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Association of Consulting Actuaries
Longevity de-risking: Update on buy-ins and buy-outs
Lane Clark & Peacock LLP Trustee Consulting Investment Consulting
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The headlines for 2015

- Buy-in and buy-out volumes of over £12bn
  - Record final quarter of £5.4bn
- A challenging year for insurers as they prepared for Solvency II



2015 Full Year

£12.3bn

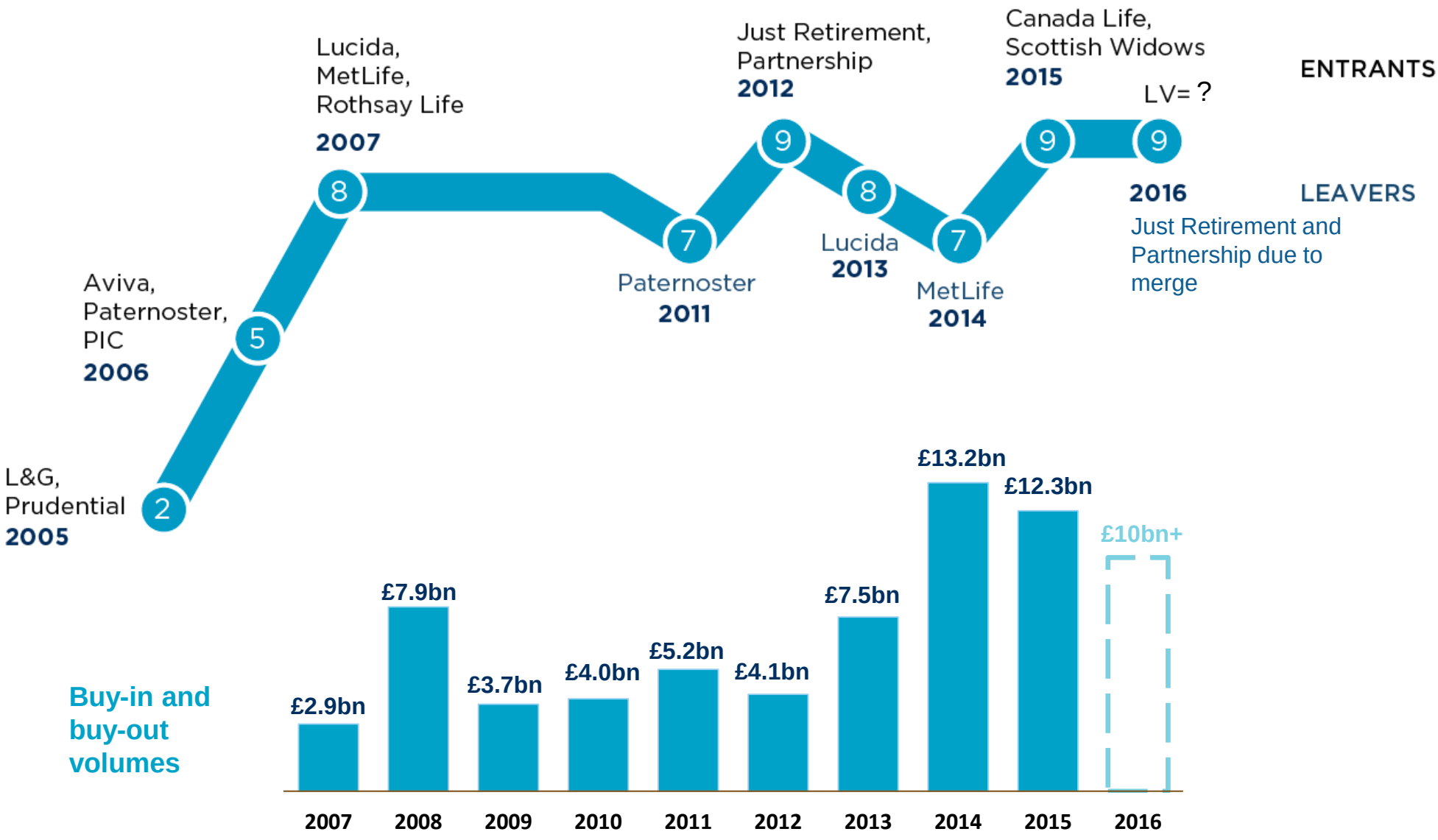
Buy-in and buy-out volumes

2015 Fourth Quarter

£5.4bn

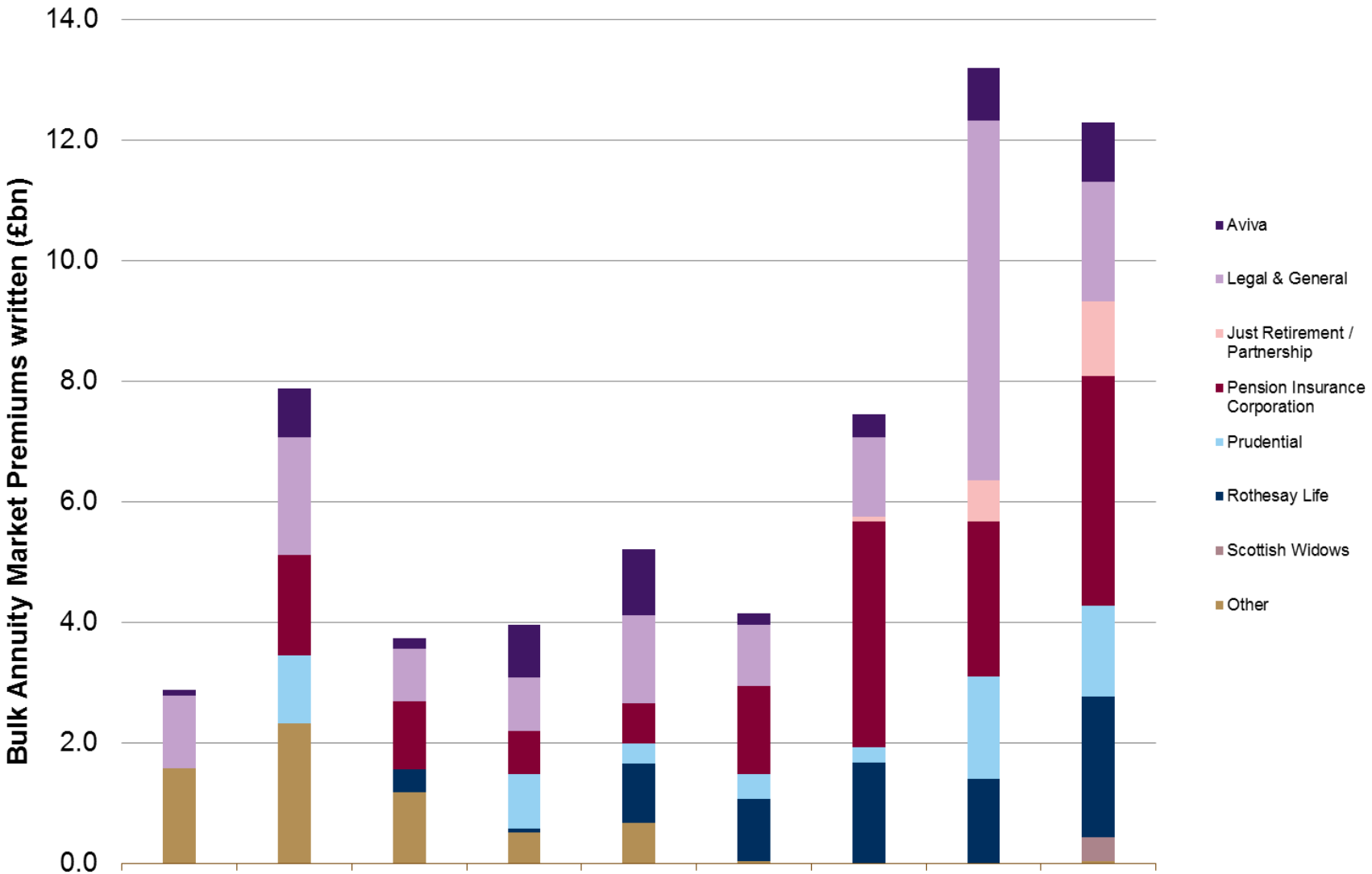
Buy-in and buy-out volumes

Insurers in the market



Source: LCP Pensions De-risking 2015.

Buy-in / buy-out market activity



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Buy-in / buy-out volume (£bn)	2.9	8.2	3.7	4.0	5.2	4.4	7.5	13.2	12.3

Source: Insurance company data.

