Retirement Income
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Rising sales of "medically underwritten" group annuities reported in UK

By Editorial Staff *Wed, Feb 25, 2015*

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A handful of UK life insurers are enjoying a boomlet in sales of "medically underwritten" group annuity contracts to defined benefit pension plan sponsors. Sometimes called "impaired annuities," these contracts cost less than conventional group annuities because the pricing reflects the annuitants chronic health problems—such as diabetes, cancer or risk factors for cardiovascular disease, such as smoking, high blood pressure and obesity.

Sales of medically underwritten insurance contracts in the UK reached nearly £600m in 2014, with close to three-quarters of deals being completed in the final quarter, according to UK consultancy Hymans Robertson. Only £91m worth of such deals occurred in 2013, when the first medically underwritten transaction took place.

The market for these specialty annuities is expected to grow to £1.5bn (€2bn, $2.6bn) by the end of 2015, *IPE.com* reported this week. These sales are helping offset the decline in sales due to the termination of government-mandated annuity purchases with qualified savings, which takes effect in April. Click **here** for information on medically underwritten bulk annuities.

These recent medically underwritten deals have been pension "buy-ins." Unlike pension "buyouts," like the one that Prudential and MassMutual just agreed to with Kimberly-Clark in the U.S., and which transfer all responsibility for the pension to the insurer(s), a buy-in allows the plan sponsor to hold the annuity as a plan asset but shifts longevity, inflation and investment risk to the insurer.

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Just Retirement has seen its annuity sales decline only 4%, event though the UK government has stopped requiring most retirees to annuitize their defined contribution savings by age 75. The company said it offset the decline in individual business with a 39% increase in bulk annuity sales, with total business peaking above £660m.

Overall, the bulk annuities market—of which medically underwritten is a tiny fraction—grew significantly over the last year. The reason: it’s cheaper for the plan sponsor to use a buy-in than to try and match its payment liabilities with UK Gilts (the British counterpart to U.S. Treasuries), because of the competitive market and rising Gilt prices.

A Hymans Robertson partner, James Mullins, said the number of bulk annuity deals completed in 2014 stood at an estimated 180, of which 22 were medically underwritten. In terms of value, the medically underwritten market accounted for just 5% of all deals. Mullins said that, in his firm’s experience, medically underwritten buy-ins were pricing around 5% below traditional contracts.