

# 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 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.

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# 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



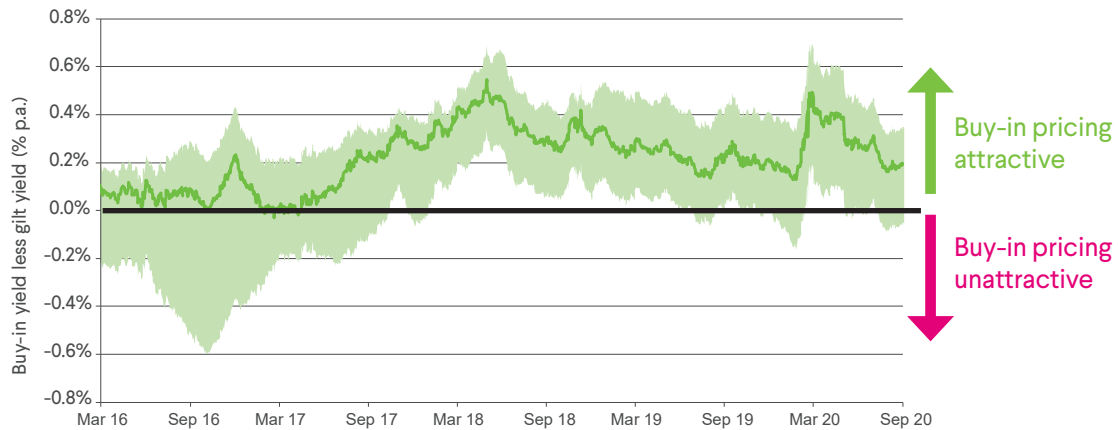
## Pricing analysis

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.

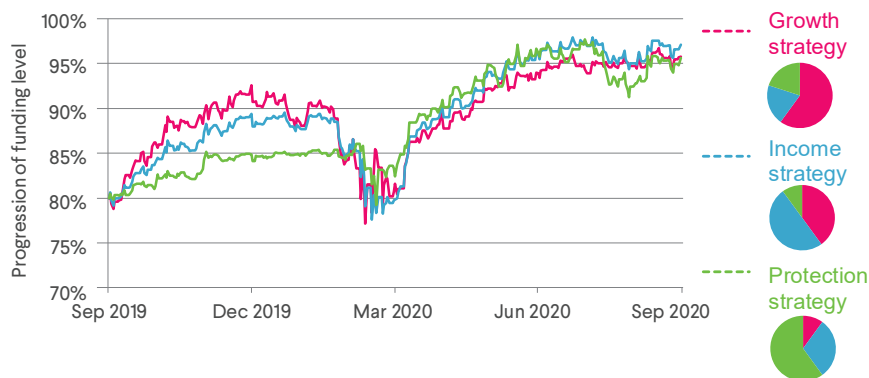
A buy-in yield of 0.1% p.a. to 0.2% p.a. below gilt yields might be viewed as a "fair" price to pay, given the reduction in longevity risk, other demographic risks and level of cashflow matching achieved.

# 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:



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