OCTOBER 2023

# *A seismic shift in buy-ins/outs: how is the market adapting?*

## LCP report on future demand and supply in the buy-in and buy-out market

# Welcome to LCP's 2023 report

## Introduction

Last year we predicted a skyrocketing market following dramatic improvements in schemes' funding levels in the aftermath of the 2022 mini-Budget and subsequent gilts crisis, and drastically accelerating demand for buy-ins and buy-outs.

Fast-forward 12 months and we have indeed seen a seismic shift in the market. Transaction volumes in H1 2023 hit a record of £21.2bn, with nearly 100 schemes completing transactions, and the record for largest scheme to reach full insurance was broken twice – once by RSA at £6.5bn in February and then by the British Steel Pension Scheme at £7.5bn in May. 2023 is on course to be a record year, with total buy-in / out volumes on track to eclipse the previous record of £43.8bn in 2019.

In this report we consider whether this is just the start. Will demand for pension buy-ins / outs continue to grow rapidly? How are insurers responding? And how are larger, mid-sized and smaller schemes adapting to a fundamentally changed marketplace?

We hope you enjoy reading our analysis and we would be delighted to discuss how we can help you work through the implications for your scheme.

*Charlie Finch*
*Partner*

*The seismic shift in the market has led to a year of unprecedented change. At LCP we've evolved our approach adapting to the new market dynamics. We are delighted to have delivered record transactions and helped our clients – both large and small – continue to achieve excellent results for their members.*

## Key conclusions

- Funding levels remain strong with around 20% – some 1,000 UK defined benefit (DB) schemes with assets of c£275bn – estimated to already be fully funded on full buy-in / out.
- The average DB scheme is now estimated to be c90% buy-out funded, and projected demand for buy-ins / outs could reach up to £360bn over the next five years.
- Insurers reported a 50%+ increase in the number of schemes seeking quotations in the first half of the year; the number of requests for smaller transactions doubled and the number of £1bn plus transactions approaching the market increased by 2-3 times.
- Insurers have been scaling up – through extra people, improved technology, extended asset sourcing and streamlining processes – to give capacity to meet demand that could reach up to £80bn per year by 2027, and to accommodate deal sizes of £10bn or more.
- Smaller transactions continue to be well-served with several insurers allocating dedicated capacity; larger transactions over £1bn are well-placed to secure insurer engagement but can no longer assume that all insurers will quote; whilst the historically attractive mid-market segment is increasingly becoming the 'squeezed middle'.
- There are potential levers to alleviate these pressures – M&G's re-entry to the market in September 2023 and potential further new entrants in 2024 will help add capacity, and the Solvency II reforms coming into effect in 2023 and 2024 should increase capacity further.

This year, we have needed to draw on the depth of our experience to adapt our approach in the light of the new market dynamics. LCP has been a market leader for the past 15+ years and we were delighted to help more schemes than ever before in 2022. In 2023, we have delivered tailored processes and highly competitive insurer propositions for our clients of all sizes.

*Imogen Cothay*
*Partner*
*Lead Author*

*Ruth Ward*
*Principal*
*Lead Author*

# Contents

We have been publishing a report on the buy-in, buy-out and longevity swap market since 2007. The report, now in its 17th year, looks at the opportunities for sponsors and trustees to transfer the risks associated with defined benefit pension schemes.



## Quick links


Insurer overviews 2023: Analysis of the nine insurers in the market

Beat the triage: Hints & tips


## LCP had a record-breaking year in 2022:

Led **23** buy-ins / outs over £100m
(Only adviser to ever exceed 20 in a year)

LCP transacted the **first umbrella** structure for a longevity swap

Lead adviser market share of **42%** by volume

## 1 A seismic shift in the market: demand for buy-ins / outs

*Sustained improvements in funding levels have made buy-ins and buy-outs more affordable than ever – the challenge is now to ensure data, benefits and assets are well-prepared to gain traction in a busy market.*

**David Lucas, Senior Consultant, LCP de-risking team**

# A seismic shift in the market: demand for buy-ins / outs

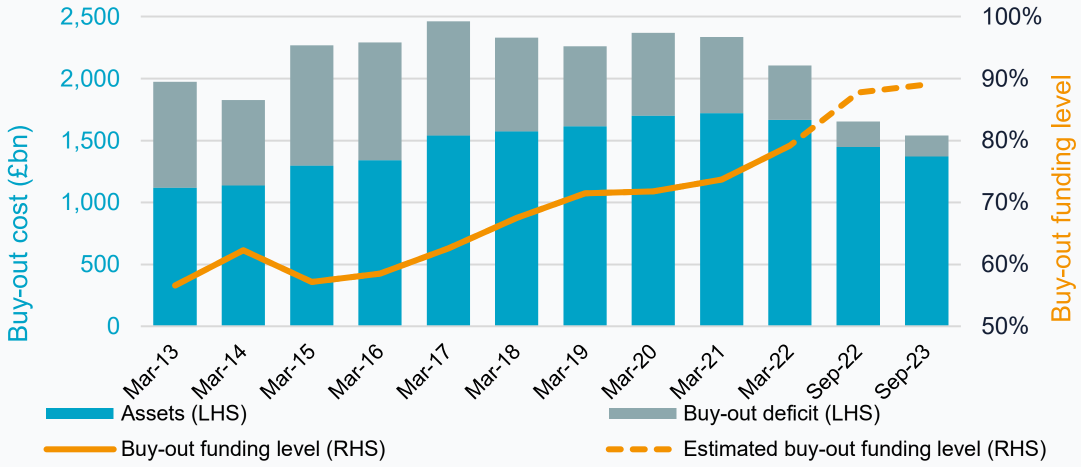
## The past 12 months have seen a sustained improvement in the affordability of buy-ins / outs

To understand current and future demand for buy-ins / outs, it is helpful to consider how affordability has changed leading up to and during 2023 – covered on this page – and how it is likely to develop over 2024 and beyond (see overleaf).

Funding levels determine the affordability for a scheme to reduce risk through a buy-in or longevity swap and the size of any gap to move to full buy-in / out. Affordability improved significantly last year for most schemes (as analysed in our 2022 report), and the gap to full buy-in / out has continued to narrow over 2023.

Funding levels are only part of the picture though – we discuss how wider preparation work is influencing the timing of schemes' market approaches, and the alternatives to buy-out they may be considering.

**Chart 1: Buy-out funding positions for UK DB pension schemes**



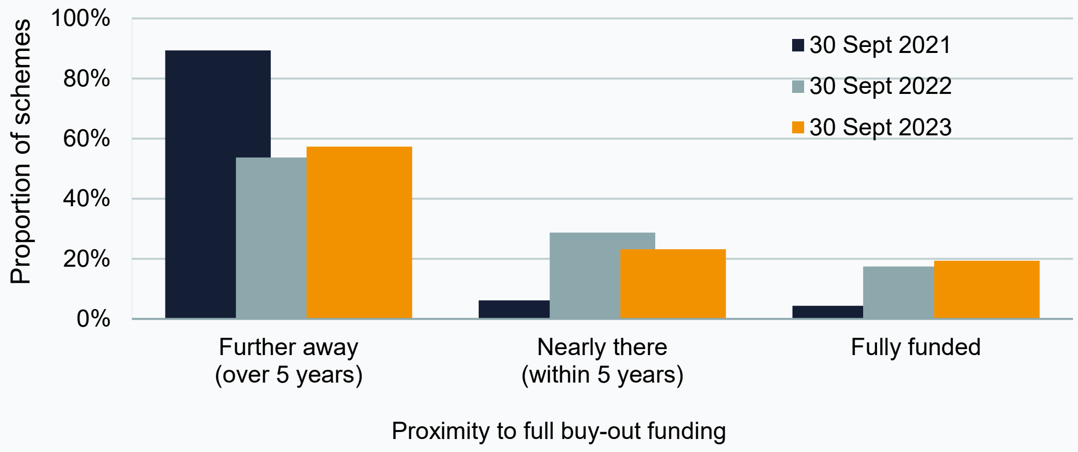

Source: Data up to March 2022: Purple Book 2022 data covering UK private sector DB pension schemes at March each year. Data after March 2022: Estimated by LCP, reflecting the movement in estimated buy-out funding observed across LCP clients up to 30 September 2023.

