Overview of the UK pension risk transfer market

Pension buy-ins and buyouts

2023: The story so far

The first half of 2023 has been our second largest half-year to date in the UK. The Pension Risk Transfer (PRT) market has seen a notable step-up in the number of pension schemes approaching insurers, including a significant increase in quotation requests over £1 billion.

Relative to the previous half-year, financial markets have been less volatile. Structurally higher interest rates and improved pension scheme funding levels mean that the pipeline for 2023 is the largest we have seen. As such, the PRT market is firmly on track for one of its busiest years ever.

In this update, we provide an overview of the business we've written to date and outline how, in a crowded market, pension schemes can partner with an insurer to achieve their ambitions.

UK new business volumes

During the first half of 2023, we wrote 19 policies, totalling £4.9 billion of new business premium in the UK. This compares to 20 policies and £3.7 billion of premium received during the first half of 2022. We have written £6.7 billion of new business premium in the UK year-to-date.

Bulk annuity sales H1 2023	£0m - £100m	£100m - £500m	£500m +
Total size (£m)	147	1,335	3,384
Average size of quote (£m)	12	267	1,692
Number of transactions	12	5	2

Working exclusively with schemes to achieve their target

We are increasingly seeing trustees select an insurer before pricing, based on factors such as member experience, financial strength and illiquid asset solutions, and then working with this insurer on an exclusive basis to complete a transaction, rather than approaching the whole of the PRT market for a quote.

In a busy market, by setting clear objectives and engaging with an insurer collaboratively, pension schemes are able to secure a transaction aligned with their required value and terms. Collaboration allows us to work through any complexities and offer a solutions-focussed approach across all elements of the transaction.

Flexible solutions for illiquid assets

We continue to expand our range of solutions for pension schemes with illiquid asset holdings that are looking to secure a full scheme buy-in. This includes being able to accept assets in-specie as part of the premium payment or allowing schemes to defer a proportion of their premium to coincide with the run-off or sale of these illiquid assets.

We were able to assist three pension schemes with illiquid assets in the first half of the year using a combination of these solutions. This allowed them to secure a full buy-in transaction within their preferred timeframe. We are currently working with a number of schemes to develop solutions for illiquid assets alongside our in-house investment manager, Legal & General Investment Management (LGIM).

The US market expects the biggest H1 ever

In the US, we completed a $309 million transaction with PPG, a Fortune 500 paint manufacturer in May covering 4,000 members. This transaction was completed together with RGA, a long term reinsurance partner of L&G.

Similar to the UK, the US PRT market is expecting record volumes this year. We predict that around $23 billion of transactions will have completed in the US in the first half of 2023, compared to c.$18 billion over the same period last year. This is largely driven by a number of jumbo transactions over $1 billion, with four expected to have transacted in the first half of the year.

In May, we completed our fourth transaction with the British Steel Pension Scheme (BSPS)

We completed our fourth buy-in with BSPS as a final step to fully insuring the scheme. The transaction secured the remaining 40% of the liabilities bringing the total insured liabilities with L&G to c.£7.5 billion. In doing so, the scheme becomes the largest pension scheme in the UK to have secured full insurance.

The trustees closed a significant deficit, which is a great outcome for members who have had their benefits fully secured much sooner than originally anticipated. The sponsoring company has removed a large historical liability from its books, enabling it to focus on its core business operations.

To insure benefits at this scale, the scheme entered a strategic partnership with us and LGIM in November 2021. Key solutions resulting from the partnership included:

i. establishing an umbrella contract, allowing the scheme to complete each transaction efficiently on pre-agreed contractual terms when pricing was attractive;

ii. the ability to transfer a significant portfolio of property assets efficiently to L&G as part of premium payment; and

iii. implementing a strategy to improve the scheme's funding level by aligning their investments and hedging with L&G's pricing, including the transfer of the scheme's in-house investment team to LGIM.

Looking forward

"We're on track for one of our busiest years ever, having now written £6.7 billion of pension risk transfer business in the UK year-to-date. We look forward to continuing to support pension schemes throughout their de-risking journeys to reach their desired objectives."

Andrew Kail, Chief Executive Officer, Legal & General Retirement Institutional

The power of partnerships

In the latest episode of our podcast series, **Adrian Somerfield**, Director, PRT and **Mat Webb**, Head of Endgame Solutions, LGIM, discuss how Legal & General's PRT and investment management businesses work together to support schemes on their de-risking journeys and explore the benefits of partnering with an insurer.

"Once you've got the key principle of working together in collaboration, like we have been as One L&G, it can have many different forms [...] having success with the [BSPS] partnership is a great proof of concept. We see this as a great way of moving forward for lots of schemes."

Adrian Somerfield, Director, PRT, Legal and General

Preparation is the key to success

As a greater number of pension schemes approach the market, insurers are working hard to keep up with the demand.

Ensuring that we have the resources and technology needed to support the increased volume is at the forefront of our thinking and planning. However, we also encourage pension schemes to do as much preparation as possible before approaching the market to ensure an efficient quote process and a smooth transition, creating greater insurer engagement in a busy market.

In this environment, insurers are having to prioritise cases that give them the best chance of securing a transaction. For context, in the year to date we have quoted on around a quarter of the requests we've received.

A key step is early engagement, whether that be with one or multiple insurers. This can help iron out any potential sticking points around unusual benefits, data or illiquid assets, positioning schemes for a successful outcome.

Preparing for a bulk annuity quotation

Gavin Smith, Head of Pricing & Execution and **Amrit McLean**, Head of Pensions De-Risking at DLA Piper discuss how pension schemes can prepare for a quotation and delve into the insurer led "Best Practice Guide".

"What continues to set our market apart, is the collaborative nature of it. [...] there's so much commonality of purpose and so many people not losing sight that ultimately all of this is about trying to secure pensioners' long term financial futures."

Gavin Smith, Head of Pricing and Execution, PRT, Legal and General

Contact us

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