

Buy-outs, buy-ins and longevity hedging – H2 2020

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 2020, and the year to 31 December 2020 ('the last year').

Buy-outs and buy-ins – deals during H2 2020

The total value of buy-out and buy-in deals struck in H2 2020 was around £18.8 billion (around £31.4 billion for the year to 31 December 2020).

Buy-out and buy-in deals	Number of deals completed			Value of deals completed		
	H1 2020	H2 2020	Total	H1 2020	H2 2020	Total
Aviva	26	14	40	£3,082m	£2,873m	£5,955m
Canada Life	1	3	4	£73m	£452m	£525m
Legal & General	25	18	43	£3,176m	£4,017m	£7,193m
Pension Insurance Corporation	6	2	8	£3,507m	£2,125m	£5,632m
Phoenix	3	4	7	£1,080m	£1,440m	£2,520m
Just	10	13	23	£462m	£1,042m	£1,504m
Rothesay	4	8	12	£767m	£6,310m	£7,077m
Scottish Widows	1	3	4	£410m	£547m	£957m
Total	76	65	141	£12,557m	£18,806m	£31,363m

Longevity swaps – deals since 2009

Forty-nine deals, covering liabilities worth around £110 billion, have been completed since 30 June 2009.

Organisation	Date	No. of schemes	Provider	Approximate Value
Babcock	Q3 2009	3	Credit Suisse	£1.2 bn
RSA Insurance	Q3 2009	2	Rothsay Life	£1.9 bn
Berkshire	Q4 2009	1	Swiss Re	£1 bn
BMW	Q1 2010	1	Abbey Life	£3 bn
British Airways	Q3 2010	1	Rothsay Life	£1.3bn
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
Pilkington	Q4 2011	1	Legal & General	£1 bn
British Airways	Q4 2011	1	Rothsay Life	£1.3bn
Akzo 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
Serco*	Q4 2015	1	Undisclosed	£0.7bn
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
Unnamed	Q1 2017	1	Zurich	£0.3bn
Skanska	Q2 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	£2.0bn
Lafarge	Q3 2018	2	Own insurer conduit - Munich Re	£2.4bn
Unnamed	Q3 2018	1	Legal & General	£0.3bn
HSBC	Q3 2019	1	Own insurer conduit - PICA	£7.0bn
HSBC	Q3 2019	1	Own insurer conduit - Swiss Re	£3.0bn
Unnamed	Q4 2019	1	Zurich	£0.8bn
Lloyds Banking Group	Q1 2020	3	Scottish Widows - Pacific Life Re	£10.0bn
Willis Towers Watson	Q1 2020	1	Own insurer conduit - Munich Re	£1.0bn
UBS	Q2 2020	1	Zurich - Canada Life Re	£1.4bn
Prudential	Q4 2020	1	Own insurer conduit - Pacific Life Re	£3.7bn
Barclays	Q4 2020	1	Own insurer conduit - RGA	£5.0bn
BBC	Q4 2020	1	Zurich - Canada Life Re	£3.0bn
AXA UK	Q1 2021	1	Own insurer conduit - Hannover Re	£3.0bn
Total to date		49 (deals)		£110.0bn

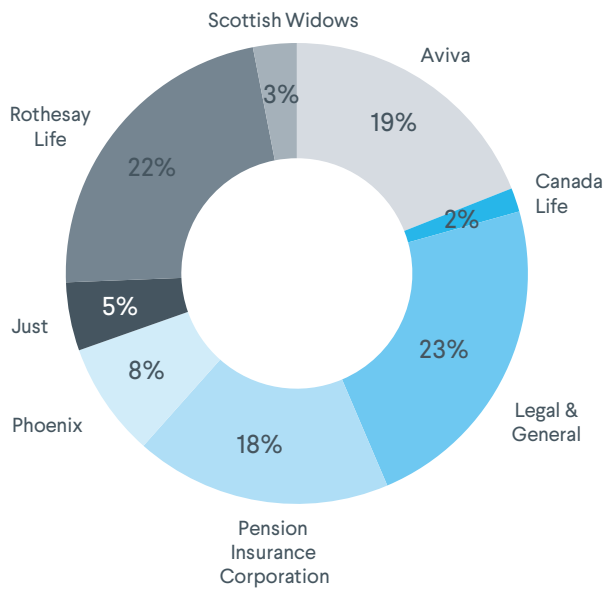
*Since the original swap transaction date these deals have been converted to buy-ins.

