JLT PENSION CAPITAL STRATEGIES

Press Release

Buyout activity stable as de-risking continues to be key for schemes, says JLT Pension Capital Strategies

July 2012, London - JLT Pension Capital Strategies (JLT PCS), which specialises in corporate consulting and pension scheme de-risking, today announces its latest analysis of pension fund buyouts in 2012.

- £500 million of buyout deals were transacted over Q1 2012.
- After exceptional deal volumes in 2011, activity levels have stabilised in Q1 2012
- Insurers remain positive that there will be an increase in activity over the remainder of the year, with two large deals having been announced in Q2 2012 worth in excess of £150 million
- Prices have remained stable during the early months of 2012 despite continued economic uncertainty.
- Bulk annuity prices remain higher than 12 months ago, predominantly due to the continuation of low bond yields.
- Pensioner buy-ins remain the most desirable contracts.

Pensioner buy-ins remain desirable due to their affordability, as pensioners are "cheaper" than deferred members and also because those schemes feeling the strain of funding levels can potentially complete a buy-in with no additional funding unlike a buy-out.

Low Gilt yields have led to schemes with the right investment profile being able to exchange their Gilt holdings for a pensioner buy-in contract with little or no additional cost.

During Q1, the first ever buyout to include active members was completed; the deal involved two schemes sponsored by Denso and JLT PCS were one of the advisors on this transaction. The transaction required the sponsoring employer to pay an annual premium to the insurer, in this case PIC, in respect of each year's accrual of benefits, to be calculated on a pre agreed formula linked to the number of active members over the year and their pensionable salaries.

The cost implications of Solvency II continue to be unclear, since its delay until 2014. However, most insurers remain comfortable about their pricing.

CPI benefits are still not being priced efficiently and consistently by insurers, predominately due to the lack of issue of CPI-linked debt from the Government. As such, many buy-ins are being secured on a RPI basis, with flexibility to change to CPI when the time is right.

Three longevity only providers (UBS, Nomura and Credit Suisse) have pulled out of the market, citing overly onerous capital and regulatory requirements. However, there is still significant competition in the market with a number of new re-insurers poised to offer quotations for a range of structures.

Martyn Phillips, Director, Head of Buyouts at JLT PCS, commented: "It remains to be seen what effect the persistent sovereign market crisis in Europe will have on the bulk annuity market. The market has been buoyant during testing conditions, with a record number of deals being completed in 2011".

Mr Phillips continues, "Market volatility means that it is extremely important for schemes to prepare in advance if they are serious about transacting. Even if current conditions may be seen as prohibitive, advance preparation will enable a scheme to transact swiftly once conditions allow".

"Deal activity for the rest of the year, in particular pensioner buy-ins, is expected to improve after a period of stability in Q1 2012. As insurers continue to offer flexibility in their terms, interest in de-risking solutions will remain high and more schemes of all sizes will approach the market over the remainder of 2012."

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About JLT Pension Capital Strategies

JLT Pension Capital Strategies (PCS) was established in 2006 to help companies to manage their Defined Benefit pension obligations, offering advice on managing scheme assets and liabilities, on communication with trustees and on finding the right funding solutions.

A subsidiary of the Jardine Lloyd Thompson Group, PCS can draw upon skills and experience in the areas of corporate finance, tax, capital markets, asset management, actuarial and general pension regulation and practice to provide strategic advice and practical answers.

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