**Continued funding level improvements following rapid acceleration in 2022**

As shown in Chart 1, schemes saw significant improvements in buy-out funding over 2022 with the PPF reporting an aggregate buy-out funding level of 79% at 31 March 2022. We estimate this had increased a further c10% to c90% by September 2023. This was driven by increases in gilt yields, coupled with improvements in longevity reinsurance pricing and insurer competition has remained strong throughout.

The shift in funding levels over 2022 has been sustained through 2023. As can be seen in Chart 2, we estimate that c20% of schemes (c£275bn of assets) are now fully funded, with a further c25% (c£325bn of assets) expected to reach full funding within the next five years. This has the potential to lead to significant de-risking volumes over the next few years.

**Chart 2: Distribution of estimated buy-out funding levels: 2021-2022-2023**




Source: LCP analysis based on estimated buy-out funding across LCP clients calibrated to the wider DB universe.

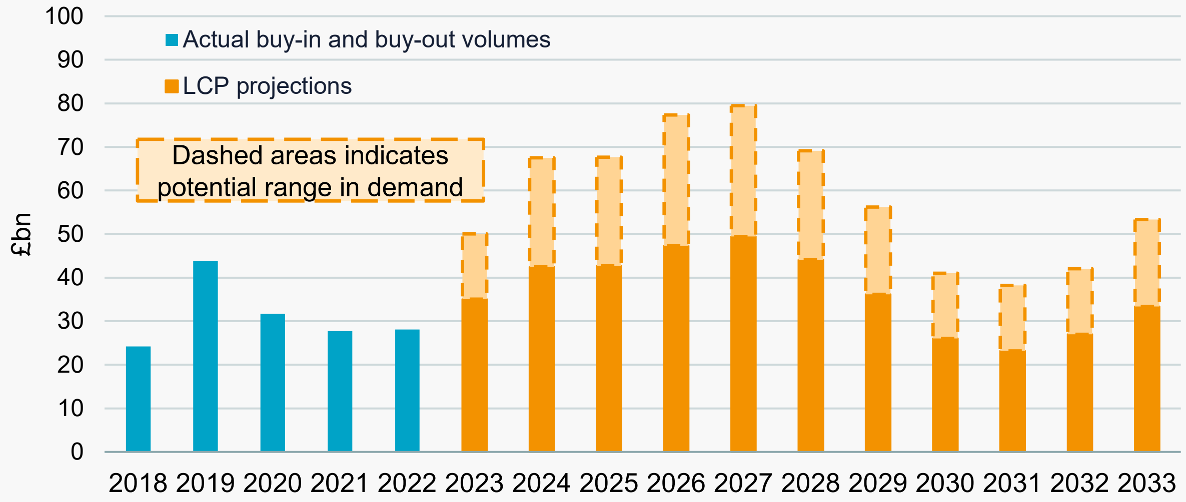
## Projected demand for buy-ins and buy-outs accelerating sharply

To assess potential demand for buy-ins and buy-outs over the next decade, we have conducted analysis to project the buy-out funding levels into the future. From this, by making assumptions about the proportion of schemes that will seek to buy-in or buy-out and when, we can estimate how potential future demand may develop.

Chart 3 shows our projections for future buy-in and buy-out volumes over the next decade. The analysis shows a sustained period of high demand over the next five years to 2028 as many schemes reach full funding on buy-out and choose to insure. Estimates of transaction volumes over the next five years of up to £360bn represent a substantial uptick from historic levels; we have already seen evidence of the start of this uptick with 2023 on track to exceed the 2019 record of £43.8bn of buy-ins / outs in a single year.

The total projected volumes over the next decade are in the range c£400bn to c£600bn, with the top of the range assuming that most (but not all) schemes choose to insure over the shorter term when affordable. This in the context of a current DB pensions universe of c£1.5 trillion.

**Chart 3: Projected buy-in and buy-out volumes over the next decade**




Source: LCP analysis

*Demand for buy-ins / outs could be up to £360bn over the next five years.*

## Will schemes choose to buy out?

The significant projected volumes are driven by the improved funding positions but the projections do not assume that all c£275bn of schemes that could currently afford to move to buy-out do so next year (or indeed in the short term). This partly reflects the timescales required for schemes to get themselves ready for a market approach – across benefits, data, investments and trustee / company governance – and also that some schemes will pursue alternatives to buy-out, particularly following the reforms proposed in the Mansion House speech in summer 2023. Transaction volumes over 2024 and beyond will therefore be driven by overall economics, time for preparation work and the alternatives available – leading to a smoothing of demand over time.

Overleaf we discuss alternative routes schemes are considering.

**Will insurer pricing persist at current attractive levels?**

To date we are seeing no evidence of price hardening for well-presented deals that LCP is bringing to market, despite the surge in buy-in / out activity. Our current expectation is that these dynamics will persist due to competition (even with fewer insurers contesting each deal) and the PRA's proposed reforms to the asset eligibility rules, which will widen the pool of higher-yielding assets insurers can use to support their pricing. So whilst there is undoubtedly pressure on insurers in their asset sourcing to support pricing as volumes increase, we think the market will rise to the challenge.

# *A seismic shift in the market: demand for buy-ins / outs* *Continued*

## Alternatives to buy-out are growing

With so many schemes close to or fully buy-out funded, when projecting forward demand for buy-ins / outs on the previous page one of the most important assumptions is around the proportion of schemes that will opt for self-sufficiency or one of the expanding number of alternatives to buy-out.

We set out below some of the alternative routes that are allowed for in our projections.

### a) Longer-term self-sufficiency

- There are good reasons why larger schemes can run on efficiently at scale and target self-sufficiency. They may choose to do so to generate surplus funds, for example to fund discretionary increases or to subsidise the cost of DC benefits for current employees. Emerging captive insurance solutions can facilitate this cost effectively for the largest schemes.
- Improved funding is causing schemes to re-assess their target end-states. Whilst self-sufficiency remains the target for many of the largest schemes, there is increasing evidence of appetite from very large schemes for insurance, as they become comfortable that buy-ins / outs offer a secure long-term home for their members and that insurers have capacity at that scale. That does not necessarily mean moving to buy-out, with some schemes choosing to move to a long-term partial buy-in (eg insuring pensioners only) or to remain ongoing whilst holding a full buy-in policy over the long-term.
- We cover these considerations further, including a review of the future surplus landscape, in our latest report covering pensions issues for corporate sponsors.

