

Buy-outs, buy-ins and longevity swaps - Quarter 4 2014

The value of bulk annuity business completed in 2014 has already broken the previous record set in 2008, with the final quarter still to go. Meanwhile, two insurers may be merging.

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For more information on buy-outs and buy-ins, visit our [website](#).

Buy-outs and buy-ins: market statistics



Source: Insurers

Provider news

In the third quarter of 2014, 36 transactions worth nearly £1.6bn were completed by the UK bulk annuity insurers. Aviva completed the greatest value of business, with 17 transactions worth a total of £487m. Prudential were next, completing two transactions worth £376m.

Overall, £8.5bn of bulk annuity business had been completed in 2014 by the end of Quarter 3. This year has beaten the previous annual record, set in 2008, with business from the final quarter still to be added.

Following the fall in the sale of individual annuities as a result of the announcement in the spring Budget, the multi-line insurers offering both individual and bulk annuities have been increasing their focus on the bulk annuity market. This may potentially have had some effect in Quarter 3 as over 90% of transactions were completed by multi-line insurers during the quarter.

Aviva have announced that they have reached agreement on the terms of an all-share acquisition of Friends Life. The transaction will need to be approved by the Aviva Shareholders at the Aviva General Meeting which is expected to be in March 2015. Friends Life have been investigating the possibility of joining the bulk annuity market.

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Two longevity swaps were announced in the quarter – the £16bn transaction between the BT Pension Scheme with the Prudential Insurance Company of America and the £900m PGL Pension Scheme transaction with Phoenix Life. Both were mentioned in our last update.

Significant transactions

Legal & General have completed a £2.5bn pensioner buy-out with the TRW Pension Scheme. This is the second largest bulk annuity transaction completed by a UK insurer and followed a sequence of liability management actions, including both a pension increase exchange and an enhanced transfer value exercise.

Pension Insurance Corporation have completed a £210m pensioner buy-in with the Aon Minet Pension Scheme. This is the scheme's third buy-in in five years.

Partnership have completed a £206m transaction with an unnamed scheme using medical underwriting. This transaction insured some of the members with the largest liabilities in the scheme – a process known as 'top-slicing'. This is the largest bulk annuity transaction using medical underwriting which has been completed so far in the UK.

Rothsay Life completed a £185m buy-in with the Makro Staff Pension Scheme. This insured liabilities for both the deferred and pensioner members of the Scheme. Legal & General have completed a £129m buy-in with the Uniac Pension Fund. The Uniac Fund is a 'Section 615' scheme and has some unusual features. This transaction is the largest buy-in for this type of scheme so far.

Just Retirement have completed their largest two transactions to date – one of £76m and one of £75m. They have not confirmed whether these transactions included medical underwriting as part of the process.

Other News

Pricing for both deferred and pensioner members has increased over the last few months as a result of a reduction in corporate bond, swap and gilt yields. However, schemes typically use gilts, corporate bonds and swaps to match pensioner liabilities and the value of these assets will have increased at the same time. A pensioner buy-in may still be feasible for some schemes.

The TRW transaction illustrated the potential benefit of liability management exercises in helping to bridge the affordability gap for a transaction. The appeal to members of defined benefits to defined contributions (DC) transfer exercises may also increase as a result of the forthcoming DC flexibilities.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact Gavin Markham or Mark Paxton via the following:

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