Risk transfers during the last year

Facts and figures

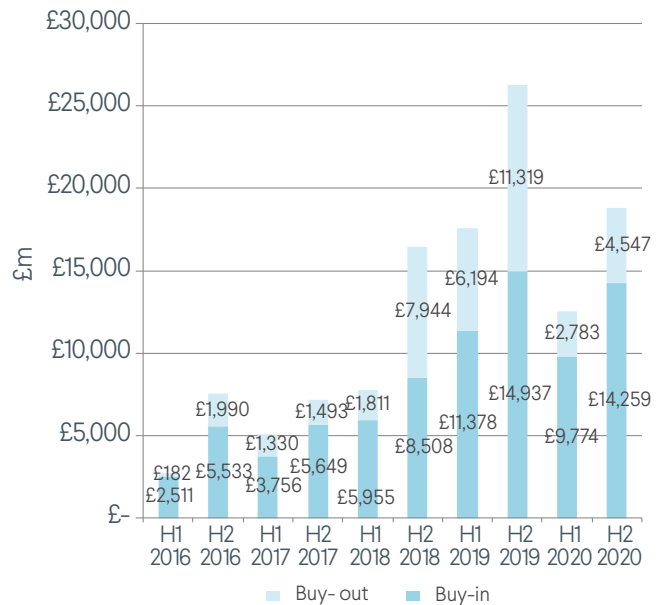
Buy-ins and buy-outs: Market share (by value) during the year to 31 December 2020

The largest market share in the buy-in and buy-out market was Legal and General with c.23% by value, followed by Rothesay Life with c.22% in 2020.



Buy-ins v buy-outs

During the last year, the value of buy-ins was more than the value of buy-outs (around £7.3 billion of buy-outs versus around £24 billion of buy-ins).



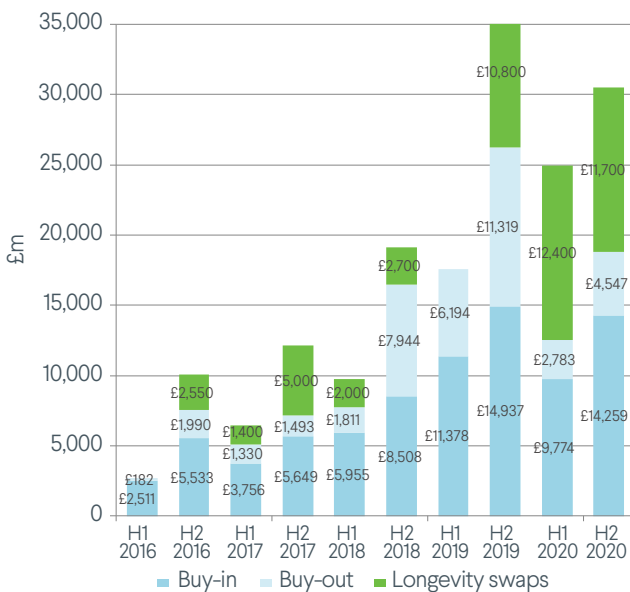
Largest buy-ins and buy-outs

The last year saw at least 40 deals in excess of £200m of which at least 19 were over £500m.

