

Bulk annuity market Q1 trustee update

Market commentary

- The market delivered a strong finish to 2023, concluding with several £bn+ deals announced in December. Final values will be released later this year and indications are that towards £50bn of business was written over 2023 – which would be a record.

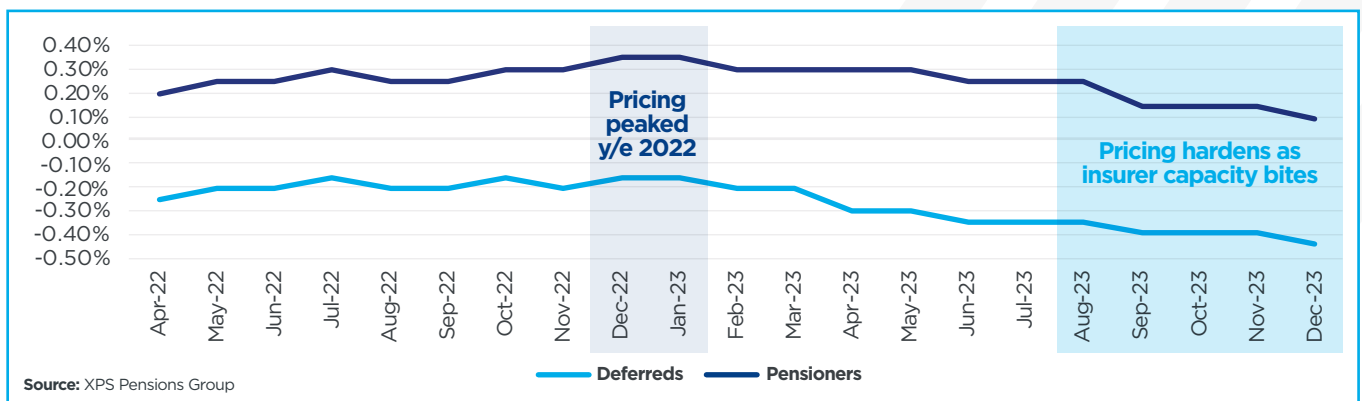
Notable deals in the last quarter in the public domain included:

Boots	£4.8bn	The largest single buy-in transaction in the UK, written by L&G
Co-op	£4.0bn	The final buy-in following the 2022 £1.1bn transaction for the same scheme, both written by Rothesay

- XPS led on 25 transactions in 2023, c40% more than in 2022.
- Insurer capacity constraints have continued to bite, with some deals attracting fewer bidding insurers than we would have typically seen in previous years. Pricing remains competitive for well-prepared schemes.
- The market for sub £100m transactions remains tight. Some insurers at the very small end of this market typically require exclusivity to provide a formal quotation.

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 18 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.

Industry news

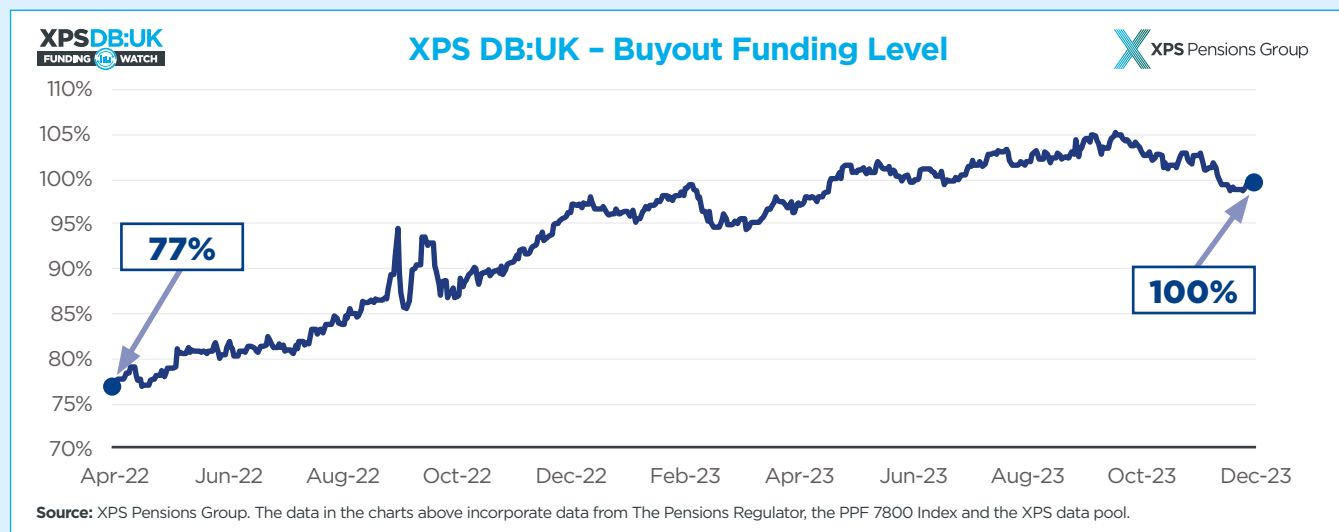
- **First superfund deal:** On 6 November 2023, Clara announced it had undertaken a £590m transaction with the Sears Retail Pension Scheme whereby members benefit from an immediate injection of £30m ring-fenced capital to support the Scheme's journey to buyout, which is expected to take place within 10 years.
- **Autumn statement:** On 22 November 2023, the Chancellor set out his Autumn Statement which included a series of responses to the Mansion House consultations including a commitment to reduce tax on surplus from 35% to 25% with effect from 5 April 2024.



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Funding and investment news

Bond yields are expected to remain volatile during 2024, but many schemes have de-risked and locked into more stable funding positions. Over the last quarter tightening credit spreads have slightly reduced funding levels, but funding remains at historically high levels. See **XPS DB:UK** Funding Tracker below.



Outlook for 2024

XPS market intelligence – Through our continued engagement with the insurers and own pipeline, XPS is aware of several £1bn+ transactions currently in the market and expects another bumper year for bulk annuity transactions. At the time of writing, we expect similar and possibly higher volumes to be written in 2024 than in 2023.

New entrants – XPS is aware of at least 2 insurers seriously looking at entering the bulk annuity space in 2024. The additional insurers should increase capacity and competitiveness which should help maintain pricing levels by offsetting the increasing demand as the year progresses.

Insurers – Insurers are pushing for earlier exclusivity with thresholds on smaller transaction increasing as demand continues to build. Competitive pricing is still attainable in the market, but preparation and understanding of market dynamics is more important than it has ever been.

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