

*Our latest views and
insights on pension
buy-ins and buy-outs*

LCP pensions de-risking update
October 2020



Buy-in and buy-out market remains buoyant amidst the pandemic



Charlie Finch
Partner

At the start of the year we predicted buy-in and buy-out volumes would reach around £25bn in 2020. Total buy-in and buy-out volumes announced so far in 2020 have now exceeded £15bn, with the market on track to top £25bn making 2020 the second busiest year ever after 2019. Unlike many industries activity in the market has remained strong throughout the pandemic, with all eight insurers writing business over H1 2020.

Indeed, the Covid-19 crisis gave rise to favourable insurer pricing for schemes who could be nimble and move quickly. We helped a range of schemes take advantage of pricing opportunities fuelled by Covid-19 to secure benefits in full ahead of plan including a deal for nearly £930m with Littlewoods and a £610m deal for the Marathon scheme sponsored by RockRose Energy. Seasoned buyers also completed opportunistic follow-on transactions such as the ICI Pension Fund who added £70m to their existing nearly £9bn of buy-ins through their umbrella contracts, a record 17th buy-in transaction.



Imogen Cothay
Partner

Going into the end of the year, pricing remains at historically attractive levels and is now similar to that seen in 2019, when a record £44bn of buy-ins and buy-outs were completed.

One key difference between 2020 and 2019 is that fewer £1bn plus transactions have completed this year. This has created opportunities for mid-sized schemes, with 22 transactions between £100m and £500m in the first half of the year – double the number completed in the first half of 2019 – despite total H1 volumes being lower this year.

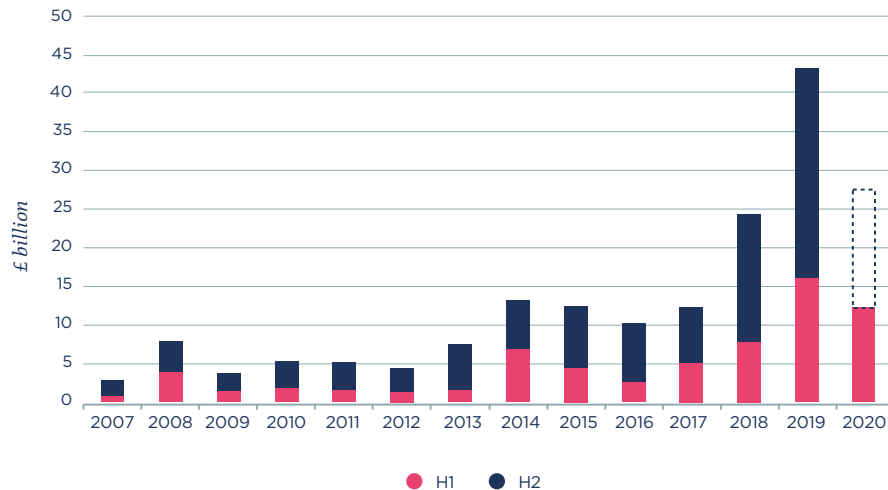
With most insurers still having appetite for transactions this year, and the wider financial markets remaining unsettled, we anticipate a buoyant final quarter, particularly if market volatility creates pricing opportunities for those schemes that can be nimble.

H1 2020: Fact and figures

Buy-in and buy-out volumes reached £12.6bn in H1 2020, the second-highest H1 total ever behind 2019 (£17.6bn) and a 50% increase on H1 2018 (£7.8bn).

Fewer £1bn+ transactions create opportunities for smaller schemes

Buy-in and buy-out volumes over time



- £2.8bn liabilities insured by **Co-operative Group** over four transactions with Aviva and PIC. 
- Three longevity swaps including £10bn by **Lloyds Banking Group**, the second-largest UK longevity swap ever. 
- Two longevity swaps converted to buy-ins by **MNOFF** (£1.6bn) and **LV=** (£800m). 

More mid-sized transactions

In H1 2020 22 transactions between £100m to £500m were completed - double the 11 such transactions in H1 2019.