	Pension Scheme	Provider	Value	Deal type	Date
1	Merchant Navy Officers Pension Fund	PIC	£1590m	Buy-in	Q1 2020
2	Co-operative	PIC	£1035m	Buy-in	Q1 2020
3	Co-operative	PIC	£410m	Buy-in	Q1 2020
5	Xylem	Rothsay	£255m	Buy-in	Q1 2020
6	Allied Irish Bank	L&G	£850m	Buy-in	Q1 2020
7	Co-operative	Aviva	£1000m	Buy-in	Q1 2020
8	Undisclosed	Scottish Widows	£410m	Buy-in	Q1 2020
9	Undisclosed	Aviva	£250m	Undisclosed	Q1 2020
10	Undisclosed	Aviva	£220m	Undisclosed	Q1 2020
11	3i	L&G	£650m	Buy-in	Q2 2020
12	IPC Media	Rothsay	£290m	Buy-in	Q2 2020
13	Co-operative	Aviva	£340m	Buy-in	Q2 2020
14	LV=	Phoenix	£800m	Buy-in (longevity swap conversion)	Q2 2020
15	Undisclosed	Rothsay	£205m	Buy-in	Q2 2020
16	Undisclosed	Aviva	£240m	Undisclosed	Q2 2020
17	Undisclosed	Aviva	£220m	Undisclosed	Q2 2020
18	Littlewoods	Rothsay	£930m	Buy-out	Q3 2020
19	M&S	Aviva	£390m	Buy-in	Q3 2020
20	M&S	Phoenix	£360m	Buy-in	Q3 2020
21	Marathon Services	Rothsay	£610m	Buy-in	Q3 2020
22	Hitachi	L&G	£275m	Buy-in	Q3 2020
23	Siemens	L&G	£530m	Buy-in	Q3 2020
24	Undisclosed	Rothsay	£200m	Buy-out	Q3 2020
25	Undisclosed	L&G	£202m	Buy-in	H2 2020
26	Deutsche Bank	L&G	£570m	Buy-in	H2 2020
27	Undisclosed	Aviva	£1050m	Undisclosed	Q3 2020
28	Old British Steel	PIC	£1865m	Buy-in	Q4 2020
29	Ibstock	Just	£340m	Buy-in	Q4 2020
30	Maersk	L&G	£1100m	Buy-in	Q4 2020
31	Aon Bain Hogg Pension Scheme	Scottish Widows	£510m	Buy-in	Q4 2020
32	Northern Gas Networks	L&G	£385m	Buy-in	Q4 2020
33	National Grid	Rothsay	£800m	Buy-in	Q4 2020
34	Aviva	Aviva	£870m	Buy-in	Q4 2020
35	Evonik	L&G	£544m	Buy-out	Q4 2020
36	Undisclosed	PIC	£260m	Buy-out	Q4 2020
37	Aberdeen City Council	Rothsay	£240m	Buy-in	Q4 2020
38	Undisclosed	Rothsay	£3300m	Buy-in	Q4 2020
39	Pearl Group	Phoenix	£750m	Buy-in	Q4 2020

Risk transfer deals (including longevity swaps)

Total pension scheme risk transfer deals over the last year covered liabilities of over £55.0 billion.

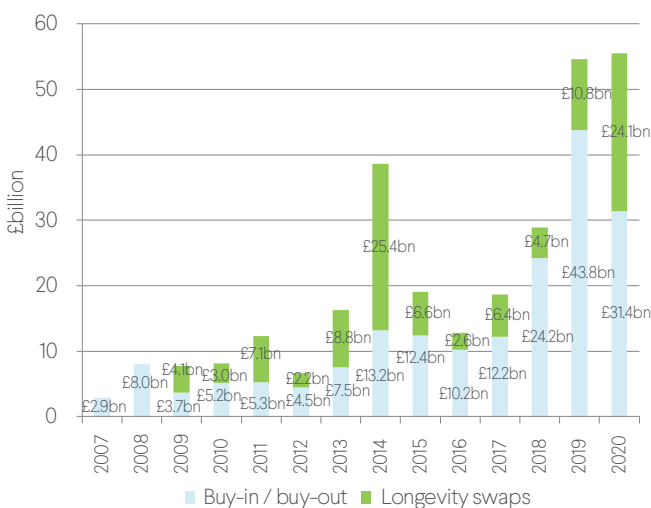


Average buy-in and buy-out deal size

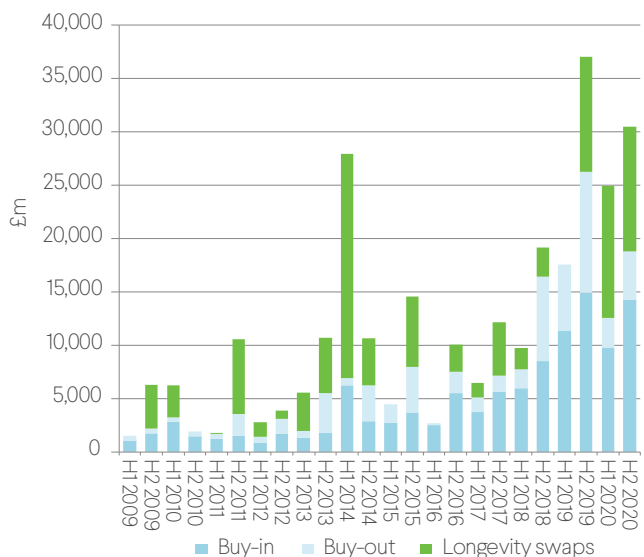
The overall average buy-in/buy-out deal size for the last year was £222 million, which is a decrease from the previous year (£286 million).