### b) Superfunds and capital-backed journey plans

- For those schemes not expected to reach full buy-out funding in the foreseeable future, a range of other solutions are potentially available. The Government recently reiterated its support for these alternative solutions and committed to introduce the necessary legislation.
- These include transfers to a superfund (which breaks the sponsor link) and capital-backed journey plans (which maintain the sponsor link but offer funding certainty through third-party capital support).

### c) The proposed Mansion House reforms open new possibilities

- As announced by Jeremy Hunt in his July 2023 Mansion House speech, the Government is consulting on options to invest the £1.5 trillion of DB scheme assets more productively.
- LCP has put forward proposals for how this could be achieved – allowing well-funded schemes to opt in for a regime with full PPF member protection and easier ongoing access to surpluses. For appropriate schemes, this would provide new incentive to grow surpluses to benefit their members, employers and current DC workforce.

> *One of the key uncertainties over the next year is whether the Mansion House reforms will fundamentally change the landscape. For example, allowing sponsors to directly access surplus without winding-up the scheme would change the variables in the decision on whether to move to buy-out.*

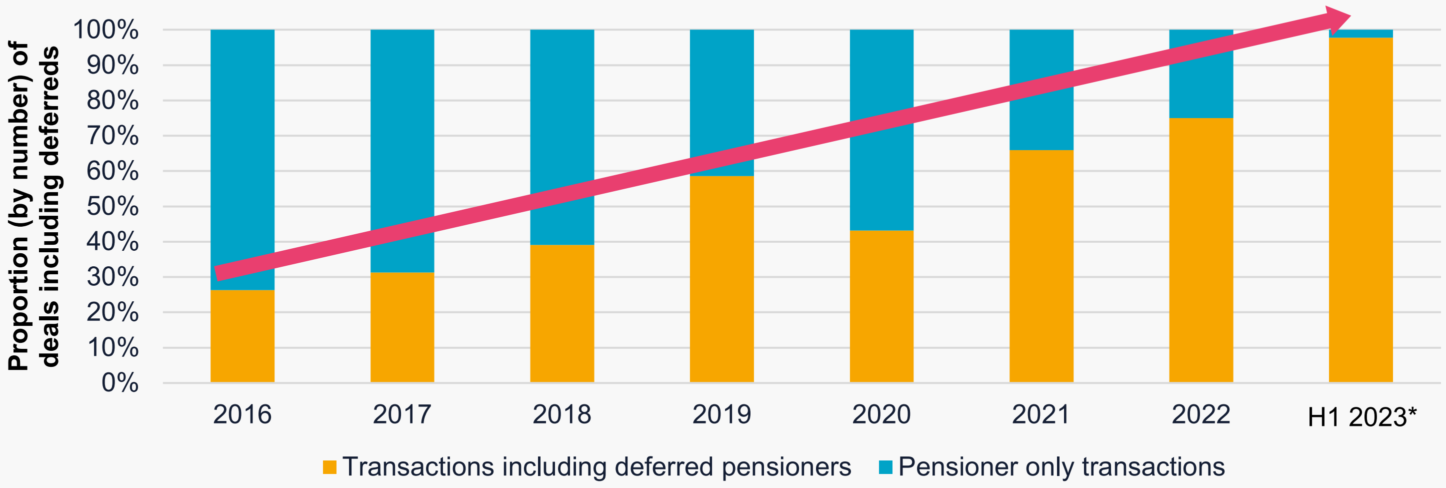
## The trend towards full buy-ins has accelerated over 2023

As illustrated in the chart opposite, the proportion by number of buy-ins that include deferred pensioners (typically full scheme buy-ins) has seen a further, dramatic increase over H1 2023 with only a very small number of pensioner-only deals completing. This is a consequence of improved funding levels coupled with improved reinsurer pricing for non-pensioners meaning that many schemes could afford to insure in full. Even where this is not immediately affordable, more cautious collateral limits following recalibration of LDI strategies last year mean there is in many cases less opportunity for small and mid-sized schemes to use partial buy-ins as a stepping stone towards full insurance.

This is a significant shift, particularly for mid-sized schemes, many of whom would previously have commenced their insurance journey with a pensioner buy-in.

For larger schemes, there continues to be appetite for phased buy-in strategies, as illustrated by the British Steel Pension Scheme over 2022 and 2023 given the price savings they were able to achieve. In general, insurers' ability to price economically for very large single transactions is increasing – see section 3.

**Chart 4: A shift towards full scheme transactions**




Source: Insurance company data. *H1 2023 also includes publicly disclosed deals to 6 October 2023

### Why are full buy-ins more resource intensive for insurers?

Full scheme transactions generally require more insurer resource than pensioner-only transactions due to:

- Increased competition for longer-dated assets (which can be more challenging to source)
- More likely to include residual risks cover (which can be resource intensive)
- More requests for solutions to illiquid assets (which can be complex to structure)
- Increased post-transaction operational resource requirements (as insurers accommodate non-pensioner member options).

The shift to full scheme transactions is therefore adding to the operational capacity constraints that insurers are facing; however, capacity is increasing. Canada Life has expanded its offering to include non-pensioners meaning all nine insurers now quote on full scheme transactions. We consider in the next section how insurers are adapting to the capacity challenge.

## 2 How are insurers adapting?

*Resourcing continues to be the biggest constraint to insurers' abilities to quote on more deals – they are addressing this through rapid growth in personnel, as well as through technology improvements and streamlining of internal processes.*

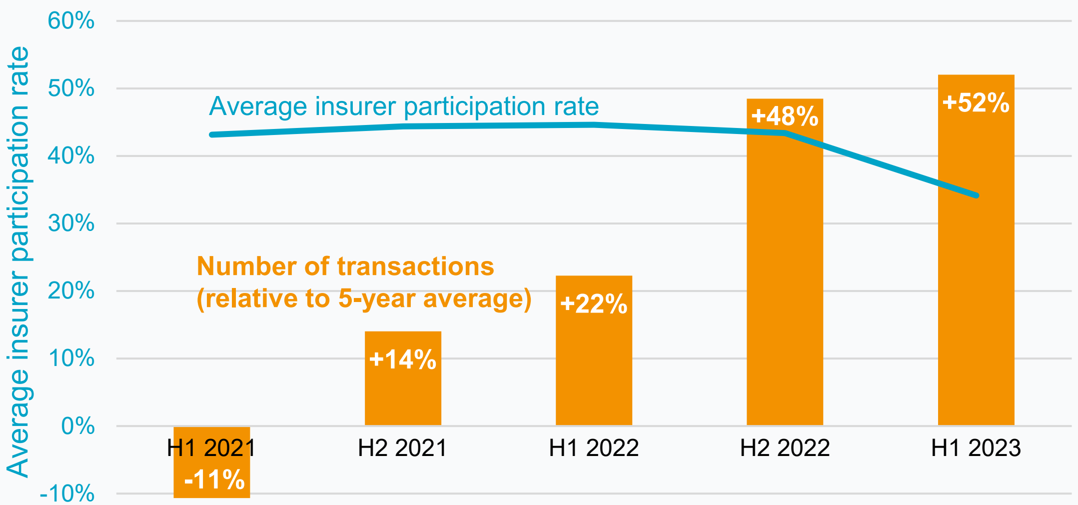
**Jamie Naik, Consultant, LCP de-risking team**

# *How are insurers adapting?*

## Falling insurer participation rates in a busier market

In the five years to 2021 there were c150 transactions completed each year, with transaction numbers relatively stable year-on-year. This dynamic shifted over 2022/23 on the back of improved funding levels, with a record 203 transactions completing in 2022, and the first half of 2023 being the busiest first half on record. We surveyed the insurers about how this surge in activity is affecting the proportion of transactions they quote on across opportunities within their target transaction sizes – see chart below.

