

Buy-outs, buy-ins and longevity hedging – H2 2023

Managing pension scheme risk

Welcome to our half-yearly update, summarising the activity in the buy-in, buy-out and longevity hedging markets during the second half of 2023, and the year to 31 December 2023 ('the last year').

In 2023 pension scheme buy-in and buy-out volumes reached an all-time high. Both the number and the value of transactions was the highest ever recorded. In total, 226 transactions took place during 2023 with an average size of around £217m, and 130 deals transacted in the second half of the year.

Many defined benefit schemes continued to use their improved funding levels to target whole-scheme buy-ins. As they did in 2023, our expectation is that large transactions are likely to continue to drive market volumes in 2024 and beyond. However, the market for smaller schemes is likely to remain healthy and competitive, as it was in 2023. All the sub-£30m buy-in transactions in which we were involved in 2023 received quotations from more than one insurer.

We expect 2024 to be another bumper year, and it got off to a busy start. Our risk transfer team led on more than £3bn of completed transactions in the first three months of 2024. Insurers expect quotation volumes to ramp up from spring, when we expect a significant number of large transactions to come to market.



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Buy-outs and buy-ins – deals during the second half of 2023

The total value of buy-in and buy-out deals completed in the second half of 2023 was just under £28bn (£49.1bn for the year to 31 December 2023).

In this report, we use 'buy-in' when an insurer has confirmed that a transaction is a buy-in, a partial buy-in or a pensioner-only buy-in. We use 'buy-out' when an insurer has confirmed a transaction is a buy-out, full-scheme buy-in or a final transaction that results in the scheme being fully insured.

Transactions are getting bigger. Two recent deals during the second half of 2023 illustrate this trend: Rothesay's £3.8bn buy-in for the Co-op Pension Scheme and L&G's £4.8bn buy-in for the Boots Pension Scheme. These came after the largest buy-in to date, which completed in the first quarter of 2023: PIC's £6.2bn buy-in covering the liabilities of two of the RSA Group's pension schemes.

In the second half of 2023, more than 60% of the bulk annuity market by value resulted from seven deals in excess of £1bn. Four of these deals, totalling £9.3bn, transacted with Rothesay.

As many schemes have become better funded, a large proportion are targeting buy-in and buy-out, including the very large schemes, and insurers are competing for the 'largest ever' title. The market will need to continually recalibrate the

thresholds for transaction size. We expect large and perhaps very large deals to continue to drive market volumes in 2024 and beyond.

A large deal puts demands on an insurer's pricing, operations, investment and management teams. The insurer needs access to capital, as well as attractive, long-dated assets. It's also important to ensure an optimal experience for the scheme's sizeable membership. However, some insurers are still choosing to chase very large deals and have shifted their appetite away from smaller transactions.

Changing market conditions have increased the capital insurers have to write new business. As the insurers' back books mature, prudence within capital reserves can be freed up and possibly allocated for new transactions. Very large deals might therefore not raise the capital concerns that they would have done in the past.

The complexity of bulk annuity transactions, regardless of size, means some insurers may view the extra effort that large deals demand as being 'at the margin', particularly given the increase in average transaction size over the years. For insurers with processes and asset sourcing capabilities that are more easily scalable, writing significant volume through a single transaction is likely to deliver greater upside.

Insurer appetite

	<£50m	£50m – 100m	£100m – 0.5bn	£0.5bn – 2bn	>£2bn
Aviva	●	●	●	●	●
Canada Life	●	●	●	●	●
Just	●	●	●	●	●
Legal & General	●	●	●	●	●
M&G*	●	●	●	●	●
PIC	●	●	●	●	●
Rothesay	●	●	● ●	●	●
Royal London**	●	●	●	●	●
Standard Life	●	●	● ●	●	●

