

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

LCP pensions de-risking update
September 2019



Pension buy-ins and buy-outs hit record £30bn to date in 2019 as landmark deals complete



Charlie Finch
Partner

Total buy-in and buy-out volumes for 2019 have now exceeded £30bn following the recent announcements of large transactions by telent and Allied Domecq both with Rothesay Life. This sets a new record comfortably topping the £24.2bn of volumes in 2018, which in itself was up nearly 50% on the previous year.

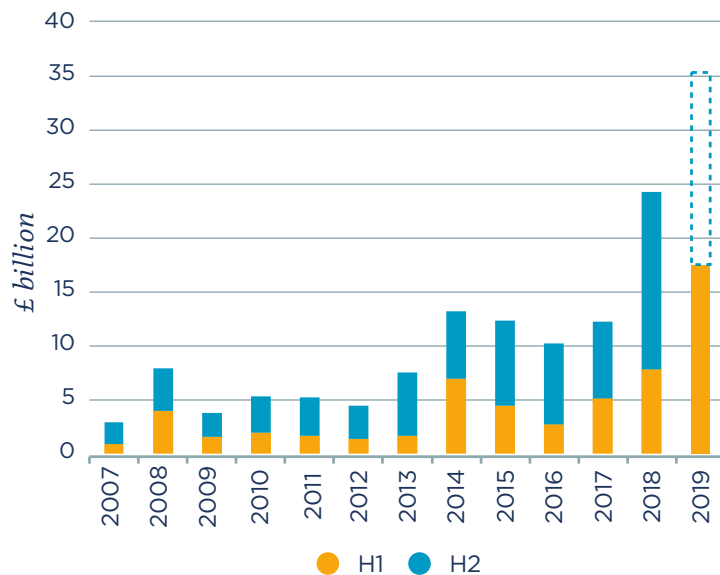
Other well-known companies entering into large transactions this year include British American Tobacco and Marks & Spencer with the number of FTSE 100 longevity transactions standing at six so far this year. Our team is having its busiest year ever, having completed a record £10bn of deals across over 20 transactions so far in 2019 as large blue-chip companies increasingly seek specialist support to de-risk their schemes.

Insurer pricing continues to hold up well which is particularly pleasing given the level of activity. We are working on a number of transactions targeting completion in 2020 as some insurers have “filled up” for 2019 but we expect further transactions to close in the final quarter taking volumes to £35bn for the full year.