	Total value of deals	Total number of deals	Average deal value
Aviva	£5,955m	40	£149m
Canada Life	£525m	4	£131m
Legal & General	£7,193m	43	£167m
PIC	£5,632m	8	£704m
Phoenix	£2,520m	7	£360m
Just	£1,504m	23	£65m
Rothsay	£7,077m	12	£590m
Scottish Widows	£957m	4	£239m
Totals	£31,363m	141	£222m

Volume of risk transfer deals since 2007



Half-yearly risk transfers since 2009 up to the end of 2020



Buy-ins and Buy-outs

Buy-ins and buy-outs covered around £31.3 billion of pension scheme liabilities during 2020, across 140 transactions, with £18.8 billion completed in H2 2020. Of the eight bulk annuity insurers active in the market, L&G and Rothesay took the largest market share over the year (45%, by total value), followed by Aviva and PIC, with 19% and 18% respectively.

Notable transactions over the second half of the year were:

- The BHS Senior Management Scheme carried out a £2.5bn PPF+ buy-out with L&G, securing benefits above the level of those offered in the PPF,
- Old British Steel also transacted a £2bn PPF+ buy-out with PIC,
- Other sizeable transactions included a £3.3bn buy-in with Rothesay and a £1bn deal with Aviva, both with undisclosed companies.

Recent developments

2020 was an extraordinary year. Despite a global pandemic, the total value of buy-in and buy-out transactions was £31.3bn – the second biggest year for the bulk annuity market.

Demand was propped up by a large number of smaller / mid-sized transactions, particularly towards the end of the year; the average transaction size in 2020 was £222m compared to £286m in 2019. Attractive pricing was available from insurers for schemes able to move quickly.

2020 was also a significant year for non-traditional risk transfer options. This came in the form of new TPR guidance on the superfund regime and we expect to see the first superfund transactions later in 2021.

Buy-ins, buy-outs and longevity swaps are no longer the only options for schemes looking to transfer risk. New risk transfer propositions had their first transactions this year, including L&G's Assured Payment Policy and the Aspinall Capital Partners (ACP) capital-backed journey plan.

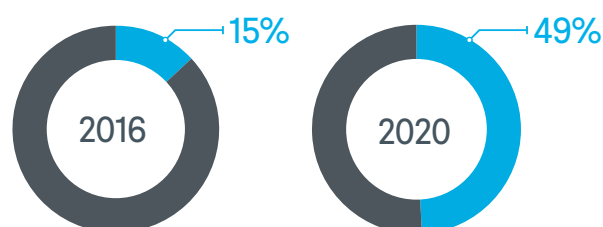
Pension schemes need to carefully plan how they approach the insurance companies for buy-in and buy-out quotations and demonstrate why they should be a high priority case. Insurers will undoubtedly favour those who have already done the necessary groundwork, and who can demonstrate a clear intent to transact. Hymans Robertson's strong risk transfer experience, robust broking process and deep knowledge of insurance companies means that we can provide pension schemes with precisely the strategy they need in order to best engage the insurance market.

Market outlook and pricing

Buy-ins, buy-outs and longevity swaps have now insured £300bn of risk from DB pension schemes in the last fourteen years, since the bulk annuity market took off in 2007. Over half of that amount has been transacted in just the last four years, which is a clear sign of the acceleration of growth in this market. Our projections show that we expect to see over £40bn of buy-ins and buy-outs, on average, over the next ten years.

Over 2020, transactions were heavily weighted towards buy-ins; buy-outs represented just 23% of liabilities secured. However, over the next few years we expect to see a significant increase in the number of buy-outs as schemes see their funding levels improve. Our survey of 100 trustees of DB schemes found that, in 2020, 49% of schemes are targeting buy-out as opposed to self-sufficiency, compared to 15% just four years ago:

% of schemes targeting buy-out



We expect that mid-sized transactions (£100-500m) will continue to make up a large part of the market, with many of these being follow-on transactions in schemes' phased buy-in strategies. Some of the schemes that have experienced Covid-19 related challenges during 2020 are likely to engage with the market again in 2021.

Whilst the majority of buy-ins and buy-outs will be part of a scheme's de-risking strategy, we also anticipate an increased number of buy-outs being as a result of sponsor insolvency. Such schemes are likely to seek to insure 'PPF+' benefits in the bulk annuity market.

The economic outlook remains uncertain; the effectiveness of the Covid-19 vaccine could cause further volatility in financial markets. As we saw in March and April 2020, such volatility can provide well-positioned schemes with short-term opportunities to take advantage of attractive pricing.