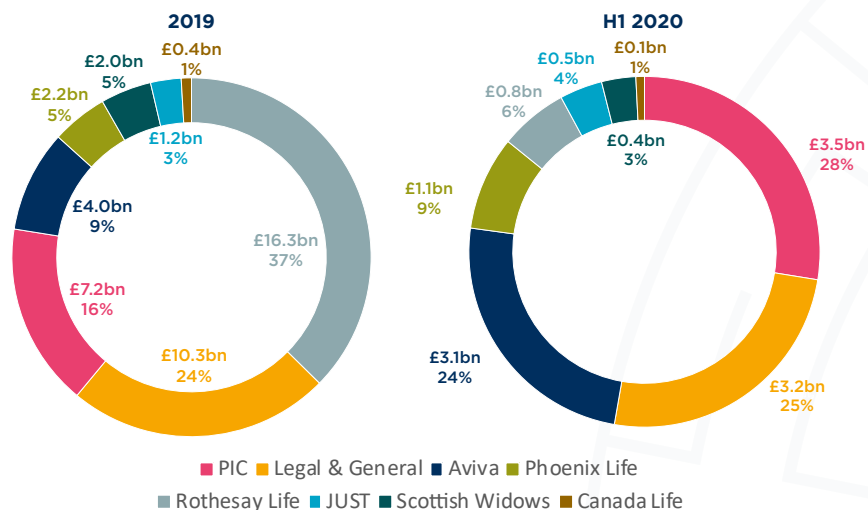
Repeat buyers

Half of transactions over £100m announced to date in 2020 are by schemes who have transacted previously.



Buy-ins and buy-outs in the UK: insurer breakdown

Buy-in and buy-out volumes



Source: Insurance company data to H1 2020 and public announcements

H1 2020 was dominated by three insurers who between them wrote 78% of total volumes. These were Pension Insurance Corporation (PIC), Legal & General (L&G) and Aviva. Whilst L&G and PIC's volumes were nearly 50% lower than their record H1 levels last year, Aviva's volumes more than doubled from £1.3bn in H1 2019 to £3.1bn in H1 2020.

LCP's credentials in 2020 to date

- LCP has been lead adviser on 25 transactions totalling over £6bn.
- LCP has been lead adviser on c30% of transactions between £10m and £100m and c30% of those over £100m.

Largest buy-ins and buy-outs to date in 2020

Company	Size £m	Insurer	Type of transaction	Date	LCP lead adviser
Undisclosed	690	L&G	Full buy-in	Jan-20	✓
Co-op	1,000	Aviva	Pensioner buy-in	Jan-20	
Co-op	1,035	PIC	Pensioner buy-in	Jan-20	
Undisclosed	250	Aviva	Full buy-out	Jan-20	✓
Xylem	255	Rothesay Life	Full buy-in	Jan-20	
MNOPF	1,590	PIC	Pensioner buy-in	Feb-20	
General Healthcare	150	Aviva	Full buy-in	Mar-20	✓
Leonardo Electronics	160	JUST	Pensioner buy-in	Mar-20	
Undisclosed	415	Scottish Widows	Pensioner buy-in	Mar-20	
Co-op	410	PIC	Pensioner buy-in	Apr-20	
Co-op	340	Aviva	Pensioner buy-in	Apr-20	
3i Group	650	L&G	Full buy-in	May-20	✓
LV=	800	Phoenix Life	Pensioner buy-in	May-20	✓
Undisclosed	280	PIC	Partial buyout	May-20	
Undisclosed	485	L&G	Pensioner buy-in	Jun-20	✓
IPC Media	290	Rothesay Life	Pensioner buy-in	Jun-20	
Countrywide Farmers	100	L&G	PPF+ buy-out	Jun-20	✓
Undisclosed	520	L&G	Full buy-in	Jun-20	

H2 announced to date

Littlewoods	930	Rothesay Life	Full buy-in	Jul-20	✓
RockRose Energy	610	Rothesay Life	Full buy-in	Jul-20	✓
Hitachi UK	275	L&G	Full buy-in	Aug-20	
Siemens	530	L&G	Pensioner buy-in	Aug-20	
Smiths Group	140	Aviva	Pensioner buy-in	Sep-20	

