HYMANS ROBERTSON

Risk Transfer Report 2023

Your annual overview and analysis of the risk transfer market

Welcome to our unique insight into the risk transfer market

2022, a year of significant economic uncertainty and market volatility, but one where the bulk annuity market remained buoyant and kick-started a very busy 2023.

Although it was a year unparalleled in respect of market volatility and full of challenges for pension scheme trustees, the risk transfer market remained resilient with expected transaction activity to be close to £30bn over 2022.

This volatility led to excellent pricing opportunities for some pension schemes already in the market, and, for other schemes, significant improvements in their funding position such that their long-term goal to buy-out is now a viable target in the short term.

In light of this, 2023 is set to be a very busy year in the risk transfer market as many schemes re-assess their end game journey plans and seek quotations. It's now more important than ever for schemes to ensure that their broking process is appropriate and that they are transaction-ready from a governance, investment and data/ benefits perspective if they want insurers to view their pension scheme as a high priority case in 2023 and beyond.

I'm delighted to share our seventh annual report as we track the key changes in the bulk annuity market and look at what these changes could mean for your Defined Benefits (DB) pension scheme.

We explore the following five key areas:

1. **Bulk annuity insurers overview** (pages 4-9) – an update on market dynamics over 2022 and our predictions for 2023.
2. **Investment influence** (pages 10-12) – how the volatile investment markets highlighted the challenges illiquid assets can bring to schemes looking to buy-out and how the bulk annuity market is adapting to these challenges.
3. **Trustee considerations** (pages 13-20) – an insight into the modern day broking process, how small schemes can ensure success in a busy market and the importance of member communication over the risk transfer journey.
4. **External influences** (pages 21-23) – an overview of how insurers are adapting to climate change concerns and how regulatory reform may impact the insurance market.
5. **Club Vita and longevity risk update** (pages 24-29) – how longevity analytics can improve insurer engagement and a case study highlighting how longevity swaps can be used by schemes to reduce risk.

We have led on risk transfer activity:

totalling over **£30 billion**

ranging from **£5 million *to* £5 billion** in size

including **17 transactions** with **FTSE100** sponsors

Additionally, during 2022 we won:

14 new risk transfer clients

of which **4** are pension schemes with **FTSE 100 sponsoring employers**

covering **£60 billion** of liabilities and over **300,000 members**

We also:

added **6 new team members** - including **Lara Desay** as a new Partner in the team

advised on **every risk transfer structure** - longevity swaps, buy-ins/outs, superfunds, capital backed journey plans etc.

won **Team of the Year*** and were highly commended **Risk Reduction Adviser of the Year****

* *Professional Pensions Rising Star Awards*

** *PIPA Awards*

We also provide an overview of how transaction volumes have changed since the market took off in 2007 and share insights on each insurer in the market.

I hope you find our report helpful for your journey towards your pension scheme's long-term goal and together, we can build better futures for your pension scheme members.

We'd love to hear from you if you have any comments or questions about anything covered. Please don't hesitate to get in touch with me, or one of the authors listed on page 30.

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1. Bulk annuity insurers overview

2022 in review

By Tim Wanstall, Actuary and Risk Transfer Specialist

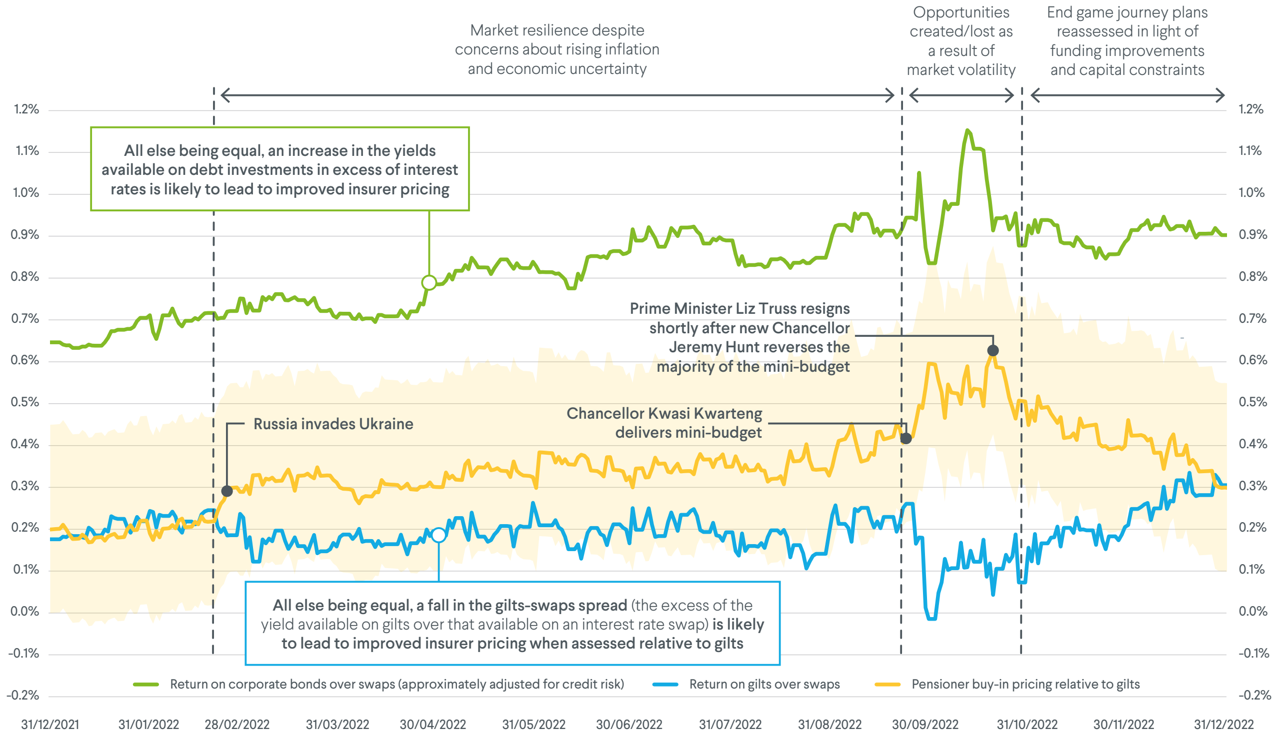
Looking through the lens of some of the year's key events, we saw three distinct chapters to the risk transfer market in 2022: market resilience in delivering robust transaction volumes and attractive pricing despite concerns about rising inflation and economic uncertainty; some opportunities created, and some lost as a result of the market volatility that followed the September 'mini-budget'; and a reassessing of end-game journey plans in light of a shifted landscape.

Market resilience

As 2022 began, consumer price inflation was already at a 30 year high of 5.4%, yet by October it had more than doubled to 11.1% as energy and food prices soared in the wake of the war in Ukraine. The economic outlook was increasingly dominated by uncertainty at the prospect of interest rates being hiked in response to this inflationary pressure, coupled with the realities of cost of living and supply chain challenges.

Given this backdrop, the risk transfer market was remarkably resilient last year:

- **Buy-in and buy-out pricing improved steadily in the 6+ months following Russia's invasion of Ukraine, despite rising inflation and economic uncertainty.** Drivers of these pricing improvements included credit spreads widening in response to deteriorating economic health and, to a lesser extent, insurer capital efficiencies resulting from higher yields.
- **£12.0bn of buy-ins and buy-outs were completed in H1 2022** making it the third largest H1 to date by volume. The market continued to be dominated by small and medium sized transactions, albeit a high proportion of larger transactions have completed in H2 historically, and this trend continued in 2022, so the balance will shift as H2 2022 results are announced. 2022 is expected to see close to £30bn of transactions.



Market volatility following the September 2022 'mini-budget'

Whilst there was already nervousness in financial markets regarding the 'trickle-down economics' of the then new Prime Minister Liz Truss, it only hinted at the drama to unfold following her Chancellor Kwasi Kwarteng's poorly received 'mini-budget' on 23 September 2022. In the week that followed, Defined Benefit schemes became front page news as unprecedented yield rises triggered a feedback loop of schemes selling gilts to scale back hedging and de-leverage. Key impacts on the risk transfer market in this window of political turmoil included:

Historically exceptional pricing opportunities

Schemes in the market with the ability to transact in Q4 2022 were recipients of buy-in and buy-out pricing at levels rarely seen before. This was partly due to the impact of widening credit spreads discussed above. In addition, reflecting angst in the interest rate swap market, gilt yields actually rose by less than swap yields at a duration similar to that of pensioner liabilities (see the 'gilts-swaps spread' shown by the blue line on the chart on the previous page).

As movements in insurer pricing typically track movements in swap yields, a quote received in this window tended therefore to compare very favourably to a gilt-based assessment of the liabilities. This all led to exceptionally high implied pricing yields being achieved relative to gilts in the window between the mini-budget being delivered and Liz Truss's subsequent resignation (see the yellow line on the chart on the previous page).

Lost opportunities

Some schemes about to enter into a buy-in only covering a proportion of their liabilities found that they didn't have sufficient liquidity to fund the transaction, either due to funds being posted as collateral or being retained to keep leverage down.

So, while the funding levels of well hedged schemes may have weathered the sudden fall in the value of gilts, some had no choice but to leave remarkable pricing on the table.

It is noted that the nature of the insurance regulatory regime means insurers don't leverage their hedging arrangements in the same way as schemes using LDI. As a result, and much to the reassurance of those schemes with buy-ins in place, insurers' solvency positions generally remained robust during this period of market turmoil.

End-game journey plans reassessed

As the dust settled following the market volatility, key themes of the shifted landscape that emerged (some of which are explored in more detail in *Market outlook for 2023*) prompted schemes to reassess their end-game journey plans:

Improved funding levels

Schemes who hadn't fully hedged against movements in interest rates found their funding levels improved, presenting them with an opportunity to lock in asset gains and a reduced journey time to full buy-out funding. Many of these schemes began focusing on how to accelerate first class preparatory actions for a 2023 market approach, as it became apparent that growing demand could come up against capacity and resource constraints.

A conundrum that emerged for an increasing number of schemes was being fully funded on a buy-out basis earlier than expected at the same time as having significant illiquid asset holdings (see the related article on page 10).

Capital constraints

Conversely, schemes targeting a partial buy-in as the next step on their de-risking journey found that the more stringent collateral requirements would likely delay when such a step could be taken and/ or reduce the intended transaction size. In resetting journey plans, some schemes in this category began to consider ways other than a buy-in to remove risk, whether that be via a longevity swap (see our case study on page 28) or alternative risk transfer solutions (on page 13).

Finally, a key highlight of 2022 for the risk transfer team at Hymans Robertson was welcoming our new Partner, **Lara Desay.** From her previous role as Head of Origination and Operations for the bulk annuity team at Scottish Widows, Lara brings to Hymans Robertson more of the insurer expertise that we know is so valued by trustees and sponsoring employers in forming and executing their risk transfer market strategies.

The shifted landscape, reassessing of journey plans and projected demand discussed above have only served to heighten the importance of such expertise.

Market outlook for 2023

By Chevonne Boxer, Actuary and Risk Transfer Specialist
and Emma Horsfield, Actuary and Risk Transfer Specialist

Market dynamics have changed significantly in the past few months, with material increases in long-term interest rates meaning that many pension schemes have seen large improvements in their buy-out funding level. Improvements in affordability means buy-out is no longer just a long-term target, with many pension schemes now being able to significantly accelerate their plans to fully insure.

There were a couple of compelling and telling statistics from our recent Scheme Actuary survey:

1 Time-frame to buy-out

around 40% of pension schemes expect to look to fully insure within the next five years.

2 Long-term objective

Over 75% of pension schemes are now targeting buy-out as their long-term target.

As a result, demand for insurer pricing has materially increased and 2023 already looks set to be a record year for the bulk annuity market, with this trend expected to continue over the medium term as more schemes are able to secure liabilities with an insurer. 2022 saw close to £30bn of transactions despite a backdrop of record high long-term interest rates. If long-term interest rates had been comparable to prior years, then 2022 would have been close to a record year for the bulk annuity market.

