

Our latest views and insights on pensions de-risking

LCP pensions de-risking update
August 2017



Looking ahead, 2017 is well on track to exceed £10bn of buy-ins and buy-outs for the fourth year running, and has the potential to exceed the record £13.2bn set in 2014.



Charlie Finch
Partner

We're celebrating award success



The annual Pension and Investment Provider Awards was held on 24 May with LCP picking up **De-risking Consultant (buyout, buy-in, longevity swaps)** for the sixth time in seven years.

2017 has got off to a strong start seeing buy-in and buy-out volumes almost double in the first half to £5.1bn and continuing the strong momentum since the EU Referendum, with around £12.5bn written in the past 12 months.

Pricing remains keen, driven by a high level of competition – particularly for pensioner buy-ins over £100m. Phoenix Life is now actively participating in the buy-in market targeting transactions over £250m, meaning that there are currently eight active providers in the market.

The start of 2017 has also seen the biggest fall in life expectancies in a generation with the latest mortality projections from the Continuous Mortality Investigation knocking 2% to 3% off pension liabilities. This reduction improves pension plan funding making de-risking more affordable.

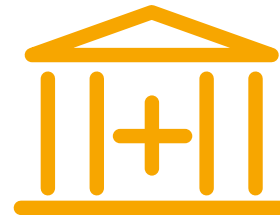
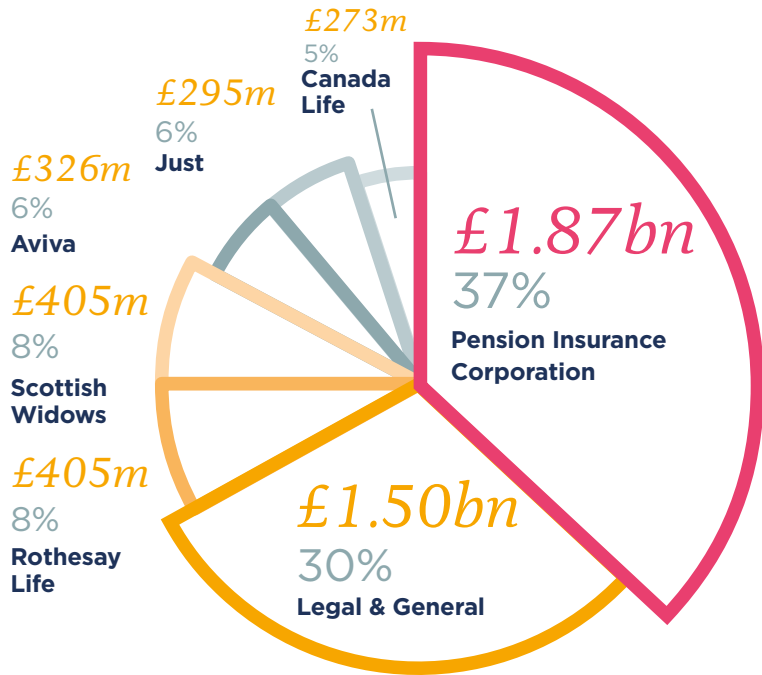
Insurers and reinsurers remain cautious about translating recent heavy mortality experience into long-term trends but there is no doubt that it has helped drive recent competitive pricing, along with the attractive asset opportunities that insurers have been able to source.

H1 2017: Facts and figures

A total of £5.1bn of pension buy-ins and buy-outs were completed by UK pension plans in the first half of 2017, an 88% increase on the same time last year (H1 2016: £2.7bn), signalling that the acceleration of de-risking activity by pension plans since the EU referendum sees no signs of slowing down.

Our viewpoint

There remains significant capacity and competition in the market.



£12.5bn

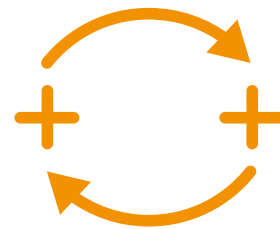
Volume of buy-ins and buy-outs over the past 12 months



14

Record number of buy-ins and buy-outs between £100m and £1,000m

H1 2016: 5
H1 2015: 7



£800m

Largest longevity swap

SSE



£690m

Largest buy-in or buy-out

Unnamed pensioner buy-in with PIC

Market share

See page 4 for full data

Largest named transactions:

£270m

Tullett Prebon full buy-out with Rothsay Life

£250m

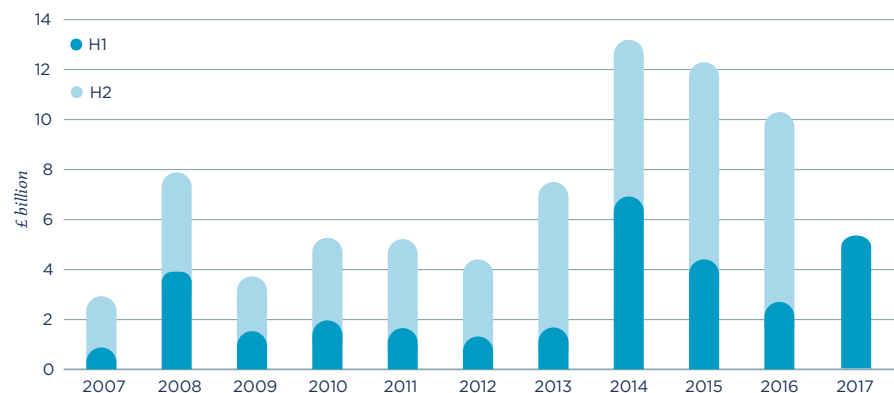
Cancer Research pensioner buy-in with Canada Life

£200m

3i pensioner buy-in with PIC

Buy-ins and buy-outs in the UK: volumes and pricing

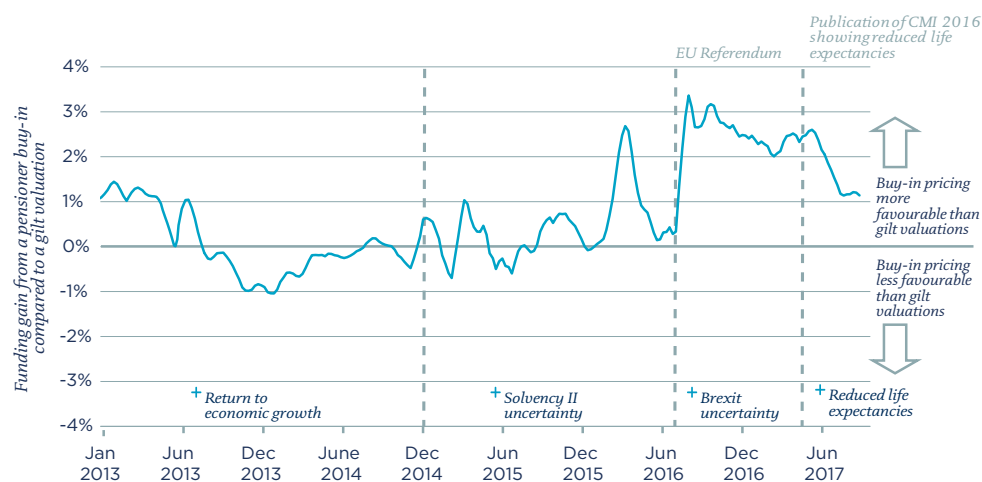
Buy-in and buy-out volumes over time



Buy-in and buy-out volumes by insurer (£m)

	H1 2017	2017 share	H1 2016	H1 2016	Total 2016	2016 share (rank)
PIC	1,875	37%	897	1,632	2,529	25% (2)
Legal & General ¹	1,504	30%	641	2,698	3,339	33% (1)
Rothsay Life ²	405	8%	6	0	6	<1% (8)
Scottish Widows	405	8%	885	590	1,475	14% (3)
Aviva	326	6%	71	549	620	6% (6)
Just	295	6%	164	779	943	9% (5)
Canada Life	273	5%	35	93	128	1% (7)
Phoenix Life ³	0	0%	n/a	1,181	1,181	12% (4)
Total	5,083	100%	2,699	7,522	10,221	100%

Pensioner buy-in pricing



Source: LCP analysis of quotation and final transaction pricing. The analysis is based on middle-of-the-road longevity assumptions for a UK pension plan. Buy-in pricing depends on a range of factors such as transaction size, benefit structure, membership profile and insurer appetite.

Source: Insurance company data. Transactions by UK pension plans only.

¹Legal & General's H1 2016 data excludes the £3bn transfer of annuities from Aegon to L&G in May 2016. Their business with US pension plans is excluded.

