

JLT Employee Benefits

LET'S TALK



MEDICALLY UNDERWRITTEN BUY-INS: A BRAVE NEW WORLD?

What's changing?

Most UK pension scheme trustees are familiar with buy-in and buyout (or 'bulk annuity') transactions; insurance policies to cover some or all of a scheme's liabilities...

...but what's this new phenomenon being reported: medically underwritten deals?

Under a medically underwritten buy-in or buyout deal, insurers obtain individual data on members' (and spouses') health and lifestyles in order to make better informed assessments of how long they will live. This allows for more accurate pricing than simply relying on each individual's age, sex, postcode, pension size and occupation.

What's happening in the bulk annuity market is similar to what we've seen in other insurance markets, with more detailed information allowing insurers to better understand and price the risks they're taking. Remember when your motor insurer only asked for your age, sex and vehicle type?

What's in it for schemes?

In the individual annuity market, enhanced annuities have been available for several years, providing long-term smokers and individuals with health issues with higher pensions to reflect their shorter life expectancies.

Within UK defined benefit schemes, members' benefits are defined in the scheme rules; evidence of health impairments does not affect the pensions that individuals receive.

However, trustees may be able to insure scheme liabilities for less if they can demonstrate to insurers that members are in worse health than the insurers would otherwise assume.

Research by the Pensions Institute suggests that with judicious medical underwriting schemes could make savings of about 10% compared to a conventional buy-in quotation, and we have seen one case achieve closer to 15%. However, the exact difference will depend on the number of members qualifying for enhancements and, in some cases, underwritten quotations will be higher.

How established is the market?

The first medically underwritten buy-in was completed by Partnership Assurance in late 2012. Three other insurers are now actively quoting for this type of deal: Just Retirement, Legal & General and Aviva, with at least two of these having written deals to date.

A new process developed by JLT Employee Benefits with the four insurers has made it possible for whole-of-market broking exercises to be run. This is similar to a conventional buy-in broking process, with one additional step where a third party administrator gathers health data (via a short questionnaire) to share with participating insurers.

During 2013 a number of underwritten buy-ins were written, with insurers reporting a strong pipeline of new deals for 2014. Highlights included the first whole-of-market underwritten buy-in for British Arab Commercial Bank and the largest underwritten buy-in to date, a £33m transaction for an unnamed construction firm, both advised by JLT.

Who can benefit?

There are many scenarios in which an underwritten buy-in might be considered. For example, where trustees are aware of known health or lifestyle conditions, particularly amongst key individuals, or the incidence of ill-health early retirements.

Although the majority of the first cases have been for smaller schemes, larger schemes can also benefit from underwriting. Executive schemes with high average liabilities or large schemes insuring a slice of the highest pensions in payment are prime targets as they represent significant risks and would otherwise be priced ultra-conservatively by insurers. Last year a £22m underwritten buy-in was completed for around 20 of one scheme's highest liability pensioner members, using underwriting to achieve a competitive price.

What are the pitfalls?

Once a scheme has obtained medical data, trustees are obliged to share information connected with this activity with insurers. This will preclude them from obtaining quotations from some bulk annuity providers who cannot offer a medically underwritten quotation. Also, it may be that a conventional approach would have offered a more competitive price, for example if members are of better than average health.

Where can I learn more?

JLT have produced an explanatory leaflet, [Medically Underwritten Bulk Annuities](#), which is available from our website (<http://www.jltpcs.com/>).

JLT Buyout Team, February 2014

This Let's Talk does not constitute advice.