**Chart 5: Activity levels and average insurer participation rate**




Source: LCP survey of insurers

The blue line on the chart shows that insurer participation rates remained broadly stable in 2021 and 2022, but then fell going into 2023. Market activity, as shown by the orange bars, had already been increasing steadily throughout 2022 relative to the five-year average, but as this had been largely driven by smaller schemes this did not impact overall insurer participation rates (as smaller transaction processes generally place less burden on insurers' internal processes). Participation rates then fell in early 2023 as activity across all transaction sizes ramped up following the gilt crisis in late 2022.

*H1 2023 was the busiest first half on record leading to average insurer participation rates falling by 20%*

## Compared to a year ago, in H1 2023 insurers saw…

**50%+** increase in overall number of quotation requests

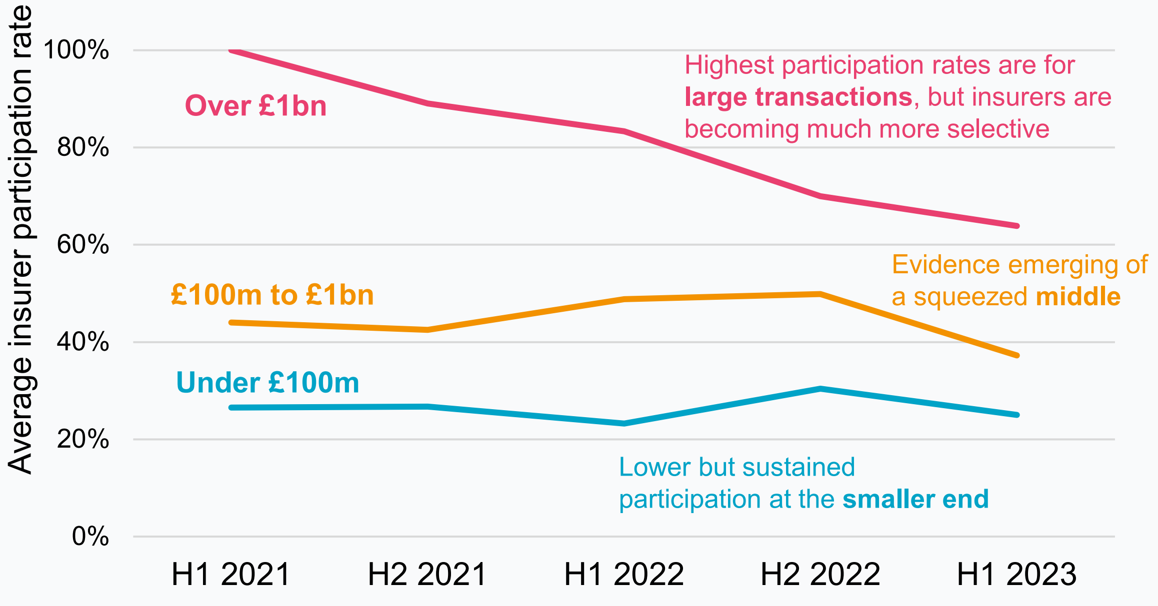
Below £100m: **2x** the number of quotation requests

Over £1bn: **2-3x** the number of transactions approaching the market

## Participation rates by scheme size

The chart below shows the data provided by insurers on their participation rates across opportunities within their target transaction sizes.

**Chart 6: Insurer participation rates by transaction size**




Source: LCP survey of insurers

**Small schemes (under £100m)**

It is pleasing to see that, despite the higher activity levels, participation rates have remained relatively consistent. This is due to insurers generating efficiencies by streamlining internal processes and developing technologies to reduce processing time for quotations. In addition, some insurers have ring-fenced dedicated resource for smaller transactions.

**Large transactions (over £1bn)**

Insurers' willingness to participate has always been, and remains, highest at this level. Prior to 2022, schemes over £1bn were almost guaranteed to receive quotations from all the insurers approached; however, with 2-3 times the number of £1bn+ deals coming to market this year, insurers have become more selective on whether they participate in such processes. Transactions over £1bn tend to be more complex so require a bigger resource commitment from insurers. This creates an opportunity cost of participating if the insurer is ultimately not selected and has nothing to show for the resource investment.

**The squeezed middle (100m to £1bn)**

With competing pressure from increasing numbers of £1bn+ deals as well as a big increase in smaller (and typically simpler) transactions, there is evidence of mid-sized deals beginning to get squeezed. Typical participation rates dipped by 10% to under 40% in the first half of 2023 as some mid-sized deals increasingly found themselves in the difficult position of being too small to capture insurers' attention, but too large and complex to fit neatly into simplified, streamlined processes.

**We explore levers insurers are using to adapt to these new market dynamics on the next page, and tactics that schemes of different sizes are using to increase insurer participation in their processes in section 3.**

# *How are insurers adapting? Continued*

**We surveyed the insurers to identify the key constraints which limit insurer capacity and the actions they have been taking to alleviate pressure in key areas:**

Most commonly listed constraints

| | |
|---|---|
| **Resource constraints at insurers** | • Operational resource remains the key constraint – both in terms of pricing resource and, increasingly, post-transaction resource.<br>• Over the past year all insurers have expanded their teams to meet increasing demand.<br>• Insurers are also implementing new technologies and processes to streamline operations and reduce personnel resource requirements. AI could provide further assistance in the future. |
| **Reinsurance capacity** | • Like the insurance market, quotation capacity in the reinsurance market is under pressure due to high activity levels, although-reinsurance pricing and appetite remain strong.<br>• Increasingly insurers are adapting their price modelling to use estimated reinsurer terms for initial quotes (limiting reinsurer input to the final quotation stage or post transaction). |
| **Insurer asset pipelines** | • Availability of long-dated assets with attractive risk-adjusted returns remains a key constraint, with some insurers reporting a tightening in the availability of such assets.<br>• Insurers are continuing to expand their dedicated asset sourcing capabilities through growing teams including overseas.<br>• The widening of asset eligibility rules under the planned Solvency II reforms should help with asset sourcing – these reforms are due to come into force in H2 2024 but insurers are increasingly anticipating the likely changes now. |
| **Capital** | • Insurers remain positive that they have access to the necessary capital to write the volumes of new business anticipated.<br>• Interest rate rises and changes to Solvency II also mean that less capital is required for the same volume of new business. |

*Despite resourcing constraints, insurers are confident about their capacity to support record-breaking demand for buy-ins / outs over the coming years.*

## How are insurers changing how they triage?

Given the focus on resource, insurers are increasingly prioritising cases that are less resource-intensive as part of their triaging processes – both in terms of quotation resource and post-transaction resource. Therefore, schemes that can demonstrate strong preparation ahead of approaching the market are more likely to receive better engagement.

