

Increase in pension scheme buy-out demand in 2010, but average transaction size remains low

- £3.2 billion in first six months of 2010 compared to £3.7 billion throughout 2009
- 65% of all transactions involved premiums of less than £10 million
- Medium-sized schemes waiting for economic and deficit improvements

London, 20 September 2010

There has been an increase in demand for insuring the defined benefit obligations of occupational pension schemes in 2010 relative to 2009, according to new data released by Mercer.

Mercer's data highlights that £3.2bn of business was written in the first half of 2010 compared with £3.7bn of business written during the whole of 2009. However, the majority of the transactions undertaken so far this year relate to small schemes, with 65% of all the transactions so far in 2010 involving a premium of less than £10m.

"If the trend of the first six months continues, total business volumes of approximately £6bn to £8bn may be anticipated", said Stuart Faloon, Head of Bulk Annuity Broking at Mercer. "Supporting this growth is a steady flow of large deals with some looking at longevity swaps".

Mercer's data also illustrates the influence that large transactions currently have on the overall volume of business being transacted. Excluding the five deals in excess of £100m – including the £1.3bn British Airways deal – the remaining transactions have been relatively small. Around £1.1bn of business has been written from 84 transactions, representing an average transaction size of £13m.

"The large number of small transactions is driven by companies seeing the additional cost of buy-out as bearable compared to the costs of maintaining small schemes and the risks involved," he continued. "Many medium-sized schemes are waiting on the sidelines for the time being."

Mercer believes that as business confidence and the funding position of pension schemes improves, a greater number of medium-sized schemes will look to proceed towards buy-out/buy-in or other de-risking strategies. If the government decides to issue CPI-linked gilts in 2011 and a liquid market for such assets develops, it would not be unreasonable to anticipate a sudden and significant increase in activity in the buy-out/buy-in market.

"Given the lead times often involved in completing buy-out and buy-in transactions, trustees and sponsoring employers need to start planning now if they are considering either a buy-out or buy-in in 2011. Indeed, the volume of quotations being prepared by insurance companies suggests that many schemes are already engaged in the process," commented Mr Faloon.

Mercer recently acted as the actuarial adviser to the trustee of the Alliance UniChem Group UK Pension Scheme which insured its defined benefit obligations with the Pension Insurance Corporation as part of a buy-in deal. It is the 19th bulk annuity transaction in the previous 12 months in which Mercer has played a major role. Mercer acted as lead adviser and broker in 17 of these 19 transactions.

-Ends-

Notes for editors

The data is compiled from information provided by the following insurers: AEGON Scottish Equitable, ALICO, AVIVA, Canada Life, L&G, Lucida, MetLife, Paternoster, PIC, Prudential and Rothesay Life.

Size of deal	Quarter 1, 2010		Quarter 2, 2010		Half 1, 2010		Average H1 2010 size £m
	No of deals	Business written £m	No of deals	Business written £m	No of deals	Business written £m	
≥ £100m	1	210	4	1,920	5	2,130	426
£10m - £100m	16	739	10	222	26	961	37
<£10m	34	103	24	41	58	144	2
Total	51	1,052	38	2,183	89	3,235	36

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Contacts:

Stuart Faloon
 +44 28 9055 4230

Alistair Peck/Mags Andersen (**Press Office**)
 + 44 (0) 20 7178 3143 / 3513 mercier.pressoffice@mercier.com