

Buy-outs, buy-ins and longevity hedging - H1 2018

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 first half of 2018, and the year to 30 June 2018 ('the last year').

Buy-outs and buy-ins - Deals during the first half of 2018 ("H1 2018")

The total value of buy-out and buy-in deals struck in H1 2018 was around £7.8 billion (around £14.9 billion for the year to 30 June 2018).

Buy-out and buy-in deals	Number of deals completed			Value of deals completed		
	H2 2017	H1 2018	Total	H2 2017	H1 2018	Total
Aviva	23	33	56	£1,719m	£1,539m	£3,258m
Canada Life	3	0	3	£268m	£m	£268m
Legal & General	16	7	23	£1,901m	£507m	£2,408m
Pension Insurance Corporation	16	15	31	£1,756m	£3,257m	£5,013m
Phoenix	0	1	1	£m	£470m	£470m
Just	15	estimated as 15	30	£703m	£718m	£1,421m
Rothesay Life	2	1	3	£555m	£170m	£725m
Scottish Widows	3	4	7	£240m	£1,105m	£1,345m
Total	78	76	154	£7,142m	£7,766m	£14,908m

At the time of writing, the total value of deals completed by Just during H1 2018 has been disclosed but the breakdown of those deals has not. As such, this update assumes that the average size of transactions completed by Just in H1 2018 was in line with H2 2017 (resulting in the estimate that 15 deals were completed in H1 2018) and that all completed transactions were buy-ins under £200m.

Longevity swaps - Deals during H1 2018

There was one longevity swap in H1 2018 covering £2 billion of liabilities. Forty three deals, covering liabilities worth over £67 billion, have been completed since 30 June 2009.

Organisation	Date	Number of pension schemes	Provider	Approximate Value
Babcock	Q3 2009	3	Credit Suisse	£1.2 bn
RSA Insurance	Q3 2009	2	Rothesay Life	£1.9 bn
Berkshire	Q4 2009	1	Swiss Re	£1 bn
BMW	Q1 2010	1	Abbey Life	£3 bn
Pall	Q1 2011	1	JP Morgan	£0.1 bn
ITV	Q3 2011	1	Credit Suisse	£1.7 bn
Rolls Royce	Q4 2011	1	Deutsche Bank	£3 bn
British Airways	Q4 2011	1	Rothesay Life	£1.3 bn
Pilkington	Q4 2011	1	Legal & General	£1 bn
Azko Nobel	Q2 2012	1	Swiss Re	£1.4 bn
LV=	Q4 2012	1	Swiss Re	£0.8 bn
BAE Systems	Q1 2013	1	Legal & General	£3.2 bn
Bentley	Q2 2013	1	Abbey Life	£0.4bn
Carillion	Q4 2013	5	Deutsche Bank	£1bn
AstraZeneca	Q4 2013	1	Deutsche Bank	£2.5bn
BAE Systems	Q4 2013	2	Legal & General	£1.7bn
Aviva	Q1 2014	1	Own insurer conduit - Munich Re, Scor Se and Swiss Re	£5bn
BT	Q2 2014	1	Own insurer conduit - PICA	£16bn
PGL	Q3 2014	1	Own insurer conduit - Phoenix Life	£0.9bn
MNOPF	Q4 2014	1	Own insurer conduit - Pac Life Re	£1.5bn
ScottishPower	Q4 2014	1	Abbey Life	£2bn
AXA UK	Q3 2015	1	Own insurer conduit - RGA	£2.8bn
Heineken	Q3 2015	1	Aviva	£2.4bn
RAC (2003) Pension Scheme	Q4 2015	1	Own insurer conduit - Scor Se	£0.6bn
Unnamed	Q4 2015	1	Zurich	£0.09bn
Pirelli Tyres Limited	Q3 2016	2	Zurich	£0.6bn
Manweb Group	Q3 2016	1	Abbey Life	£1bn
Unnamed	Q4 2016	1	Zurich	£0.05bn
Unnamed	Q4 2016	1	Legal & General	£0.9bn
Skanska	Q1 2017	1	Zurich	£0.3bn
SSE	Q2 2017	1	Legal & General	£0.8bn
Marsh & McLennan Companies	Q3 2017	1	Own insurer conduit - Canada Life Re and PICA	£3.4bn
British Airways	Q3 2017	1	Own insurer conduit - Canada Life Re and Partner Re	£1.6bn
National Grid	Q2 2018	1	Zurich	£2bn
Total to date		43		£67.1bn