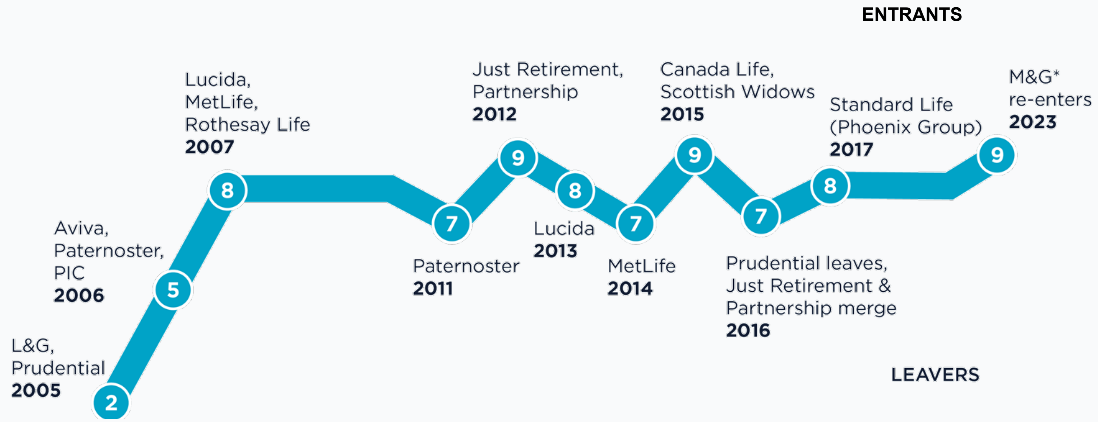
In addition, insurers are becoming more selective over schemes that request non-standard terms, such as residual risks cover. Schemes should therefore consider carefully (with specialist de-risking and legal input) how important such features are to them, their views on possible alternatives and how best to engage insurers should they wish to pursue them.

## Will new entrants change the landscape?

September 2023 saw M&G announce two buy-in transactions, marking their re-entry to the market after a seven-year absence (M&G was previously part of Prudential PLC). This brings welcome additional capacity in particular for the 'squeezed middle' of transactions in the £100m to £1bn range.

We are in dialogue with several other insurers that have plans to enter the market over the next year. The barriers to entry for new insurers are significant but our projections show that there is plenty of potential business for insurers that can successfully launch a bulk annuity offering and further capacity will be welcome at all transaction sizes.

**Chart 7: Pension buy-in / out market participants**




*M&G was formed from the de-merger of Prudential plc in 2019 with the UK insurance business becoming part of M&G plc.
Source: LCP analysis

*Whilst new entrant insurers bring welcome additional capacity, the work required to successfully launch in this market is high and so we don't see this as a short-term "magic bullet" to ease the demand-side pressure.*

## 3 How are pension schemes adapting?

*With insurers being more selective, targeted preparation is more important than ever – quotation requests must focus on key requirements, with no unnecessary complexity.*

**Ruth Ward, Principal, LCP de-risking team**

# *How are schemes of different sizes adapting – larger multi £bn deals*

In this final part of the report, we consider how schemes of different sizes are adapting, starting with the very largest.

## How are larger deals of £1bn+ faring?

Bringing a transaction of over £1bn to market used to be sure-fire way of commanding insurers' attention; but in a year where 2-3 times the previous number of multi-billion £ schemes have come to market this dynamic is changing. These transactions typically have complex structuring requirements, making participating in them a huge resource commitment for insurers. As a result, insurer participation rates above £1bn have fallen to just over 60%, as can be seen in Chart 6 on page 11.

On the next page we consider the different routes to market that larger schemes can take to maximise their engagement and weigh up the advantages of each approach. We also share our top tips for the largest transactions, drawn most recently from advising RSA and the British Steel Pension Scheme.

### Our top tips for £1bn+ transactions

- Build relationships with the insurers (including at the most senior levels) to get the 'buy-in' to your vision and for all parties to understand what is needed to develop the best solution.
- Design a smart approach to market (see the options to do this overleaf), recognising that there is a balance to be struck between cost and upfront certainty.
- Carefully plan your buy-in preparation phase, focussing on what your key asks are and the items of material importance to the insurers. Working hard on this will pay dividends in attracting insurers to quote competitively.

## What about even larger transactions of over £10bn?

There is now capacity with the insurers to undertake £10bn+ transactions. Key additional considerations at this scale include:

- **Insurer constraints** – whilst asset sourcing, reinsurance pricing and capital availability are not limiting factors per se at this scale, there may be impacts on the transaction economics that need to be carefully worked through and understood.
- **Structuring** – at very large scales, schemes will need to consider whether a 'big bang' single transaction is optimal, or if better results can be obtained by phasing transactions over a period of time either via a strategic partnership or an insurer panel (see overleaf), noting that the phasing route will typically be increasingly more cost effective as the scale of a transaction gets larger.

## Principal market providers and their largest single transaction (Oct 2023)

£10bn+?

£5bn+

*PIC*
**RSA: £6.5bn**

*Rothesay*
**Telent: £4.7bn**

*Legal & General*
**Rolls Royce: £4.6bn**

**Proven experience for the largest transactions and appetite to go larger**

£1bn+

*Standard Life*
**Imperial Tobacco: £1.8bn**

*Aviva*
**Aviva Pension Scheme: £1.7bn**

**Appetite but less transacted experience at the largest scale**

*Scottish Widows*
**Littlewoods: £0.9bn**

*Canada Life*
**Undisclosed: £0.8bn**

*Just*
**GKN: £0.5bn**

*M&G*
**Northern Bank: £0.3bn**

**Limited current appetite and experience for the largest transactions**

# How are schemes of different sizes adapting – larger multi £bn deals *Continued*

## Determining which route to take for multi £bn deals

**Routes to reach full insurance**

**‘Big bang’ single transaction**

**Examples:**
- RSA (£6.5bn)
- Telent (£4.7bn)
- Allied Domecq (£3.8bn)
- Asda (£3.8bn)

**Phased buy-ins**

**Strategic partnership* (with one insurer)**

**Example (more formal):**
- British Steel Pension Scheme (£7.5bn)

**Example (less formal):**
- BAT (£4.1bn)

**Insurer panel**

**Examples:**
- ICI (£9.1bn)
- National Grid (£5.2bn)
- M&S (£3.5bn)
- Philips (£3.5bn)

***What is a strategic partnership?**
Under a strategic partnership a scheme agrees to work with a carefully selected insurance partner. Under a more formal structure, this would be in return for certain commitments from the insurer (eg to prioritise the scheme including access to the insurer’s asset pipeline and pricing, undertakings on commercial terms and/or collaboration on investment strategy).

Longevity swaps can be used as an interim step (generally if the timeframe is longer) under the above approaches and there are pros and cons to doing so. For example, RSA entered into a longevity swap in 2009 ahead of reaching full insurance in 2023.