Outlook for insurer capacity

2016 buy-in / buy-out capacity: **over £15bn**

Positive drivers:

1. Additional capacity from new entrants
2. Renewed management focus and risk appetite
3. Easier access to new capital

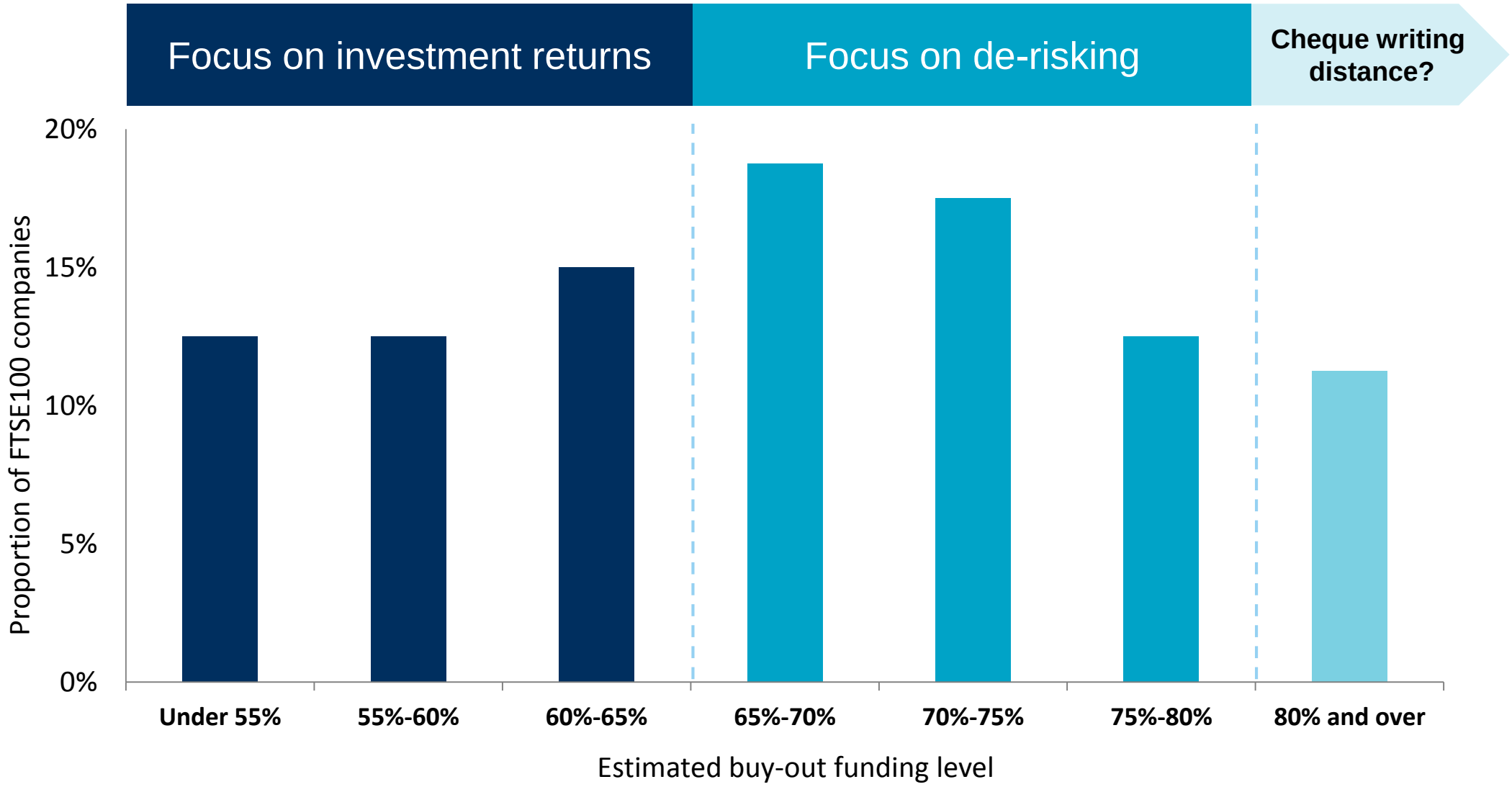
Negative drivers:

1. Increased insurer-to-insurer transactions
2. US de-risking market is awakening
3. Potential for UK pension plan demand to pick-up

We expect a capacity boost over 2016 (and beyond) but over the medium-term negative drivers could be more significant