- More likely to quote
- More selective
- Unlikely to quote

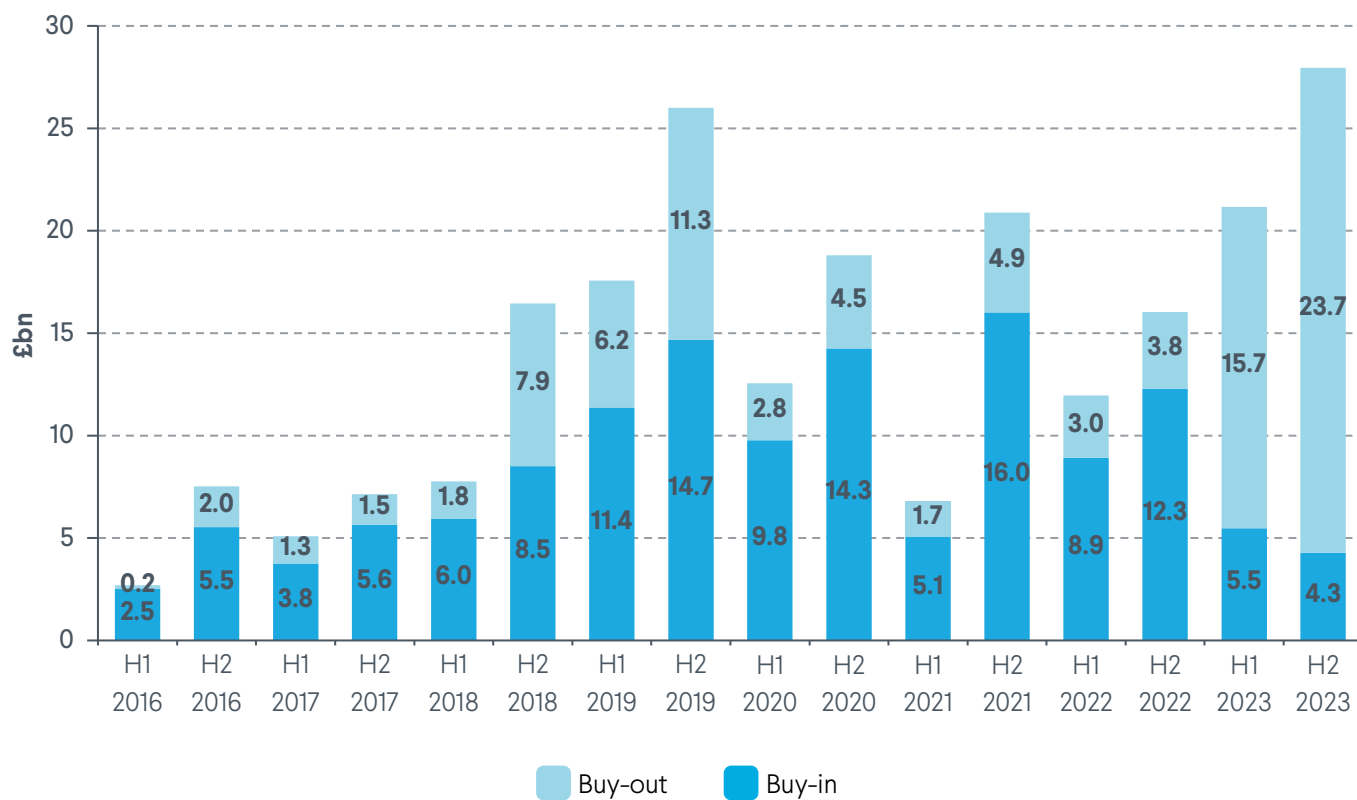
* M&G plc is essentially the UK part of the old Prudential plc Group. Prudential used to be active in the bulk annuity market until around 2016, albeit at that time it did not cover deferred liabilities.

** Royal London has completed two 'internal' buy-in transactions with pension schemes where it is the sponsoring employer. These deals were in the £50m - 500m range, which is where its initial focus will be for external buy-in transactions. Royal London expects to build its presence in the industry and we expect this appetite range to expand over time.

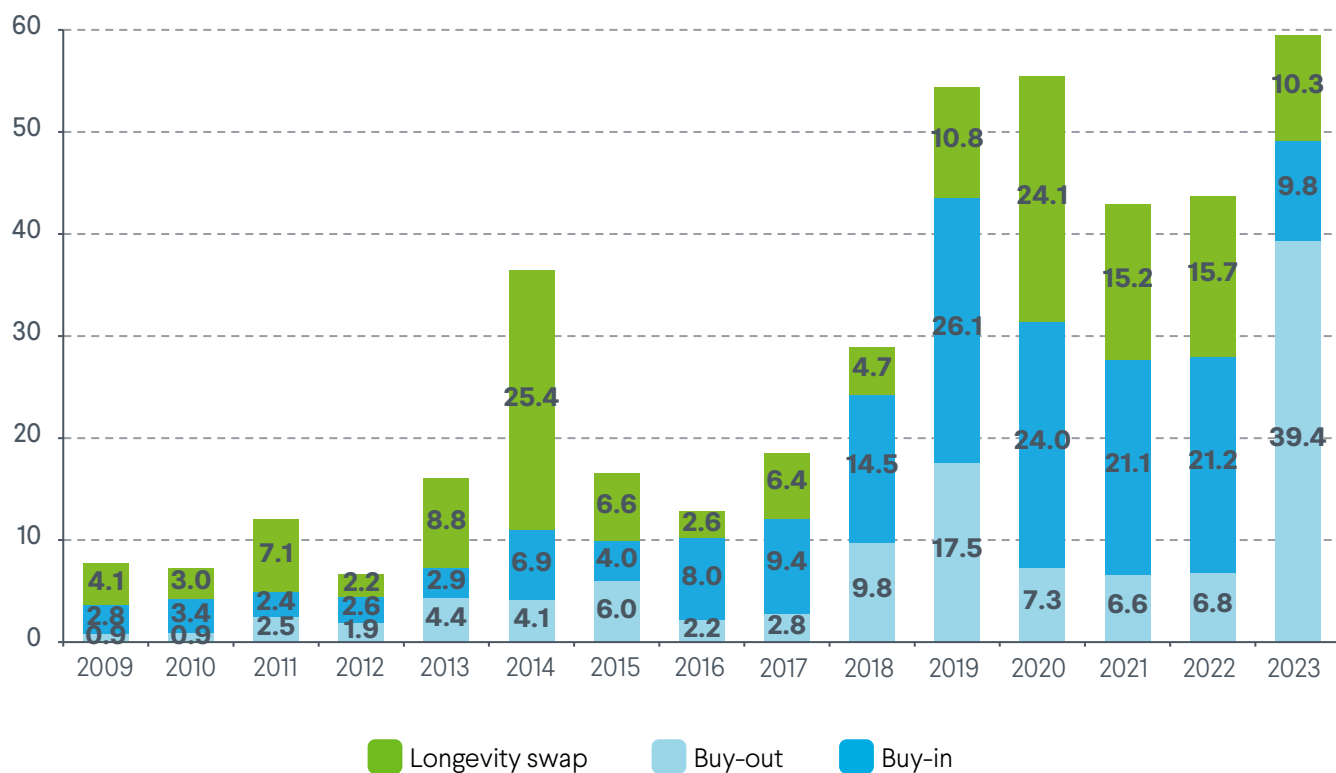
This table excludes Scottish Widows, after Rothesay announced in March 2024 that it's acquiring the Scottish Widows back book. Scottish Widows' 2023 transactions are covered in the rest of this report.

