

Bulk annuity market Q3 trustee update

Market commentary

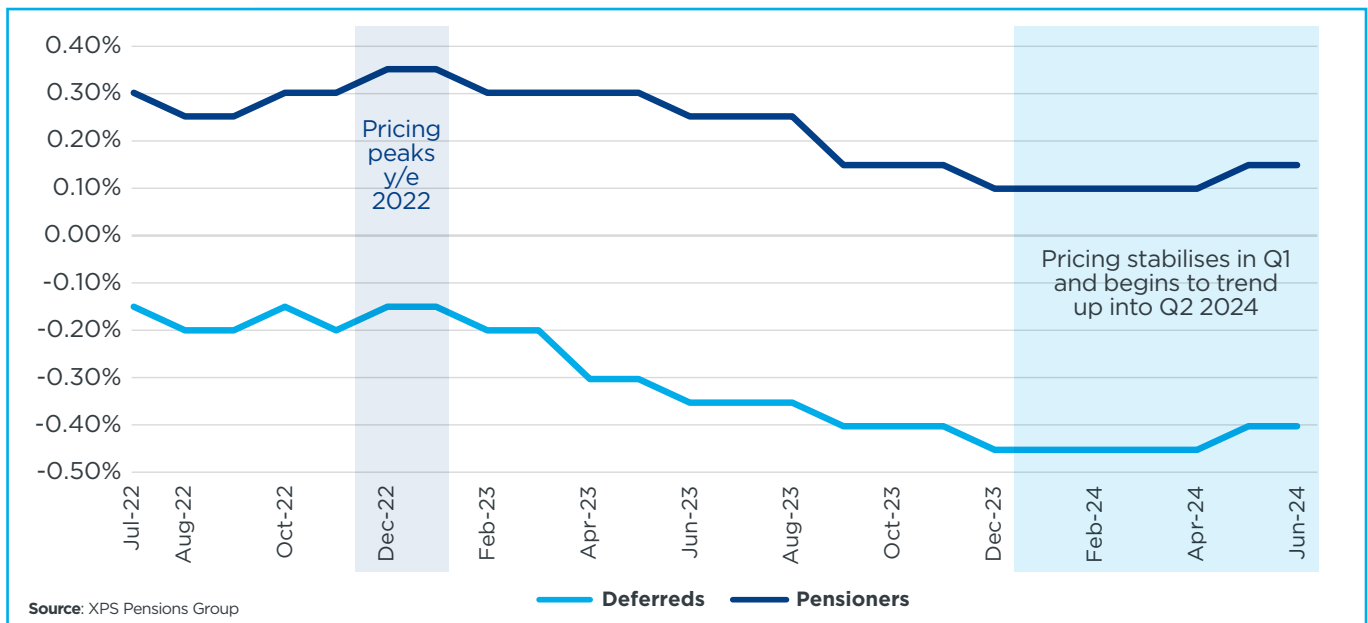
- The market continues to be busy, with lots of demand continuing to hit the insurers.
- H1 2024, however, saw fewer transactions announced than perhaps expected but H2 promises to be much busier, with many transactions across all sizes set likely to complete before the year-end.

Notable deals in the last quarter in the public domain included:

NSK	£309m	M&G
Rolls-Royce and Bentley Pension Fund	£880m	Standard Life
TotalEnergies UK	£1.2bn	PIC

Pricing levels

XPS closely tracks pricing through pricing feeds from insurers and real-life transaction pricing across deals of all sizes. **Average pricing over the past 24 months (relative to gilt yields) is illustrated below:**

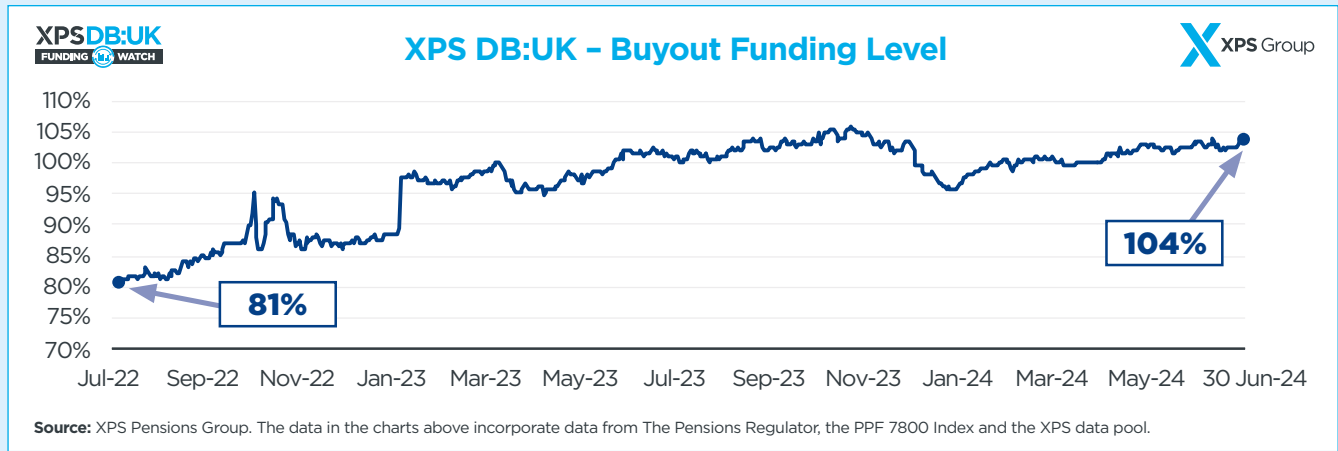


Note: The pricing is based on observed market pricing and model points from bulk annuity insurers and is representative of a generic £100m liability. Actual bulk annuity pricing is specific to a particular scheme's demographic and benefit profile, and other wider factors influencing insurer appetite for a transaction.

With a narrowing of credit spreads and some capacity constraints, pricing relative to gilt yields hardened over 2023 and stabilised over Q1 2024. We have now started to see some modest improvements in pricing towards the end of Q2 2024.

Funding and investment news

Inflation fell over Q2 2024, but with many schemes well-hedged against inflation, aggregate funding levels remained relatively stable. A slight widening of credit spreads has however led to an upward trend in funding levels over the past quarter, and funding remains at historically high levels. See **XPS DB:UK Funding Tracker** below.



Outlook for 2024

XPS market intelligence – insurers generally continue to be selective due to increased market demand, with c20+ deals at £1Bn+ reported to be either approaching insurers or already part-way through processes.

However, it's also looking likely that expected transaction volumes likely to complete in 2024 may be lower than 2023, which may present some attractive pricing opportunities towards the year-end.

XPS's experience remains that well-prepared schemes with well thought-out strategies continue to receive attractive pricing regardless of size.

New entrants – Brookfield, the Toronto-based investment firm, has now filed its paperwork with the PRA to set up a UK insurer and enter the bulk annuity market. This would mean 11 insurers in the bulk annuity market, a record number. This is good news for schemes as it means more capacity and potentially favourable early pricing from these new entrants, as they seek to establish early market share. However, trustees will want to be sure the new entrants are financially strong and can deliver a good administration service to scheme members.

Sub-£100m transactions – insurers, including some of the new entrants, continue to be at the smaller end of the market, with new propositions and dedicated capacity helping pension schemes attain competitive pricing. However, as always, preparation and understanding of market dynamics remain key.

Find out more

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