## Advantages of different approaches

**Advantages of a ‘big bang’ single transaction (vs phased buy-ins)**
- ✓ Upfront certainty as risks insured on day one
- ✓ ‘Bigger prize’ for insurers when scheme transacted in one go, which may provide greater leverage
- ✓ Conceptually simpler to resolve the scheme ‘in one go’ but this comes with greater transaction complexity and execution risk

**Advantages of phased buy-ins (vs a ‘big bang’ single transaction)**
- ✓ Optimal sizing of transactions may achieve better pricing than a single very large transaction due to insurer internal constraints (eg around asset sourcing and reinsurance at large scale)
- ✓ An umbrella contract structure allows future transactions to happen quickly, eg in response to short-lived pricing opportunities afforded by financial market volatility
- ✓ Less operational and execution risk by splitting scheme into more manageable transactions

**Advantages of a strategic partnership with one insurer (vs a panel approach)**
- ✓ Potentially better pricing by having ‘priority access’ to the insurer’s asset sourcing pipeline
- ✓ Insurer incentivised to develop bespoke solutions to scheme-specific challenges – particularly valuable where there are ‘complex asks’ (eg on illiquid assets or commercial terms)
- ✓ Allows closer alignment with chosen insurer’s investment strategy pre-transaction which reduces mismatch risk and can help optimise pricing further
- ✓ All members insured with a single insurer providing a seamless service

**Advantages of a panel approach (vs a strategic partnership with one insurer)**
- ✓ Tried-and-tested approach to running a large scheme buy-in process
- ✓ Direct competitive pressure on insurers from multiple bidders may lead to better pricing
- ✓ More straightforward to demonstrate securing ‘best price and terms’ from the bidding insurers
- ✓ Less reliance on a single insurer whose pricing may vary over time

# *How are schemes of different sizes adapting – larger multi £bn deals* *Continued*

## A tale of two schemes

Below we draw insights from how two record-breaking LCP transactions structured their processes in quite different ways to reach full insurance and achieve their specific objectives.

### CASE STUDY: RSA – competitive tender process leading to 'big bang' full insurance transaction

c£6.5bn full buy-in with PIC

40,000 members

**February 2023**

**Background:** Intact (the Canadian insurer) completed its acquisition of RSA in 2021. A potential opportunity to de-risk via full insurance was identified in 2023 following a full review of endgame options for RSA's two UK DB pension schemes.

**Challenges:** These included a desire to accelerate the process to lock in attractive pricing, a complex investment strategy including over £1bn in illiquid assets, a requirement for certainty over the sponsor contribution level, and complex governance across two trustee boards.

**Outcome:** Favourable pricing and terms were agreed amidst the 2022 gilt crisis, alongside a complex asset restructuring and optimisation process to accommodate the existing longevity swap and extensive illiquid assets.

**Read full** press release

### CASE STUDY: British Steel Pension Scheme ('BSPS') – strategic partnership using phased buy-ins to reach full insurance

c£7.5bn full insurance across four buy-ins with L&G

c67,000 members

**November 2021 to May 2023**

**Background:** New scheme with lower member benefits formed in 2018 following a restructure. As part of the restructure, Tata Steel made a large upfront contribution to the new scheme on the basis that the scheme would be self-sufficient.

**Challenges:** Target to 'restore' some of members' benefits as quickly as practicable through reaching full insurance; over £2bn of illiquid or semi-liquid asset holdings including a c£1bn direct property portfolio, and a requirement for comprehensive residual risks transfer to the insurer.

**Outcome:** Through a series of well-timed transactions, the scheme took advantage of volatile markets and acted decisively to capture attractive pricing reaching full insurance in just 18 months, working in partnership with L&G and advisers to overcome the above challenges significantly quicker than initially expected.

**Read full** press release

**Explore the route each scheme took on the next page**

# *How are schemes of different sizes adapting – larger multi £bn deals Continued*

## Which route did each scheme take?

### Stage 1: Strategic planning
- Set clear objectives
- Identify key insurance requirements
- Assess funding position
- Identify potential solutions to key challenges

### Stage 2: Initial insurer engagement
- CEO-level engagement with a range of insurers
- Pricing and responses on key aspects of transaction (eg illiquid asset solutions) received and assessed
- 'Base case' transaction structure and affordability assessed

**POSSIBLE APPROACH FOR SCHEMES WHERE 'BIG BANG' IS POTENTIALLY AFFORDABLE AND OFFERS SUFFICIENT VALUE**

## RSA's route

### Stage 3: Formal 'big bang' single transaction quotations
- Insurers shortlisted to two providers based on initial pricing
- 'Best and final' quotations sought
- Window for negotiation of price and key commercial terms
- Preferred insurer selected

### Stage 4: Execution
- Documentation of terms agreed
- Contribution requirement locked down through comprehensive 'asset-lock'
- Complex asset optimisation process for illiquid assets, using combination of secondary market sale, insurer transfer and sale to sponsor
- Transaction completed within nine months from appointment

**POSSIBLE APPROACH FOR SCHEMES WHERE 'BIG BANG' IS NOT AFFORDABLE AND/OR IS NOT DEEMED TO OFFER SUFFICIENT VALUE**

## British Steel Pension Scheme's route

### Stage 3: Price monitoring and strategic assessment
- Gap to full buy-in not readily bridgeable in the short-term
- Transaction structure optimised to bridge gap in most efficient way
- Engagement with L&G on basis of proposals to solve scheme-specific challenges
- Strategic partnership designed

### Stage 4: Execution in four chunks
- c£500m 'foundation' transaction to set up partnership; clear documentation of L&G's commitments on future transactions
- Three £2bn+ buy-ins followed over next 18 months, timed for when pricing and property solutions aligned (including directly after the mini-Budget in Sept 2022)
- Comprehensive risk transfer from point of final transaction

# *How are schemes of different sizes adapting – mid-sized deals of £100m to £1bn*

## What's different for mid-sized deals in 2023?

Mid-sized deals of £100m to £1bn are the market segment where historically there was the highest level of competition, where we saw 7 or 8 insurers contesting some deals.

More recently, with larger numbers of deals over £1bn taking up insurers' focus, and smaller deals remaining well-served with dedicated capacity (see over), the 'squeezed middle' – ie mid-sized deals of £100m to £1bn – are arguably those facing new pressures in obtaining insurer attention, and so are having to adapt their approaches as a result.

## How are mid-sized deals adapting?

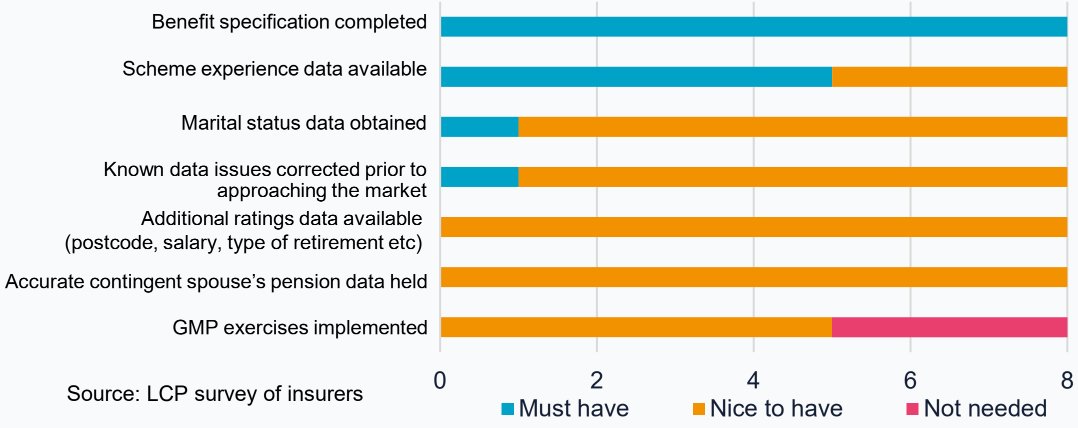
Firstly, it's important to note that fewer insurer participants does not necessarily mean worse pricing or terms. Our experience is that having **two or three highly engaged insurers** in a selection process is continuing to drive competitive pricing and terms and deliver an optimised result.

