



Punter Southall  
TRANSACTION SERVICES

# The False Dawn – Key Findings

An extract from 'The False Dawn – An update on the UK  
bulk buy-out market & other de-risking solutions'

September 2009

Following on from last year's research report 'The End Game? – An analysis of the bulk buy-out market & other de-risking solutions', which provided a comprehensive analysis of the state of the bulk buy-out market, Punter Southall Transaction Services has launched their second extensive report on this topic: 'The False Dawn – An update on the UK bulk buy-out market & other de-risking solutions'.

## Key Findings

- Some of the monoline new entrants are currently constrained by a lack of available capital. Paternoster and Pension Insurance Corporation both announced attempts to raise additional capital in 2008, but there has been no news of success in this area. Due to a lack of available capital, Paternoster cannot currently write new business.
- Despite the capital problems of some of the monoline insurers, there is sufficient capital available in the buy-out market to meet current levels of demand from pension schemes. It is a lack of demand for the buy-out option, rather than a shortage of capital, that has led to the reduction in buy-out activity.
- Buy-out is now unaffordable for the vast majority of pension schemes. Pricing discounts which existed until the summer of 2008 have disappeared, funding levels of pension schemes have worsened due to investment losses, and in the current climate companies are increasingly reluctant to plough the necessary cash into their pension scheme to facilitate a buy-out.
- We have constructed a model which suggests that in around 84% of scenarios a pension scheme would be able to run off the liabilities at a cost below the buy-out price, adopting the same low-risk investment strategy an insurer would use.
- The majority of deals done in the bulk buy-out market over the last couple of years have been pensioner buy-ins, but in most cases we do not consider such deals to be of value to shareholders.
- Interest in collateralisation agreements for buy-in transactions has increased in recent times, but we question the additional protection offered by such products.
- The buy-out option is more attractive to small rather than large pension schemes, due to the fixed expenses associated with running a pension scheme and the increased longevity risk which small schemes face. It is therefore disappointing that most of the new entrants to the market have focussed their resources on attempting to persuade larger pension schemes to transact.
- Total business volumes for 2008 were £8 billion, which was in line with the prediction we made in August 2008. It was, however, lower than many insurers had hoped for, particularly given the extensive publicity which the buy-out option attracted during the year; some insurers had hoped business levels would top £12 billion.
- In 2009 business levels have slumped as demand for the buy-out option has waned. We do not expect activity to pick up in the short term, and expect around £3 billion of business to be written over the year. Some insurers and other commentators have stated that they expect bulk buy-out business figures to be £8-10 billion.
- Over recent years pension schemes have strengthened their mortality assumptions, such that there is usually only a small difference between their assumptions and those used by an insurance company. Some pension schemes will be using a more prudent assumption than insurance companies.
- We have been analysing the longevity swaps market for a few years, and expect to see it continue to grow in the future. However, currently longevity swaps are only available to larger pension schemes, and cover just the existing pensioners.

## About the Authors



### Richard Jones FIA

**Call: 020 7533 6967 · Email: [richard.jones@pstransactions.co.uk](mailto:richard.jones@pstransactions.co.uk)**

Richard has twelve years' experience in advising corporate entities on pension and investment issues. He is the head of Punter Southall Transaction Services, which is the specialist transactions consulting division within Punter Southall.

Richard has spent the past nine years with Punter Southall, working on a variety of UK and international pension issues from the corporate perspective. He has been involved in a large number of international mergers and acquisitions, particularly involving UK and US interests for both corporate buyers and private equity firms.

Amongst other clients, Richard is the lead consultant for an investment company, for whom he provides actuarial and investment advice on a number of global pension schemes with more than \$3 billion in assets. Prior to working in Punter Southall Transaction Services, Richard worked for Punter Southall LLC in the Boston office, USA.

Richard co-authored *The End Game? – An analysis of the bulk buy-out market & other de-risking solutions*, which was published in June 2008. He has a degree in Business Economics and became a Fellow of the Institute of Actuaries in 2002.



### Martin Hunter FIA

**Call: 020 7533 1885 · Email: [martin.hunter@pstransactions.co.uk](mailto:martin.hunter@pstransactions.co.uk)**

Martin joined Punter Southall in 2004 and initially worked on a team advising pension scheme trustees. In 2006 he transferred to Punter Southall Transaction Services, where he now advises private equity houses, investment companies and other corporate entities on the acquisition and disposal of defined benefit pension schemes. Martin also advises corporate clients on the ongoing management of their pension liabilities, including offering advice on valuation negotiations, liability reduction exercises and other de-risking strategies.

Martin co-authored *The End Game? – An analysis of the bulk buy-out market & other de-risking solutions*, which was published in June 2008 and he is a member of the Punter Southall buy-out team. He also captains the Punter Southall football team.

Martin graduated from Keble College, Oxford, with a BA in Mathematics in 2003 and became a Fellow of the Institute of Actuaries in 2008.



### Oliver Herbert

**Call: 020 7533 1820 · Email: [oliver.herbert@pstransactions.co.uk](mailto:oliver.herbert@pstransactions.co.uk)**

Oliver joined Punter Southall Transaction Services in 2006 where he offers advice to corporate entities involved in transactions, advising clients on both the buying and selling side. He also works on the valuation of employee stock options, both for accounting disclosures and expert witness cases, and is a member of a Punter Southall team analysing international pension issues.

Oliver co-authored *The End Game? – An analysis of the bulk buy-out market & other de-risking solutions*, which was published in June 2008 and he is a member of the Punter Southall buy-out team.

Oliver graduated from Brasenose College, Oxford, with a BA in Modern History in 2004. Following this, he went on to obtain an MSc in Economics, with distinction, at the University of Bristol.

# Punter Southall Transaction Services

Delivering the highest quality service in the most demanding situations, Punter Southall Transaction Services advises private equity houses, investment companies and other corporate entities on the acquisition and disposal of companies with defined benefit pension schemes. We also help clients to analyse the pensions risk in their existing investment portfolio and we advise on appropriate ongoing management of pension liabilities.

## Transaction consulting

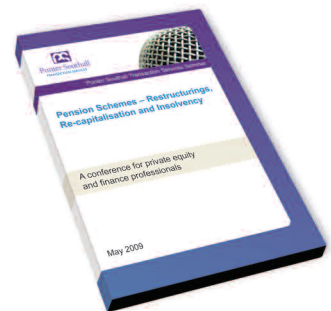
- UK and international due diligence
- Advice on disposal, re-financing or flotation
- Assistance with the Pensions Regulator's clearance process
- Post-acquisition solutions

## Corporate consulting

- Risk and cost management of defined benefit arrangements
- De-risking solutions, including bulk buy-out and longevity swaps
- Funding negotiations between companies and trustees
- Advice on dealing with the Pensions Regulator

## Conference DVD

Earlier this year, our conference 'Pension Schemes – Restructurings, Re-capitalisation and Insolvency' held for private equity and finance professionals, dealt with the effects of the credit crunch on pension schemes and related investment issues. To obtain your copy of the conference presentations on DVD, please contact Alison Smith using the details below.



## Find out more

To obtain a copy of the full report or DVD, please contact Alison Smith:

**Email:** [alison.smith@pstransactions.co.uk](mailto:alison.smith@pstransactions.co.uk)  
**Phone:** 020 7533 6990

For further information, visit our website at [www.pstransactions.co.uk](http://www.pstransactions.co.uk)

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