Capacity crunch?

Given the increasing number of schemes looking to approach the market, capacity within the industry is likely to be a driver for the volume of DB liabilities being secured with an insurer over the next few years, in particular administration constraints to support with data cleansing projects pre and post transaction.

Against this backdrop, insurers are looking for innovative ways to adapt to the growing demand, with some of the insurers already putting in place structures for smaller schemes who are prepared to work with that insurer on an exclusive basis. Pension schemes may need to challenge perceived market norms, given the backdrop of ever increasing demand, as outlined in more detail in *What does a modern broking process look like?* on page 15.

Move away from partial buy-ins?

A combination of improved funding levels and liquidity issues have resulted in a number of partial buy-ins being put on hold. A number of schemes are now looking to pursue a full scheme buy-in transaction rather than gradually reduce risk over time through partial buy-ins. This trend will see a much higher proportion of deferred liabilities being insured over the next few years.

Deferred pricing continued to improve over 2022 as a result of:

- Improved longevity reinsurance pricing and capacity for deferred liabilities
- Increased access to long-dated assets
- Greater availability of funded reinsurance (broadly, reinsurance used by insurers to cover both life expectancy and asset risk), and
- A material reduction in the duration of liabilities as a result of higher interest rates.

All insurers currently active in the bulk annuity market are now able to insure deferred liabilities, with Canada Life and Scottish Widows continuing to build out their deferred member proposition.

With more schemes considering full scheme buy-ins, accounting treatment is likely to be a key focus for companies who sponsor pension schemes during 2023. The earlier a scheme can begin conversations with the sponsor to understand their views and concerns, the more this can help minimise any bumps and hurdles as the transaction moves towards completion.

Rebound in the longevity market

With a number of pension schemes suffering from liquidity issues following collateral call requirements on Liability Driven Investments (LDI), a number of partial buy-ins have been put on hold. We expect this will result in increased activity in the longevity swap market as these schemes look for options to reduce longevity risk, given they may no longer have the capital to fund a partial buy-in.

Innovative structures and alternative options

Insurer innovation

With a number of schemes having reached buy-out funding sooner than expected and looking to fully insure their liabilities, many schemes will be facing the same challenges of still holding some proportion of illiquid assets. We discuss some of the innovation we expect to see in the following article on page 10.

Alternative options

Given Clara-Pensions completed the Pensions Regulator's assessment process over a year ago, we expected 2022 to see the first superfund transactions. Some of these may have been impacted by market volatility in much the same way as insurance transactions were.

The Pensions Superfund continues to seek approval from the Pensions Regulator, and there will be keen eyes on these two superfunds to see whether the first transactions take place in 2023.

There continues to be a range of further alternative solutions such as a capital backed journey plan to help schemes meet their objectives, and we expect that changes in pension scheme circumstances over 2022 will create some fresh demand for these.

Current insurer appetite

The table below sets out the latest view of insurer appetite by transaction size and profile. We also provide an indication of insurer's current appetite to offer residual risk cover – broadly, covering the risk post buy-out that members are due benefits beyond those that have been communicated to the insurer. Given the forecast increase in demand, we believe that insurer appetites are likely to change over the course of the year, so do contact us for an update at any point.

We provide an overview of each bulk annuity insurer in Appendix II and further detail on appetite for smaller schemes in *Success for small schemes* on page 18.

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

* For some transactions in the '‹£50m' size range, some insurers may only quote if the trustees agree to work exclusively with them. In addition, some insurers have a minimum size threshold (eg £20 million).

** While these are the minimum transaction sizes the insurers may be prepared to consider, we expect insurers will consider residual risk cover on a case-by-case basis and this will vary between transactions.

✓ Able to write
? Recently able to write/ building up proposition
● Unlikely to quote
● More selective
● More likely to quote

2. Investment influence

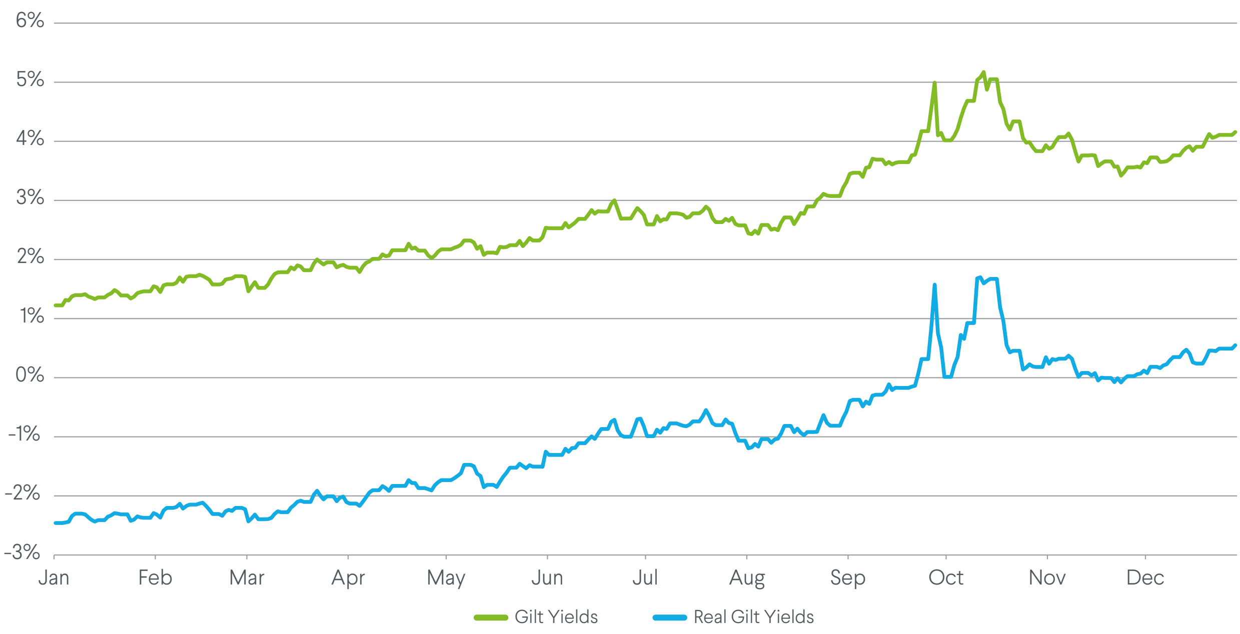
2022 shines a light on illiquid assets

By Michael Abramson, Partner and Risk Transfer Specialist

The storm that was 2022

To say that UK pension schemes had to weather a storm during 2022 is an understatement. Fiscal stimulus following the pandemic helped to fuel inflation, compounded by the war in Ukraine, leading to a significant tightening of monetary policy. Over 2022, the Bank of England increased the base rate from 0.25% to 3.5%, 20-year gilt yields rose from 1.25% to 4% and global equities fell by 20%. Much of the increase in gilt yields occurred during the volatility that followed the then Government's "mini-budget" on 23 September, during which the 20-year gilt yield peaked at around 5% and pension schemes who relied on liability driven investments (LDI) were frantically working to ensure they had enough liquidity to meet resulting collateral calls.

2022 gilt yields



How did pension schemes fare?

Pension schemes have generally seen their asset values fall substantially, with the increase in 20-year gilt yields corresponding to a decrease in gilt values of more than 30%. But higher gilt yields have also reduced liabilities. Broadly, we've seen pension schemes fall into the following categories:

1. **Well-hedged, hedging maintained during LDI crisis.**
   Assets and liabilities will both have fallen. Buy-out funding is likely to have improved due to hedging being based on a lower level of liabilities.

2. **Previously well-hedged, hedge reduced due to LDI crisis.**
   These schemes reduced hedging levels in order to ensure that they had sufficient liquidity buffers to satisfy significant future rises in interest rates. Depending on the timing they made these changes, funding levels are likely to have fallen as rates fell following their mid-October peak, increasing liabilities but without a fully corresponding increase in the assets.

3. **Not well-hedged.**
   Liabilities will generally have fallen by more than assets over 2022, by much more in some cases, leaving schemes significantly better funded. For some, buy-out may now even be within reach.

A focus on illiquid assets

While they certainly haven't been at the centre of the storm, many of the changes are likely to focus attention on illiquid assets.

Pension schemes have generally invested in these assets to benefit from diversification and from the associated illiquidity premium – a higher yield to compensate for the lack of liquidity. They have generally become a higher proportion of pension scheme assets over the course of the last year, as higher rates and lower asset values have generally impacted liquid portfolios to a greater extent.

For example, if you had a portfolio that held around 10% in illiquid assets at the start of 2022, that might have shifted towards 20% over the year as a result of relative performance.

Schemes who used LDI may have already been looking at sales of illiquid assets to rebalance back to strategic targets and to help shore up collateral buffers, as higher rates, and more stringent requirements from LDI managers have acted as a double whammy in terms of using up existing liquid assets.

For schemes who have seen buy-out affordability improve, any illiquid assets should be a focus for two reasons;

- Firstly; insurers will generally not want to take these assets as part of the buy-out premium, so they may need to be sold, a process that's likely to take time.
- Secondly, valuations don't typically reflect actual sale amounts that could be realised on an early exit from illiquid holdings, so pension schemes will need to be realistic when factoring these assets into their buy-out funding level.

Hold on… don't insurers also invest in illiquid assets?

Insurers do indeed invest in illiquid assets. So why do they generally shy away from taking these assets from pension schemes?

Insurers:

- May not be able or willing to hold units in a pooled fund or investment vehicle, so they may only be willing to look at segregated assets.
- Are subject to more stringent regulations than pension schemes, and as a result many pension schemes' illiquid assets would be expensive for insurers to hold long term.
- May not like the profile of the asset class or the specific credit risk to which a particular asset would expose them.

Where insurers do show appetite to take on some of the scheme's illiquid assets, trustees and sponsors should ensure that they are obtaining good value when compared to a competitive sale process that's distinct from the buy-out.

Options available

Schemes with illiquid assets looking to move to buy-out may find that their funding position means that they don't actually need the illiquid assets at all, so they could end up forming part of residual surplus. Alternatively, selling them at a discount may be acceptable, especially if the proceeds would be sufficient to fund a buy-out.

Another option available to schemes is to defer part of the buy-out premium – for example, paying 90% now and 10% over a few months or years. The timing of deferral could be aligned with the expected run-off of the illiquid assets, or simply providing breathing space to conduct an orderly sale. This option would not delay buy-in, though it would delay ultimate buy-out as that would not be possible until the premium had been paid in full.

There are changes to the insurance regulatory regime that are due to be legislated in the near future (see page 23), which include some broadening of the assets that insurers will be able to invest in. This may make it easier for insurers to take on some illiquid holdings in the future.

Necessity is, as always, the mother of invention. Given how acute this issue is for some pension schemes, insurers are working hard to see how they may be able to help pension schemes in this scenario by taking these assets as part of any buy-in or buy-out.

For now, it's a safe working assumption that pension schemes will need to deal with any illiquid portfolios themselves prior to buy-out. This requires careful planning, some patience, and also pragmatism in terms of whether it impacts on buy-out feasibility.

However, this position will develop during 2023 and we expect to see insurers offer more options for potentially dealing with illiquid assets as part of a buy-in or buy-out in the future.

3. Trustee considerations

Update on the alternative risk transfer market

By Iain Pearce, Head of Alternative Risk Transfer

What's happened over the last year?

Recap of the alternative risk transfer market

As a quick refresher, the alternative risk transfer market is basically any option to help transfer pension scheme risk to a capital provider, in a way that's not insurance (i.e. not a buy-in, buy-out or longevity swap). The most well-known of these options are either superfunds or capital backed journey plans. However, there remain few examples of this in practice.