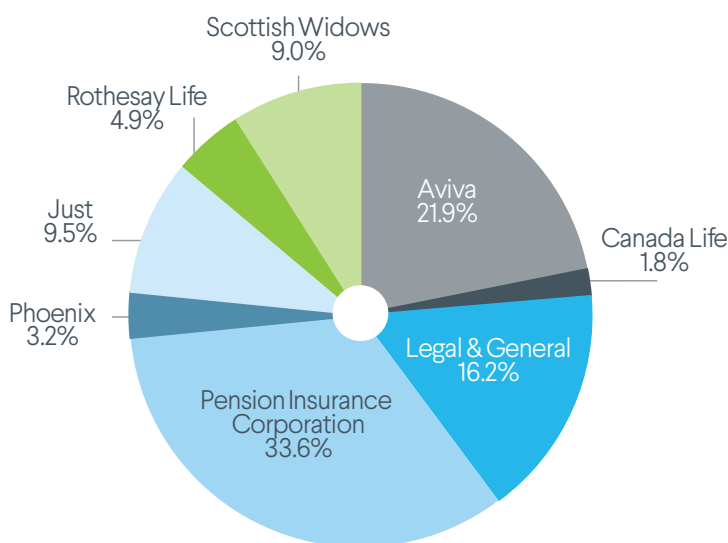
Risk transfers during the last year

Facts and figures

Buy-ins and buy-outs

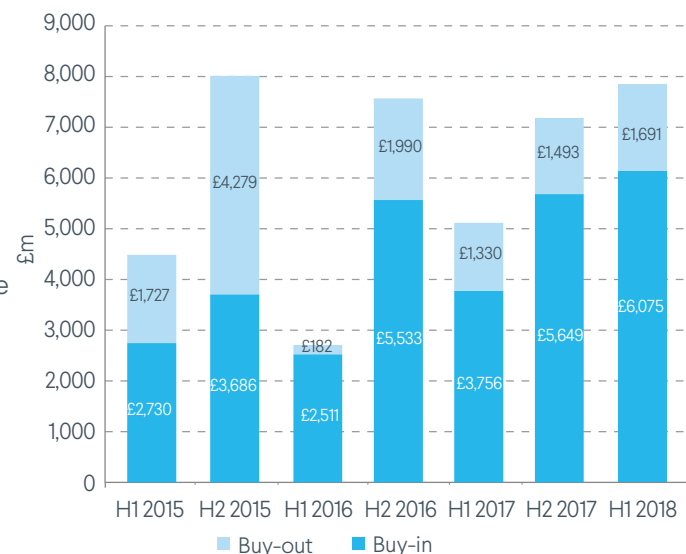
Market share (by value) during the year to 30 June 2018

The largest market share in the buy-in and buy-out market was Pension Insurance Corporation with c. 33.6% by value, followed by Aviva whose market share of c. 21.9% is a significant increase compared with c. 6.9% for the year to 30 June 2017.



Buy-ins v buy-outs

During the last year, the value of buy-ins was more than the value of buy-outs (around £3.2 billion of buy-outs versus around £11.7 billion of buy-ins).



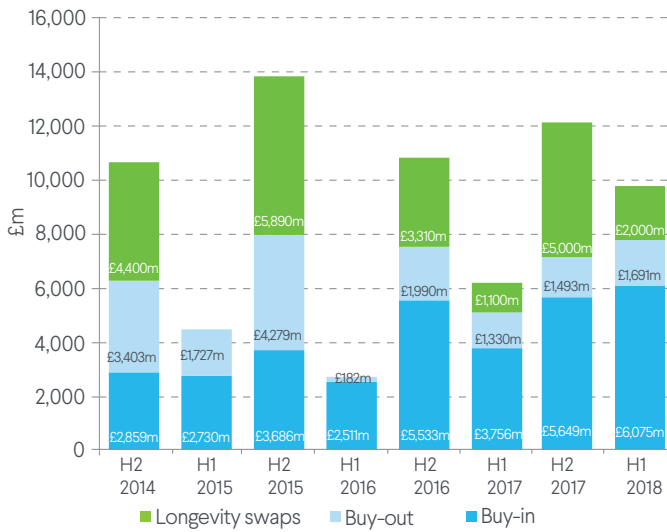
Largest buy-ins and buy-outs

The last year saw eighteen deals in excess of £200m.

