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Before buying pension liabilities, UK insurers may require check-ups

By Editorial Staff *Thu, Mar 20, 2014*

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JLT Employee Benefits, Aviva, Hymans Robertson, Legal & General and other insurers and advisers in the UK pension industry plan to produce a guide to help plan sponsors and trustees decide whether to use medical underwriting when buying bulk annuities.

“Bulk annuities” are the group policies traditionally offered by large UK insurers. Defined benefit pension plans buy bulk annuities with plan assets and a premium. The issuer of the annuity pays the retirement incomes of some or all of plan’s retirees, taking on all the risks associated with such a liability.

Medical underwriting of bulk annuities, where the premium would be adjusted according to the health and lifestyle habits of the covered retirees, is a new concept in the U.K. The move to produce a guide on medical underwriting for plan sponsors was prompted by the arrival of new insurers in the market who want to get a better grip on their risk exposures.

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Medical underwriting, of course, can cut both ways. While insurers suggest that it could result in lower premiums, plan trustees and sponsors fret that if individual plan participants’ health and lifestyles are assessed, the premiums might end up being higher than they would have been.

Sponsors also fear that once a plan had made a detailed enquiry about medical underwriting, if it then decided not to go ahead with the deal, other bulk annuity providers might assume the membership was in better-than-average health and decline to quote.