A new dawn for pensions schemes

2022 was an interesting year for superfunds, following Clara-Pensions becoming the first commercial consolidator to complete the TPR assessment process in late 2021. This means that, subject to appropriate due diligence by a pension scheme and a number of "gateway tests", pension schemes were able to transfer to Clara-Pensions from 2022 onwards and replace (or possibly augment) their existing sponsor covenant with the backing of a set amount of capital. The other well-known consolidator, the Pension Superfund, remains in the TPR assessment process.

This creates a valuable new option for a range of schemes. For instance, those with little prospect of being able to secure benefits with insurance in the near future, those whose risk appetite has been constrained by a weak sponsor and aren't able to fully secure their benefits or those schemes at risk of a sponsor insolvency cutting short their plans.

We've also seen a great deal of provider interest in relation to capital backed journey plan solutions, with a wide range of providers actively prospecting pension schemes, each typically with a different take of how their ability to access capital and/or manage assets could help support pension schemes.

A false dawn for 2022?

Despite the growing optimism and positive news for this part of the market, 2022 was a quiet year for actual alternative risk transfer transactions.

- Clara-Pensions hasn't yet announced their first transaction, despite having completed the assessment process and been actively quoting on a number of transactions.
- Capital backed journey plan solutions continue to struggle to gain significant traction, despite a high level of engagement from providers and a number of discussions with a range of trustees and sponsors.

Growing optimism for a brighter for 2023

2023 could see of the first transaction(s) for Clara-Pensions. Such ground-breaking transactions would undoubtedly build confidence in these solutions for other pension schemes wondering if alternative solutions could be the right solution for them.

If this is the case, as emerging solutions look to build scale, it would not be surprising if Clara-Pensions or other alternative risk transfer solutions struggle to keep up with demand during this phase of the market. Therefore, pension schemes may increasingly focus on taking steps to ensure that they are best placed to engage with Clara-Pensions, in the same way many pension schemes routinely spend the time to get transaction ready before engaging with buy-in providers.

A recap of common alternative risk transfer conversations (with a little artistic license)

Short Q&A session with Iain Pearce, Head of Alternative Risk Transfer

Q: These solutions seem to have the potential to fill some important gaps in the market. Why haven't there been more transactions?

Iain: These solutions do have the potential to significantly increase certainty and improve the outcomes for members.

Part of the challenge during the infancy of the market is that there's a significant amount of due diligence required to be comfortable transacting with little consulting material available "off the shelf". As a result, these projects can result in significant costs and have an elevated risk of not transacting if a problem is found during due diligence.

Unsurprisingly, activity to date has been focussed on those schemes where there's an obvious tangible benefit or pressing challenge, such as where there's an immediate benefit to break to the link to the sponsor or where a capital backed journey plan might reduce the need for contributions from the sponsor.

Q: How can the industry help our clients efficiently consider if these solutions could help members?

Iain: Within the limits of commercial sensitivities, the industry can play its part by continuing to streamline advice of where these solutions can help.Learnings from past naturally feed into future consulting, in doing so reducing costs and increasing transaction certainty (or stopping projects at an earlier stage before material costs have been incurred). The emergence of industry forums such as within the PPF+ panel of advisers and the IFoA working party will help build a common message and theme and should also help establish cross-industry views and perspectives.

Q: How did the recent market volatility impact the alternatives market?

Iain: The limited transaction numbers to date mean that an impact assessment from the recent market volatility is primarily hypothetical at this stage. Generally, these strategies can involve a degree of leverage and allocations to illiquid credit, and so we expect trustees to explore these resilience tests.

It's clear that the providers believe that their asset strategies would have performed reasonably well, and that whilst there may be some refinements to strategies, the market volatility has not dampened enthusiasm for these transactions.

Further reading

For those interested in a more detailed review, we've published a detailed overview as part of our *Closer look at...* series focussing on the alternative risk transfer market focusing on Clara-Pensions and the capital-backed journey plan market.

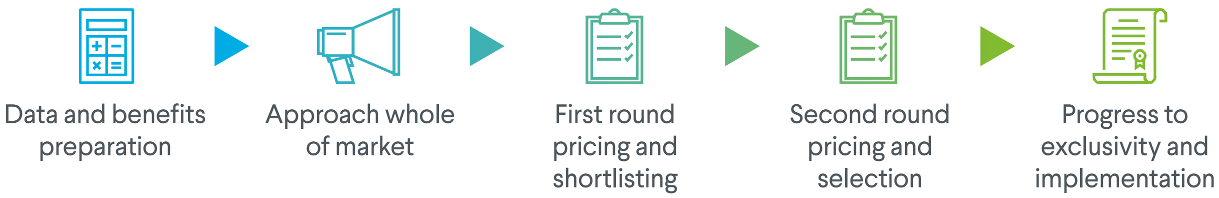
What does a modern broking process look like?

By Lara Desay, Partner and Risk Transfer Specialist

As we've outlined in our *Market outlook*, 2023 looks set to be a bumper year for the risk transfer market. With question marks over quotation capacity at insurers, does there need to be a shift in the way buy-in processes are run to improve capacity and access to the market?

The traditional approach

Traditionally, schemes approaching the risk transfer market have followed a very similar process of approaching all (or the majority of) insurers in the market and undertaking a two round pricing process to deliver competitive pricing and terms.



Data and benefits preparation

Preparation has always been critical before looking to complete a buy-in or buy-out, but detailed preparation becomes paramount in a busy market. Insurance companies are inundated with quotation requests and hold 'triage' meetings each week. With limited human resource, insurers need to decide which processes to participate in and which to decline.

Pension schemes need to demonstrate to insurers why they are an attractive opportunity to focus their efforts on and deliver their best pricing to. When reviewing Request for Quotations (RfQ), insurers focus on key factors including;

- Availability of full and complete data;
- Strong governance; and
- Clear, sensible timeframes.

The RfQ is a key opportunity for a pension scheme to sell itself and demonstrate strong transaction certainty to the insurance companies.

Whole of market approach and number of rounds

Up to £50m

Go exclusive

From an insurer perspective, the resource required to quote on a bulk annuity doesn't diminish with reduced scale – a £20m case is as resource intensive as a £200m case. Given the busyness in the market, many insurers that participate in this corner of the market are now making their participation contingent on working exclusively with schemes.

The small scheme sector of the market is continuing to evolve, and we're seeing increased automation and streamlining, both at pricing stages and post transaction. *Success for small schemes* on page 18 considers in more detail the best approach for getting traction with insurers in this segment of the market.

£50m to £250m

Efficiency is the name of the game

For schemes of this size, a balance needs to be struck between creating competitive pricing tension and a streamlined process that's attractive to insurers. One way to do this might be to approach a pre-determined shortlist of insurers, say three, to quote. As you'll see from our insurer appetite section, there are a good number of insurers that typically have appetite at this scale, but we may see the lower thresholds of insurer appetite creep up over the coming years.

With a pre-determined shortlist of insurers, streamlining the pricing process so that second round pricing is simply a reflection of changing market conditions (with no data updates) or, on occasion, is limited to a single round might be sensible.

This is appealing to insurers looking to free up valuable pricing capacity in their teams. If a scheme is taking this approach, as outlined above, having all data and benefit preparation completed upfront is crucial to avoid delays later.

In these cases, we'd advise setting a 'price hurdle', the price below which the trustees' and sponsoring employer's objectives for the buy-in or buy-out would be met. We'd also recommend that this price target is shared with the insurance companies. From an insurer's perspective, having a clear understanding of what price is required (if set realistically) creates transaction certainty without removing the competitive pressure. It allows insurers to focus their efforts and attention on the right schemes where they can offer compelling pricing.

For schemes of this size there's also an opportunity to leverage the negotiating power of advisers and streamline processes by using pre-negotiated contractual terms such as our streamlined contracts solution in partnership with CMS Cameron McKenna (CMS) which we set out in further detail on page 18.

£250m to £1bn

"If it ain't broke, don't fix it."

Market busyness doesn't necessarily mean we need to rip up the rulebook and start again. The traditional approach has its place and has been tried and tested successfully over several years.

This segment of the market is likely to garner strong interest from insurers. Their appetite will be influenced by many wide-ranging factors including asset pipeline, capital, and reinsurance availability and what other business it is already participating on. In their weekly triage meetings, insurers will evaluate (in addition to the preparedness of data and benefits and transaction certainty) how competitive they expect to be for the profile of business at hand.

As part of the broking processes, insurers are provided high level feedback on the competitiveness of their pricing, allowing them to build up a good pool of data around which scheme characteristics suit their pricing models best whether it be CPI linked benefits, or longer dated benefits, for example. The triage process therefore leads to some 'self-selection' where those insurers unlikely to offer attractive pricing rule themselves out in favour of cases that suit them better at no disadvantage to the scheme.

The key to navigating this approach successfully is early insurer engagement. This allows insurers to understand when a scheme is likely to come to market and can plan accordingly and understand the opportunity cost involved in accepting/declining any deals that might be on a more advanced timeline.

Over £1bn

Bespoke, bespoke, bespoke

2019 and 2020 saw a hive of activity amongst large schemes seeking to transfer risk to the insurance market, with 15 buy-ins and buy-outs making up c. 60% of 2019 and 2020 combined volume. This demand has been tempered recently, likely driven by the impact of the COVID-19 pandemic and the long lead in times needed for transactions of this scale. However, demand looks set to bounce back in 2023 and we expect it to be a bumper year for 'mega-deals' with more and more schemes investigating their options and the feasibility of risk transfer.

For most cases of this size there will be unique considerations that need to be addressed as part of the broking process, whether it be the challenges of illiquid investments, more complex arrangements for how the premium will be paid or more nuanced operational needs.

From an insurer perspective, the scale of these buy-ins and buy-outs requires time and planning. Insurers need to build more bespoke asset portfolios to support their pricing; liaise with reinsurers to secure tailored longevity pricing and at times undertake more complex structuring to accommodate the flexibilities demanded by trustees.

Any broking process will need to have regard to the wider insurance pipeline to determine optimum timing for all stakeholders, define clear objectives and requirements at outset and build in detailed insurer engagement to enable an efficient and transparent process for all involved.

In summary

As with all things pensions related, there's rarely an 'off the shelf' solution. Each scheme will have its own nuances and some adjustments to processes may need to be adopted. A good adviser can help tailor a process to address scheme specifics, 'time the market' and guide schemes through the busyness to achieve their objectives.

Success for small schemes

By Claire O'Neill, Actuary and Risk Transfer Specialist
and Iain Church, Actuary and Member Options and Risk Transfer Specialist

There's a common misconception in the industry that good pricing is reserved for larger pension schemes. Whilst it's certainly true that smaller schemes face more challenges in obtaining engagement from a range of insurers, with the right preparation, schemes of all sizes can insure their members' benefits at a competitive price.

With demand for bulk annuities continuing to grow, and the high gilt yield environment reducing the size of scheme liabilities, we look at how smaller (<£50m) schemes can attract insurer attention and get the best outcome in an increasingly crowded market.

1 THE CHALLENGE

Market capacity for providing quotations to small schemes is limited, with only four insurers active in the market for sub-£50m transactions, further narrowing to only two insurers in the market for sub-£20m transactions.

Producing transactable quotations for schemes is an expensive and time-consuming process for insurers. A large proportion of these costs are fixed, and so producing quotations for small schemes is disproportionately more expensive compared to larger schemes. As insurers' resources are limited, some prioritise larger transactions where there's a larger prize on offer for similar upfront costs.

THE SOLUTION

Against the backdrop of an extremely busy market smaller schemes need to make it easy for insurers to provide competitive pricing over other, similar (or bigger!) transaction opportunities available to them. As outlined in *What does a modern broking process look like?* (page 15), data and benefits preparation is key to generating insurer engagement for schemes of all sizes, but it is particularly important for smaller schemes.