Buy-ins vs buy-outs

Value of buy-ins and buy-outs since 2016



Value of buy-ins, buy-outs and longevity swaps since 2009



Transaction rankings over the previous five years

This table shows the ranking of the total value of buy-in and buy-out transactions over the previous five years (12 months to 31 December) and six months to 31 December.

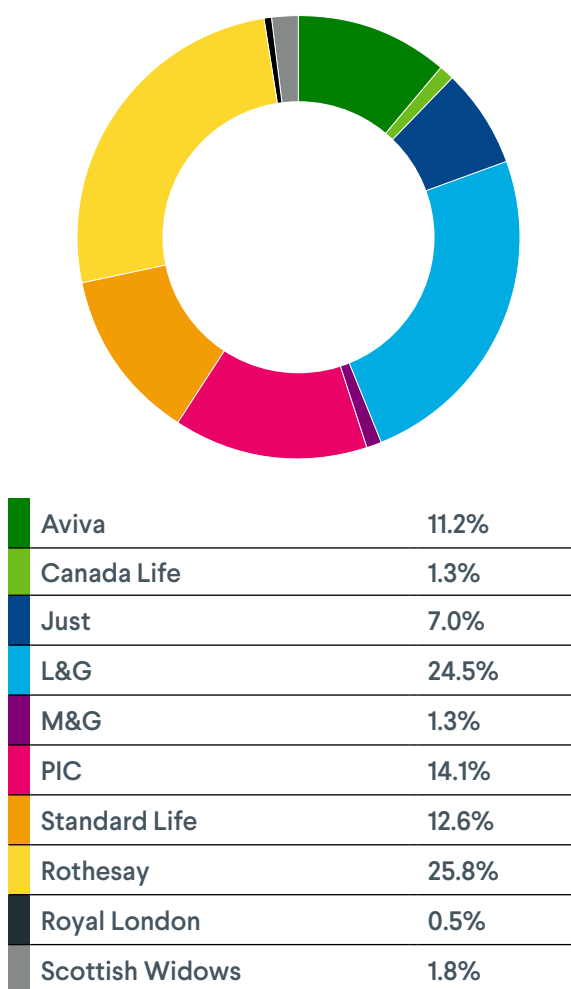
Year	Total for year (ranking)	Total in second half of year (ranking)
2023	£49.1bn (1st)	£28.0bn (1st)
2022	£28.0bn (4th)	£16.0bn (5th)
2021	£27.7bn (5th)	£20.9bn (3rd)
2020	£31.4bn (3rd)	£18.8bn (4th)
2019	£43.6bn (2nd)	£26.0bn (2nd)

Buy-ins and buy-outs: Market share (by value) during the year to 31 December 2023

The overall average buy-in and buy-out deal size for the last year was £217m, an increase from the year to 31 December 2022, when it was £139m.

Market share during the year to 31 December 2023	Total value of deals	Total number of deals	Average deal value
Aviva	£5,500m	56	£98m
Canada Life	£621m	8	£78m
Just	£3,415m	80	£43m
L&G	£12,048m	33	£365m
M&G	£617m	2	£309m
PIC	£6,950m	14	£496m
Standard Life	£6,174m	17	£363m
Rothsay	£12,685m	12	£1,057m
Royal London	£246m	1	£246m
Scottish Widows	£865m	3	£288m
Total	£49,121m	226	£217m

Share of the buy-in and buy-out market (by transaction value) for the year to 31 December 2023.



Rothesay had the largest market share in 2023. Its 12 deals worth £12.7bn made up 26% of the market. Rothesay's acquisition of Scottish Widows' back book announced in March 2024 was further evidence of its recent impressive momentum in the bulk annuity market.

