Record-breaking

Kai Hoffmann considers how this has been another record year in bulk annuities, with more to come in 2020

I remember where I was on the night of 23 June 2016.

And I remember sitting in a lawyer's office negotiating a pension risk transfer transaction the next morning.

Between writing this article and it being published, the implications of that date may have changed. What is certain is that the past three and a half years have seen significant political upheaval and economic uncertainty. And despite this, the UK buy-in and buyout market has reached unprecedented volumes.

It is testament to the resilience of the pension schemes and insurers active in this market that 2019 has eclipsed all previous years. Whether the final figure of bulk annuities this year ends up being in excess of £40 billion or £45 billion – it is more than the past two years combined.

This is not only good news for an increasing number of scheme members who benefit from the security afforded by the insurance regime. It is also good news for the UK economy, where Legal & General invests a material proportion of the premium we receive. This includes our £4 billion partnership with Oxford University developing homes for staff and students, as well as science and innovation districts around this great city.

Looking at the largest transactions in this market, it is telling that the list has had to be updated frequently since we announced our £4.6+ billion buyout for the Rolls-Royce UK Pension Fund on 6 June 2019. We kicked off a summer of 'jumbo' transactions. Of the 10 largest bulk annuities, six occurred between June and October this year.

While the large transactions attract headlines, we continue to serve the whole market. Earlier this year, we completed a buyout for below £2 million. And we have seen transactions across all sizes as hundreds of pension schemes reach a point where they can afford buy-ins and buyouts.

But even for schemes with lower funding levels, the market continues to develop. As many wait for further details on the regulation of new entrant pension consolidators, we have launched a number of solutions helping to bridge that affordability gap. We suggest schemes continue to discuss de-risking options with their advisers.

One longevity insurance (HSBC, £7 billion) has been announced at the time of writing. We are aware of further transactions in the market. This remains an important option for trustees as they de-risk. And it appears a good stepping stone for some schemes as an increasing number of longevity hedges have been converted to bulk annuities this year or are expected to do so in 2020.

Later that summer in 2016, I read an interesting report suggesting demand for bulk annuities of £350 billion over the following 10 years. Since the start of 2017, we have seen almost one quarter of that volume already. There is a strong pipeline going into 2020 and beyond as schemes position themselves to take the logical next (and often final) step on their de-risking path. If only politics were so straightforward!

Written by Legal & General director, UK pension risk transfer, Kai Hoffmann

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