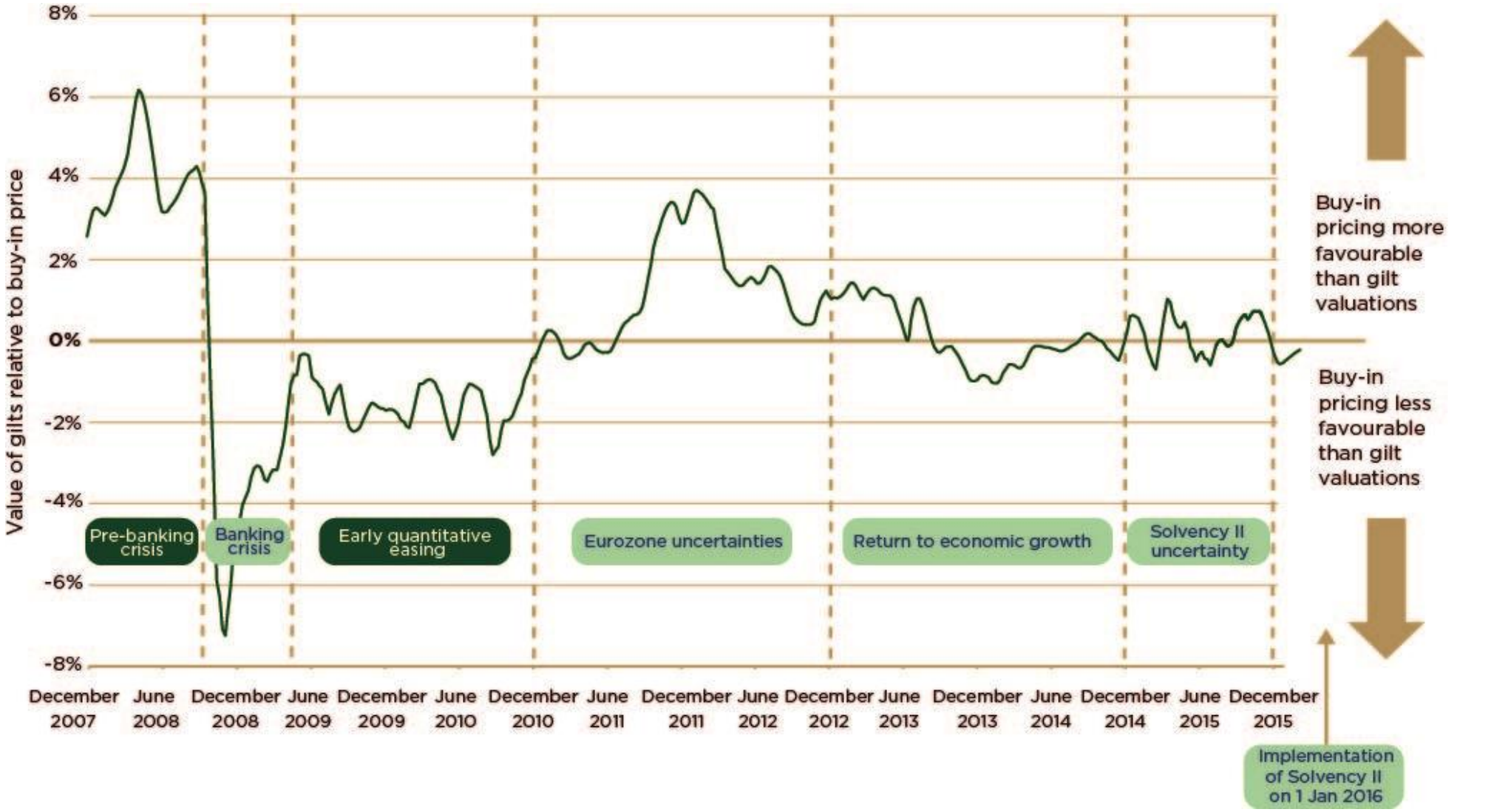
Potential for growth in demand

FTSE100 estimated buy-out funding



Source: FTSE 100 reports and accounts and LCP analysis. Figures are as at mid-2015 and cover UK schemes only.

Pensioner buy-in pricing



Current pensioner buy-in pricing is around a gilts valuation for a typical pension scheme so little or no funding cost where funded from gilt holdings

Source: LCP analysis of quotation and final transaction pricing. The analysis is based on middle-of the-road longevity assumptions for a UK pension plan. Buy-in pricing depends on a range of factors such as transaction size, benefit structure, membership profile and insurer appetite.

Some key transactions in 2015

ICI Pension Fund

Innovative umbrella contracts

£1.5bn of buy-ins (£5.4bn in total)

Philips Pension Fund

Phased de-risking: be buy-out ready

£2.4bn buy-in (£3.5bn full buy-out)

Civil Aviation Authority
£1,600m
Pensioner buy-in with Rothesay Life

Northern Bank
£680m
Collateralised buy-in with Prudential

Lehman Brothers
£675m
Full buy-out with Rothesay Life

MIRA scheme
£70m
PPF plus buy-out with PIC

Key themes for 2016 and beyond

- Capacity expected to increase to over £15bn in 2016 and beyond
- Record number of insurers actively competing and record activity
- Philips and ICI demonstrate that phased de-risking can allow even the largest schemes to insure significant volumes of liabilities cost-effectively
- Solvency II introduces new dynamics around pricing and structuring
- Potential for capacity challenges over the medium-term

Scope

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