Bulk annuity briefing, Quarter 3 2024

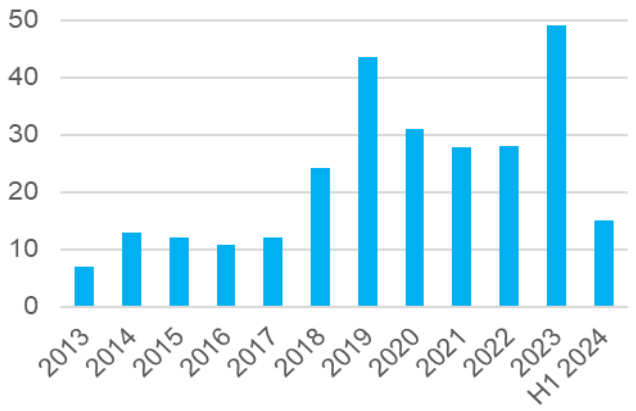
In this briefing, we consider activity in the bulk annuity market during the year so far, and discuss how the market may develop over the coming years.

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

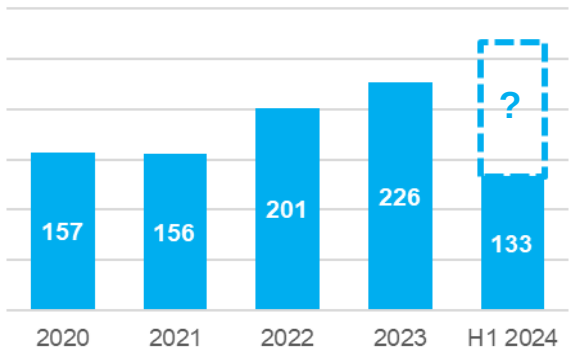
The 2024 bulk annuity market

Transactions for the first half of 2024 totalled over £15bn – less than the first half of 2023 but still a busy start. The second half of the year is expected to be even busier, with £40–50bn in deals projected for the year as a whole, potentially equalling or even breaking last year's record of £49.1bn.

Total value of bulk annuity transactions (£bn)



Number of bulk annuity transactions



Volume vs size

While we're still seeing big deals go through, record numbers of small schemes are now approaching the market. In the first half of 2024 there were more than 130 transactions, the majority of which were under £100m in size.

We expect the total number of deals completed to exceed last year's record of 226.

We've also seen at least one insurer that is typically only interested in very large transactions begin to show an interest in the smaller end of the market. With new entrants Royal London and Utmost also focusing on deals under £100m, we are hopeful this will offer more opportunities for smaller schemes.

Exclusivity and smaller schemes solutions

Even with increased interest from insurers for scheme under £100m, there remain challenges for smaller schemes looking for a competitive transaction.

These challenges are particularly acute for schemes with fewer than £10m of assets/liabilities.

Just continues to write the most deals for schemes of this size thanks to its small scheme solution, Beacon. Just is followed by Aviva and Legal & General, which have their own small scheme services, Clarity and Flow, respectively.

These small scheme solutions allow Just, Aviva and Legal & General to streamline their pricing and processes. This is driving the high volume of deals, with the insurers continuing to develop and refine their processes.

As part of this streamlining, some insurers insist on exclusivity prior to providing a transactable quotation. Smaller schemes (with less bargaining power) can struggle to get value for money when approaching the market.

As a result, we expect to see price targets becoming the norm as a way to keep quotations competitive.

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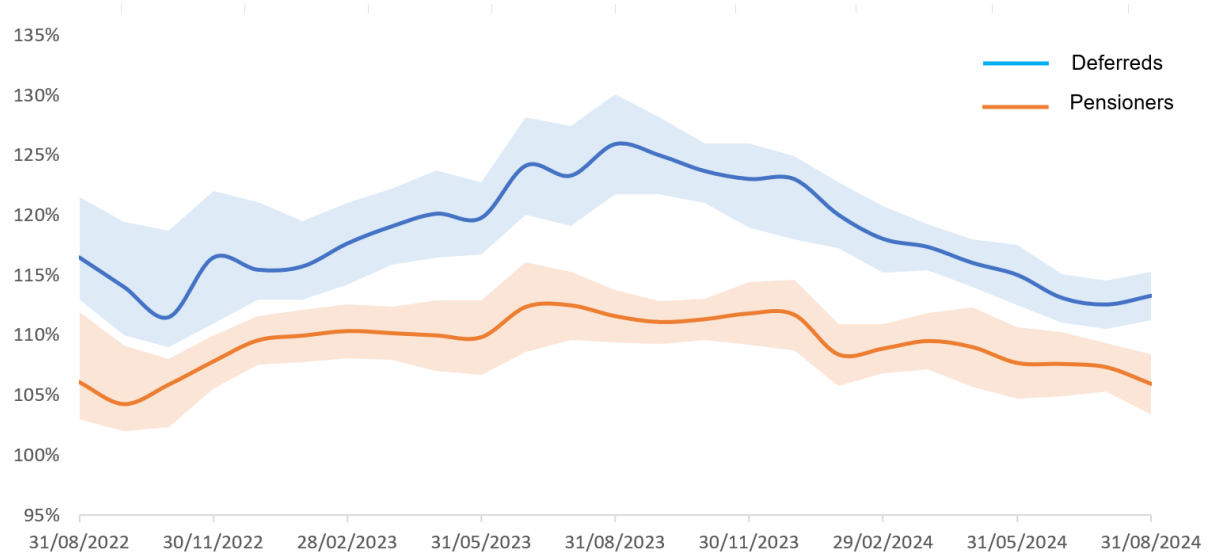
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First Actuarial Bulk Annuity Index

The chart below shows the average price of a £50m 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. Over the last 24 months, we've seen the cost of buy-out gradually increase relative to gilt-based liabilities, peaking around summer 2023 then falling back to levels similar to those experienced two years ago. In 2024, an increased appetite for schemes at the smaller end of the market has led to a gradual weakening of insurer pricing relative to self-sufficiency liabilities.

As at 31 August 2024, we estimate that the average price of a bulk annuity covering pensioners will be 6% 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 £0.6m of funding will be required. However, for every £10m of deferred liabilities, we estimate an additional £1.3m of funding will be required.

Further information

Over the past 12 months, First Actuarial has helped schemes secure bulk annuities with all 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**.

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