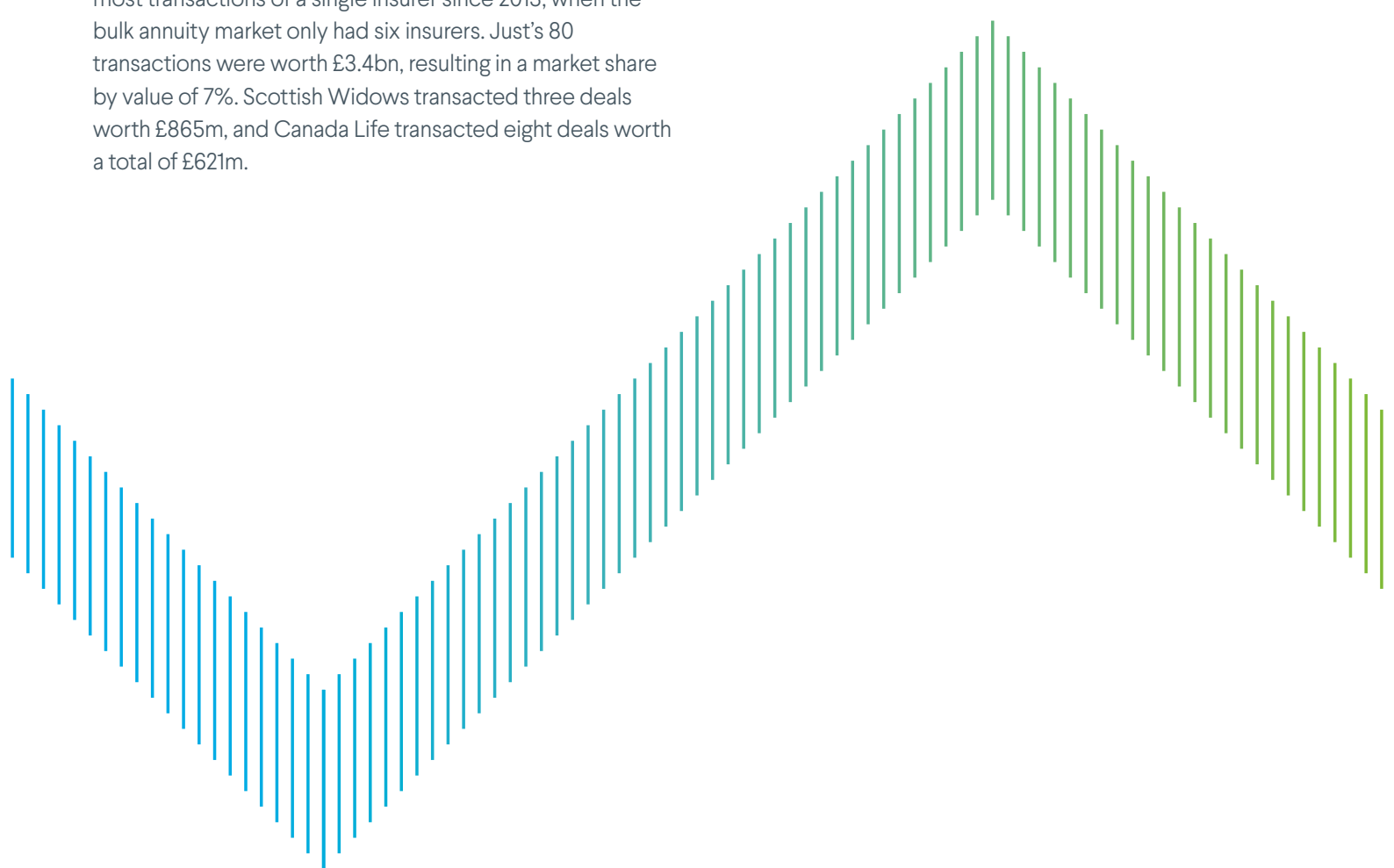
Legal & General had 25% of the market, completing 33 deals totalling £12bn, including the £4.8bn Boots Pension Scheme buy-in. Two-thirds of its transactions by volume in 2023 were for schemes of less than £100m. L&G's Flow proposition targets schemes smaller than £150m, and most small schemes L&G transacts with tend to have assets managed by L&G's investment arm.

During 2023 PIC completed the largest ever bulk annuity transaction, worth £6.2bn with RSA. Its other 13 transactions in 2023 were with schemes of less than £200m, resulting in a market share by value of 14%.

Standard Life's 17 transactions were worth £6.2bn, and Aviva's 56 transactions were worth £5.5bn, resulting in market shares of 13% and 11%, respectively. Just typically focuses on smaller transactions, and in 2023 completed the most transactions of a single insurer since 2013, when the bulk annuity market only had six insurers. Just's 80 transactions were worth £3.4bn, resulting in a market share by value of 7%. Scottish Widows transacted three deals worth £865m, and Canada Life transacted eight deals worth a total of £621m.

M&G completed its first two buy-ins in the second half of 2023. These totalled £617m, one with the M&G Group Pension Scheme and one with the Northern Bank Pension Scheme. In March 2024 M&G completed its third deal, worth £309m. The insurer expects £1bn–1.5bn in bulk annuity sales a year, and is focusing on medium-sized transactions.

The other new entrant in 2023 was the Royal London Mutual Insurance Society. On 24 November 2023 the trustees of the Royal Liver UK Scheme transacted a buy-in with Royal London covering all the benefits of the scheme for all deferred pensioners and current pensions (other than GMP equalisation). A second transaction followed in January 2024, covering 18% of Royal London Group Pension Scheme liabilities. Royal London announced its entry to the bulk annuity market in March 2024.



Buy-ins and buy-outs in 2024

Record transaction pipelines and activity are set to make 2024 another bumper year for the buy-in market. Over the next few months, we expect around 15 buy-in transactions in the £1bn-2bn range to come to market. This £30bn of transactions will join a material flow of sub-£1bn buy-ins and several-billion-pound mega transactions. Even though January and February are usually quiet months for the buy-in market, the start of 2024 was a busy time for our risk transfer team.

The smaller end of the market is also changing. Many insurers are streamlining the quotation process, so they can more easily engage with the market. This approach brings efficiency but also standardisation, limiting room for small schemes to negotiate bespoke commercial terms.

