

23 January 2024



Latest developments in the pension risk transfer market.

Louise Nash | Origination Actuary

Rachel Jervis | Head of Reinsurance Structuring

Pension Insurance Corporation plc is registered in England and Wales under company number 05706720. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (FRN 454345). Its registered office is at 14 Cornhill, London EC3V 3ND.

Copyright © 2024 Pension Insurance Corporation plc. All rights reserved.



Introductions



Louise Nash | Origination Actuary
nashl@pensioncorporation.com

- Louise joined PIC's origination team in 2023 from WTW where she was previously a Director in the Pension Risk Transfer team.
- Louise has worked in pension scheme de-risking for 10 years, with extensive experience in strategic advice to schemes on de-risking options and bulk annuity and longevity swap transactions from £1m to £16bn.

Rachel Jervis | Head of Reinsurance Structuring
jervis@pensioncorporation.com

- Rachel is an actuary who joined PIC's reinsurance team in 2016, having previously worked at LCP.
- Since joining PIC, Rachel has led a number of PIC's longevity reinsurance transactions, including for BAT, Marks & Spencer and the novation of an existing longevity swap for MNOFF.

Agenda

- 1 Scope of the bulk annuity market
- 2 Reinsurance
- 3 Market capacity and appetite
- 4 Insurer selection

1

Scope of the bulk annuity market.



Scope of the bulk annuity market

c5000 UK DB Pension Schemes

Over 50% closed to accrual and over 60% of schemes over 100% funded on a buyout measure

£1.4trn in assets in March 2023

c£950bn of these assets are concentrated in the largest 258 schemes with assets more than £1bn

Large recent funding gains

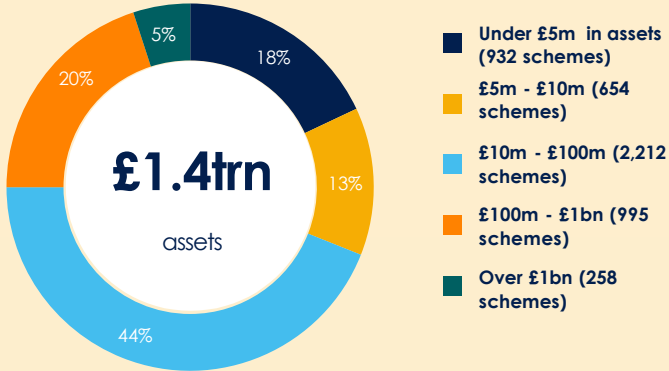
Aggregate buyout funding levels improved from c80% in March 2022 to c110% in March 2023 – huge increase in schemes who can afford full buyout leading to surge in volume of quotations

Source: PPF Purple Book 2023

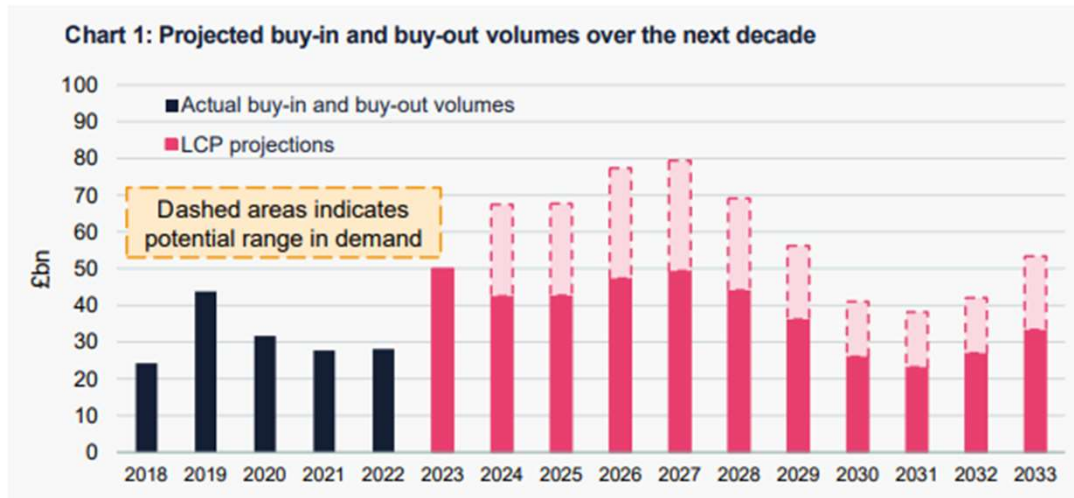
Copyright © 2024 Pension Insurance Corporation plc. All rights reserved.