Pension schemes that have clear pricing targets, have their data and benefits loaded onto insurers' pricing systems and have the approvals in place to transact, will be in prime position to benefit from future pricing opportunities.

With large transactions still in the market, the appetites of different insurers has the potential to change quickly and to vary significantly between insurers. Knowledge of what the market looks like through the eyes of different insurers is going to help trustees make the best decisions in a period of fluctuating insurer appetite.

Longevity swaps

Market developments in 2020

Pension scheme longevity swap transactions have now covered over £110bn of pension scheme liabilities since mid-2009.

A record-breaking volume of longevity swaps in 2020 covered £24.1bn of liability across eight transactions, compared to £10.8bn across three transactions 2019.

Transactions over the second half of 2020 included:

- A £5bn longevity swap entered into by Barclays pension scheme, with Reinsurance Group of America through a captive insurance vehicle,
- The Prudential pension scheme insured £3.7bn of liabilities with Pacific Life Re, covering 20,000 pensioners, through a captive insurance vehicle,
- The BBC pension scheme transacted a £3bn swap with Canada Life Re, with Zurich as the intermediary.

Hedging longevity risk for non-pensioners

In February 2021, AXA Group transacted a £3bn longevity swap with Hannover Re, which was the first ever pension scheme longevity swap to cover deferred members. The vast majority of the population covered were non-pensioners.

Insuring deferred members has always been a more costly option for schemes but high demand from the UK bulk annuity market in recent years has driven innovation in longevity reinsurance for non-pensioners, in turn driving down the cost of buy-out pricing. Over the last two years, around 1/5 of the longevity reinsurance supporting bulk annuity business has been in respect of deferred members.

As it stands, around half of reinsurers are willing to cover longevity risk for deferred members and others are actively working towards this. Therefore, we expect strong demand for longevity reinsurance to continue as maturing schemes continue to seek buy-in, buy-out and longevity swap transactions. Reinsurer's resource to price new business will be a key influence in the supply, mitigated to some extent with new reinsurers now joining the market.

Longevity swap structures

There are a number of different structures that can be used to access the longevity reinsurance market, ranging from fully 'intermediated' structures to captive insurance vehicles. Longevity swaps continue to use a wide range of these structures based on what is most appropriate for the circumstances of any given scheme.

For example, the Aviva Staff Pension Scheme was the first of its kind that allowed longevity risk to be transferred directly to the reinsurance market without making use of a traditional longevity swap intermediary.

The smaller end of the market has also benefitted from a number of streamlined longevity swap structures, enabling smaller schemes to address their longevity risk where a bulk annuity remains inappropriate. This was highlighted by the smallest 'named-life' longevity swap to date of £50m between an undisclosed pension scheme and Zurich in 2016, reinsured by Pacific Life Re. L&G also transacted its first streamlined longevity swap of £300m in 2018, bringing added choice for smaller schemes.

