UK Risk Settlement Bulletin

August 2019

A record breaking 2019

The first half of 2019 witnessed the highest amount of UK pension scheme bulk annuity transactions ever completed in a single half year.

With £17.9bn of business already written, and several large undisclosed deals set to complete in the second half of the year, it is expected that over £35bn of UK bulk annuities will be concluded in 2019. The chart below shows this volume in the context of other years.

The market is continuing to expand, driven by:

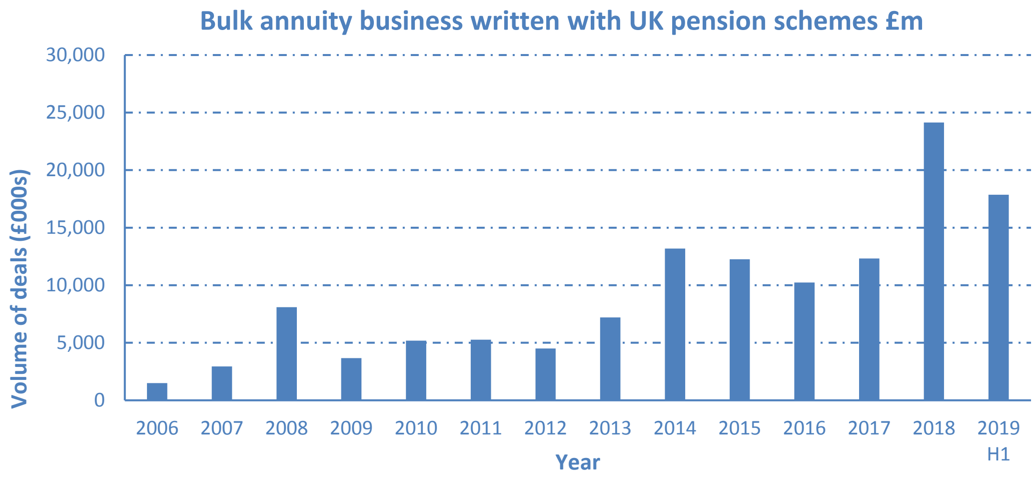
- Historically attractive pricing, driven by healthy competition and a strong supply of capital in the market;
- Strong capacity from the global reinsurance market, a key support to capacity in the annuity market; and
- Improved scheme funding levels.

Despite the first half of 2019 seeing the highest ever amount of bulk annuity business placed, the number of transactions is lower than for previous halves.

In the first half of 2019, there were 10 fewer cases written than the same period in 2018, and yet we saw over £10bn more market volume. This reflects the market's growing demand of larger transactions.

This strong market outlook is expected to continue into 2020. However, a busy market is not without its challenges and greater competition means it is likely that insurers will be more selective as they become stretched for resource and capital.

Irrespective of their size, schemes that are best prepared, demonstrating a likely transaction to insurers when the price is available, will stand out in this busy market.