Smaller schemes should approach the market well prepared, with a clear ask for insurers, and should provide the insurers with confidence that a transaction will proceed if it is affordable. In particular, smaller schemes need:

- A very **clear understanding of the benefits** to be insured, reviewed by the trustee legal adviser.
- To provide the insurer with **clean, clear and easy to understand member data** (this means reviewing and cleansing the data before approaching the market).

This shows the insurer that the scheme is serious about transacting, minimises the work required for them to understand the data and benefits and signals a smooth and efficient post-transaction process.

- A **transaction ready asset** portfolio (i.e. a gilts and credit-based liquid portfolio).
- A **good trustee governance** structure in place, linking in with the scheme sponsor where relevant, to enable swift decision making once insurer pricing is received.

This includes making sure the scheme sponsor is comfortable with the accounting impact of a transaction, as well as any contribution requirements.

2 THE CHALLENGE

Insurers can be unwilling to participate in a competitive process, particularly for sub £20m deals. This makes it challenging for trustees to understand the competitiveness of the insurer's proposal.

For larger schemes, we advocate for a two round competitive broking process. This means obtaining initial quotations from multiple insurers, before receiving a 'best and final' quotation from a shortlist of insurers.

This provides an opportunity to test the competitiveness of the insurer proposals, and for competitive tension to drive pricing down.

However, this would be cumbersome for a small deal, exacerbating the disproportionality of cost. An exclusive one round process provides the insurer with the certainty a transaction will proceed with them if they can meet the scheme's price requirements, and therefore that their pricing efforts are worthwhile.

THE SOLUTION

The reality is that many of the smallest schemes (<£20m) may only receive engagement from a single insurer. However, with the right experience, competitive pricing can still be obtained through a single insurer process. This can be achieved by setting the insurer a stretching hurdle price – the maximum price the scheme is willing to pay for a transaction to proceed. The hurdle price should reflect both what is affordable to the scheme and what would represent good value for money. Whilst the latter is more subjective, an experienced risk transfer adviser who is seeing enough live transaction pricing to triangulate between market conditions, scheme profile and market pricing can provide trustees with comfort they're setting the hurdle at the right level for achieving a competitive price.

Trustees should also be proactive in selecting which insurer to work with, carrying out thorough due diligence up front on non-price insurer credentials like experience, administration capabilities, standard contractual terms, and ESG ratings. An adviser with a strong understanding of the market can help you to assess each insurer and ultimately help you identify which insurer might be best suited to your needs.

3 THE CHALLENGE

Schemes have limited negotiating power in respect of policy terms.

Insurers have no appetite to incur the cost of negotiating their standard legal and commercial terms and/or introducing added operational complexity for small deals, meaning trustees may have to accept less favourable terms compared to those available for larger schemes, or choose not to proceed with insurance.

THE SOLUTION

Small schemes can leverage their advisers' negotiating power and market experience by using pre-negotiated contractual terms. For example, for transactions under £200m, we offer a streamlined solution in partnership with leading pensions lawyers, CMS. This approach utilises pre-negotiated commercial terms with CMS who would also then provide standardised legal advice on the buy-in contract, working in collaboration with your existing legal advisers. The key advantages of this solution are: access to two leading risk transfer advisory firms, better commercial terms than would otherwise be available for small schemes and simpler legal negotiations.

With the bulk annuity market becoming increasingly crowded, the challenges for small schemes in getting insurer engagement are only expected to continue. But this doesn't need to be a barrier to achieving a great result. By being well prepared, using a well-structured process, and creating commercial leverage in the right way, even the smallest of schemes can achieve a great deal for their members.

Navigating risk transfer: a member's journey

By Emma Clare and Eloise Hallett, Actuaries and Wind up Specialists

In this article we explore the benefits of keeping members informed about the risk transfer journey.

Whilst a risk transfer policy can be viewed as just another asset held by the Trustees and of little interest to members, we can acknowledge that it is often the start of a longer journey that may end up with the discharge of members' benefits and ultimately winding up the scheme. By engaging with members at this early stage, trustees can articulate the benefits of risk transfer, set the scene for later buy-out and wind up activity, control the narrative and reassure members.

First things first

It's well worth setting aside time to set communications objectives and focus on what, how and when trustees want to communicate with members before a transaction is carried out and meeting time becomes devoted to insurer selection and implementation.

While working through the intricacies of completing a transaction with an insurer, many trustees might feel like they simply don't have the time or energy to dedicate to communicating with members. However, buy-out and ultimate wind up is a journey that members and trustees must make together - setting a carefully thought-out strategy early on will make this journey considerably smoother.

Actively planning what communications will be sent, and when, will help the trustees map out the scheme's journey for the membership, while at the same time, allow them to take advantage of a range of media options, such as email, letters or member websites, and any opportunities to consolidate information that will be needed at similar times.

Members in the middle

At the heart of any communications strategy should be the trustees' overarching objective: to act in the best interests of the members. Turning the tables and considering wind up from a member's perspective will not only help the trustees in exercising their duty of care towards the membership, but also reap benefits for the trustees themselves.

Sending a series of communications drawn together by a common theme, branding or message will maximise the chances of a member recognising the communication as an important message about their pension scheme, and reading the information inside. Promoting member engagement in this way can be critical to the success of the wind up journey, as members will be more likely to respond to any requests, such as verifying their data or benefits to support the trustees' data cleansing project or take decisions in a timely way as part of a member options exercise, for example offering winding up lump sums.

Establishing an ongoing, trusted dialogue may also go some way to alleviating any anxiety members may have about the changes to the scheme, helping to reduce the volume of questions or challenges that may otherwise be received.

Finish the story

Consider the suite of communications, from *'we're planning to implement or have implemented an insurance policy'* through to *'the scheme is legally wound up'* as a single story, guiding the members through these final stages of the scheme's journey. Each chapter must therefore develop the story and link together coherently. Encompassing not only the wind up communications required by legislation, trustees should also consider all information members may receive over the rest of the scheme's journey, including newsletters, summary funding statements, GMP equalisation communications as well as any letters the sponsor or insurer may want to send, and weave these into the narrative too.

Providing a map of buyout and beyond in a coherent communications strategy helps trustees bring members along on the journey.

Ultimately, buying out and winding up a pension scheme can be one of the most daunting, complex, and time-consuming tasks trustees may face. The sheer volume and unfamiliarity of information that needs to be communicated could easily overwhelm members. This calls for a comprehensive strategy mapping out each of the various stages of the journey, to ensure that the right messages are told to the right members, in the right way. Taking the time to develop this strategy at the outset of a buyout project will support good outcomes for members and trustees alike.

4. External influences

ESG: Insurer TCFD reporting and net zero targets

By Paul Hewitson, Head of ESG for Risk Transfer

The increasing flow of information arising from climate change regulations continues to provide pension scheme trustees with the ability to make more informed decisions, especially when selecting a provider to insure members benefits. Over the course of 2022, we saw more firms across the pensions industry publishing details of their commitments to address the impacts of climate change both on their business, and as a consequence of their actions.

Here at Hymans Robertson, we expanded on our Climate Pledge – to halve our carbon footprint and achieve a lifetime net zero position by 2025 – and shared our vision of a net zero carbon future. As a signatory to the Net Zero Investment Consultants Initiative, we've acted to update our manager assessment framework to integrate climate change and net-zero considerations. We're developing our view on the credibility of stated ambitions by asset class and will use this to determine best-in-class products and strategies.

Click to read our Net Zero Investment Interim Report.

In the wider bulk annuities market, we see that all insurers have now published their first disclosures in line with the Taskforce for Climate-related Financial Disclosures (TCFD) framework. These disclosures include details of each insurer's targets for emissions reduction and net zero ambitions, their transition plans setting out the actions they propose to take, and the metrics they will use to track progress towards their net zero targets.

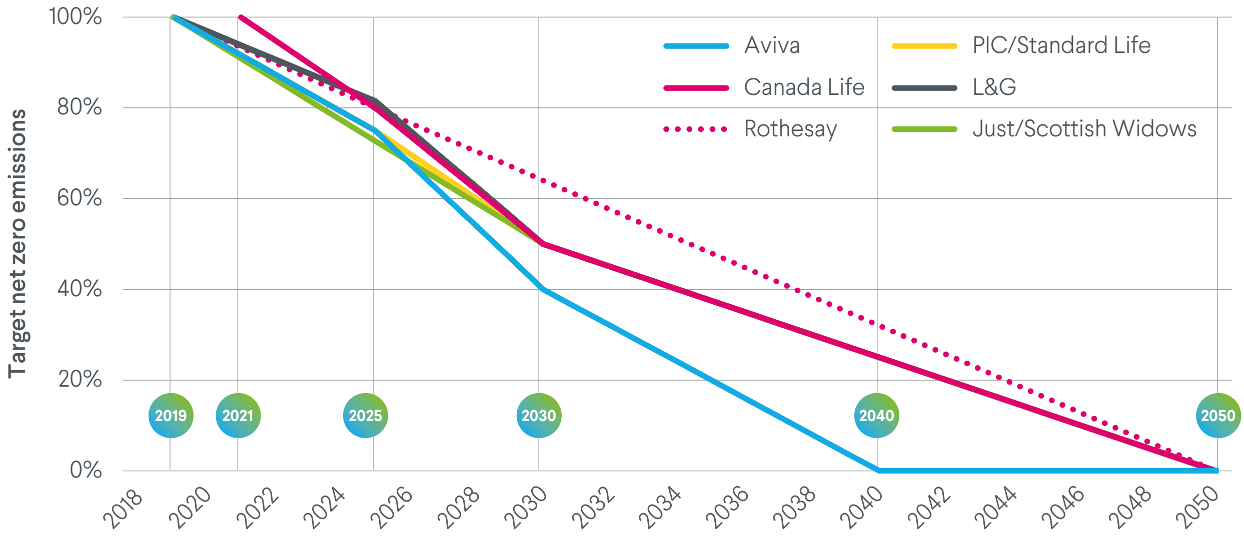
Pension scheme trustees, who are both on a journey to buy-out and considering how to address ESG risks, will need to focus beyond their own short-term time horizon of being fully funded to buy-out and consider the role that insurers will play over the longer term. Whilst these TCFD disclosures will help inform trustees' selection decisions, some interpretation of the published details is needed to ensure fair comparison.

In this section we take an initial look at one of the challenges that trustees face in seeking to evaluate insurers' TCFD reports – comparing their headline net zero targets and making a judgement on what this means in practice.

Insurers' net zero carbon emissions targets

Following the Paris Agreement (at COP 21) and the Glasgow Climate Pact (at COP 26), the international community has committed to act to limit the rise in global temperatures to 1.5 degrees. As part of this, institutions are increasingly making their own commitments to reduce their carbon emissions.

By the end of 2022, all insurers had published net zero carbon emission targets, covering both their own operations and the emissions associated with their investments. For pension scheme trustees who are looking to select an insurer to transact a buy-in or buy-out, the range of interim and ultimate net zero targets can make for a tricky comparison – the chart below shows each insurers' targeted evolution for the emissions from their investments.



2019: Baseline year for all insurers (except Canada Life)

2021: Baseline year Canada Life

2025: First interim targets point:
- Aviva, Phoenix, PIC -25%
- Canada Life, Rothesay -20%
- L&G -18.5%

2030: Second interim targets point:
- Aviva -60%
- Canada Life, Just, L&G, PIC, Scottish Widows, Standard Life -50%

2040: Aviva targeting net zero

2050: All other insurers targeting net zero

When looking to compare insurers, the devil is in the detail – and not just with the headline targets – but also in the plans of how each will look to transition the assets within their investment strategy to meet their goals. Insurers are also publishing in their TCFD reports details of the emissions from their investments, to measure their current position and provide some transparency on their progress over time against their target.

However, in practice there are still further hurdles for a truly direct comparison, due to different underlying metrics of the reported emission values, different levels of emissions being included and limitations with the availability of data meaning not all asset classes are disclosed.