	Pension Scheme	Provider	Value	Deal type	Date
1	Undisclosed	PIC	£200m	Buy-in	Q3 2017
2	Undisclosed	Rothesay Life	£450m	Buy-out	Q3 2017
3	Plumbing & Mechanical Services Industry	L&G	£560m	Buy-in	Q3 2017
4	Pearson	Aviva	£600m	Buy-in	Q4 2017
5	Pearson	L&G	£600m	Buy-in	Q4 2017
6	MNOPF	L&G	£490m	Buy-in	Q4 2017
7	Undisclosed	PIC	£210m	Buy-in	Q4 2017
8	Dock Workers	PIC	£725m	Buy-in	Q4 2017
9	Kingfisher	PIC	£210m	Buy-in	Q1 2018
10	M&S	Aviva	£925m	Buy-in	Q1 2018
11	M&S	Phoenix	£470m	Buy-in	Q1 2018
12	Undisclosed	PIC	£275m	Buy-in	Q2 2018
13	PA Consulting	PIC	£855m	Buy-out	Q2 2018
14	Siemens	PIC	£1,265m	Buy-in	Q2 2018
15	Littlewoods	Scottish Widows	£880m	Buy-in	Q2 2018
16	Undisclosed	Aviva	£200m	Buy-in	Q2 2018
17	Undisclosed	PIC	£200m	Buy-in	Q2 2018
18	BAA	L&G	£325m	Buy-in	Q2 2018

Risk transfer deals (including longevity swaps)

Total pension scheme risk transfer deals over the last year covered liabilities of around £21.9 billion. Since 30 June 2009 the longevity swap market has now seen deals covering over £67 billion of liabilities.

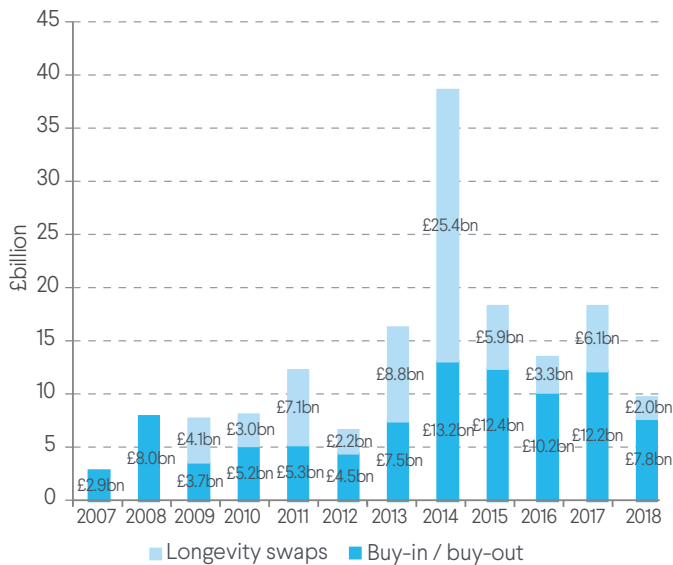


Average buy-in and buy-out deal size

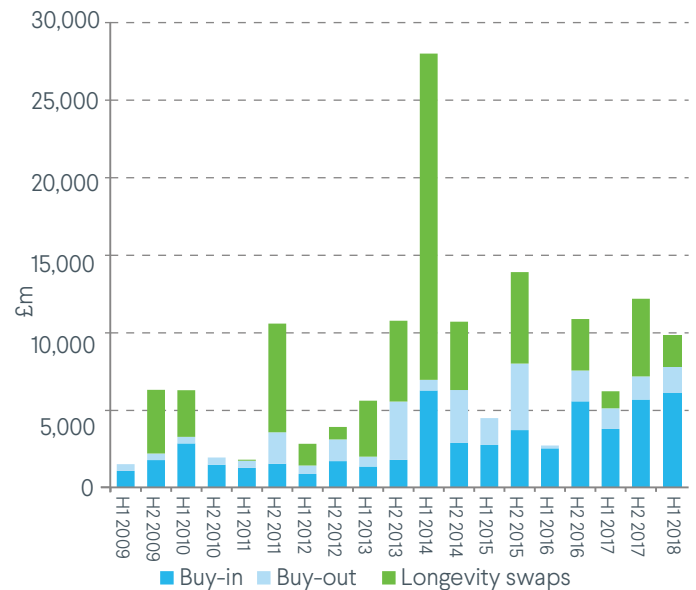
The overall average buy-in/buy-out deal size for the last year was £97m, which has decreased compared with the average of £150m over the year to 30 June 2017. The average deal size during the last year varied significantly between the different insurers.