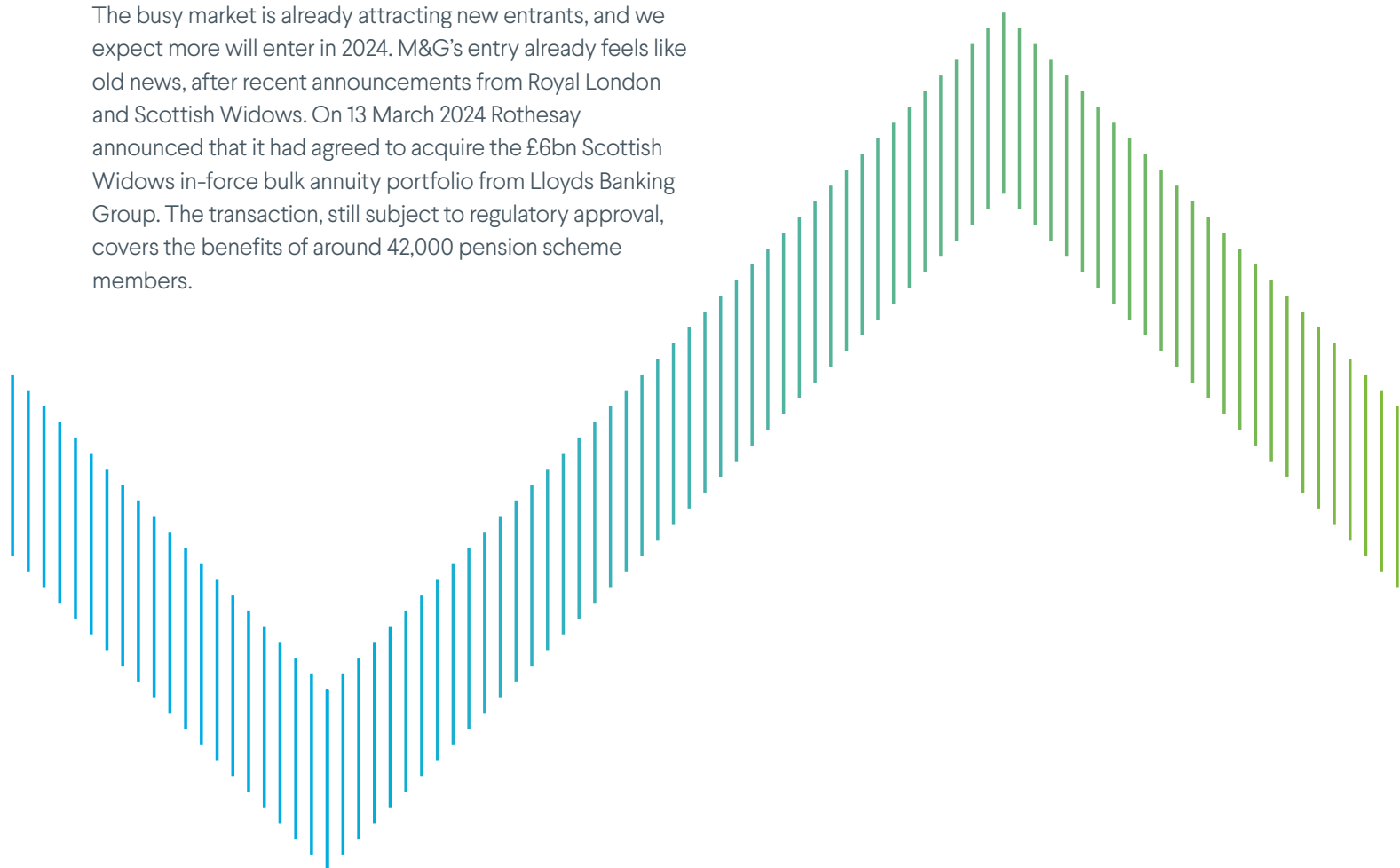
More transactions at the smaller end are being completed on an exclusive basis. Rather than approaching the whole market, a scheme selects one insurer and requests pricing only from that insurer. We expect further developments in this area.

The busy market is already attracting new entrants, and we expect more will enter in 2024. M&G's entry already feels like old news, after recent announcements from Royal London and Scottish Widows. On 13 March 2024 Rothesay announced that it had agreed to acquire the £6bn Scottish Widows in-force bulk annuity portfolio from Lloyds Banking Group. The transaction, still subject to regulatory approval, covers the benefits of around 42,000 pension scheme members.

It remains to be seen what effect the burgeoning alternative risk transfer market will have on buy-ins and buy-outs. The first two superfund deals in the UK completed in November 2023 (Sears Retail Pensions Scheme) and March 2024 (Debenhams Pension Scheme).

Superfunds are aimed at schemes that cannot or do not want to buy out and meet the Pension Regulator's (TPR's) 'gateway' tests. The only approved superfund consolidator, Clara-Pensions, operates as a 'bridge to buy-out', holding scheme assets until the scheme reaches full buy-out funding. Other superfunds might come on the market offering a different model.

For some schemes, running on rather than buying in or settling liabilities with a superfund may be a credible long-term approach.



Appendix

Largest buy-ins and buy-outs in the year to 31 December 2023

In the last year, at least 41 deals exceeded £200m, of which at least 18 were worth at least £500m. L&G's £4.8bn buy-in of the Boots Pension Scheme was the largest single transaction in the second half of 2023.