Source: Data collected through Aon's survey of providers

Insurer bulk annuity cost

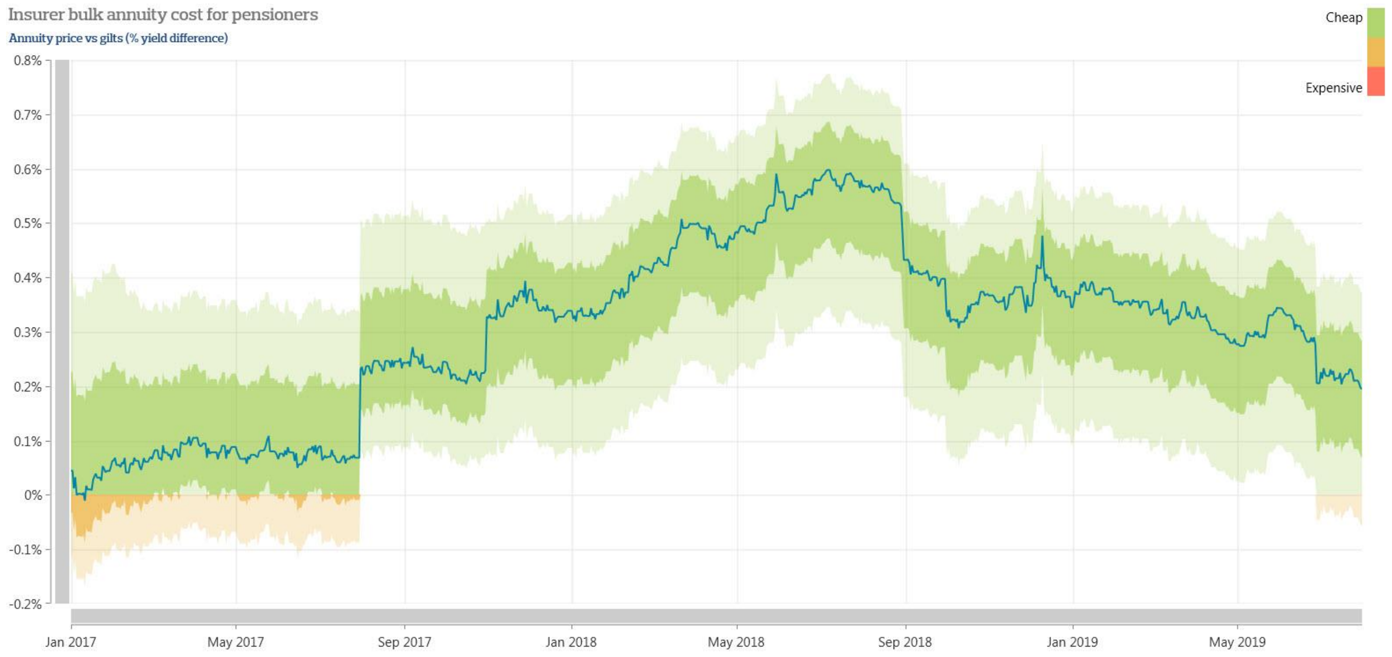
The chart below indicates the expected range of best pensioner pricing available in the bulk annuity market, for a typical scheme.

Given the record breaking start to the first half of 2019, it is clear that the bulk annuity market is still performing well despite pricing falling away marginally over 2019.

The relative fall in the attractiveness of pricing is largely due to contracting credit spreads, and the uncertainty and volatility caused by Brexit amongst other external factors.

Despite the worsening in pricing over 2019, we are still experiencing attractive pricing compared to historic levels. This is being driven partly by emerging longevity trends, and partly by the additional return insurers can earn over the 'risk free' rate (from diversifying their investment portfolio to include, for example, property, infrastructure, mortgages and equity release mortgages).

This has meant we are continuing to see strong pricing across a range of opportunities for schemes of all sizes.



How to read this chart

- This shows the return from a bulk annuity for pensioners, relative to the yield on a comparable gilt portfolio, assuming insurer-type assumptions beyond the discount rate.
- Annuities shown as 'cheap' if giving a better return than gilts.
- This comparison ignores the material value from annuities giving a better hedge than gilts, including longevity cover.
- Expected pricing for a typical scheme is shown by the blue line.
- Prices typically fall in the darker shading, and some auctions fall in the lighter shading. Pricing outside the shading typically represents an unusual liability profile.

Chart sourced from Aon's Risk Analyzer

Contact Information

John Baines
+44 (0)121 262 6944
john.baines@aon.com

Martin Bird
+44 (0)20 7086 9027
martin.bird@aon.com

Hannah Cook
+44 (0)20 7086 8115
hannah.x.cook@aon.com

Phil Curtis
+44 (0)20 7522 8276
phil.curtis@aon.com

Mike Edwards
+44 (0)20 7086 0437
mike.edwards@aon.com

Karen Gainsford
+44 (0)20 7086 9071
karen.gainsford@aon.com

Tim Gordon
+44 (0)795 632 4415
tim.gordon@aon.com

Dominic Grimley
+44 (0)121 262 5094
dominic.grimley@aon.com

Ben Harris
+44 (0)121 230 6828
ben.harris.2@aon.com

Tiziana Perrella
+44 (0)161 687 2014
tiziana.perrella@aon.com

Tom Scott
+44 (0)121 262 5073
thomas.scott@aon.com

Michael Walker
+44 (0)1372 733027
michael.walker.3@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance. For further information on our capabilities and to learn how we empower results for clients, please visit: http://aon.mediaroom.com/.