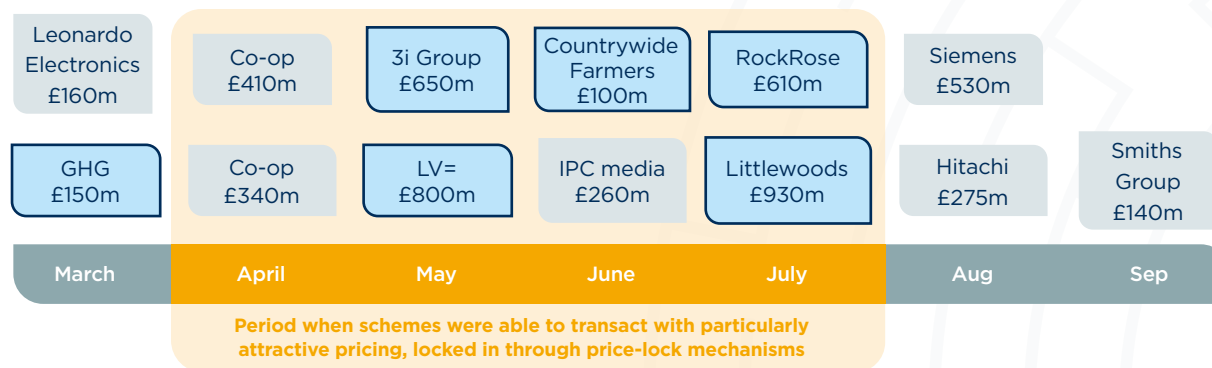
Source: Insurance company data to H1 2020 and public announcements. The table includes all announced transactions above £100m and unnamed transactions over £250m.

April to July 2020: a period of exceptional pricing

Pricing has been attractive to date throughout 2020, but was particularly so from late March on the back of the market shock caused by the Covid-19 crisis. For those schemes who could be nimble and move quickly there were opportunities to lock into some of the most attractive pricing seen since the 2008 banking crisis. Even though pricing started to fall back in May, as investment markets settled, those schemes executing in June and July were still able to benefit from the favourable pricing by having “locked-in” pricing through price-lock mechanisms.

The chart below shows all publicly announced transactions over £100m that completed over the period from March to September.

Transactions led by LCP: ○



At LCP, we are proud to have helped so many schemes identify pricing opportunities and transact in the period from April to July

Note: Four additional transactions were completed in the April to July period which have not been publicly announced. Of these, LCP was lead adviser on one of them.

How RockRose Energy took advantage of attractive pricing to close the gap to full insurance

LCP was appointed in 2019 to help RockRose Energy plc manage the pension arrangements accompanying the purchase of the Marathon Oil UK business. Following a period of successful asset de-risking, in July 2019 the Trustees and RockRose Energy agreed a plan to target full insurance over the next few years. In March 2020, LCP pro-actively advised RockRose Energy that there was a potential opportunity to fully secure the scheme ahead of schedule due to pricing improvements arising from market movements due to the Covid-19 crisis, and collectively agreed with the Trustees to go to market early rather than the date originally planned.

RockRose and the Trustees had already progressed preparatory steps, such as data cleansing and the agreement of a benefit specification with full legal review, as part of the plan to ensure the scheme was “buy-out ready”. So by early 2020

this work was largely complete and the scheme was in a great position to capture the attractive pricing opportunity when it arose. A joint Trustee and Company working group was formed to manage the process, so that all key stakeholders could ensure their objectives were being met and time-critical decisions could be made swiftly.

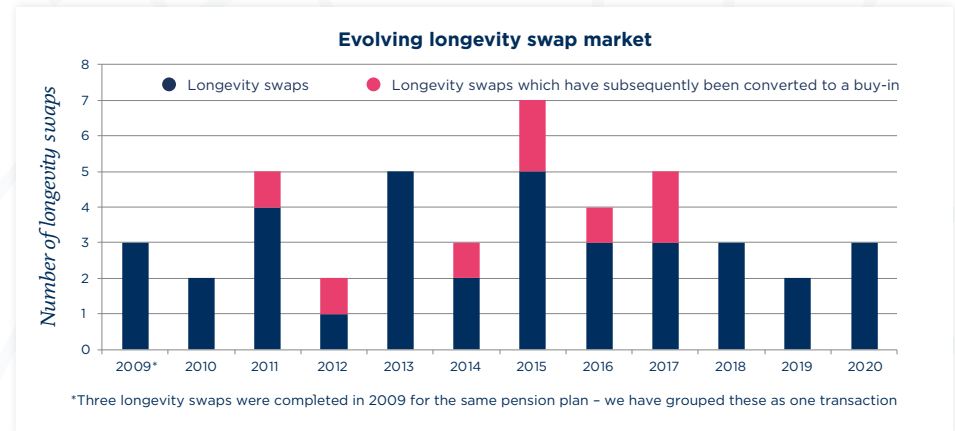
LCP ran an insurer tender process securing an attractive price from Rothesay Life that benefited from the favourable market conditions and resulted in lower cash contributions for RockRose than previously expected. As part of this LCP negotiated a price-lock that, following some limited asset restructuring, stabilised this reduced cash cost. This was important to give certainty amidst turbulent economic conditions and avoid the funding position deteriorating whilst contractual terms were being agreed.