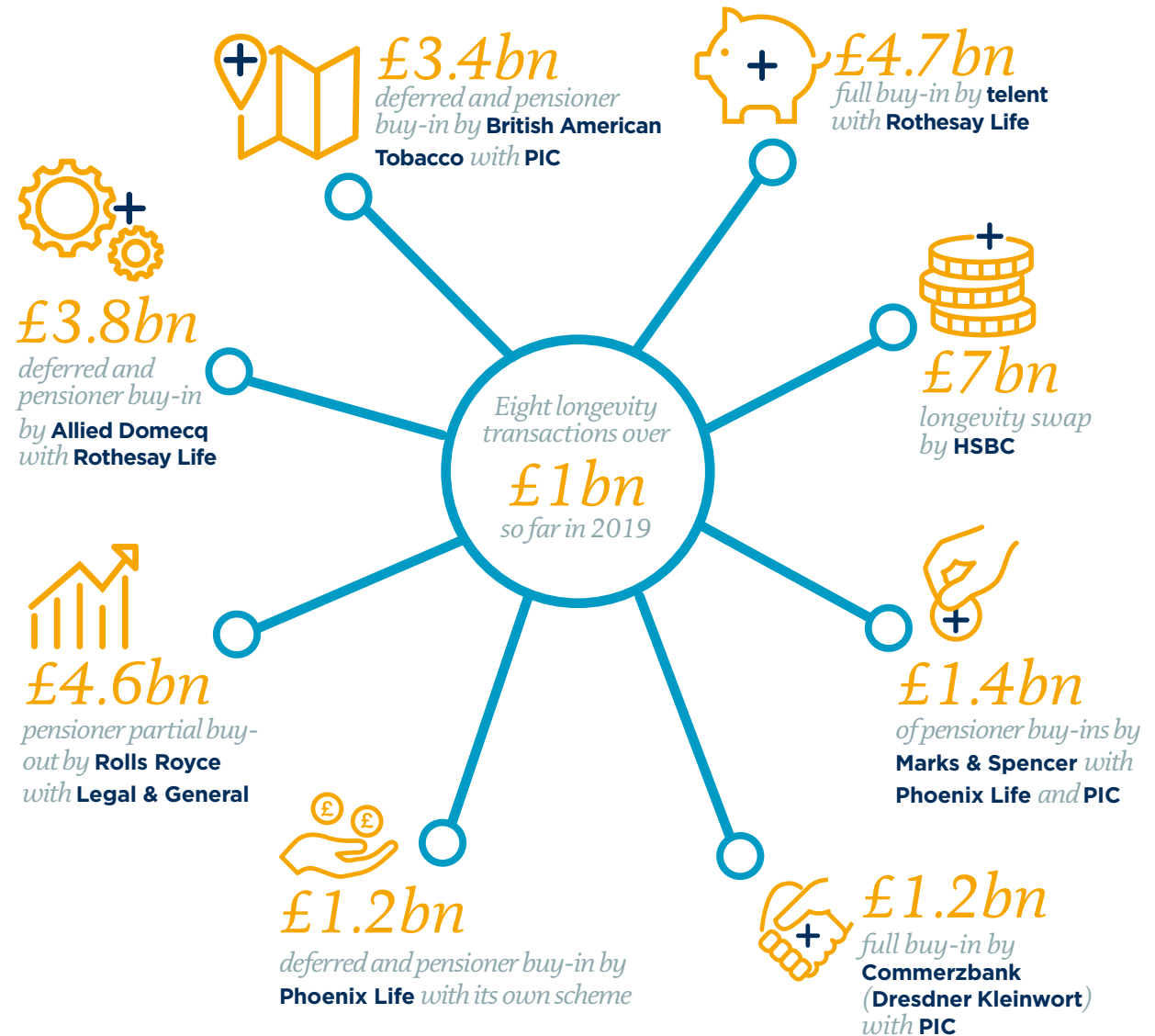
H1 2019: facts and figures

A record breaking £17.6bn of pension buy-ins and buy-outs were completed by UK pension plans in the first six months of 2019.

Buy-in and buy-out volumes over time

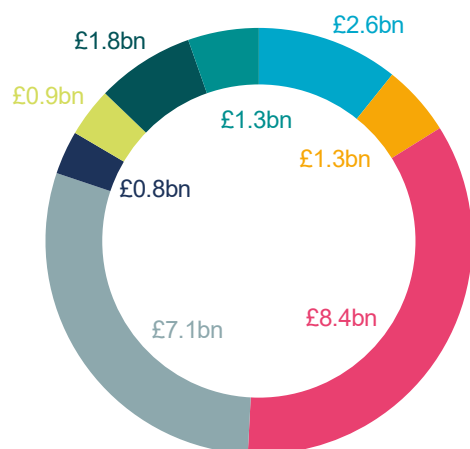


Total volumes of £34.0bn over the 12 months to 30 June 2019. This is the busiest 12-month period ever recorded, more than doubling the £14.9bn in the previous 12 months (to 30 June 2018).



