

How should employers engage with the buy-in process?

This edition of XPS Express considers **recent developments in the bulk annuity market and how employers can prepare well in advance of a buy-in transaction to ensure the best possible outcomes for their business.**

At a glance

300 insurer transactions were completed in 2024, with levels expected to increase over the coming years.

Increased competition amongst insurers has resulted in better pricing for schemes of all sizes, driven partly by new entrants to the market as well as recent market volatility, bringing schemes closer to full funding on a solvency basis.

Getting a scheme ready for a buy-in transaction includes consideration of illiquid assets, resolving data and benefit uncertainties, understanding accounting impacts and any potential distribution of surplus. This can take time, so employer engagement is therefore critical to enable schemes to seize favourable market pricing at the right time.

Increasingly, employers are setting up joint working groups for these projects and seeking their own advice to prepare for a transaction and monitor the process.

Current market overview

Increased competition at the smaller end of the market.

Widening in credit spreads has improved insurer prices further.

Blumont entered the market in March – adding to the competition from other new entrants, Royal London and Utmost, who wrote their first deals in 2024.

Clara-Pensions' recent superfund transaction strengthens the availability of credible alternative settlement options.

Key risks for employers

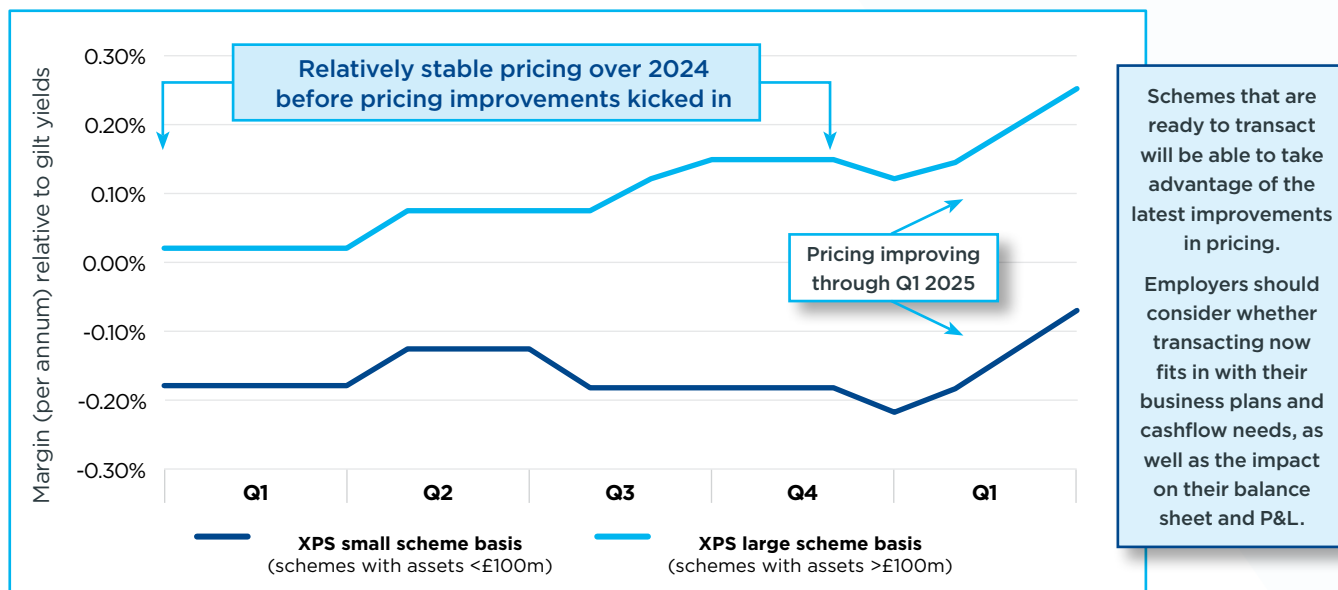
Areas	Key risks
Accounting impacts	Risk of P&L charge, especially under IAS19 and US GAAP, if structure is not managed.
Unfavourable pricing	Risk of missed opportunities with pricing if thorough due diligence and assessment of insurers are not carried out.
Unexpected costs	Risk of unexpected future employer costs or trapped surpluses if not all costs are accounted for and managed ahead of a transaction.

Actions employers should take

1. Engage with trustees on the timing of the scheme's transaction, especially if looking to take advantage of current competitive pricing.
2. Seek accounting advice on how the impact on the balance sheet and P&L can be managed.
3. Identify key obstacles, such as illiquid assets, data issues and benefit discretions, and consider setting up a joint working group to resolve outstanding issues.
4. Carry out due diligence and a third-party covenant review (in addition to the trustees' own checks) to ensure the chosen insurer offers competitive pricing and to minimise the likelihood of unexpected costs arising later in the process.

Current pricing levels

Average prices (relative to gilt yields) are shown below and highlight the recent uptick in price improvements over the last few months.



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

How employers can get 'insurance ready'

1	Insurer pricing	2	Engagement	3	Illiquid assets
	Increased insurer activity means schemes can be more selective in their choice of insurer. However, this choice makes it crucial for employers to carry out the necessary due diligence to assess the suitability of each potential insurer and avoid paying higher premiums.	Employers should engage with trustees to manage the risks of such a transaction, such as data cleansing, benefit reviews and codifying employer discretions. Employers should also seek advice in relation to accounting impacts, and may need to agree with trustees how any remaining surplus will be used.		Employers considering transactions should be considering how best to deal with their illiquid assets, with a sale often required to facilitate buy-in transactions. Secondary market opportunities could be considered for schemes requiring a quick sale and wanting to minimise the discount to asset values.	

Find out more

For further information, please get in touch with **Stephen Purves**, **Charlotte Yuen** or **Dan Auton**, or speak to your usual XPS Group contact.



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