Buy-in monitoring service

Comprehensive analysis of the buy-in market - December 2020

Headlines

Pensioner buy-in pricing dips

As credit spreads continue to narrow back down, average pricing has deteriorated slightly compared to pricing seen at the mid-year point. See our "Buy-in pricing" section for more details.

Fluctuating insurer appetite continues

As 2020 draws to a close, buy-in pricing is significantly influenced by supply-side factors at the insurers. Final transaction volumes for 2020 will undoubtedly be lower than 2019, but the total number of transactions in 2020 is set to to increase from the 153 transactions seen in 2019. Some insurers will be very comfortable with the business they have written over the year and their projected future pipeline, whilst some will be keen to finalise more transactions before the year end. Schemes that have not yet approached insurers will now be turning their attention to make sure they are first in the queue to approach the market early next year.

Appetites of different insurers vary significantly and have the potential to change quickly. Pension schemes need to look carefully at the quotes they receive and assess whether pricing is being negatively impacted by other activity in the market. Knowledge of what the market looks like through the eyes of different insurers is going to help trustees make the best decisions in periods of fluctuating insurer appetite.

Buy-in pricing **2**

Buy-out affordability

3



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



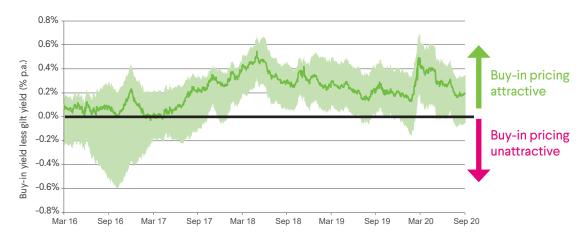
Pricing analysis

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 so far in 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:



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



lain 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 T0121 210 4365 E harry.allen@ hymans.co.uk



Eloise Richer Risk Transfer Specialist T0121 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



London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk





Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. A list of members of Hymans Robertson LLP is available for inspection at One London Wall, London, EC2Y SEA, the firm's registered office. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of invertnment business exhibition.

This communication has been compiled by Hymans Robertson LLP, and is based upon their understanding of legislation and events at the time of publishing. It is designed to be a general information summary and may be subject to change, It is not a definitive analysis of the subject covered or specific to the circumstances of any particular employer, pension scheme or individual. The information provided does not constitute advice, and should not be considered a substitute for specific advice in relation to individual circumstances. Where the subject of this document involves legal issues you may wish to take legal advice. Hymans Robertson LLP accepts no liability for errors or omissions or reliance on any statement or opinion.

Changes in buy-in and buy-out premiums shown are based on the cost of securing the same set of future benefit payments at each point in time.

Different insurers price buy-in differently and their prices will change relative to each other over time. The data in this quarterly buy-in monitoring service shows general trends in pricing.

Hymans Robertson LLP has relied upon external sources of information in compiling this report. Whilst every effort has been made to ensure the accuracy of the data and views expressed Hymans Robertson cannot verify the accuracy of such data. The information contained is not intended to constitute advice, should not be considered as a substitute for scheme specific advice not should you place reliance on this report. Hymans Robertson will not be liable for any loss arising from use and/or reliance upon the report.