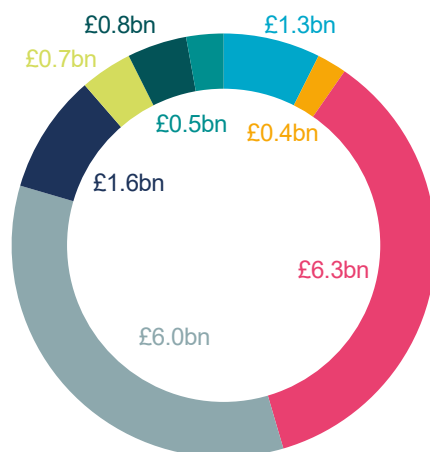
Buy-ins and buy-outs in the UK: insurer breakdown

Buy-in and buy-out volumes in 2018



● Aviva
● Scottish Widows
● Phoenix Life
● Legal & General
● PIC
● Canada Life
● JUST
● Rothsay Life

Buy-in and buy-out volumes in H1 2019



Largest buy-ins and buy-outs to date in 2019

Company	Size (£m)	Insurer	Type of transaction	Date	LCP lead adviser
Co-Op Group (Somerfield scheme)	425	PIC	Pensioner buy-in	Jan-19	
Commerzbank (Dresdner Kleinwort)	930	PIC	Full buy-in	Jan-19	✓
Pearson	540	Legal & General	Pensioner buy-in	Feb-19	✓
Colfax (Howden Group)	230	Legal & General	Full buy-out	Mar-19	
Commerzbank (Dresdner Kleinwort)	230	PIC	Full buy-in	Mar-19	✓
Undisclosed	240	Legal & General	Full buy-out	Mar-19	✓
QinetiQ	690	Scottish Widows	Pensioner buy-in	Mar-19	✓
Phoenix Life	1,100	Phoenix Life	Deferred and pensioner buy-in	Mar-19	
Marks & Spencer	460	Phoenix Life	Pensioner buy-in	Apr-19	✓
Marks & Spencer	940	PIC	Pensioner buy-in	Apr-19	✓
Undisclosed	675	Aviva	Full buy-in	May-19	✓
British American Tobacco	3,365	PIC	Deferred and pensioner buy-in	May-19	✓
Undisclosed	200	Aviva	Full buy-out	May-19	
Rolls-Royce	4,600	Legal & General	Partial buy-out	Jun-19	
Undisclosed	440	Rothsay Life	Full buy-in	Jun-19	✓
Smiths Group	176	Canada Life	Pensioner buy-in	Jun-19	
Undisclosed	160	Rothsay Life	Full buy-in	Jun-19	
Undisclosed	110	Aviva	Full buy-out	Jun-19	
H2 announced to date					
Tate & Lyle	930	Legal & General	Full buy-in	Jul-19	✓
Cadbury	520	Rothsay Life	Pensioner buy-in	Aug-19	
AA	250			Sep 19	
telent	4,700	Rothsay Life	Full buy-in	Sep 19	
Allied Domecq	3,800	Rothsay Life	Deferred and pensioner buy-in	Sep 19	

Legal & General wrote the largest volume in H1 2019 at £6.3bn, retaining their leading position from 2018. So far in 2019 both PIC and Legal & General have almost written as much as they did for the entirety of 2018.

Charting mortality trends: signposts of an uncertain journey

Key findings from our latest longevity report



We are seeing a relatively low number of deaths in England and Wales in the first 9 months of 2019. LCP expect the 2019 version CMI's projection model to produce slightly longer life expectancies (compared with the current 2018 version) when this data for 2019 is reflected in the model. This will increase the value of pension scheme liabilities.



It is too early to conclude whether 2019 data implies a jump start to the stalled improvements in life expectancies over the last few years.



Liability values for a typical scheme could increase by 6-8% if major developments in cancer treatments mean deaths due to cancer are eradicated over next 20 years.



The UK is not alone in its experience of heavier longevity in recent years, with the Netherlands, Germany, France and the USA all seeing significant slow down in life expectancy improvements since 2011.



The dominant subtype of flu, and flu vaccine effectiveness, appears to be one of the most important factors in determining the number of winter deaths.



The impact of climate change is uncertain but isn't expected to be significantly financially adverse for UK pension schemes over the next 20-40 years.