Ultimately insurers are aiming to reach their net zero position across all emissions, for their whole portfolio, so we expect that reporting will evolve over time and some of these issues will gradually fall away as the quality of measurement improves.

However, in the short term, any pension scheme trustee looking to compare insurers' progress should be mindful of the limitations mentioned above and the extent to which the assets included in published data reflects the insurers' underlying annuity book.

As always, the key is to understand the details behind the headlines - something we can help with!

Insurance regulatory reform: is the wait nearly over?

By Andy Scott, Life Consultant

Prior to Brexit, UK insurers were governed by a set of regulations that applied throughout the EU, which are known as 'Solvency II'. Since the 2016 referendum, the insurance industry has waited with something approaching bated breath to see what, if any, changes the UK might make once Solvency II ceased to apply. Potential regulatory reforms gathered momentum during 2022, not least when they were discussed as part of the debates between the Conservative Party leadership candidates in the summer.

Policymakers are faced with competing priorities when it comes to regulation. For example, reducing the level of capital that insurers need to hold to support the risks on their balance sheets can make it more attractive for insurers to invest in certain assets that could be economically and/or socially beneficial to the UK, and can also bring down annuity prices for pension schemes looking to de-risk. However, if insurers don't hold sufficient capital this can clearly pose a risk to pension schemes that transact with them.

The government has previously talked about significant capital releases for insurers, with figures of 10% to 15% being quoted. These were to be achieved through changes to the calculation of a component of insurers' regulatory balance sheets known as the 'Risk Margin', which is significant for annuity business. However, having studied the detail of the proposals, many insurers were sceptical that the changes proposed to the Risk Margin would actually result in a material release of capital.

This prospect looks even less likely since the Risk Margin is very sensitive to long-term interest rates and, consequently, it is much less significant for insurers following the significant rises in interest rates that occurred in the autumn of 2022.

The upshot is that insurers aren't generally expecting the proposals set out by HM Treasury, in November 2022, to free up a lot of capital directly. The more significant proposals – and the ones that pleasantly surprised insurers - relate to a potential easing of some of the regulations around the types of assets that insurers can use to back annuity liabilities.

It's proposed that insurers would be allowed to back annuity liabilities with assets that deliver highly predictable cash flows, which would give insurers increased flexibility compared to the current requirement to use only assets that deliver fixed cash flows. The government expects this to enable insurers to invest significantly more in asset classes such as infrastructure, which are expected to be beneficial to the UK economy in the long-term.

Improved investment freedom might make it easier for insurers to find appropriate assets to back new buy-in and buy-out deals and/or potentially increase the returns that insurers are able to generate on their assets, both of which might improve pricing for pension schemes. For some schemes that hold illiquid assets that are proving a stumbling block to de-risking, it may be worth revisiting whether insurers are interested in these when the proposed changes take effect.

No date has yet been set for when regulatory changes might take effect. The precise impact of the changes will depend on the detailed regulations, which will likely be developed by, or at least in conjunction with, the Prudential Regulation Authority, which is the part of the Bank of England that regulates banks and insurers.

In our opinion, when it comes to addressing the needs of pension schemes looking at de-risking with an insurer, the government has struck a broadly sensible balance here.

We don't expect there to be a significant release of capital that could undermine the security of benefits, and pension schemes shouldn't expect dramatic changes to the buy-in and buy-out market. However, there may be some modest price improvements owing to the greater range of assets that insurers are able to invest in.

5. Club Vita and longevity risk update

Joining the risk transfer queue in 2023?

By Jill Gallagher, Head of Pensions UK, Club Vita

Introduced by Emma Horsfield, Actuary and Risk Transfer Specialist

Introduction

When we advise pension schemes on risk transfer solutions, we look to Club Vita to provide the latest longevity tools and insights. Club Vita provides longevity analytics across the industry, including to insurers and reinsurers who sit on the 'other side' of risk transfer transactions. These insights ensure that pension schemes can approach the market with confidence.

In this article, Club Vita's Head of Pensions UK, Jill Gallagher, considers how pension schemes can leverage sophisticated longevity data analytics to place themselves in the best possible position in the risk transfer queue.

Keeping up with pension scheme demand

There's much demand from pension schemes for de-risking solutions. Despite ample appetite from insurers and reinsurers to write new business, workforce capacity constraints within the industry currently place a limit on the number of buy-in and buy-out quotations that can be produced to meet this demand. Faced with greater demand than supply, insurers are forced to prioritise, typically favouring schemes who've done the necessary groundwork to demonstrates their commitment to transact.

What happens when you approach the bulk annuity market?

A pension scheme receives bulk annuity price quotes from primary insurers. Behind the scenes, these primary insurers will liaise with reinsurers to seek protection from certain risks posed by the bulk annuities they are writing. Longevity risk is viewed as a prime candidate for reinsurance. However, each link in the pension scheme ↔ insurer ↔ reinsurer chain involves detailed longevity analysis, slowing down the process.

"UK primary insurers rely on longevity reinsurance from global reinsurers to competitively price bulk annuity deals."

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What does this mean for schemes considering pension risk transfer?

The level of demand for bulk annuities, coupled with insurance capacity constraints due to data wrangling, means the onus falls on the pension scheme to provide insurers with data and analytics that allows them to swiftly price longevity risk with confidence and efficiently obtain reinsurance.

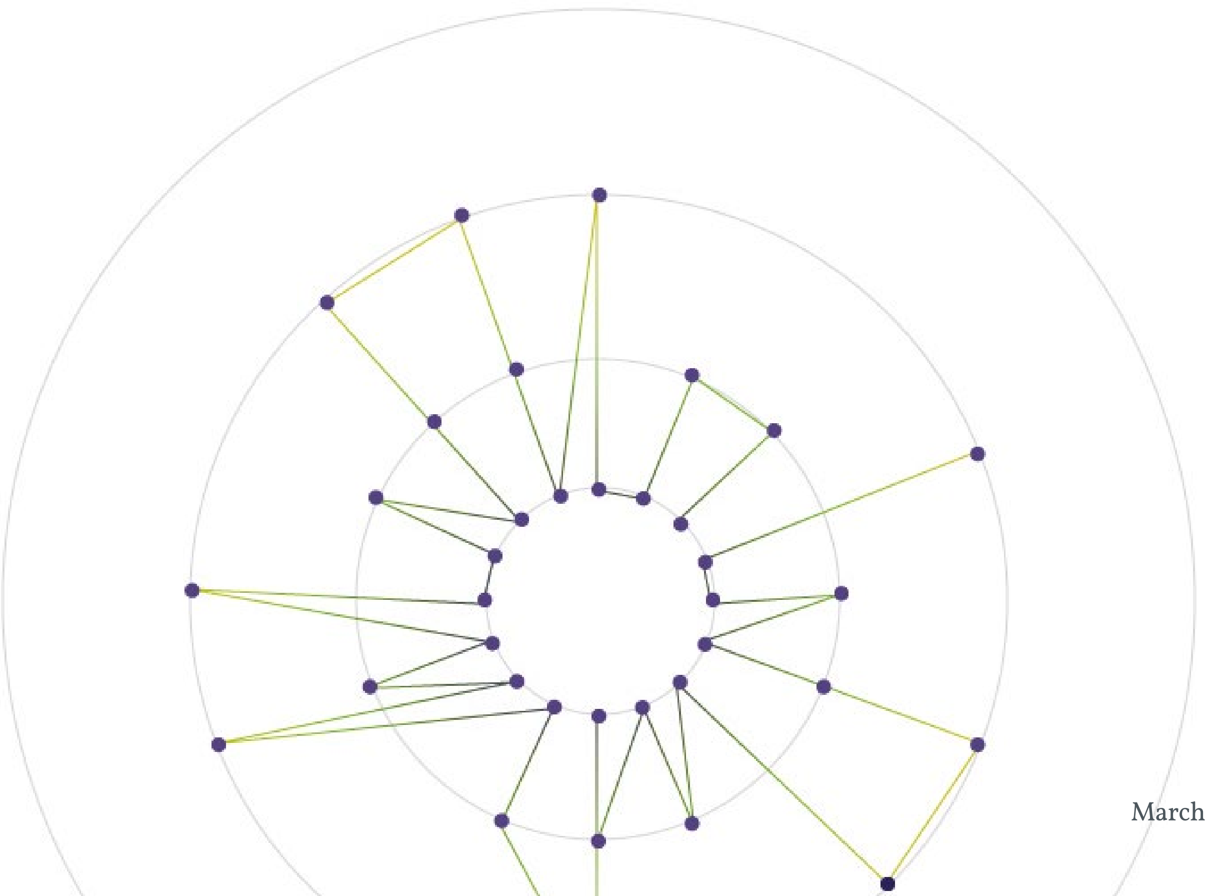
Pension schemes approaching the risk transfer market could satisfy these criteria by investigating the longevity risk profile of their members in advance and provide the panel of bidders with analysis such as:

1. **Data quality feedback** to provide confidence in the credibility of data used in pricing
2. **Longevity risk profiling** to benchmark the scheme's socioeconomic profile against other schemes using metrics commonly used in bulk annuity pricing.
3. **Mortality experience investigation,** comparing actual deaths occurring within the membership against a standard longevity assumption, to identify scheme specific mortality effects and explain any unexpected trends in historical experience data.

Growing complexity

Whilst these types of analyses have always been complex, those analysing mortality data in 2023 are battling additional factors such as:

1. How to treat pandemic era data in the analysis?
2. How to accurately revalue deceased pension amounts in a high inflation environment where a myriad of different scheme rules exist for escalation rates?



Pandemic era data – approach with caution

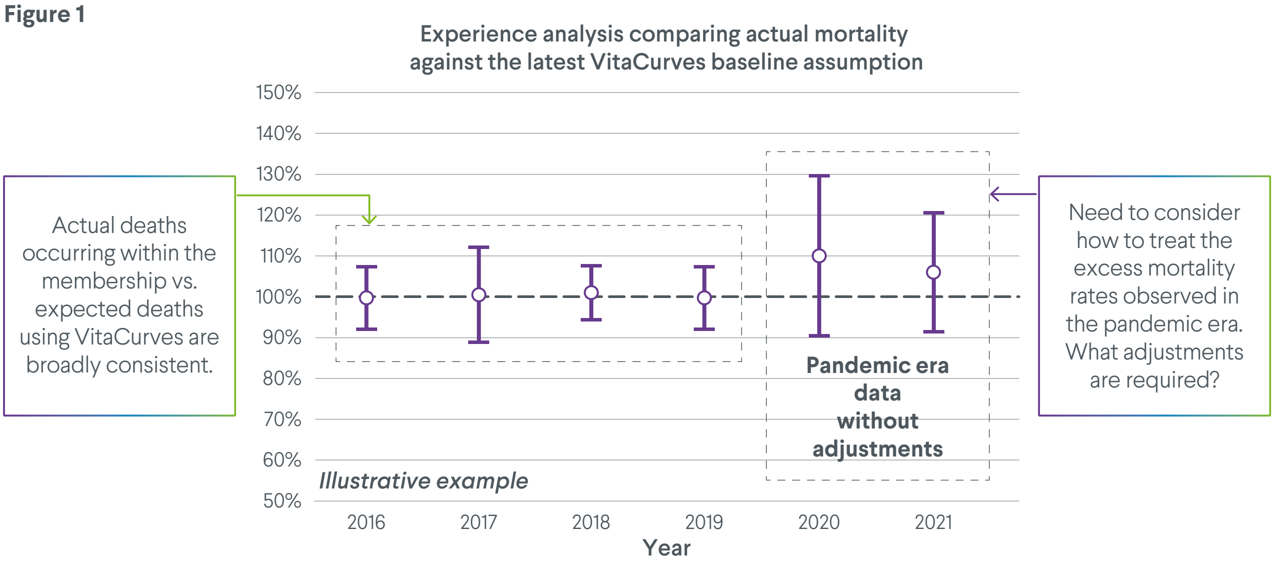
Insurers and reinsurers will be forced to narrow their analysis to more general membership profiling when assessing longevity risk for smaller pension schemes. For large pensions schemes, with adequate data volumes, a mortality experience investigation will typically be performed at the pricing stage.