	Pension scheme	Provider	Value	Deal type	Date
1	RSA Group – Sal Pension Scheme	PIC	£6,190m	Buy-in	Q1 2023
2	Boots Pension Scheme	L&G	£4,800m	Buy-in	Q4 2023
3	Co-operative Pension Scheme	Rothesay	£3,810m	Buy-in	Q4 2023
4	Thales UK Pension Scheme	Rothesay	£2,700m	Buy-in	Q4 2023
5	British Steel Pension Scheme	L&G	£2,604m	Buy-in	Q1 2023
6	United Utilities	L&G	£1,800m	Buy-in	Q3 2023
7	Undisclosed	Standard Life	£1,699m	Buy-in	Q4 2023
8	Rexam Pension Plan	Rothesay	£1,435m	Buy-in	Q4 2023
9	Safeway Scheme	Rothesay	£1,410m	Buy-in	Q2 2023
10	Undisclosed	Rothesay	£1,385m	Buy-in	Q4 2023
11	Mitchells & Butlers	Standard Life	£1,201m	Buy-in	Q2 2023
12	Chubb Pension Plan and Chubb Security Pension Plan	Standard Life	£1,038m	Buy-in	Q2 2023
13	Thomas Cook Pension Plan	Aviva	£870m	Buy-in	Q2 2023
14	Arcadia Group	Aviva	£630m	Buy-in	Q1 2023
15	Undisclosed	Rothesay	£555m	Buy-in	Q4 2023
16	GKN Pension Scheme – owner Melrose Industries	Just	£513m	Buy-in	Q1 2023
17	Deutsche Bank (UK) Pension Scheme	L&G	£500m	Buy-in	H2 2023
18	Undisclosed	Aviva	£500m	Buy-in	Q4 2023
19	Undisclosed	Standard Life	£474m	Buy-in	Q4 2023
20	Undisclosed	L&G	£467m	Buy-in	H1 2023
21	Undisclosed	Rothesay	£460m	Buy-in	Q4 2023
22	P&O	Rothesay	£440m	Buy-in	Q3 2023
23	Deutsche Bank (UK) Pension Scheme	Aviva	£400m	Buy-in	H1 2023
24	UK tech firm	Just	£400m	Buy-in	H2 2023
25	Harrods Group Pension Plan	Scottish Widows	£380m	Buy-in	Q2 2023
26	Undisclosed	Aviva	£350m	Buy-in	Q4 2023
27	Cable and Wireless fund	L&G	£340m	Buy-in	Q3 2023
28	Undisclosed	Just	£336m	Buy-out	Q1 2023
29	Ford UK senior staff scheme	Scottish Widows	£335m	Buy-in	Q2 2023
30	M&G Group Pension Scheme	M&G	£331m	Buy-in	Q3 2023
31	London Stock Exchange Group Pension Scheme	Standard Life	£320m	Buy-in	Q2 2023
32	Unisys payment Services Limited Pension Scheme/ Unisys Public Sector Pension Scheme	Standard Life	£317m	Buy-in	Q4 2023
33	ITB Pension Funds	Just	£290m	Buy-in	Q3 2023
34	Northern Bank Pension Scheme	M&G	£286m	Buy-in	Q3 2023
35	Bayer Group Pension Plan	Canada Life	£280m	Buy-in	Q3 2023
36	Smith & Nephew	Rothesay	£260m	Buy-in	Q2 2023
37	Undisclosed	Aviva	£250m	Buy-in	Q4 2023
38	Royal Liver UK Pension scheme	Royal London	£246m	Buy-in	Q4 2023
39	Undisclosed	Aviva	£230m	Buy-in	Q4 2023
40	Undisclosed	Just	£225m	Buy-in	Q3 2023
41	Undisclosed	Aviva	£220m	Buy-in	Q4 2023

Longevity swaps – deals since 2009

Organisation	Date	Pension schemes	Provider	Approximate value (£bn)
Babcock	Q3 2009	3	Credit Suisse	1.2
RSA Insurance	Q3 2009	2	Rothesay Life	1.9
Berkshire	Q4 2009	1	Swiss Re	1.0
BMW	Q1 2010	1	Abbey Life	3.0
British Airways	Q3 2010	1	Rothesay Life	1.3
Pall	Q1 2011	1	JP Morgan	0.1
ITV	Q3 2011	1	Credit Suisse	1.7
Rolls-Royce*	Q4 2011	1	Deutsche Bank	3.0
Pilkington	Q4 2011	1	L&G	1.0
British Airways	Q4 2011	1	Rothesay Life	1.3
Akzo Nobel	Q2 2012	1	Swiss Re	1.4
LV=*	Q4 2012	1	Swiss Re	0.8
BAE Systems	Q1 2013	1	Legal & General	3.2
Bentley	Q2 2013	1	Abbey Life	0.4
Carillion	Q4 2013	5	Deutsche Bank	1.0
AstraZeneca	Q4 2013	1	Deutsche Bank	2.5
BAE Systems	Q4 2013	2	L&G	1.7
Aviva	Q1 2014	1	Own insurer conduit – Munich Re, SCOR and Swiss Re	5.0
BT	Q2 2014	1	Own insurer conduit – PICA	16.0
PGL*	Q3 2014	1	Own insurer conduit – Phoenix Life	0.9
MNOFP*	Q4 2014	1	Own insurer conduit – Pac Life Re	1.5
ScottishPower	Q4 2014	1	Abbey Life	2.0
AXA UK	Q3 2015	1	Own insurer conduit – RGA	2.8
Heineken	Q3 2015	1	Aviva	2.4
RAC	Q4 2015	1	Own insurer conduit – SCOR	0.6
Unnamed	Q4 2015	1	Zurich	0.1
Serco*	Q4 2015	1	Undisclosed	0.7
Pirelli Tyres Limited	Q3 2016	2	Zurich	0.6
Manweb Group	Q3 2016	1	Abbey Life	1.0
Unnamed	Q4 2016	1	Zurich	0.1
Unnamed	Q4 2016	1	Legal & General	0.9
Unnamed	Q1 2017	1	Zurich	0.3
Skanska	Q2 2017	1	Zurich	0.3
SSE*	Q2 2017	1	L&G	0.8
Marsh & McLennan Companies	Q3 2017	1	Own insurer conduit – Canada Life Re and PICA	3.4
British Airways*	Q3 2017	1	Own insurer conduit – Canada Life Re and Partner Re	1.6
National Grid	Q2 2018	1	Zurich	2.0
Lafarge	Q3 2018	2	Own insurer conduit – Munich Re	2.4
Unnamed	Q3 2018	1	L&G	0.3
AXA UK	H2 2019	1	Undisclosed	0.6
HSBC	Q3 2019	1	Own insurer conduit – PICA	7.0
HSBC	Q3 2019	1	Own insurer conduit – Swiss Re	3.5
Unnamed	Q4 2019	1	Zurich	0.8
Lloyds Banking Group	Q1 2020	3	Scottish Widows – Pacific Life Re	10.0
Willis Towers Watson	Q1 2020	1	Own insurer conduit – Munich Re	1.0
UBS	Q2 2020	1	Zurich – Canada Life Re	1.4
Prudential	Q4 2020	1	Own insurer conduit – Pacific Life Re	3.7
Barclays	Q4 2020	1	Own insurer conduit – RGA	5.0
BBC	Q4 2020	1	Zurich – Canada Life Re	3.0
AXA UK	Q1 2021	1	Hannover Re	3.0
Fujitsu	Q2 2021	1	Own insurer conduit – Swiss Re	3.7
Undisclosed	Q2 2021	1	Zurich – PICA	6.0
Undisclosed	Q4 2021	1	Zurich – MetLife	2.6
Lloyds Banking Group	Q1 2022	1	Scottish Widows – SCOR	5.5
Undisclosed	Q2 2022	1	Zurich – Partner Re	1.0
USB (UK)	Q3 2022	1	Zurich – Canada Life Re	0.5
Balfour Beatty	Q4 2022	1	Zurich – SCOR	1.7
Barclays	Q4 2022	1	PICA	7.0
Nationwide	Q2 2023	1	Zurich – PFI	1.7
Yorkshire and Clydesdale Bank	Q2 2023	1	Zurich – Pacific Life Re	1.6
BT	H2 2023	1	Reinsurance Group of America	5.0
MMC UK	H2 2023	1	Munich Re	2.0
Total to date		62 (deals)		£149.4