Insurers	Average deal value
Aviva	£58m
Canada Life	£89m
Legal & General	£105m
Pension Insurance Corporation	£162m
Phoenix	£470m
Just	estimated as £47m
Rothsay Life	£242m
Scottish Widows	£192m
Totals	£97m

Volume of risk transfer deals since 2007 up to H1 2018



Half-yearly risk transfers since 2009



Buy-ins and Buy-outs

Buy-ins and buy-outs covered around £14.9 billion of pension scheme liabilities during the 12 months to 30 June 2018, with £7.8 billion completed in H1 2018 with seven insurance companies. Pension Insurance Corporation (PIC) had the largest market share (by value) over the year, with 34%, followed by Aviva and Legal and General with 22% and 16% respectively.

Highlights over H1 2018 were:

- Scottish Widows entered into a £880m buy-in of the Littlewoods Pensions Scheme. This deal, covering nearly 7,000 members and approximately 60% of the scheme liabilities is Scottish Widows' largest buy-in so far.
- The Marks and Spencer (M&S) Pension Scheme has insured approximately 15% of its liabilities, split between two buy-in policies, with Aviva and Phoenix Group, totalling £1.4bn. Aviva's buy-in represented £925m of the scheme's liabilities, making this Aviva's largest transaction to date. Phoenix Group insured £470m of the scheme's liabilities, in a deal representing its first external bulk annuity transaction since it recently announced its intention to enter the buy-in and buy-out market.
- PIC entered into a £850m buyout of the PA Pension Scheme, covering approximately 2,400 members. Several member options exercises were carried out at the same time, including an enhanced transfer value exercise, where PIC agreed to accept the take-up-rate risk.
- PIC also entered into a £1.3 billion buy-in with the Siemens Defined Benefit Scheme, covering approximately 6000 members.

The bulk annuity market showed signs of further maturity as the volume of transactions less than £500m increased. Overall, buy-in and buy-out volumes for H1 2018 were the highest ever for the first half of a year.

Recent developments

It was announced in March 2018 that £12 billion of Prudential's existing annuity portfolio would transfer to Rothesay Life. It was also announced that Phoenix Life is taking on Standard Life's annuity portfolio. These deals are reminiscent of the sale of Aegon's legacy annuities in 2016 to L&G (£3 billion) and Rothesay Life (£6 billion).

These highly material annuity back book transactions are significant for pension schemes looking to complete buy-ins and buy-outs because they effectively use up insurance company capacity. This means that, in 2018 more than ever, pension schemes need to carefully plan how they approach the insurance companies for buy-in and buy-out quotations and demonstrate why they should be a high priority case. Hymans Robertson's strong risk transfer experience and deep knowledge of insurance companies means that we can provide pension schemes with precisely the tools they need in order to best engage the insurance market.

Additionally, large back book and pension scheme transactions can create opportunities for pension schemes. A number of insurers will have been hoping to win these transactions, and after losing out will likely turn to pension scheme deals with increased appetite.

Further increased demand from pension schemes means that 2018 is highly likely to continue to be the most active year ever for buy-ins and buy-outs. Given the volume of business written by insurers so far this year, the amount expected to be written in the third quarter of 2018, and the already highly attractive levels of pricing, the end of 2018 might not see the increased keenness from insurers to transact and the corresponding improvement in pricing that we've seen in recent years. This year, the busyness of the market may mean that many schemes are targeting a transaction at the start of next year. This suggests that the pipeline for the start of 2019 will fill up quickly, and we are likely to see a busy start to 2019, echoing the start of 2018.