In an effort to gain early indication of pricing and provide insurers with a starting point for their own analysis many large schemes approaching the market will compare actual versus expected mortality in advance.

However, with mortality rates significantly higher in 2020 and 2021, due in part at least to the COVID-19 pandemic, careful consideration is required in order to derive meaningful longevity insights from recent data.

Excess deaths during the pandemic haven't been a "one size fits all story" across the country, with different regions seeing vastly different mortality experience. Furthermore, there's emerging evidence to suggest that DB pensioners have been more resilient to the pandemic compared to the general population. As a result, taking a standard approach to experience analysis in 2023 is likely to produce some unusual results, as shown in figure 1 below.

Figure 1



Avoid any bias in the treatment of deceased members and survivors in times of high inflation

On top of a global pandemic, 2021 and 2022 have also seen exceptionally high levels of inflation in the UK compared with recent decades. Although the link between high inflation and mortality data may not appear immediately obvious, inflation plays a crucial role when analysing mortality data to perform longevity analysis.

In particular, inflation is used to revalue pension amounts of deceased pensioners to make them comparable with pension amounts of survivors.

As revaluation rates become more material in an inflationary environment, revaluation approaches should be reviewed to ensure they remain appropriate and accurate to avoid any bias in the treatment of deceased members and survivors.

Accessing sophisticated analysis in a format familiar to insurers and reinsurers in the UK risk transfer market

Our team of data scientists and actuaries have been grappling with these issues, working with numerous insurers and reinsurers as well as the 240+ UK DB pension schemes in Club Vita to derive meaningful longevity insights from the recent data.

Leveraging our research into how specific groups of DB pensioners have been affected by the pandemic so far, pension schemes can now apply Club Vita pandemic adjustment factors to efficiently capture mortality effects by region and age profile of the scheme membership, in a way that's aligned with the key considerations for insurer and reinsurer pricing.

This, coupled with using systems designed to circumvent issues with revaluation in times of high inflation, means that pension schemes can efficiently obtain annual mortality analysis that facilitates sensible comparisons of historical mortality experience in recent years – rather than simply ignoring events occurring after the arrival of COVID-19 (see figure 2 below).

By receiving regular longevity analytics based on the latest data and bespoke risk profile of their membership, schemes can approach the market with the most sophisticated intel and place themselves in the best possible position in the risk transfer queue, ready to transact when the time is right.

Figure 2

* Calculations based on the 2017-20 editions of the ONS dataset Deaths registered by area of usual residence, UK

Learn more about Club Vita

Club Vita is an independent longevity data analytics company, which facilitates the pooling and statistical analysis of demographic data from defined benefit (DB) pension schemes to reveal insights that would not be evident to the schemes acting alone. Club Vita was founded in the UK in 2008 and have since established operations in Canada and the USA in 2015 and 2019 respectively. Today, Club Vita analytics are seen as a global longevity currency, used by pension schemes, advisers, asset managers and the insurance market to develop strategies that actively monitor and manage longevity risk.

For further information, please visit clubvita.net/uk

Case study

Longevity swap for Fortune 500 company

By Richard Wellard, Partner and Risk Transfer Specialist

During 2022 we led the advice[1] on a £1bn longevity swap transaction for a pension scheme sponsored by a large US parent. We've set out a high level summary of this transaction below.

Background

The pension scheme had an existing pensioner buy-in, with an objective to target buy-out in the future and a supporting investment strategy. A period of positive investment performance triggered de-risking of the portfolio, leaving a reasonable proportion of the assets in low-risk matching assets.

Considering all strategic options

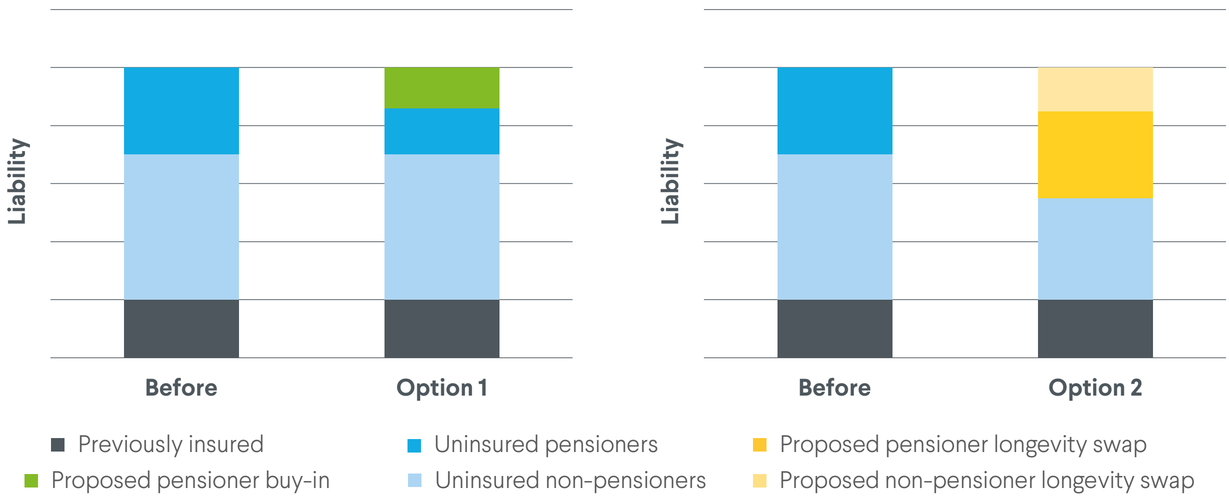
Within this backdrop, the trustees considered their options to look at more insurance to further manage the risks on the route to buy-out. They recognised that the objective to fully insure benefits meant that the scheme was expected to transfer all financial and demographic risk to the insurance or reinsurance market at some point, be that directly or indirectly – as most bulk annuity insurers pass the longevity risk they take on to reinsurers – so the decision was framed within the context of which risks to pass to the market at which time.

The options were narrowed down to:

1. **Pensioner buy-in.** The scheme had sufficient spare capital to support funding a buy-in that could cover the majority of the remaining pensioner liabilities. The scheme would then insure remaining liabilities in time, with this journey supported by investment growth and maturing of the liabilities.

2. **Longevity swap covering both pensioner and deferred liabilities.** As longevity swaps don't require the payment of an upfront premium, they aren't capital intensive, and so a larger portfolio of liabilities could be within scope, though of course the investment risk would be retained by the scheme.

Although most pension scheme longevity swaps have only covered pensioner liabilities, we encouraged the scheme to consider hedging non-pensioner liabilities as well, given the fact that this would likely form part of any future buy-in and that recent developments in the reinsurance market meant that capacity and pricing for such liabilities had improved remarkably.



1 Hymans Robertson advises on £1bn longevity swap for Fortune 500 pension scheme

Selecting a preferred de-risking strategy

To support a fair comparison between these two options the trustees considered the impact on the level of risk facing the scheme over the journey plan to fully insure benefits over a specific timescale.

Having considered the impact on the journey plan, risk profile, operational complexity, and execution risk the Trustee decided that a longevity swap was the preferred strategy, allowing them to reduce a key risk that they have a limited ability to control, and putting the emphasis on continuing to manage the assets towards their long-term objective.

The sponsor was also supportive of this preferred strategy as a meaningful step towards their shared objective of full insurance, and also due to the more modest accounting impact of a longevity swap compared to a buy-in.

Assessment criteria

Having agreed a preferred strategy, the Trustee set a series of tests to ensure that the pricing and terms achieved were sufficiently attractive to transact, as set out in the table below.

Criteria	Considerations	
Is now the right time to hedge longevity risk?	✓	The trustee closely monitored: • The impact of the COVID-19 pandemic on longevity expectations and on reinsurer pricing • The level of competition in the non-pensioner reinsurer market • The potential reforms to Solvency II and how this might impact the potential use of reinsurance by insurers.
Are the terms fair and reasonable?	✓	Hymans Robertson and the Scheme's legal advisers ensured the terms were attractive, with particular focus on the terms regarding future conversion into a buy-in.
How does pricing impact the journey plan?	✓	Ensuring that longevity hedging pricing supported desired journey plan, allowing for all associated costs. Also considered potential changes to the journey plan.

These tests were all met to the pension scheme's satisfaction, and the longevity swap was subsequently implemented with Zurich as the insurer and Partner Re as the reinsurer.

While this scheme had set its course prior to the market volatility in September 2022, more stringent liquidity requirements for pension schemes may well increase interest in longevity swaps given that they are far less capital intensive than a partial buy-in. In the context of increased availability and competitive pricing of reinsurance of non-pensioner liabilities, any consideration given by pension schemes to hedging longevity should certainly encompass non-pensioners.

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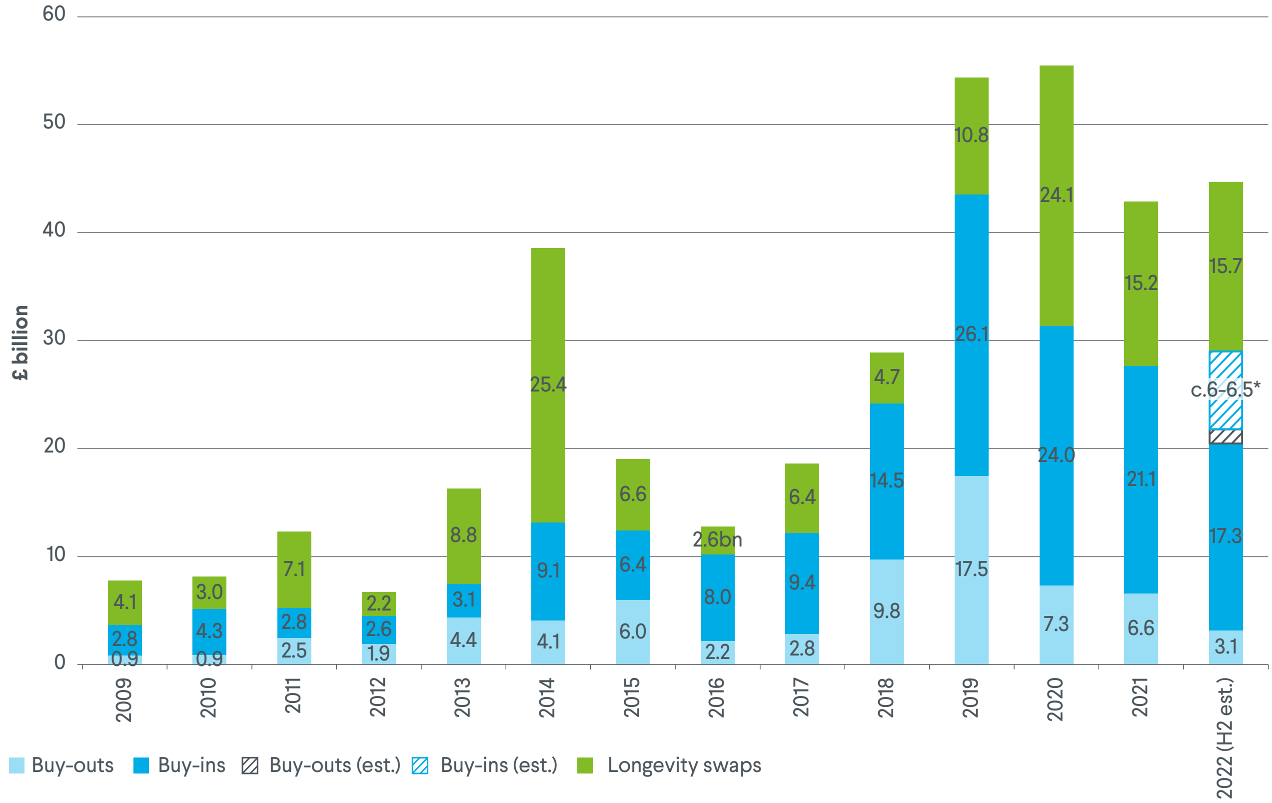
Appendix II

Risk Transfer Market Data

Volume of risk transfer deals since 2009



* Total estimated volume of buy-ins and buy-outs

Largest buy-ins and buy-outs

In the period since Q4 2021, at the time of writing at least 51 deals in excess of £200m have been announced, of which at least 22 were over £500m..