Distribution of schemes by size (31 March 2023)



Potential market demand for bulk annuities



Source: LCP predictions

Volumes of business have been over £20bn a year since 2018

Current market intelligence suggests c. £50bn of transactions in 2023 and £50-60bn in 2024. We are already aware of £40bn of named tenders in 2024

Significant increase in demand expected over next 5 years

Mega-deals and small schemes



Very large schemes

- Some of the largest schemes in the UK are also some of the best funded.
- Actively discussing their endgame strategy whether potentially insurance.
- 2023 saw some “mega-deals” signing with a £6.5bn buy-in for the RSA pension schemes, a £4.8bn buy-in for the Boots Pension Scheme and a £4bn buy-in for the Co-op Pension Scheme.
- Expect more mega-deals to come to market and for these transaction sizes to be exceeded in the future.

Small schemes

- c3,500 schemes with assets less than £100m.
- Insurers and advisors are working together to find ways to streamline processes and innovate in this area.





2

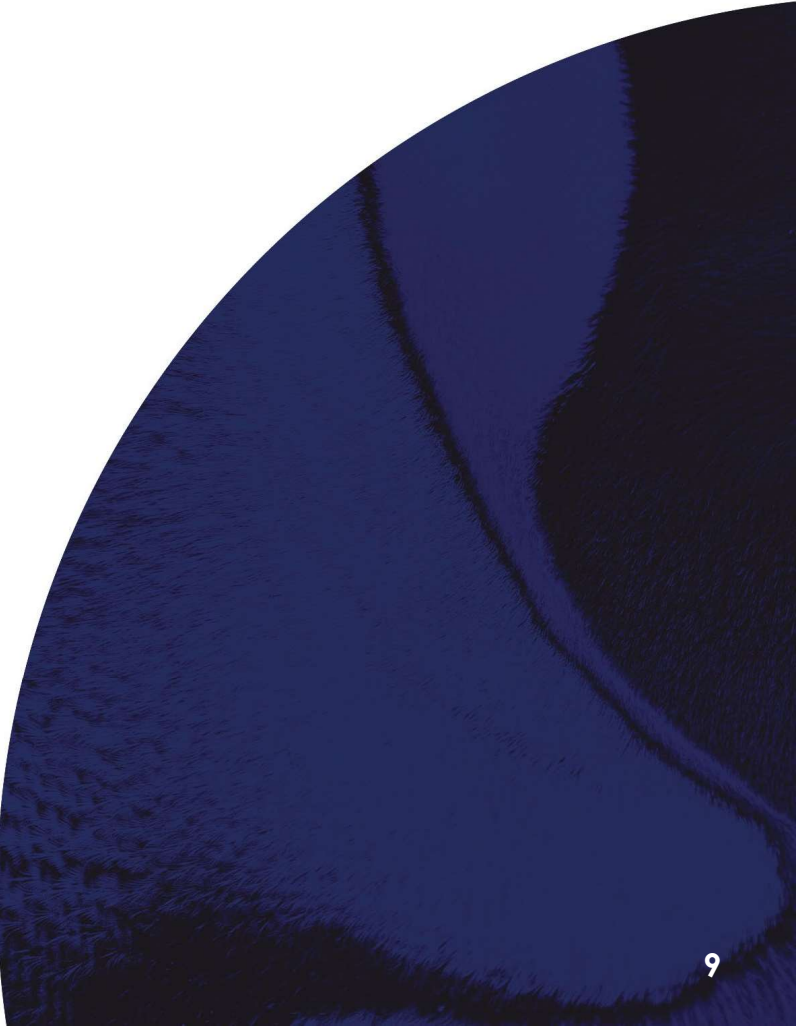
Reinsurance.

