

Overview of the UK pension risk transfer market



2022 The year so far

This year we celebrate 35 years since our first buy in transaction in 1987. Since then, we've seen the buy in and buyout market grow significantly, with over £200 billion of transactions completed in the UK alone. This, however, represents only a small proportion of the estimated remaining £2 trillion of uninsured UK Defined Benefit ("DB") pension scheme liabilities.

The financial markets have been volatile in the first half of the year and reflective of the ongoing economic and geopolitical uncertainty. Against this backdrop, interest rates have risen, which has improved pension schemes' funding levels. Many pension schemes are now finding themselves closer to their endgame objective than expected. As a result, we're seeing a step up in demand from those looking to secure buy in and buyout transactions.

In this update, we provide an overview of the business we've written, reflect on our history in the Pension Risk Transfer ("PRT") market, share insights from a panel of independent trustees and provide an update on our Environmental, Social and Governance ("ESG") initiatives.

UK new business volumes

During the first half of 2022 we wrote 20 policies, totalling £3.7 billion of new business premium in the UK. This compares to 17 policies and £2.9 billion of premium received during the first half of 2021.

Bulk annuity sales HY 2022	£0m- £100m	£100m- £500m	£500m+
Total amount (£m)	442	1,016	2,257
Average size of quote (£m)	28	339	2,257
Number of transactions	16	3	1

We are committed to working with pension schemes of all sizes. This is reflected in our range of transactions from our smallest deal of less than £1 million through to our largest deal of c£2.2 billion – a follow-on transaction with the British Steel Pension Scheme ("BSPS") under an umbrella agreement. **LGIM has recently been appointed** to manage the remaining assets of the BSPS Defined Benefit scheme.

A record-breaking H1 for our US business

In the US, we secured \$729 million of new business, across four transactions covering approximately 5,000 participants. This included our largest transaction in the US to date at over \$550 million.



Looking forward

In the second half of 2022 and beyond, we expect the market to be even busier and transaction volumes to increase significantly. A key part of our strategy is to ensure that we have the resources to support this growth.

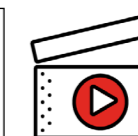
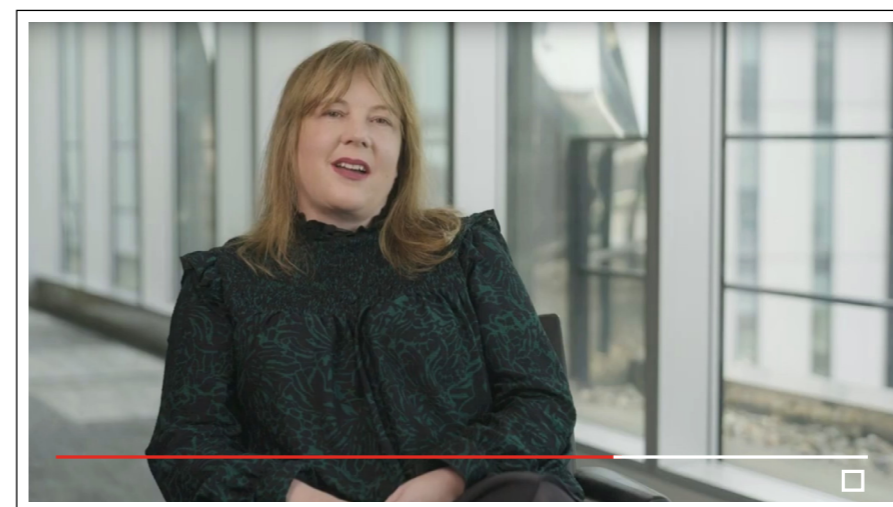
On pages 4 and 5, we share independent trustees' views on how they're navigating this busy market and also provide some tips on how pension schemes can ensure they're well-positioned to get the most from insurers.

Celebrating 35 years

As the longest serving active provider in the market, we have experienced the evolution of PRT since our first transaction with Routledge & Keegan Paul in January 1987.

Dennis Canham, a now retired Legal & General actuary, was given an exciting challenge to lead a new "bulk purchase annuities" team and told to "see what you can make of it".

From humble beginnings, the industry has grown significantly and is widely viewed today as the gold standard for securing members' benefit promises for the long-term.



In this short video we look back at our journey so far.

All our administration is still done in house and in the UK, I think that makes us really unique.

Claire Shepherd,
Transition Director

These are some of the achievements we're most proud of:

Momentous transactions

We've written some of the largest transactions in the history of the market, such as our £4.6 billion buyout with Rolls-Royce and our £4.4 billion buy-in with British Airways.



One million retirement customers

We provide income and security to over one million retirement customers around the world.



Becoming a global business

We are a truly global business: we've secured over \$7 billion of business in the US and over CAD \$680 million in Canada to date.