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
Airways	L&G	£4.4bn	Buy-in	Sept 2018
AstraZeneca	Deutsche Bank	£2,500m	Longevity swap	Dec 2013
Aviva	Swiss Re/ Munich Re/ SCOR	£5,000m	Longevity swap	Mar 2014
	Aviva	£1.7bn	Buy-in	Oct 2019
	Aviva	£870m	Buy-in	Nov 2020
BAE Systems	L&G	£3,200m	Longevity swap	Jan 2013
	L&G	£1,700m	Longevity swap	Dec 2013
Barclays	Reinsurance Group of America	£5,000m	Longevity swap	Dec 2020
	Canada Life Re and Partner Re	£1.6bn	Longevity swap	Aug 2017
British Airways	Rothesay Life	£1,300m	Buy-in	Jun 2010
	Rothesay Life*	£1,300m	Longevity swap	Dec 2011
British American Tobacco	PIC	£3.4bn	Buy-in	Jun 2019
BT Group	PICA	£16,000m	Longevity swap	Jun 2014
Cable & Wireless	Prudential	£1,000m	Buy-in	Sep 2008
Cadbury Schweppes	PIC	£500m	Buy-in	Dec 2009
Friends Provident	Aviva	£350m	Buy-in	May 2008
GlaxoSmithKline	Prudential	£892m	Buy-in	Dec 2010
HSBC	Own insurer conduit - PICA	£7.0bn	Longevity swap	Jul 2019
InterContinental Hotels	Rothesay Life	£440m	Buy-out	Aug 2013
ITV	Credit Suisse	£1,700m	Longevity swap	Aug 2011
Kingfisher	L&G	£230m	Buy-in	Dec 2015
	PIC	£210m	Buy-in	Jan 2018
Land Securities	Just	£110m	Buy-in	Dec 2016
Liberty International	PIC	£61m	Buy-out	Feb 2010
Lloyds Banking Group	Pacific Life Re	£10.0bn	Longevity swap	Jan 2020
Lonmin	Paternoster	Undisclosed	Buy-out	May 2008
M&S	Aviva	£925m	Buy-in	Mar 2018
	Phoenix	£470m	Buy-in	Mar 2018
	PIC	£940m	Buy-in	Apr 2019
	Phoenix	£460m	Buy-in	Apr 2019
National Grid	Zurich	£2bn	Longevity swap	May 2018
	Rothesay Life and L&G	£4.4bn	Buy-in	Oct 2019
	Rothesay Life	£800m	Buy-in	Dec 2020
Next	Aviva	£124m	Buy-in	Aug 2010
Pearson	Aviva	£600m	Buy-in	Oct 2017
	L&G	£600m	Buy-in	Oct 2017
	L&G	£500m	Buy-in	Feb 2019
Phoenix	Phoenix	£1.1bn	Buy-in	Mar 2019
Prudential	Pacific Life Re	£3.7bn	Longevity swap	Nov 2020
Reckitt Benckiser	Scottish Widows	£415m	Buy-in	Nov 2020
Rentokil	PIC	£1.5bn	Buy-in	Dec 2018
Rolls-Royce	Deutsche Bank*	£3,000m	Longevity swap	Nov 2011
	L&G	£4.6bn	Partial Buy-out	Jun 2019
RSA Insurance	Rothesay Life	£1,900m	Longevity swap	Jul 2009
ScottishPower	Abbey Life	£2,000m	Longevity swap	Dec 2014

*since original swap transaction date these have been converted to buy-ins.

FTSE 100 pension scheme risk transfer deals (cont):

FTSE 100 company	Provider	Value	Deal type	Date
Smiths Group	L&G	£250m	Buy-in	Mar 2008
	Paternoster	£250m	Buy-in	Sep 2008
	Rothsay Life	£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
SSE	PIC*	£350m	Buy-in	Q1 2017
	L&G	£800m	Longevity swap	Q1 2017
Tate & Lyle	L&G	£347m	Buy-in	Dec 2012
WPP	PIC	£250m	Buy-in	March 2020

FTSE 250 pension scheme risk transfer deals:

FTSE 250 company	Provider	Value	Deal type	Date
A.G. Barr	Canada Life	£35m	Buy-in	Sept 2016
Aggregate Industries	PIC	£305m	Buy-in & Buy-out	Mar 2010
Babcock	Credit Suisse	£1,200m	Longevity swap	Jul 2010
BBA	L&G	£270m	Buy-in	Apr 2008
Carillion	Deutsche Bank	£1,000m	Longevity swap	Dec 2013
Cobham	Rothsay Life	£280m	Buy-in	July 2013
	L&G	£150m	Buy-in	Dec 2008
Dairy Crest	L&G	£160m	Buy-in	Jun 2009
	Canada Life	£271m	Buy-in	Aug 2018
Home Retail Group	Prudential	£280m	Buy-in	May 2011
Inchcape plc	Aviva	£297m	Buy-out	Dec 2015
lbstock	Just	£340m	Buy-in	Oct 2020
Interserve	Aviva	£338m	Buy-in	Aug 2014
Jardine Lloyd Thompson	Prudential	£120m	Buy-in	Oct 2013
	Prudential	£85m	Buy-in	Jan 2014
London Stock Exchange	PIC	£203m	Buy-in	May 2011
Morgan Advanced Materials	Lucida	£160m	Buy-out	Mar 2008
M&S	Aviva	£390m	Buy-in	Sep 2020
	Phoenix	£360m	Buy-in	Sep 2020
National Express	Rothsay Life	£105m	Buy-in	Oct 2018
QinetiQ	Scottish Widows	£690m	Buy-in	Apr 2019
Rank	Rothsay Life	£700m	Buy-out	Feb 2008
Tate & Lyle	L&G	£930m	Buy-in	Sep 2019
Taylor Wimpey	Partnership	£206m	Buy-in	Dec 2014
Tullett Prebon	Rothsay Life	£270m	Buy-out	Mar 2017
Undisclosed	L&G	£220m	Buy-in	Jun 2010
Weir Group	L&G	£240m	Buy-in	Dec 2007

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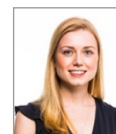
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