0141 566 7664
E alan.garbarino@hymans.co.uk

Clive Fortes
Partner
Risk Transfer Specialist
T 020 7082 6235
E clive.fortes@hymans.co.uk

Christine Cumming
Risk Transfer Specialist
T 0141 566 7943
E christine.cumming@hymans.co.uk

Iain Pearce
Risk Transfer Specialist
T 0121 210 4358
E iain.pearce@hymans.co.uk

Freya Williams
Risk Transfer Specialist
T 0121 210 4346
E freya.williams@hymans.co.uk

Kieran Mistry
Risk Transfer Specialist
T 0121 210 4338
E kieran.mistry@hymans.co.uk

Baljit Khatra
Risk Transfer Specialist
T 0121 210 4344
E baljit.khatra@hymans.co.uk

Harry Allen
Risk Transfer Specialist
T 0121 210 4365
E harry.allen@hymans.co.uk

Eloise Richer
Risk Transfer Specialist
T 0121 210 4386
E eloise.richer@hymans.co.uk

Emma Horsfield
Risk Transfer Specialist
T 0121 210 4390
E emma.horsfield@hymans.co.uk

Thomas Hoare
Risk Transfer Specialist
T 0121 210 4372
E thomas.hoare@hymans.co.uk

Tim Wanstall
Risk Transfer Specialist
T 0207 082 6330
E tim.wanstall@hymans.co.uk