Secondly, whilst insurers can cater for a range of requests at this size – eg illiquid asset transfers, deferred premium structures, residual risks cover etc – it's vital for each mid-sized deal to carefully think through its quotation request and focus on key requirements, with clearly articulated requests and **avoiding unnecessary complexity** that could lead to insurers viewing it as a less attractive or a more resource intensive prospect in their triaging processes.

Thirdly, the ability to be **flexible and nimble** – eg on process timings – should not be underestimated. In our experience, staying close to the insurers in your process and extending timings if needed for initial pricing (eg from 6-8 weeks up to 10-12 weeks) can result in additional participants and/or better pricing. Similarly, there can be step changes in insurers' pricing when they miss out on other larger deals, so schemes that can move quickly to close a deal can potentially pick up attractive pricing.

Our insurer survey results for the key preparatory steps mid-sized deals should take are illustrated in Chart 8 to the right. In a busy market where engaging insurers is key, mid-sized schemes should be seeking to tick as many of these boxes as possible. A prioritised plan for data and benefits should be a key element of a scheme's overall journey plan.

**Chart 8: Getting transaction ready - data and benefit actions**




Source: LCP survey of insurers

### Our top tips for mid-sized transactions

If you're planning to bring a mid-sized deal to market we recommend:

- Commencing preparations as early as possible (ideally 12+ months ahead of your planned market approach) to allow time to prepare relatively 'clean' data / benefits and thus make your scheme more attractive to insurers – read more about how you can beat the insurer triage. Consider engaging a de-risking specialist, such as LCP's Data Services team, to help you prioritise the actions which will lead to a successful insurance transaction.
- Considering carefully whether residual risks insurance cover is required and comparing to any alternatives that can be offered by the sponsor post transaction – residual risks cover is resource intensive for insurers and offered more selectively.
- Engaging early with insurers and keeping close to them in the run-up to bringing your deal out to market – being nimble and providing flexibility where possible to extend / accelerate your process timescales, ie to accommodate additional insurer participants or to take advantage of short-lived pricing opportunities.

# How are schemes of different sizes adapting – smaller deals of under £100m

## Are smaller deals getting squeezed out in a busy market?

In short – no. The market for buy-ins / outs of £10m to £100m is very much open for business with multiple insurers quoting for well-presented schemes and pricing remaining attractive. That being said, this is the market segment where we're seeing insurers being most selective on which adviser is bringing the transaction to market, with some only engaging with advisers who have established streamlined processes.

A small group of insurers have developed streamlined internal processes and have reserved dedicated quotation capacity for smaller schemes. This has allowed insurer participation rates for this market segment to remain stable despite a significant increase in the number of schemes requesting quotations – insurers have reported a doubling of quotation requests at this size compared to a year ago.

Despite this, smaller schemes with unusual benefits or other complexities may face challenges in obtaining quotations from insurers. In such cases they may be forced to take steps to simplify the complexity prior to engaging with insurers or to operate a sole exclusive insurer approach.

LCP's streamlined service for smaller schemes has seen a big pick-up in demand in the past 12 months with double the normal level of transactions, and has recently hit the milestone of over £3bn secured (across around 80 transactions). As well as a clearly structured process, the pre-negotiated contracts that come with the service save insurers time and cost on contract discussions which is reflected in their pricing and participation rates. Trustees also benefit from enhanced terms compared to insurers' standard contracts.

## Are smaller deals getting worse pricing than large ones?

No again! On LCP's streamlined service, we've continued to receive quotes from at least two insurers in nearly all processes. We analyse the pricing LCP receives across all transaction sizes, which shows no evidence that smaller transactions in 2023 are receiving pricing any less attractive than that on larger deals. We are also not finding any real need to work on an exclusive insurer basis.

*The smaller end of the market is very much open for business, with attractive pricing and some insurers dedicating quotation capacity. Using a streamlined process is a must to secure insurer engagement.*

### What about micro schemes below £10m?

Even at the micro size below £10m there are a small number of insurers willing to quote. They often have more stringent requirements on the quality of the data presented pre-transaction (with an expectation that only limited changes are expected post-transaction), and a requirement to adopt an adviser streamlined process with pre-negotiated contract (or use the insurer's more 'insurer-friendly' standard contract terms). In these cases, it is becoming common practice for the scheme to complete details of the member data and scheme benefits in the insurer's own template, making the necessary simplifications to achieve this. Where these requirements are met, the insurers are willing to quote on a competitive basis.

# *How are schemes of different sizes adapting – smaller deals of under £100m Continued*

## CASE STUDY: Roadchef Retirement Benefits Scheme

£24m full scheme buy-in with Canada Life

547 members

**August 2023**

**Background:**

- Following funding improvements, the trustees and scheme sponsor were keen to explore whether a full scheme buy-in transaction was achievable.

**Our solution:**

- **Feasibility:** LCP monitored the estimated full buy-in funding level, which improved over 2022. In 2023, Roadchef indicated it would be comfortable with the contribution required to facilitate a full buy-in transaction.
- **Preparation:** LCP was appointed as transaction adviser, a detailed benefit specification drafted, and marital data collected to reduce the insurers' margins for uncertainty. The scheme assets were de-risked to reduce the volatility of the full buy-in deficit.
- **Streamlined process:** A competitive single-round process following LCP's streamlined process helped maximise insurer engagement. All meeting dates were agreed upfront, and the simple benefit structure and clear benefit documentation maximised insurer appetite.

**Outcome:**

- **Multiple insurers quoted** which led to **attractive terms** secured with Canada Life.
- This was **Canada Life's** second transaction involving **non-pensioner members**, demonstrating the additional capacity they can add after expanding their offering this year.

**Read full** press release

*I am confident the streamlined process followed maximised insurer engagement for the Roadchef Scheme and led to us achieving both very competitive pricing and contract terms despite the extremely busy marketplace.*

**Mark Fletcher, Chair of Trustees and Client Director at Vidett**

*The buy-in / out market has seen a seismic shift in demand, but we remain confident that the adaptions insurers and schemes are making across the board will allow demand to be continue to be met over the next decade.*

**Imogen Cothay, Partner, LCP de-risking team**

# Conclusion

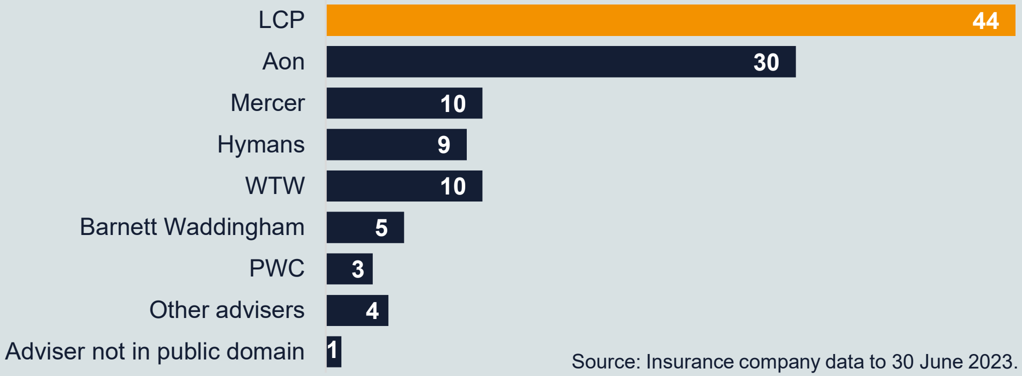
There has been a seismic shift in the market over the past year, but overall insurers have been able to accommodate the increasing volumes whilst continuing to offer highly competitive pricing and terms. But schemes cannot afford to be complacent, and it is our job as an adviser to help schemes of all sizes make the case to insurers on why those insurers should participate in their transaction processes.