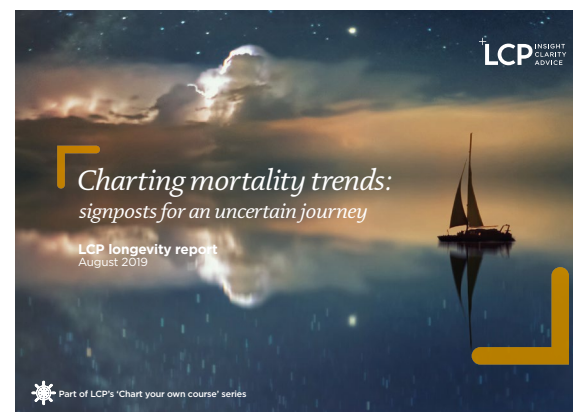


Many schemes are exposed to higher longevity risk in their pensioners than their non-pensioner members.

Read more in our latest longevity report [here](#)



Chris Tavener
Partner



Case Study – Commerzbank £1.2bn full buy-in

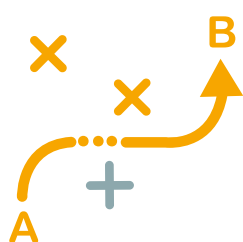
How LCP helped the Dresdner Kleinwort Pension Plan, part of Commerzbank, achieve a full buy-in, insuring £1.2bn of pension liabilities.

The background

- £1.2bn Dresdner Kleinwort Pension Plan with liabilities in two sections, one pure DB and a DC section with a DB underpin.
- Bank and Trustee seeking to reach full buy-in.
- Insurers unwilling to insure DB underpin in the DC section in its current form
- Trustees and Bank keen to give members in the DC Section fair choice on benefit structure to maximise the value provided.

This transaction required a high level of creative thinking by our advisers, LCP, in designing a structure combining the member choice programme with the insurance transaction. It shows that, even for schemes with unusual features, a carefully designed process working in tandem with the insurance market can create good results for all parties

David Curtis, Law Debenture, Chair of Trustees



Our approach – member choice programme combined with buy-in

- LCP approached insurers for quotations to cover both the DB and DC Sections simultaneously. Price negotiations for both Sections in parallel ensured fair treatment achieved for members in both Sections.
- A “member choice” exercise was conducted in parallel with the buy-in process offering paid for IFA advice to all members of the DC Section. Full value transfers were provided to members including the value of the DB underpin being given up.
- LCP negotiated a bespoke price lock from PIC for each Section and a restructuring of the assets into a portfolio which exactly matched the price lock for the DB section. This included the sale of a number of less liquid credit, and similar holdings within a segregated mandate.
- The price lock for the DC Section was at an individual member by member level ensuring price transparency for members who did not transfer out. This included an agreed process for providing additional pension to each member where the DB underpin bit.
- The contract included robust terms for “residual risk” to protect against errors in the data or benefits.



Outcome

- Combining the two sections together created additional leverage on the terms that could be achieved for the DC section. This led to a material increase in the value provided to DC members.
- The transaction was completed within expected timings and within agreed budgets.
- Over 1,000 members received advice and subsequently chose to transfer to an alternative arrangement.
- The final payment process was unique in PIC confirming for each member the individual premium due, and for members where the underpin was covered the final pension that could be purchased.

Our latest de-risking content

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+ [Pearson](#) - Feb 2019

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Investment fee survey



The 2019 edition of the LCP Investment Management Fees Survey shows that fees have once again fallen in many of the key asset classes used by UK institutional investors.

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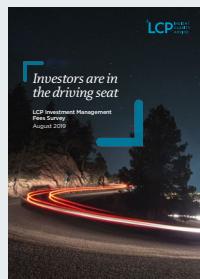


Chart your own course



Before starting on a journey, it is essential to know where you want to go. This will help frame all decisions until you reach your destination.

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Vista

LCP Vista keeps you informed of our latest investment thinking - Issue 9 aims to highlight some innovative investment ideas, ...

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We've been lead adviser on 50% of all buy-ins and buy-outs over £500m since 2014.
+ Want to know why?

LCP is a firm of financial, actuarial and business consultants, specialising in the areas of pensions, investment, insurance and business analytics.

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