	Pension Scheme	Provider	Value	Deal type	Date
Buy-ins and buy-outs					
1	Metal Box	PIC	£2155m	Buy-out	Q4 2021
2	Sanofi	L&G	£760m	Buy-in	Q4 2021
3	Undisclosed	Rothesay	£650m	Buy-in	Q4 2021
4	Undisclosed	L&G	£500m	Buy-in	H2 2021
5	Pearl Group	Standard Life	£440m	Buy-in	Q4 2021
6	Air Canada	PIC	£380m	Buy-in	Q4 2021
7	Undisclosed	Just	£243m	Buy-out	Q4 2021
8	Undisclosed	Canada Life	£200m	Buy-in	H2 2021
9	Undisclosed	Aviva	£630m	Buy-in	Q4 2021
10	MNOPF	PIC	£400m	Buy-in	Q4 2021
11	Undisclosed	Aviva	£310m	Buy-in	Q4 2021
12	Reuters	L&G	£310m	Buy-in	Q4 2021
13	Undisclosed	PIC	£305m	Buy-out	Q4 2021
14	Unnamed overseas global bank	Just	£260m	Buy-in	Q4 2021
15	Imperial Tobacco	Standard Life	£1790m	Buy-in	Q4 2021
16	Gallaher	Standard Life	£1680m	Buy-in	Q4 2021
17	Undisclosed	Aviva	£880m	Buy-in	Q4 2021
18	Mitchells & Butlers	L&G	£650m	Buy-in	Q4 2021
19	AvestaPolarit	Rothesay	£390m	Buy-in	Q4 2021
20	Air Canada	PIC	£380m	Buy-in	Q4 2021
21	Unnamed global distribution company	Just	£345m	Buy-in	Q4 2021
22	Institute of the Motor Industry	PIC	£250m	Buy-in	Q4 2021
23	Undisclosed	Aviva	£570m	Buy-out	Q1 2022
24	London Heathrow BAA Penision Scheme	L&G	£370m	Buy-in	Q1 2022
25	Newell Rubbermaid	L&G	£225m	Buy-in	Q1 2022
26	Undisclosed	Standard Life	£457m	Buy-in	Q2 2022
27	British Steel Pension Scheme	L&G	£2257m	Buy-in	H1 2022
28	Undisclosed	PIC	£276m	Buy-in	Q2 2022
29	Electronic Data Systems (EDS) 1994	PIC	£1131m	Buy-in	Q2 2022
30	Undisclosed	Aviva	£800m	Buy-in	Q2 2022
31	Whitbread Group Pension Fund	Standard Life	£680m	Buy-in	Q2 2022
32	TI Group (sponsored by Smiths Group)	Rothesay	£640m	Buy-in	Q2 2022
33	House of Fraser	PIC	£604m	Buy-in	Q2 2022
34	Undisclosed	L&G	£421m	Buy-out	H1 2022
35	De La Rue	Scottish Widows	£320m	Buy-in	Q2 2022
36	Undisclosed	Rothesay	£240m	Buy-in	H1 2022
37	Undisclosed	Aviva	£530m	Buy-in	Q3 2022
38	WH Smith Pension Trust	Standard Life	£1097m	Buy-in	Q3 2022
39	Cobham Pension Plan	Standard Life	£527m	Buy-in	Q3 2022
40	Barloworld	Just	£484m	Buy-in	Q3 2022
41	Undisclosed	Rothesay	£390m	Buy-in	Q3 2022
42	Yell	PIC	£370m	Buy-in	Q3 2022
43	TT Group	L&G	£400m	Buy-in	H2 2022
44	Undisclosed	Standard Life	£641m	Buy-in	Q4 2022
45	Pearl Group Staff Pension Scheme	Standard Life	£562m	Buy-in	Q4 2022
46	Co-operative Bank	Rothesay	£1200m	Buy-in	H2 2022
47	Morrisons	Rothesay	£762m	Buy-in	Q4 2022
48	Tioxide Pension Fund	L&G	£430m	Buy-in	Q4 2022
49	Interserve Pension Scheme	Aviva	£400m	Buy-in	H2 2022
50	Amey OS Scheme	PIC	£400m	Buy-in	Q4 2022
51	Coats	Aviva	£350m	Buy-in	H2 2022

Longevity swaps

58 deals, covering liabilities worth around £139 billion, have been announced 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	Rothesay 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	Rothesay 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	Rothesay 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	£3.5bn
Unnamed	Q4 2019	1	Zurich	£0.8bn
AXA UK	2019	1	Undisclosed	£0.6bn
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	Hannover Re	£3.0bn
Fujitsu	Q2 2021	1	Own insurer conduit - Swiss Re	£3.7bn
Undisclosed	Q2 2021	1	Zurich - PICA	£6.0bn
Undisclosed	Q4 2021	1	Zurich - MetLife	£2.6bn
Lloyds Banking Group	Q1 2022	1	Scottish Widows - SCOR	£5.5bn
Undisclosed	Q2 2022	1	Zurich - Partner Re	£1.0bn
UBS (UK)	Q3 2022	1	Zurich - Canada Life Re	£0.5bn
Balfour Beatty	Q4 2022	1	Zurich - SCOR	£1.7bn
Barclays	Q4 2022	1	PICA	£7.0bn
Total to date		**58 (deals)**		**£139.14bn**

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

Insurer summary insights

Aviva

2009 to end of H1 2022

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
617	£27,804m	£45m

Twelve months ending 30 June 2022

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
19%	41	£156m

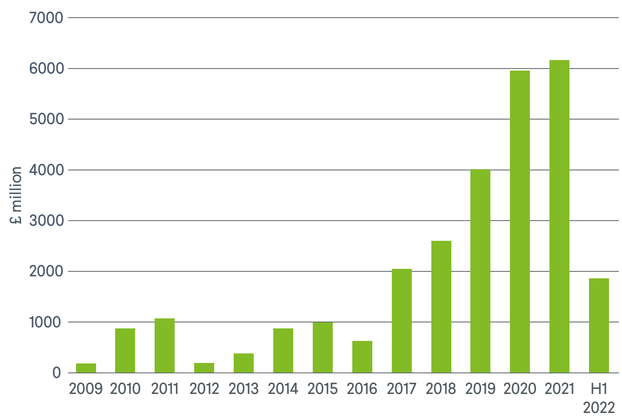
Team size

220
(including internal support and administration teams)

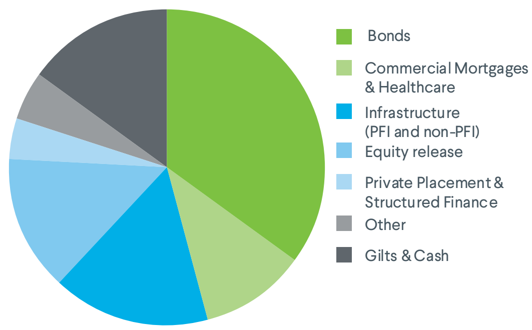
Administrator

In house

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – Aviva Life & Pensions UK Ltd

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating	S&P Financial Strength Rating
B+	AA-	Aa3	AA-
(June 2022)	(November 2022)	(December 2021)	(August 2021)

Noteworthy recent transactions

Aviva disclosed in their HY 2022 they transacted £800m of bulk annuities with their own pension scheme.

Recent developments

Aviva are in the final stages of moving to a new administration system specifically designed to support BPA administration. Key developments include automating the production of transfer values and retirement quote calculations which is intended to significantly reduce turnaround times, with Aviva targeting 10 business days by the end of 2023.

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Insurer summary insights

Canada Life

2009 to end of H1 2022

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
37	£4,367m	£118m

Twelve months ending 30 June 2022

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
4%	8	£162m

Team size

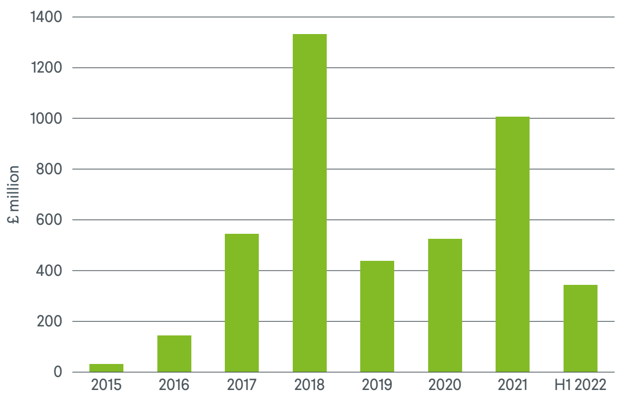
38

(split across pricing, administration and implementation)

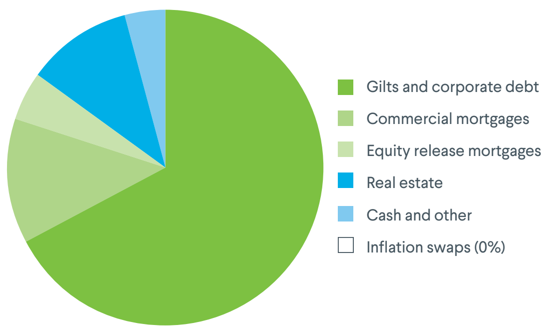
Administrator

Ring-fenced team at Mercer

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – Canada Life Ltd

AKG

B+

(September 2022)

Noteworthy recent transactions

The Nationwide Pension Fund transacted with Canada Life on a £172m pensioner buy-in.

Recent developments

Canada Life have selectively started to quote on transactions including deferred members from Q1 2023.

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Insurer summary insights

Just

2009 to end of H1 2022

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
155	**£8,514m**	**£55m**

Twelve months ending 30 June 2022

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
6%	**34**	**£58m**

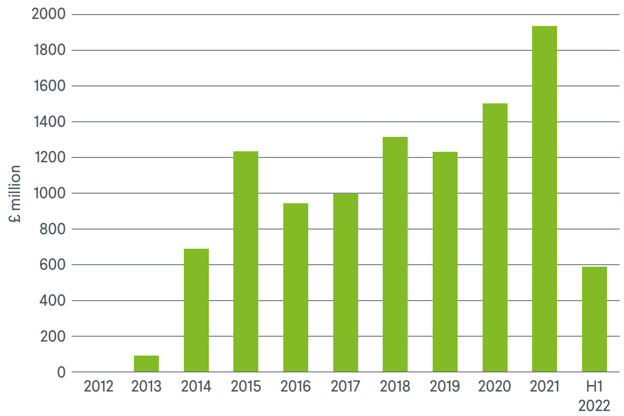
Team size

85

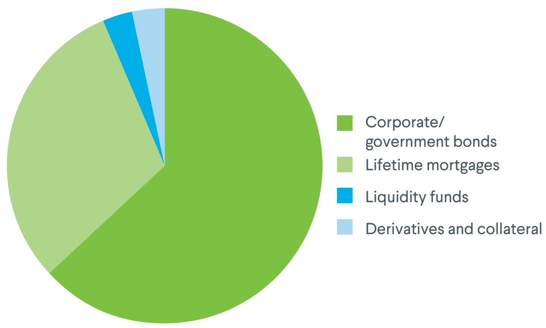
Administrator

Ring-fenced team at Mercer

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – Just Retirement Limited

AKG	Fitch Rating
B+ (September 2022)	**A+** (November 2022)

Noteworthy recent transactions

Just Group completed a £484m full scheme buy-in for the Barloworld UK Pension Scheme, in July 2022.

