



Buyout activity leaps as pension schemes prioritise de-risking - JLT Employee Benefits

5 April 2013, London: JLT Employee Benefits today announces its latest analysis of the pension fund buyout market.

- Over £1.5 billion of buyout deals were transacted over Q4 2012, giving a total of £4 billion over the year
- Buyout activity increased in Q4 building on the momentum of the previous two quarters
- Insurers are bullish for 2013 and expect total buyout activity to exceed £6bn during 2013
- Prices have remained relatively stable throughout 2012, although buyout prices decreased slightly in the last quarter of 2012
- More medically underwritten buy-in transactions are expected in 2013, following the success of the first deal last year
- The majority of deals in 2012 were for pensioner buy-ins, a trend that is expected to continue into 2013

The appetite for de-risking solutions remains strong both for sponsors and trustees, as uncertain economic and financial conditions result in pension schemes being seen increasingly as an unaffordable and potentially destabilising risk.

During the final quarter of 2012 over £1.5bn of buyout business was transacted, giving a total business written during the year figure of more than £4bn. The larger deals were predominantly pensioner buy-ins, with the largest being the £680m Merchant Navy Officers Pension Fund transaction with Rothesay Life.

Early indications suggest that the momentum seen in Q4 2012 has been maintained into 2013, particularly at the small and medium end of the market as insurers continue to offer flexible contract structures and payment terms. JLT Employee Benefits predicts that more than £6bn will be transacted during 2013 - a 50% rise on 2012. The volume of buyout and buy-in business written over 2012 was only slightly down on the prior two years and still represented a healthy volume of transactions.

Continued concerns over the debt crisis in the Eurozone mean that conditions will remain difficult and prices are unlikely to soften any time soon. As a result, buyouts may remain unaffordable for many schemes, especially if additional cash is required from sponsors, who may be unwilling to release capital in the current economic climate.

Martyn Phillips, Director, JLT Employee Benefits commented:

“During 2012 pension schemes continued to seek de-risking solutions. There are still gilt related transaction opportunities for schemes courtesy of the enduring low gilt yield environment, which means that schemes with the right investment profile continue to be able to exchange their gilt holdings for a pensioner buy-in contract with little or no additional cost. We expect this trend to continue. It is also encouraging that bulk annuity prices remain relatively stable, which may enable a pick-up in activity in 2013 as schemes continue their aggressive drive towards de-risking. We anticipate a jump of around 50% in the buyout market compared to last year, equating to more than £6bn being transacted this year.

“One of the most striking features of 2012 was Partnership Assurance’s medically underwritten buy-in transaction – the first of its kind. We expect this market to develop significantly in 2013, which will particularly impact the smaller pensioner buy-in market. In addition, we anticipate more providers will offer medically underwritten solutions for pensioner buy-ins, such as Aviva, Just Retirement and Legal & General. More generally, we expect that other insurers will enter the de-risking market during 2013, which would provide an even more competitive market for schemes.”

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Editor's Notes:

About JLT Employee Benefits

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JLT Employee Benefits, which through the recent acquisition of Alexander Forbes Consultants & Actuaries, now employs over 2,000 professionals. In 2012 JLT Employee Benefits had revenues of some £146m in the UK.

Pensions and employee benefits companies within the JLT Employee Benefits group of companies include: JLT Benefit Solutions Ltd, Profund Solutions Limited, JLT Wealth Management Limited, JLT Investment Management Limited and Independent Trustee Services Limited.

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