

LET'S TALK: BUYOUT

JLT EMPLOYEE BENEFITS AUGUST 2017

JLT BUYOUT WATCH - TECHNOLOGICAL REVOLUTION

SUMMARY

Price swings of 5%, relative to matching assets, have been observed, and on occasion sometimes exceeded.

New technology is allowing schemes to obtain lower insurer pricing and daily information in the months and years prior to transacting.

Bulk annuity price monitoring and transacting has now taken a quantum step forward and JLT have combined industry-leading technological advances to integrate all of the following, to revolutionise the funding, monitoring and transfer of liabilities:

- actuarial valuations
- investment strategy reviews
- daily automated online funding level updates
- investment trigger switches
- requesting transactable bulk annuity quotations
- tracking bulk annuity prices

STANDARDISATION MEANS MORE INSURER PRICES AND BETTER PRICE INFORMATION

The data and benefits that go into JLT's triennial actuarial valuations are now standardised and fully insurer readable, i.e. JLT can obtain actual insurer prices using the same data and benefit file as it uses for a scheme's triennial actuarial valuation.

It means we can obtain more insurer prices, more quickly and more easily and that we can benchmark insurer pricing versus assets and technical provisions on a monthly or daily basis, therefore getting a better deal for schemes and proving better information.

It also means we can estimate insurer pricing in periods where insurers have not provided full pricing quotations and it means that the impact on scheme funding and investment strategy can be charted more clearly, for example if a pensioner in payment bulk annuity (buy-in) is being considered.

WHAT ADDITIONAL OPPORTUNITIES DOES THIS CREATE?

This increased capability opens up massive opportunities for trustees and sponsors. For example, if an actual insurer price is obtained and that insurer decides, many months later, that it is prepared to reduce its price to create additional new business or to bring in new premium money to fund infrastructure or mortgage lending commitments, then it is now easy for the insurer to make a cut-price offer to the pension scheme sponsor and trustees. This opportunity is something that would never have even be known about if an actual insurer price had not previously been obtained.

EXAMPLE 1 – ASSESSING THE “ACCURATE” POSITION

The triennial actuarial valuation benefit and data file can go to some (or all) of the full list of bulk annuity insurers in the market. The insurers are likely to quote even if they would not otherwise find the scheme attractive, because the data and benefit format is completely standardised and needs no manual intervention.

The trustees and sponsor can then review the valuation results alongside actual insurer pricing from one or more insurers.

JLT's systems will now track the valuation liabilities, assets, accounting liabilities and also the insurer price rolled forward daily or monthly.

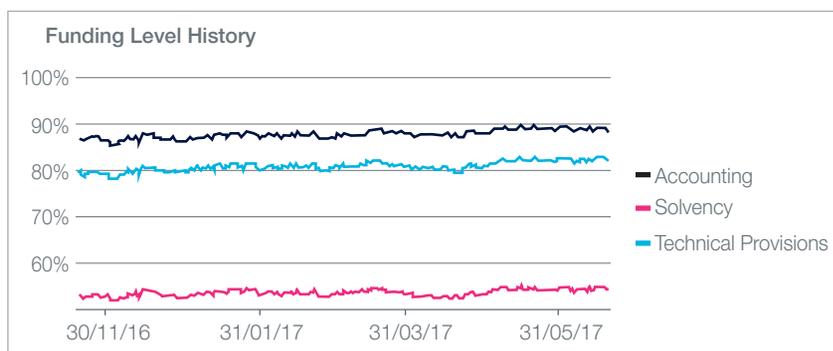


Figure 1: Daily funding level monitoring (source: JLT, PFaroe)

ABOUT US

JLT Employee Benefits is one of the UK's leading employee benefit providers offering a wide range of benefit and pension services, including administration, actuarial and pension consultancy, investment, Self Invested Personal Pensions (SIPPs) and Small Self Administered Schemes (SSASs) administration, flexible benefits, healthcare, benefit communication and financial education.

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In addition to the roll-forward, the insurer can update its price more fully at such intervals as the trustees and insurer agree, say quarterly or half yearly and this will create actual (rapidly transactable) opportunities for the scheme.

Suppose that, at the end of November, the insurer is falling behind its new business volumes for the year – it can make an offer to the trustees at an attractive price.

Suppose that, in March, the insurer has a large infrastructure investment and needs a lot of money very rapidly that is non-surrenderable, where else could it get this kind of non-surrenderable money, other than from a pension scheme annuitisation? The insurer may offer a cheaper price to the scheme to get this money.

EXAMPLE 2 – ASSESSING THE “APPROXIMATE” POSITION

What if the scheme is a long way from being able to purchase a bulk annuity policy? In this case, an inexpensive tracking mechanism may be required.

Once a triennial valuation has been carried out on the new system, then

monthly approximate bulk annuity price bands can be tracked. At the time of writing, the participating short-list of insurers feeding into these approximate price ranges is Aviva, Legal & General and Pension Insurance Corporation (PIC).

The price bands are not based on full individual member data, so are indicative rather than transactable, but should the position move closer to a viable transaction then it will be possible to rapidly request actual insurer prices based on full data, which will result in transactable insurer prices.

WHAT WOULD WORK BEST FOR MY SCHEME?

Our Buyout Team would be happy to explain more and help you explore possibilities for your scheme.

The JLT Buyout Team has advised on c200 bulk annuity deals covering more than £13bn of liabilities and transacted with 11 separate insurers.

Our conversion rate is consistently around 60% or above, as measured by one leading insurer; rising to 85% when deals that transact within a further 24 months are included.



Figure 2: Monthly approximate bulk annuity price monitoring against scheme assets, accounting and funding liabilities (source: JLT, PFaroe)

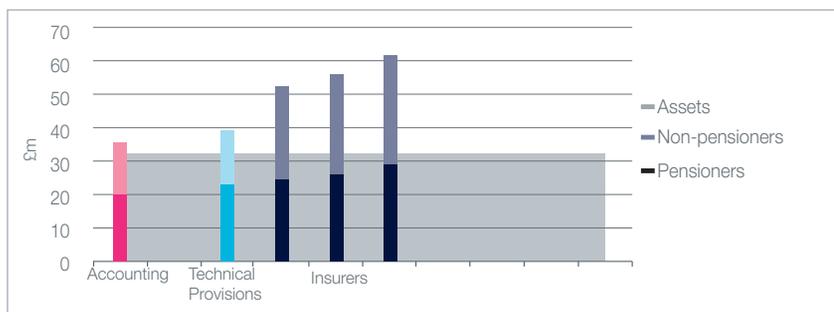


Figure 3: Approximate month-end bulk annuity prices (source: JLT, PFaroe)