FTSE 250 pension scheme risk transfer deals:

FTSE 250 company	Provider	Value	Deal type	Date
Weir Group	L&G	£240m	Buy-in	Dec 2007
Rank	Rothesay Life	£700m	Buy-out	Feb 2008
Morgan Advanced Materials	Lucida	£160m	Buy-out	Mar 2008
BBA	L&G	£270m	Buy-in	Apr 2008
Dairy Crest	L&G	£150m	Buy-in	Dec 2008
	L&G	£160m	Buy-in	Jun 2009
Babcock	Credit Suisse	£1,200m	Longevity swap	Jul 2010
Aggregate Industries	PIC	£305m	Buy-in & Buy-out	Mar 2010
Undisclosed	L&G	£220m	Buy-in	Jun 2010
London Stock Exchange	PIC	£203m	Buy-in	May 2011
Home Retail Group	Prudential	£280m	Buy-in	May 2011
Cobham	Rothesay Life	£280m	Buy-in	July 2013
Jardine Lloyd Thompson	Prudential	£120m	Buy-in	Oct 2013
Carillion	Deutsche Bank	£1,000m	Longevity swap	Dec 2013
Jardine Lloyd Thompson	Prudential	£85m	Buy-in	Jan 2014
Interserve	Aviva	£338m	Buy-in	Aug 2014
Taylor Wimpey	Partnership	£206m	Buy-in	Dec 2014
Inchcape plc	Aviva	£297m	Buy-out	Dec 2015
A.G. Barr	Canada Life	£35m	Buy-in	Sept 2016
Tullett Prebon	Rothesay Life	£270m	Buy-out	Mar 2017

Longevity swaps

Longevity swap deals have now covered over £67bn of pension scheme liabilities since 30 June 2009, with £6.1bn completed over 2017 including SSE's £800m longevity swap, and one transaction for National Grid covering £2bn of liabilities completed so far in 2018.

Transactions over the past year included:

- A longevity swap by National Grid Electricity Group covering £2bn of liabilities of the Electricity Supply Pension Scheme (ESPS) with Zurich acting as the insurer.
- The £800m longevity swap by SSE's Scottish Hydro-Electric Pension Scheme, becoming the first scheme to use Legal & General's efficient "UK-based pass through" structure to transfer longevity risk to the end reinsurer. Hymans Robertson were lead advisors on this transaction.
- Longevity swaps by Marsh & McLennan Companies' pension scheme and British Airways' Airways Pension Scheme, covering £3.4bn and £1.6bn of liabilities, respectively. These deals used similar structures to the Aviva and BT deals, accessing the reinsurance market directly rather than making use of a third party traditional insurance company.

Other notable deals transacted in the UK include the Aviva deal announced in March 2014, which was a ground breaking transaction, not only in terms of size but because the deal was the first of its kind that allowed longevity risk to be transferred much more directly to the reinsurance market rather than making use of a third party swap provider. Hymans Robertson was the lead adviser in this transaction. The BT Pension Scheme announced shortly after that it had completed the UK's largest longevity swap transaction to date covering liabilities of £16bn. This was the first time a structure along the lines of that used for the Aviva deal had been utilised by a company outside of the insurance sector.

Another large deal was transacted in December 2014, where ScottishPower entered into a swap with Abbey Life to hedge longevity risk on £2bn of liabilities. Hymans Robertson advised the trustees on the actuarial aspects of this transaction. In September 2015, Aviva completed a £2.4bn longevity swap with Heineken's Scottish and Newcastle Pension Plan, with Aviva accepting part of the longevity risk to provide additional market capacity.

In November 2015, the RAC (2003) Pension Scheme completed a £600m longevity swap with Scor Se, with Hymans Robertson advising on the deal. Further, £90m and £50m pensioner longevity swaps were entered into during 2015 and 2016 by unnamed pension schemes with Pacific Life Re through Zurich. These transactions continued the trend whereby structures developed for the very largest pension schemes become more accessible for smaller pension schemes.

There remains a high level of competition in the market, and recent slowdowns in longevity improvements are being reflected in attractive pricing in this market, meaning that we are seeing significant interest from other UK pension schemes to remove their longevity risk via a longevity swap. We expect this will continue to be an active market with further deals likely to be announced over the course of 2018.

Market Outlook

Our clients are finding that the competition in this market, particularly amongst reinsurers, in this market is leading to some attractive pricing for longevity and, when combined with the increasing appetite from pension schemes to remove longevity risk, this is a key driver for the recent level of longevity swap activity. However, with improving funding levels, continued de-risking of assets, and buy-in pricing being very competitive, longevity risk is also increasingly being hedged through buy-in transactions.