£28+ billion of direct investments

We've made over £28 billion of direct investments into areas like urban regeneration, transport, housing and clean energy.



Innovative solutions

We've developed innovative solutions for pension schemes such as **Assured Payment Policies**.



We're investing in Newcastle, in Cardiff, in studios in Elstree. And these are investments that make a real difference in people's lives.

John Towner,
Head of New Business

Independent trustee insights

In June we hosted our first in-person event since 2019 with over 200 individuals from across the industry attending.



Our panel discussion with three independent trustees, Nadeem Ladha of 20-20 Trustees, Tiziana Perrella of Dalriada Trustees and Chris Martin of ITS, gave attendees some insight into trustees' views of the market. Here are some of the key themes from the discussion:

Innovation in the market

The panel recognised the increased flexibility and innovations that insurers now offer, which support greater capacity and choice in the PRT market. Nadeem noted that **"we've not struggled to find a home for our members regardless of scheme size and we are beginning to see innovation trickle down to smaller schemes"**. However, the panel acknowledged the importance of making quote processes efficient so that this trend can continue as market volumes increase further.

Engage early and work closely with insurers

Tiziana raised the importance of engaging early in a busy market; **"it pays to interact early and be clear and open about objectives, as insurers are there to help schemes transact"**.

Chris added that the best results can be seen **"when a scheme is transparent around transaction timescales, as insurers are best placed to determine when pricing is most advantageous to a scheme"**.

Preparation is key

The independent trustees also highlighted the value in preparing the data and benefit specification in advance of approaching the market, making use of standardised contracts, and setting out an appropriate quote process depending on pension scheme size and complexity.

From the panel's perspective, this preparation is not only key to an efficient quote process but also for a smooth transition. They believe that a strong administration team at an insurer can provide the right level of support to the pension scheme's own administrators as they go through this process.



Our tips to navigating a busy market

We echo the thoughts of the panel and reiterate the importance of engaging early and being able to demonstrate that a pension scheme is "transaction ready". This is even more important in the current market environment where pension schemes may find they are closer to a transaction than expected, and if they aren't prepared to transact then they may miss out on pricing opportunities which can be short-lived.

Whilst we do not have control over volatile markets we are able to help pension schemes and their advisors understand how close they may be to their endgame and what changes they can make to their investments to lock in some of the recent funding gains. This will allow pension schemes to more accurately hedge against movements in insurer pricing as they prepare for a transaction.

One approach that pension schemes may wish to consider is partnering with an insurer, or a small panel of insurers. By setting clear objectives, having nimble governance in place and engaging with their chosen insurer(s) for a period of price monitoring, pension schemes will be well-placed to secure a transaction at an opportune time for them.

What does great preparation look like?

To help demystify the process, we have created a simple step-by-step checklist packaged up in a neat acronym: A BADGE.

Read the article [here](#).



De-risking Best Practice Guide

All UK insurers operating in the bulk annuity market have worked together in collaboration with DLA Piper to produce the industry's first ever Best Practice Guide. The aim of the guide is to help pension schemes to prepare for a quotation and drive greater standardisation and efficiencies across the market. We hope to see you at the launch event on 8 September.

Launch event Industry's Best Practice Guide on Preparing Pension Schemes for a Bulk Annuity Quotation

Thursday 8 September 2022
3pm - 7pm BST

[Register here](#)



Putting the climate first

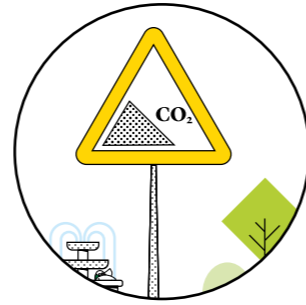
Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders – we call this inclusive capitalism.

Addressing climate change is, therefore, a strategic priority for Legal & General and we are focused on leading the market in this area, both in PRT and our wider business. We have highlighted below some of the noteworthy actions we're taking to help meet our climate goals.

Using the assets backing our pension promises to drive change

We've reduced greenhouse gas intensity materially since the end of 2019. We are on track to achieve a **18.5% reduction** by the start of 2025, 50% by 2030 and **net zero by 2050**.

We have divested from issuers with notable coal activity in 2021 and made no new investments in the hundreds of companies that are on our exclusion list.



Promoting industry leadership for over a decade

We've been a signatory to the **UN Principles of Responsible Investment** since 2010. We've been a member of the Institutional Investor Group on Climate Change since 2011 and Co-Chair of the Business Leaders Group at COP26.