*Since the original swap transaction date, these deals have been converted to buy-ins. Blue highlighted deals were completed in 2023.

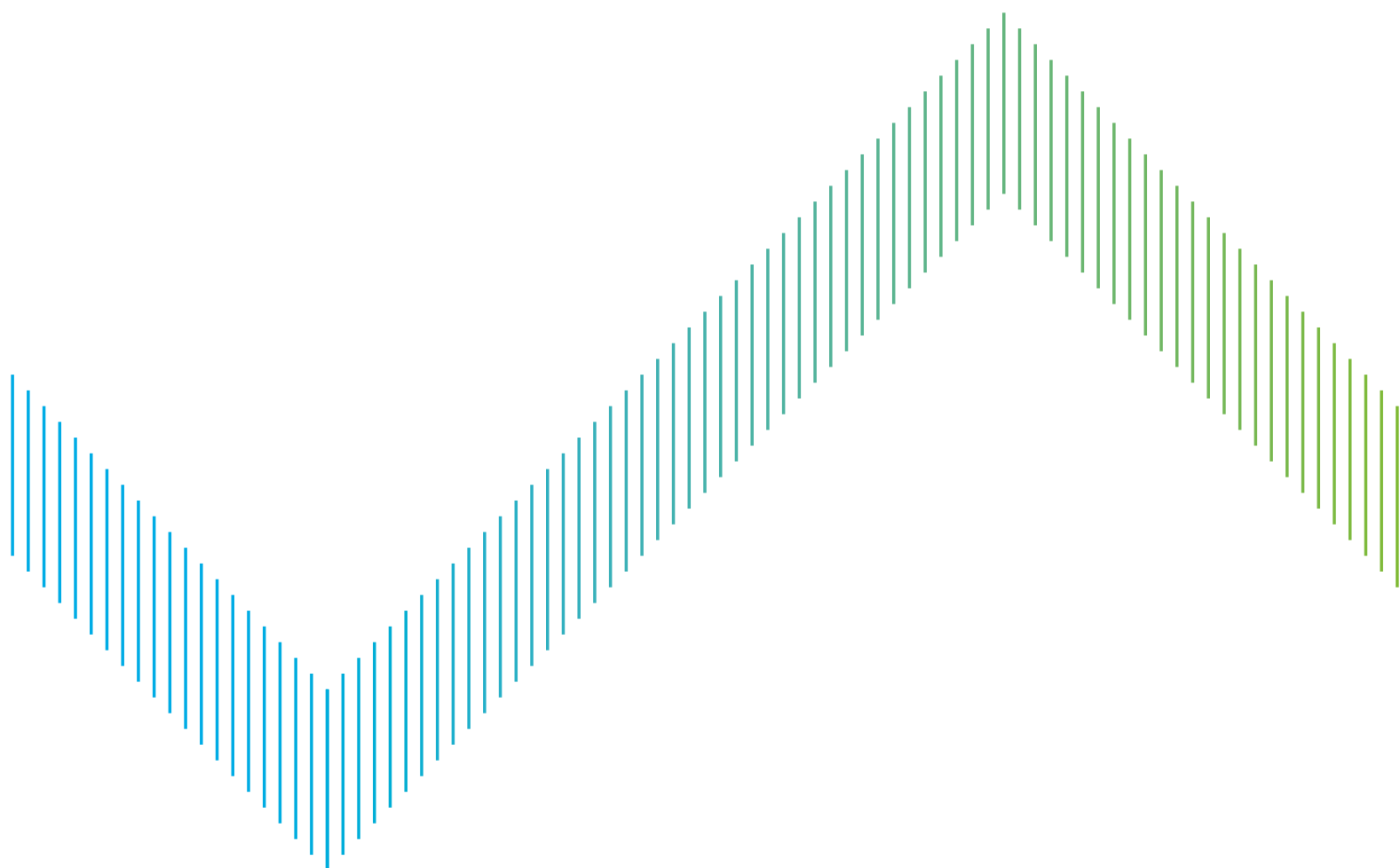
FTSE 100 pension scheme risk transfer deals