We believe that longevity hedging deals will continue to be popular for large pension schemes, who may consider that the best way to de-risk is to carry out a DIY buy-in; that is to use interest, inflation and longevity swaps directly to reduce risk. Providers are also able to offer longevity swaps to smaller pension schemes, down to pensioner liabilities of around £50m in size, meaning the flexibilities of a DIY approach are accessible to a wider range of schemes, not just the largest.

Insurers are also continuing to hedge longevity risk to a greater degree than in the past, due to the implications of the Solvency II reserving requirements. Over £10bn of standalone reinsurance transactions have been concluded over 2017 and 2018 between insurers and reinsurers, with volumes being driven by the level of activity in the bulk annuity market. These transactions are likely to see supply and demand in the longevity market vary meaning that timing of transactions will be more important than has been the case historically.

In order to assess the potential value of a longevity swap, companies and trustees will need to apply sophisticated modelling techniques to accurately understand their own scheme's longevity risk, based on the unique characteristics of their membership (in terms of affluence, lifestyles, location etc). This will be best achieved by pooling their mortality data with other pension schemes.

Competitive pricing remains as a result of the continued strong appetite from global reinsurance companies to take on UK life expectancy risk. Furthermore, new structures offered by insurers such as Legal & General mean that it is easier and more cost effective to directly access this competitive reinsurance pricing.

FTSE 100 pension scheme risk transfer deals:

FTSE 100 company	Provider	Value	Deal type	Date
Smiths Group	L&G	£250m	Buy-in	Mar 2008
	Paternoster	£250m	Buy-in	Sep 2008
	Rothesay Life	£150m	Buy-in	Dec 2011
	PIC	£170m	Buy-in	Sep 2013
Lonmin	Paternoster	Undisclosed	Buy-out	May 2008
Friends Provident	Aviva	£350m	Buy-in	May 2008
Cable & Wireless	Prudential	£1,000m	Buy-in	Sep 2008
RSA Insurance	Rothesay Life	£1,900m	Longevity swap	Jul 2009
Cadbury Schweppes	PIC	£500m	Buy-in	Dec 2009
Liberty International	PIC	£61m	Buy-out	Feb 2010
British Airways	Rothesay Life	£1,300m	Buy-in	Jun 2010
	Rothesay Life	£1,300m	Longevity swap	Dec 2011
Next	Aviva	£124m	Buy-in	Aug 2010
GlaxoSmithKline	Prudential	£892m	Buy-in	Dec 2010
ITV	Credit Suisse	£1,700m	Longevity swap	Aug 2011
Rolls-Royce	Deutsche Bank	£3,000m	Longevity swap	Nov 2011
Tate & Lyle	L&G	£347m	Buy-in	Dec 2012
BAE Systems	L&G	£3,200m	Longevity swap	Jan 2013
	L&G	£1,700m	Longevity swap	Dec 2013
InterContinental Hotels	Rothesay Life	£440m	Buy-out	Aug 2013
AstraZeneca	Deutsche Bank	£2,500m	Longevity swap	Dec 2013
Aviva	Swiss Re/ Munich Re/ SCOR	£5,000m	Longevity swap	Mar 14
BT Group	PICA	£16,000m	Longevity swap	Jun 2014
ScottishPower	Abbey Life	£2,000m	Longevity swap	Dec 2014
Kingfisher	L&G	£230m	Buy-in	Dec 2015
Land Securities	Just	£110m	Buy-in	Dec 2016
SSE	PIC	£350m	Buy-in	Q1 2017
SSE	L&G	£800m	Longevity swap	Q1 2017
3i Group	PIC	£200m	Buy-in	March 2017
British Airways (IAG)	Canada Life Re and Partner Re	£1.6bn	Longevity swap	August 2017
	Aviva	£600m	Buy-in	Oct 2017
Pearson	L&G	£600m	Buy-in	Oct 2017
	PIC	£210m	Buy-in	January 2018
M&S	Aviva	£925m	Buy-in	March 2018
	Phoenix	£470m	Buy-in	March 2018
National Grid	Zurich	£2bn	Longevity swap	May 2018

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