Longevity reinsurance

Reinsurers also participate in the bulk annuity market (indirectly)!



PIC and most other insurers choose to reinsure at least some of their longevity risk.



Routes to reinsurance

Longevity swaps

- Large schemes – typically £1bn+
- Mid-sized schemes – typically between £300m and £1bn
- Small schemes – typically under £300m

Funded reinsurance

- PIC uses Funded Reinsurance on a selective basis.

3

Market capacity and update.



Insurers participating in bulk annuity market



	Appetite by transaction size						Residual risk cover appetite	
	Deferreds?	< £50m*	£50m-£100m*	£100m-£0.5bn	£0.5bn-£2bn	> £2bn	Offered?	Minimum transaction size**
Aviva	✓	●	●	●	●	●	●	£200m
Canada Life	?	●	●	●	●	●	●	n/a
Just	✓	●	●	●	●	●	●	£250m
Legal & General	✓	●	●	●	●	●	●	£200m
PIC	✓	●	●	●	●	●	●	£400m
Rothesay	✓	●	●	●	●	●	●	£350m
Scottish Widows	?	●	●	●	●	●	●	£150m
Standard Life	✓	●	●	●	●	●	●	£150m

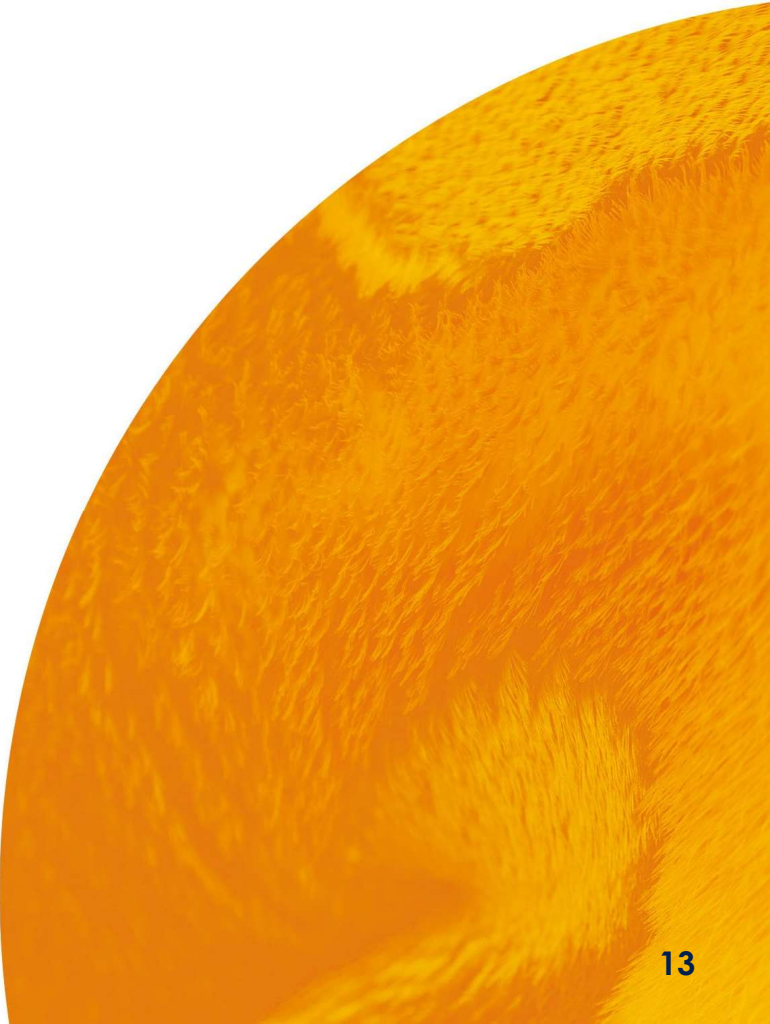
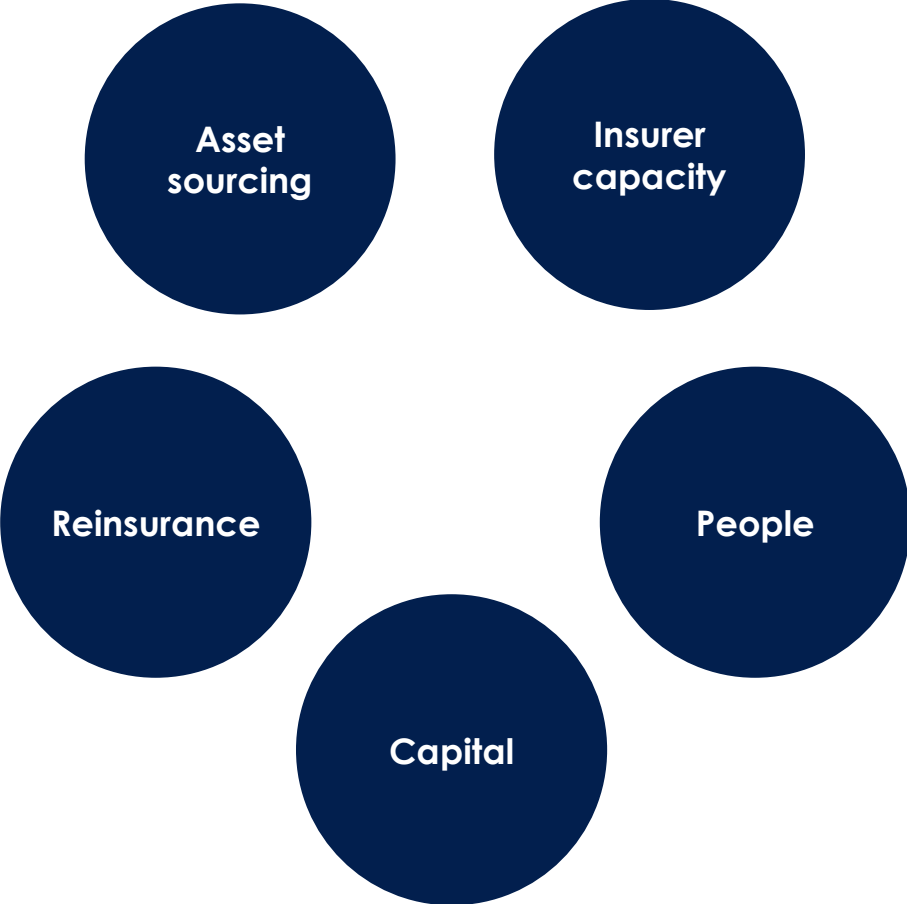
Source – Hymans de-risking report 2023