FTSE 100 company	Provider	Value	Deal type	Date
3i Group	PIC	£200m	Buy-in	Mar 2017
	L&G	£95m	Buy-in	Apr 2019
	L&G	£650m	Buy-in	May 2020
AstraZeneca	Deutsche Bank	£2.5bn	Longevity swap	Dec 2013
Aviva	Swiss Re/ Munich Re/ SCOR	£5.0bn	Longevity swap	Mar 2014
	Aviva	£1.7bn	Buy-in	Oct 2019
	Aviva	£870m	Buy-in	Nov 2020
BAE Systems	L&G	£3.2bn	Longevity swap	Jan 2013
	L&G	£1.7bn	Longevity swap	Dec 2013
Barclays	Reinsurance Group of America	£5.0bn	Longevity swap	Dec 2020
	Prudential	£7.0bn	Longevity swap	Dec 2022
British American Tobacco	PIC	£3.4bn	Buy-in	Jun 2019
	PIC	£385m	Buy-in	May 2021
	PIC	£233m	Buy-in	Oct 2022
BT Group	PICA	£16.0bn	Longevity swap	Jun 2014
	Reinsurance Group of America	£5.0bn	Longevity swap	Jul 2023
Coca-Cola	Prudential	-	Captive	Q1 2011
Frasers Group	PIC	£604m	Buy-in	Jun 2022
GlaxoSmithKline	Prudential	£892m	Buy-in	Dec 2010
HSBC	Own insurer conduit – PICA	£7.0bn	Longevity swap	Jul 2019
IMI	PIC	£173m	Buy-in	Dec 2022
InterContinental Hotels	Rothesay	£440m	Buy-out	Aug 2013
Imperial Brands	Standard Life	£1.8bn	Buy-in	Dec 2021
	L&G	£230m	Buy-in	Dec 2015
Kingfisher	PIC	£210m	Buy-in	Jan 2018
	Aviva	£910m	Buy-in	Jul 2021
	Just	£110m	Buy-in	Dec 2016
Land Securities	Just	£80m	Buy-in	Dec 2022
Legal & General	L&G	£925m	APP	Jun 2021
Lloyds Banking Group	Pacific Life Re	£10.0bn	Longevity swap	Jan 2020
	Scottish Widows and SCOR	£5.5bn	Longevity swap	Jan 2022
M&G	M&G	£331m	Buy-in	Aug 2023
	Aviva	£925m	Buy-in	Mar 2018
	Phoenix	£470m	Buy-in	Mar 2018
Marks & Spencer	PIC	£940m	Buy-in	Apr 2019
	Phoenix	£460m	Buy-in	Apr 2019
	Aviva	£390m	Buy-in	Sep 2020
	Phoenix	£360m	Buy-in	Sep 2020
Melrose	Just	£513m	Buy-in	Mar 2023
	Zurich	£2.0bn	Longevity swap	May 2018
National Grid	Rothesay and L&G	£4.4bn	Buy-in	Oct 2019
	Rothesay	£800m	Buy-in	Dec 2020
Next	Aviva	£124m	Buy-in	Aug 2010
	Aviva	£600m	Buy-in	Oct 2017
Pearson	L&G	£600m	Buy-in	Oct 2017
	L&G	£500m	Buy-in	Feb 2019
Phoenix Group Holdings	Phoenix	£1.1bn	Buy-in	Mar 2019
	Standard Life	£1.0bn	Buy-in	Jul 2021
	Standard Life	£440m	Buy-in	Oct 2021
Prudential	Pacific Life Re	£3.7bn	Longevity swap	Nov 2020

FTSE 100 pension scheme risk transfer deals (continued)

FTSE 100 company	Provider	Value	Deal type	Date
Reckitt Benckiser	Scottish Widows	£415m	Buy-in	Nov 2020
Rentokil Initial	PIC	£1.5bn	Buy-in	Dec 2018
Rolls-Royce	Deutsche Bank	£3.0bn	Longevity swap	Nov 2011
	L&G	£4.6bn	Partial buy-out	Jun 2019
Smiths Group	L&G	£250m	Buy-in	Mar 2008
	Paternoster	£250m	Buy-in	Sep 2008
	Rothesay	£150m	Buy-in	Dec 2011
	PIC	£170m	Buy-in	Sep 2013
	Canada Life	£176m	Buy-in	Jul 2019
	Aviva	£142m	Buy-in	Sep 2020
	Canada Life	£146m	Buy-in	Nov 2020
	Rothesay	£640m	Buy-in	Jun 2022
Smith & Nephew	Rothesay	£190m	Buy-in	Q2 2013
	Rothesay	£260m	Buy-in	Jun 2023
SSE	PIC	£350m	Buy-in	Dec 2016
	L&G	£800m	Longevity swap	May 2017
Taylor Wimpey	Partnership	£206m	Buy-in	Q1 2015
Unilever	L&G	£129m	Buy-in	Q4 2014
United Utilities	L&G	£1.8bn	Buy-in	Jul 2023
Whitbread	Standard Life	£665m	Buy-in	Jun 2022
WPP	PIC	£250m	Buy-in	Mar 2020

Blue highlighted deals were completed in 2023.



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