²Rothsay Life's data excludes annuity transfers with other insurers (£0.1bn from Zurich in 2016; £6.4bn from Aegon in April 2016 and £0.2bn in 2017).

³Phoenix Life announced in June 2017 that they are actively participating in the market. Their 2016 data includes the buy-in completed with their own pension plan.

Pensioner buy-in pricing is typically slightly better than a gilts valuation meaning a buy-in paid from gilts typically improves funding.

Insights from our clients:

Interview with Matt Shelley, Group Treasurer of 3i, a leading international investment manager

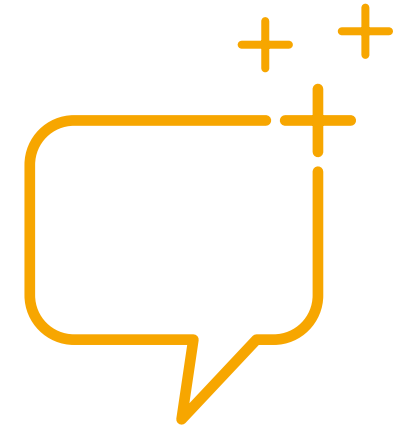
In March 2017, the Trustees of the 3i Group Pension Plan (the “Plan”) completed a £200m buy-in with Pension Insurance Corporation (“PIC”). The buy-in covered 2 in 5 of the plan’s pensions in payment and meant the Plan is now 20% insured overall.



Matt Shelley

Group Treasurer of 3i

Matt Shelley will be joining the panel of guest speakers at LCP's Annual Pensions Conference on 19 September – [register here](#)



How has the 3i Group Pension Plan been de-risking their scheme prior to this buy-in?

The Plan has been de-risking for a number of years, primarily by moving the asset mix to a greater proportion of fixed income achieving higher levels of interest and inflation hedging. 3i, as Sponsor, has also focused on providing members with flexibility, through a pension increase exchange option, an unenhanced transfer value exercise for deferred members, and a flexible retirement options exercise and ongoing program for members eligible to take their benefits.

From the Sponsor's perspective, the buy-in was a logical next step in the Plan's de-risking journey, reducing the exposure to longevity risk whilst being able to achieve very competitive terms. It also provided perfect hedging of 3i's complex pension increases.

What were the key ingredients to achieve this buy-in?

While the transaction was initially Sponsor led, 3i and the Trustees were very well prepared and worked closely together throughout the process. I believe this preparation and Sponsor / Trustee alignment helped give us access to competitive terms and attractive pricing. We collected additional member data and completed a feasibility study prior to formally approaching the full market for pricing; this allowed us to demonstrate credibility and be more focused in how we approached the insurers.

What advice would you give someone considering completing their first buy-in?

The two main pieces of advice I would give are:

1. ensure you have a well-thought out process and demonstrate to the insurers that you're committed to the transaction - this can help achieve attractive pricing; and
2. use an experienced insurance de-risking adviser - their previous project experience can help you navigate any challenges that arise to make sure your transaction reaches a successful conclusion.

The latest de-risking content from us



We'd love to hear your views on life expectancy...

What do you think about current life expectancy trends? Tell us and go into the draw for a new Fitbit tracker!

We'd love to hear about your experience with longevity risk in your pension scheme, and your general views on this topic.

+ [Start the survey here](#)

Our viewpoint

In this blog, Sarah Gunn welcomes the advice from TPR that small schemes should be taking a fresh look at the risks they face, and includes a warning to not forget longevity risk.

+ [Read it here](#)



Discover our latest thinking on pensions de-risking.



Guest blog

In this guest blog, Mike Edwards, who is the Head of Origination and Structuring for Scottish Widows' Bulk Annuities team, provides an insurer's perspective on some current trends.

+ [Read it here](#)



LCP pensions de-risking report

Our annual report on the buy-in, buy-out and longevity swap market looks at how the market has developed over the past 10 years.

+ [Read it here](#)



Upcoming events

LCP's annual pensions conference "Solving the pensions puzzle" takes place on 19 September 2017 in London.

+ [Learn more and register here](#)

Join us on 26 September for a joint event with Allen & Overy - Longevity De-risking: removing big risks in small steps

+ [Learn more and RSVP here](#)



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*We've led on over
40% of all buy-ins
and buy-outs over
£100m in the past
5 years.*

Want to know why?

At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy and employee benefits.

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