RockRose and the Trustees completed the £610m full buy-in with Rothesay Life in July 2020, fully securing all members’ benefits and benefiting from the particularly attractive pricing over this period.

A continuing trend for converting longevity swaps to buy-ins

We are seeing a continuing trend in pension schemes that have entered into longevity swaps in the past, converting these longevity swaps into buy-ins. Since the conversion of the British Airways longevity swap in 2018, others have followed suit, including the pension schemes of SSE, Allied Irish Bank and Rolls Royce. One in five of all publicly announced longevity swaps have now been converted into buy-ins.

We anticipate that this trend to convert longevity swaps into buy-ins is set to continue. As schemes mature and reduce risk in their investment strategy the economics for moving the longevity swap into a buy-in look increasingly attractive, particularly with buy-in pricing at current attractive levels.



How LV= converted their longevity swap into a £800m buy-in with Phoenix Life

LCP advised the LV= Employee Pension Scheme on the transaction, improving the security of members' benefits whilst reducing capital volatility for its insurance company sponsor, LV=.

The background

- The Trustee had entered into a longevity swap in 2012 with ReAssure. This was then reinsured onwards within the Swiss Re group.
- Over the following years, the asset strategy was de-risked as the funding level improved. While this de-risking strategy increasingly stabilised the funding level, it also meant:
 - The annual risk fee for the longevity swap became more significant when compared with the lower returns expected to be earned on the Scheme's de-risked assets; and
 - Increased volatility in the IAS19 surplus. This in turn led to increased volatility in the capital surplus that LV= reports as a regulated financial institution.
- LCP identified that converting the longevity swap into a buy-in (and making the associated transfer of low risk assets to an insurer) would address both these issues.

LCP's approach: Strong focus on solution design and process management to optimise the outcome

- LCP worked with LV='s capital efficiency team and the Trustee's investment advisers to determine the size and profile of buy-in that could be accommodated within the Scheme's wider investment strategy, whilst optimising capital efficiency for LV=, avoiding a funding strain and enhancing member security.
- LCP designed a bespoke insurer tender process to maximise insurer engagement (and therefore competition) and efficiency for the transfer of the longevity swap.
- LCP negotiated a robust price lock mechanism and asset transition programme with the insurers, designed to weather the market volatility caused by the outbreak of Covid-19 in Spring 2020. In doing so, the Scheme saved £ millions in transaction costs associated with bespoke derivative contracts and assets held by the Scheme.

The outcome

- The competitive pricing achieved and efficiency of the asset transition, led to an improvement in funding, ongoing risk management and overall security of members' benefits.
- For LV=, the conversion reduced capital volatility, significantly improving the stability and quality of LV='s overall capital surplus.
- The conversion of the longevity swap took the Scheme a further significant step forward in its de-risking journey.

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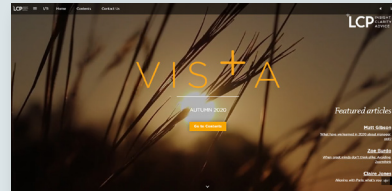
Our investment thinking



LCP Vista - Autumn 2020

Our latest edition of Vista features hand-picked articles from our investment experts covering a range of themes across strategy, asset classes and other issues that we're thinking about.

[Read now](#)



Selected LCP transactions in 2020



[+ RockRose Energy](#) - £610m full buy-in

[+ Littlewoods](#) - £930m full buy-in

[+ Countrywide Farmers](#) - £100m PPF+ buy-out

[+ LV=](#) - £800m pensioner buy-in

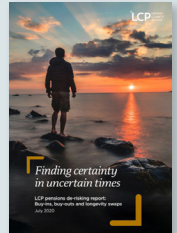
[+ ICI](#) - £70m pensioner buy-in

In case you missed it:



Finding certainty in uncertain times

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Charting mortality trends - signposts for an uncertain journey

[Read our longevity report here](#)



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+ Opportunities for schemes looking to do buy-ins and buy-outs of under £200m

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+ Pensions de-risking: Finding certainty in uncertain times

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We've been lead adviser on 40% of all buy-ins and buy-outs over £500m since 2014.

+ [Want to know why?](#)

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