Recent developments

Just Group plc, the FTSE 250 retirement specialist has appointed Pretty Sagoo as the Managing Director of its high growth Defined Benefit de-risking business (DB), effective from 11 April 2022. Pretty previously worked for Athora, the specialist insurance and reinsurance group where she was Head of New Business and Pensions, responsible for developing their new business franchise. Prior to this, her roles included Head of Pricing and Execution at L&G and Head of Insurance and Pensions Solutions at Deutsche Bank.

Insurer summary insights

Legal & General (L&G)

2009 to end of H1 2022

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
782	£54,849m	£70m

Twelve months ending 30 June 2022

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
21%	48	£146m

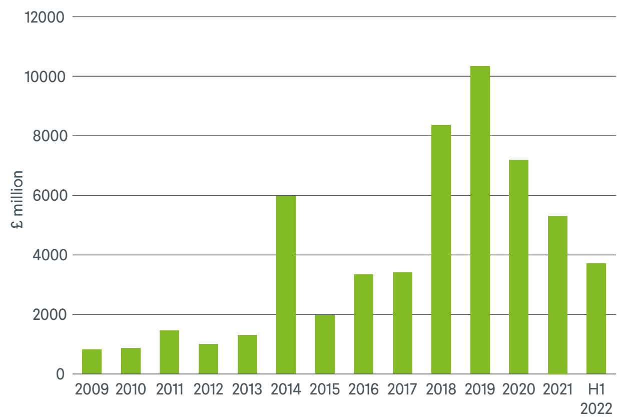
Team size

c270
(including in-house buy-out administration team)

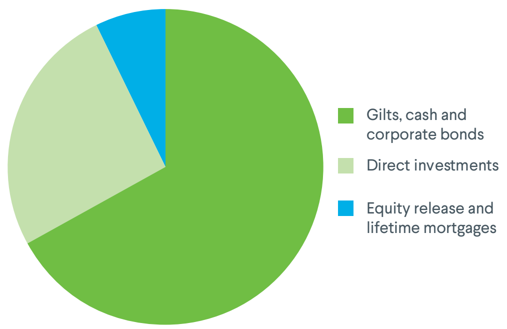
Administrator

In-house

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – L&G Assurance Society Ltd

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating	S&P Financial Strength Rating
B+ (May 2022)	AA- (June 2022)	Aa3 (March 2021)	AA- (July 2022)

Noteworthy recent transactions

L&G completed a second and third buy-in with The British Steel Pension Scheme over 2022, insuring around 55 per cent of their liabilities this year. The third buy-in announced in January 2023 was worth around £2bn.

Recent developments

L&G has introduced a flow scheme proposition to further improve efficiency for small schemes, which assumes exclusivity.

Insurer summary insights

Pension Insurance Corporation (PIC)

2009 to end of H1 2022

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
235	**£47,410m**	**£202m**

Twelve months ending 30 June 2022

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
20%	**23**	**£291m**

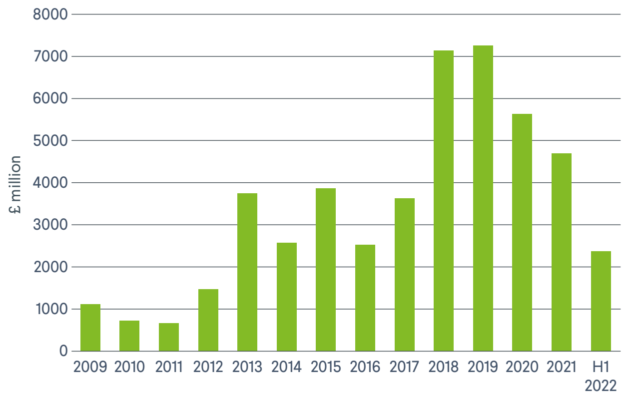
Team size

227
(split across pricing and administration, with additional 30 staff working externally on pricing)

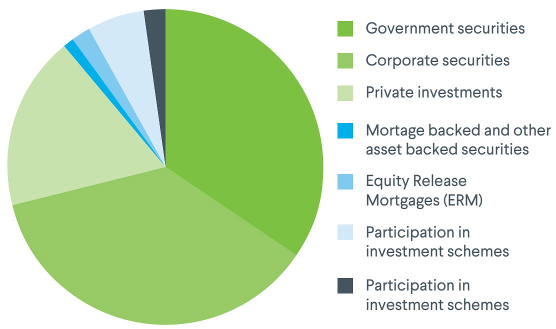
Administrator

Ring-fenced team at Capita

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – PIC plc

AKG	Fitch Rating
B (July 2022)	**A+** (May 2022)

Noteworthy recent transactions

PIC completed a £1.1bn buy-in of the Electronic Data Systems (EDS) 1994 Pension Scheme in July 2022, as well as a £600m buy-out of the House of Fraser Beatties & Jenners Pension Scheme in June 2022.

Rothesay

2009 to end of H1 2022

Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
74	**£38,468m**	**£520m**

Twelve months ending 30 June 2022

Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
7%	**8**	**£299m**

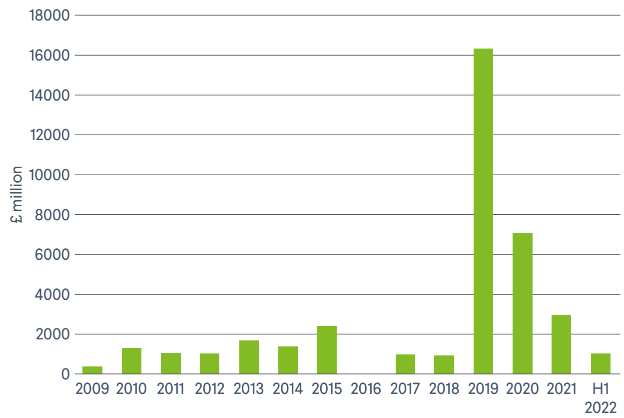
Team size

126
(split across pricing, business development, transition and in-house buy-in administration)

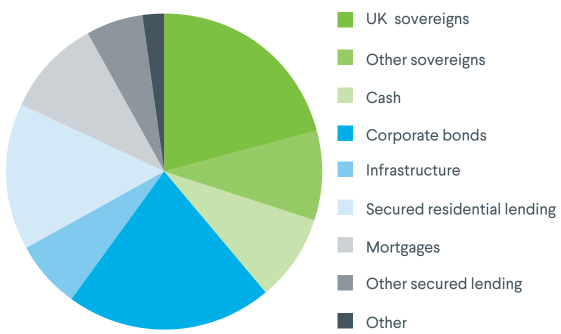
Administrator

Ring-fenced teams at Willis Towers Watson, Mercer and Capita

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – Rothesay Life plc

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating
B+	**A+**	**A3**
(July 2022)	(May 2022)	(June 2021)

Noteworthy recent transactions

Rothesay completed a £640m buy-in with TI Group Pension Scheme, a Smiths Group-sponsored scheme in June 2022.

Rothesay also completed a £1.2bn full scheme buy-in with the Co-operative Pension Scheme in December 2022.

Insurer summary insights

Scottish Widows

2009 to end of H1 2022
Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
35	£7,782m	£222m

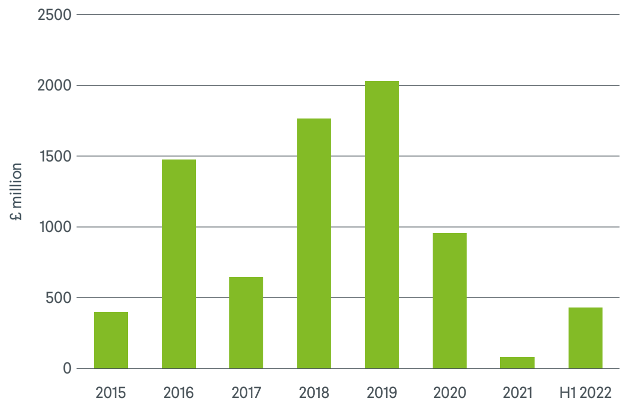
Twelve months ending 30 June 2022
Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
1%	2	£215m

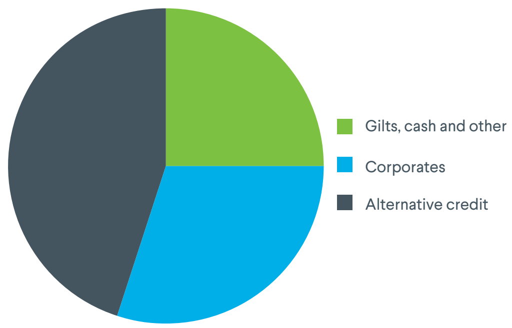
Team size
c165
(split across origination and operations, pricing, investment and other financial support services)

Administrator
Ring-fenced team at Mercer

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – Scottish Widows Ltd

AKG	Fitch Rating	Moody's Insurance Financial Strength Rating
A (August 2022)	**A+** (March 2022)	**A2** (November 2022)

Noteworthy recent transactions
Scottish Widows completed a £320m buy-in with De La Rue Pension Scheme in June 2022 and a £5.5bn longevity swap with Lloyds Bank Pension Scheme in February 2022.

Recent developments
Scottish Widows have been focusing on their deferred proposition, and are intending to be able to write buy-outs with a higher proportion of deferred members.

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Standard Life

2009 to end of H1 2022
Risk Transfer deals tracker

Transactions completed	Value of transactions	Average transaction size
28	**£13,820m**	**£494m**

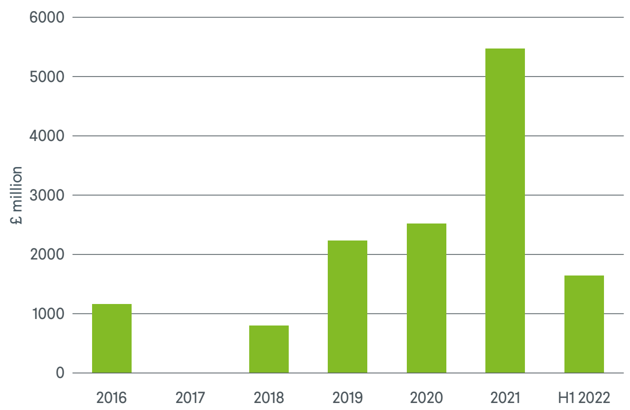
Twelve months ending 30 June 2022
Risk Transfer deals tracker

Market share	Number of transactions	Average transaction size
20%	**10**	**£568m**

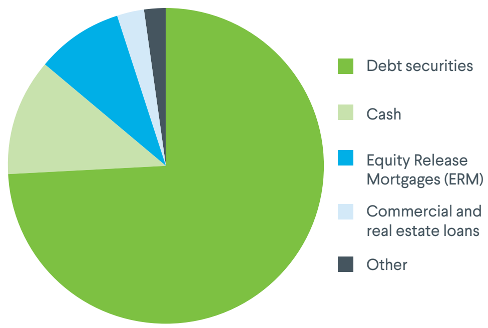
Team size
› 60
(split across deals, pricing, reinsurance and client services)

Administrator
Ring-fenced team at Equiniti

Volume of DB annuity transactions



Annuity asset strategy



Financial strength – Phoenix Life Limited trading as Standard Life

AKG	Fitch Rating
B (March 2022)	**AA-** (July 2022)

Noteworthy recent transactions
Standard Life completed a £680m buy-in for the Whitbread Group Pension Fund in July 2022. Also completed was a £1bn buy-in with the WH Smith Pension Trust, insuring all pensioner and deferred members.

Recent developments
Standard Life has appointed Equiniti to carry out administration of both buy-in and buy-out bulk purchase annuity policies and this is being rolled out across 2023.

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