And in this new market, experience matters. From targeted preparation to agreeing a suitable route to market, it's crucially important that a scheme's approach is tailored to their market segment and specific circumstances. The graphics below show the advisers who have been most active in advising on buy-ins and buy-outs since 2014 in each market segment, reflecting lead adviser data provided by the nine insurers that participate in the market.

We look forward to continuing to help current and future clients consider insurance and, where it is right for them, to guide them through the process.

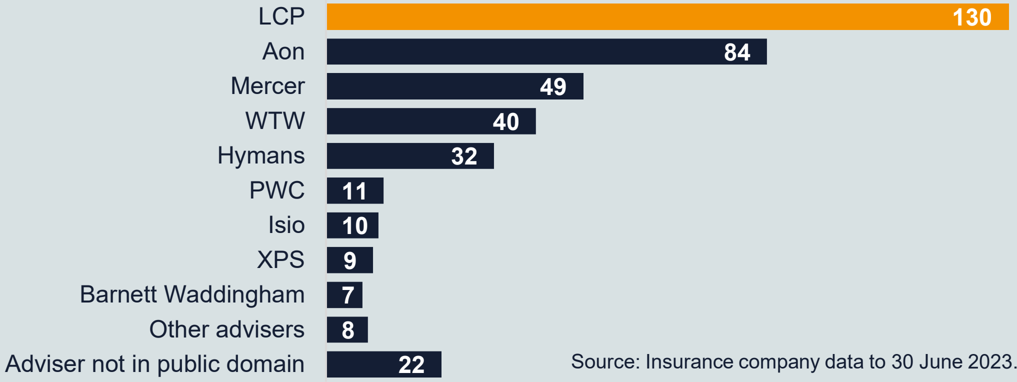
## LCP is a market-leader in all segments of the buy-in and buy-out market

### Over £500m: Lead adviser on buy-ins/outs over £500m since 2014




Source: Insurance company data to 30 June 2023.

### Over £100m: Lead adviser on buy-ins/outs over £100m since 2014




Source: Insurance company data to 30 June 2023.

### Under £100m: Lead adviser on over 100 buy-ins / outs under £100m since 2014

LCP has been the lead adviser on **over 100 buy-ins and buy-outs under £100m** between 2014 and 30 June 2023. It's not possible to produce adviser comparisons like the above for smaller transactions as insurers do not publish granular data on lead adviser for transactions under £100m.

LCP has now completed nearly **80 transactions** through our **streamlined buy-in and buy-out service** for smaller schemes, bringing the total liabilities insured through this service to **over £3bn**.

**LCP has been the lead adviser on**

*100+*

**buy-ins and buy-outs under £100m since 2014**

# *LCP's core and wider de-risking teams and our capabilities*

## *Investment strategy*
We advise on asset strategy at all stages ahead of a transaction through to effective transition.

PPF partner

## *PPF+ advisory panel*
In 2022, we were appointed to the newly formed PPF+ advisory panel, advising on buy-outs for schemes exiting PPF assessment.

## *Illiquid assets*
Our Illiquid Asset Solutions Group finds solutions to release value from illiquid assets required to fund buy-in / out transactions.

## *Alternative risk transfer*
We advise on the full-range of alternative end-game solutions including capital-backed journey plans, superfunds and alternative use of surplus.

*Transaction broking: 60+ experienced individuals*

## *Longevity analysis*
We support schemes' longevity assessment working with LCP Health Analytics to provide bespoke, tailored advice on expected future improvements with insights from actuaries and health professionals. This helps negotiate optimised longevity pricing.

## *Strategic journey planning*
We help schemes design, implement and evolve their strategic journey plans using our GEARS framework and our LCP Assure service allows a streamlined approach, with fixed fees for smaller schemes.

## *Insurer due diligence*
We provide insurer due diligence in all areas: financial covenant, administration and ESG and climate risk.

## *Wind-up*
We have a specialist post-transaction team, skilled at guiding trustees through the wind-up process.

## *Data preparation strategy*
We have a dedicated team to help schemes prepare their data well for market to maximise insurer engagement and optimise pricing.

*Supplemented by experts across our wider de-risking team*

# Our latest thinking

## How to get your scheme prioritised in insurer triage processes over 2023 and beyond

What really matters to the insurers when ranking requests for buy-in and buy-out quotations? What challenges are they facing? Explore the answers to these questions and what key preparation steps you can take to best approach the market.

**+ Beat the triage report**
**+ Practical hints and tips**

## Powering possibility in pensions – Mansion House reforms: Time for change in DB pensions?

Explore our proposal for positive reform to regulation of the UK's DB schemes with a range of resources including blogs, video, FAQs and on-demand webinars, to help you understand the different ideas for DB funding reform under consideration.

**+ Find out more**

## Sole Mates or Soul Mates?

Governance is key for buy-in / out transactions, and de-risking is an area where Professional Trustee (PT) firms are expanding their remit and services. Explore trends and developments in the PT market, drivers of growth, evolution of delivery models and future opportunities and threats.

**+ Read the report**

## Recent case studies

**+ RSA** – A record-breaking £6.5bn full buy-in with PIC, covering c40,000 members

**+ British Steel Pension Scheme** – A record-breaking £7.5bn full buy-in as part of a strategic partnership with Legal & General

**+ Deutsche Bank** – A £400m buy-in with Aviva using an umbrella contract as part of a phased buy-in strategy

**+ Cable & Wireless** – A £340m buy-in with Legal & General completing their phased buy-in strategy

**+ ITB Pension Fund** – A fifth and final buy-in of £290m with Just as part of a phased buy-in strategy

**+ Ibstock Pension Scheme** – A further £190m buy-in, building on an existing £340m buy-in policy which was secured in 2020

**+ Roadchef** – Full scheme buy-in of £24m with Canada Life covering all members, through LCP's streamlined service

**+ Hammerson Group** – Full scheme buy-in of £90m with Just, covering all members, through LCP's streamlined service

## As Solvency II transforms into 'Solvency UK', what does it mean for pension schemes considering buy-ins and buy-outs?

The final consultation proposals have been published on the UK's transition from Solvency II. In this blog we look at our expectations for the impact on the buy-in / out market.

**+ Read the blog**

## Highlights from LCP's podcasts

**Beyond Curious with LCP**
Our new podcast explores the big questions, innovations and trends that are shaping the business world and beyond. The first season kicks off with AI, addressing the opportunities and challenges transforming the way we do business day-to-day.

**+ Listen now**

**Investment Uncut – *In the room where it happened***
To start Season 5, check out our episode recorded live at our inaugural investment conference. Hear from guests and speakers, feel the buzz and note those key takeaways…

**+ Listen now**

## Gearing up for a buy-out and wind-up

Look at the final stage of our GEARS framework, how to complete a wind-up efficiently.

**+ Read the blog**

## Accounting for Pensions

DB pensions are at a crossroads. Will they be consigned to history with the rapid increase in de-risking, or seen as an opportunity for growth?

**+ Read the report**

# Contact us

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*At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.*


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