In 2023, M&G also re-entered the market, initially focussing on £250m – £1bn deals with bespoke structuring requirements.

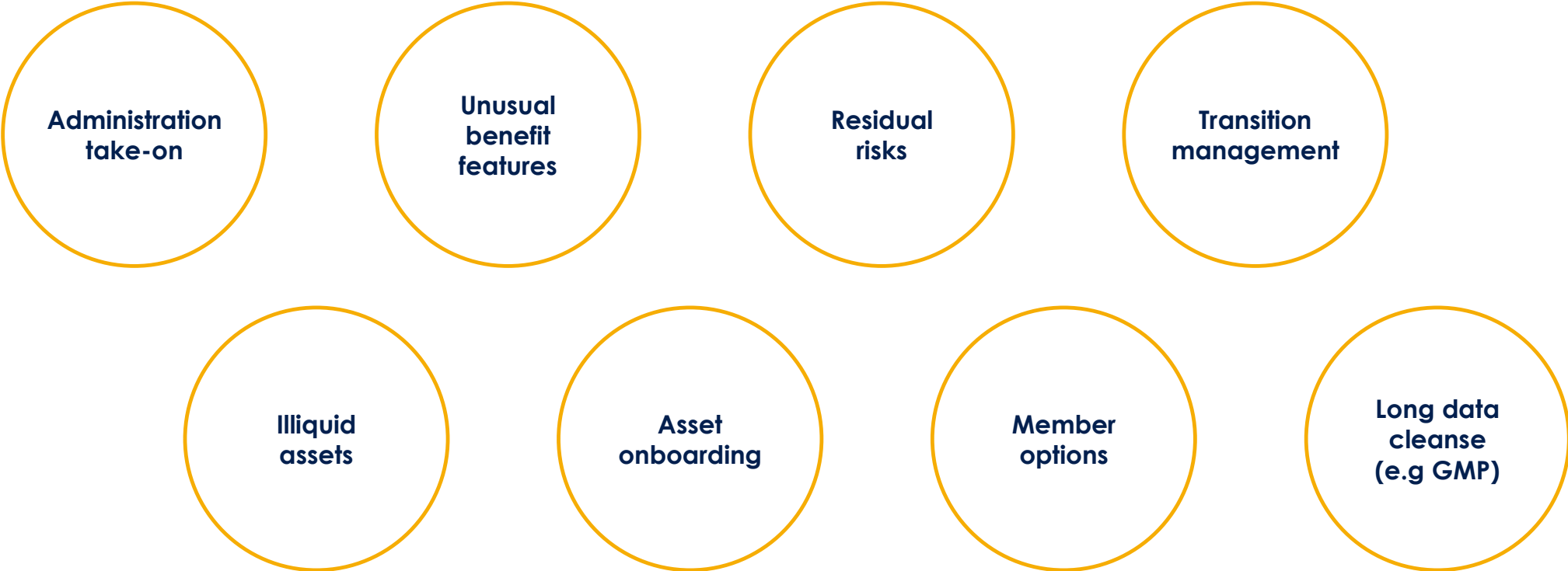
This picture is changing – capacity is increasing for some and more targeted for others. Further new entrants expected.



Potential constraints to the bulk annuity market

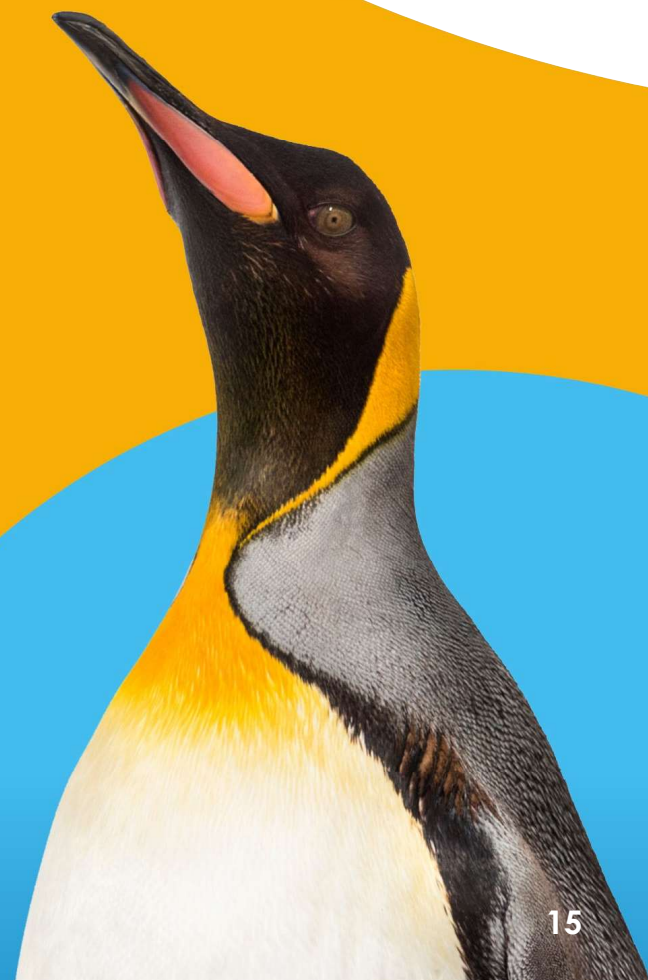


Operational considerations of new business



4

Insurer selection.



How do pension schemes select an insurer?



Price



Contractual terms



Member experience



Financial strength



Sustainability



Brand



Member options



Asset transition proposal



Project execution capability

While in most cases the best price wins, this is not always the case. Pension schemes assess insurers through a wide variety of lenses and with increasing use of partnerships, these factors are becoming more important.



Q&A