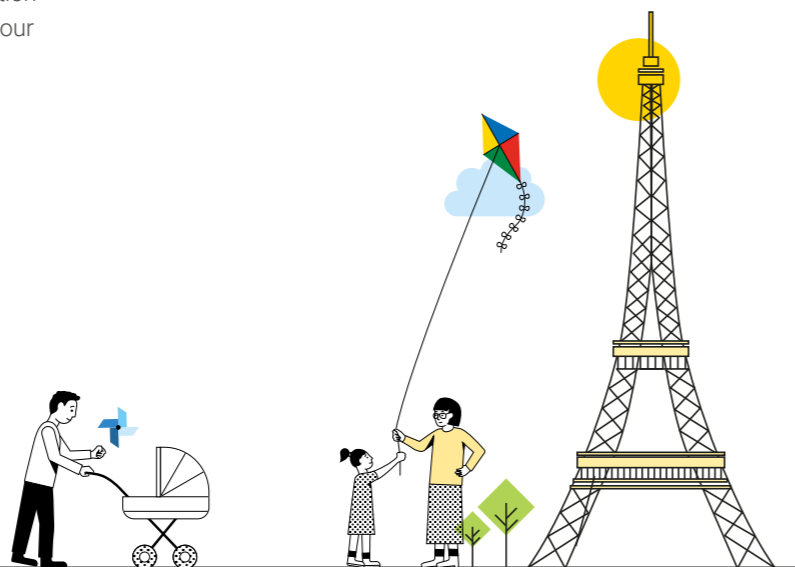


Stewardship-led approach to investments

We engaged with **over 1,000 companies** in 2021 on ESG factors. We are committed to voting against FTSE 100 Boards with no ethnic minority representation and FTSE 350 Boards with less than 30% female representation.



Further information can be found in our 2021 Climate Report [here](#).



Practicing what we preach

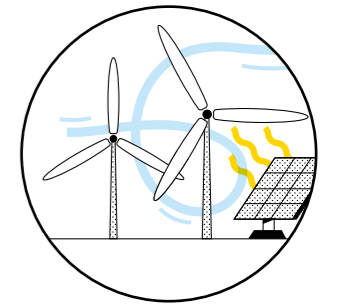
We are committed to **operational net zero** for our occupied offices and business travel by 2030 with focus on operational improvements rather than carbon offsets.

We have enhanced our ESG governance. We recently appointed Simon Gadd, our former Group Chief Risk Officer, to a new role as Group Climate Change Director and Nilufer von Bismarck as a Non-Executive Director on our Group Board with a specific focus on climate.



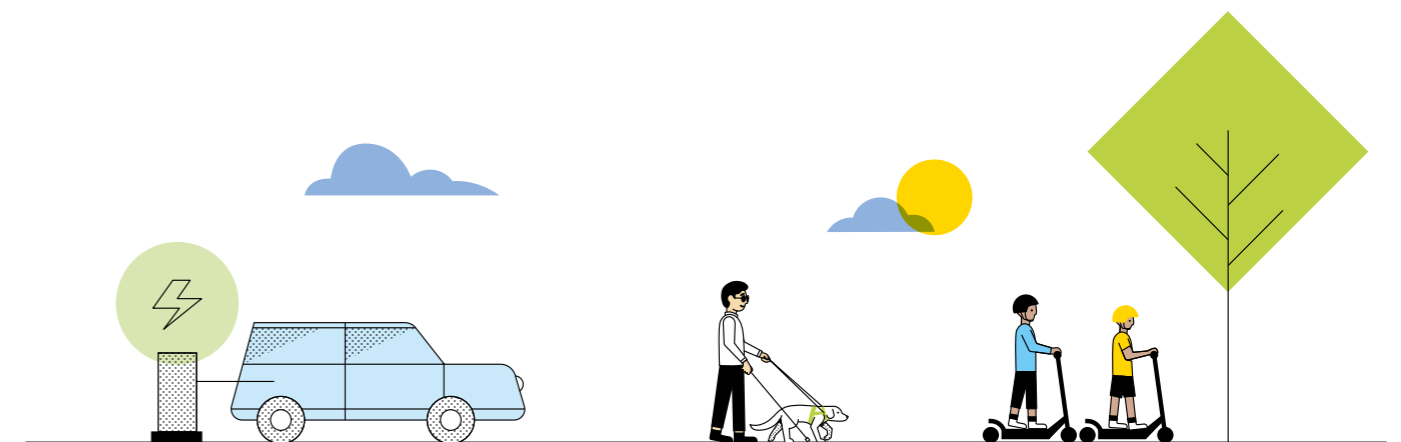
Investing for inclusive capitalism

We've invested **£1.4 billion** in renewable energy and **£500 million** in build-to-rent schemes helping to tackle the UK's housing crisis. We are a leading investor in technology firms that accelerate progress to net zero such as Sero Technologies and Pod Point.



Our clean energy investments

Watch our video case study about how our clean energy investments are supporting the transition to a low-carbon economy.



Contact us

For further information, please contact:



derisking@landg.com



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