

# Buy-outs, buy-ins and longevity hedging - H1 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 first half of 2020 ('H1 2020'), and the year to 30 June 2020 ('the last year').

### Buy-outs and buy-ins - Deals during H1 2020

The total value of buy-out and buy-in deals struck in H1 2020 was around £12.6 billion (around £38.8 billion for the year to 30 June 2020).

Buy-out and buy-in deals	Number of deals completed			Value of deals completed		
	H2 2019	H1 2020	Total	H2 2019	H1 2020	Total
Aviva	35	26	61	£2,738m	£3,082m	£5,820m
Canada Life	3	1	4	£49m	£73m	£122m
Legal & General	16	25	41	£4,009m	£3,176m	£7,185m
Pension Insurance Corporation	9	6	15	£1,225m	£3,507m	£4,732m
Phoenix	3	3	6	£670m	£1,080m	£1,750m
Just	12	10	22	£720m	£462m	£1,182m
Rothesay Life	6	4	10	£15,585m	£765m	£16,350m
Scottish Widows	3	1	4	£1,260m	£410m	£1,670m
<b>Total</b>	<b>87</b>	<b>76</b>	<b>163</b>	<b>£26,256m</b>	<b>£12,555m</b>	<b>£38,811m</b>

## Longevity swaps - Deals since 2009

Fifty-five deals, covering liabilities worth £91 billion, have been completed since 30 June 2009.

Organisation	Date	No. of pension schemes	Provider	Approximate Value
Babcock	Q3 2009	3	Credit Suisse	£1.2 bn
RSA Insurance	Q3 2009	2	Rothesay Life	£1.9 bn
Berkshire	Q4 2009	1	Swiss Re	£1 bn
BMW	Q1 2010	1	Abbey Life	£3 bn
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
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
BA	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
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
<b>Total to date</b>		<b>55</b>		<b>£91.0bn</b>

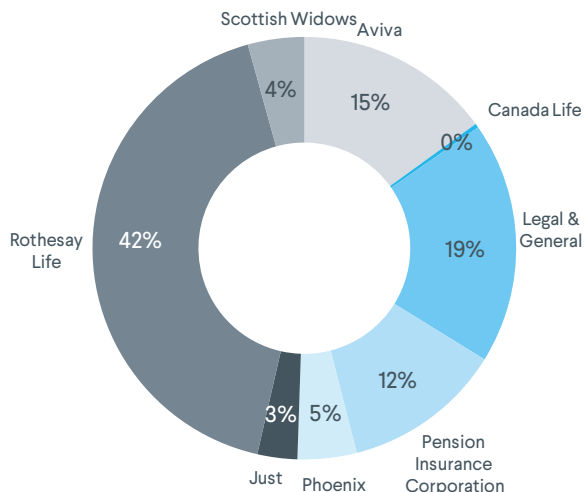
\*Since the original swap transaction date these deals have been converted to buy-ins.

# Risk transfers during the last year

## Facts and figures

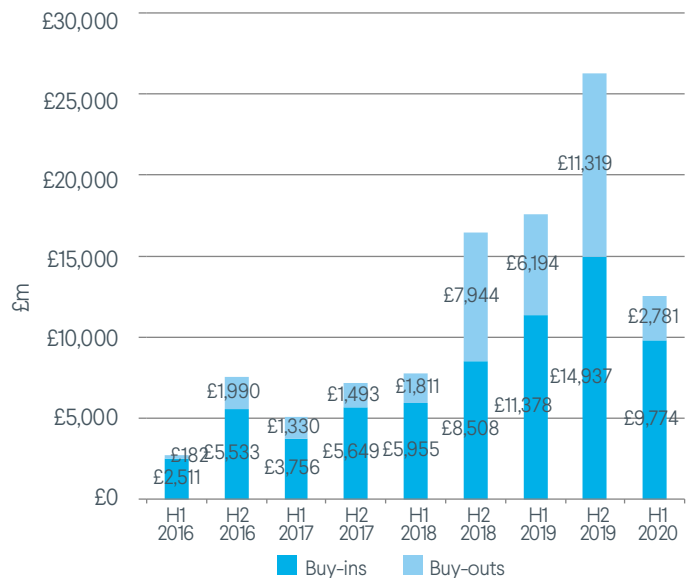
### Buy-ins and buy-outs: Market share (by value) during the year to 30 June 2020

The largest market share in the buy-in and buy-out market was Rothesay Life with c.42% by value, followed by Legal & General with c.19%.



### Buy-ins v buy-outs

During the last year, the value of buy-ins was more than the value of buy-outs (around £14.1 billion of buy-outs versus around £24.7 billion of buy-ins).



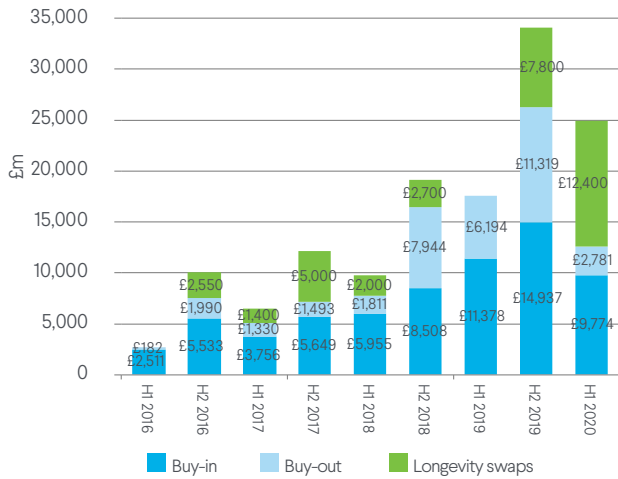
### Largest buy-ins and buy-outs

The last year saw at least 35 deals in excess of £200m of which at least 16 were over £500m.

	Pension Scheme	Provider	Value	Deal type	Date
1	Talent	Rothesay Life	£4,700m	Buy-out	Q3 2019
2	Allied Domecq (Pernod Ricard)	Rothesay Life	£3,800m	Buy-in	Q3 2019
3	Tate & Lyle	L&G	£930m	Buy-in	Q3 2019
4	Cadbury Mondelez	Rothesay Life	£520m	Buy-in	Q3 2019
5	Undisclosed	Just	£247m	Buy-in	Q3 2019
6	Undisclosed	Scottish Widows	£325m	Buy-in	Q3 2019
7	Undisclosed	Aviva	£260m	Buy-out	Q2 2019
8	Undisclosed	Aviva	£240m	Buy-out	Q3 2019
9	Undisclosed	Phoenix	£240m	Buy-in	Q3 2019
10	WPP	PIC	£250m	Buy-in	Q4 2019
11	Asda	Rothesay Life	£3,800m	Buy-out	Q4 2019
12	Aviva	Aviva	£1,670m	Buy-in	Q4 2019
13	National Grid	Rothesay Life	£2,800m	Buy-in	Q4 2019
14	National Grid	L&G	£1,600m	Buy-in	Q4 2019
15	Scottish Hydro-Electric	PIC	£750m	Buy-in	Q4 2019
16	Electricity North West Limited	Scottish Widows	£805m	Buy-in	Q4 2019
17	Undisclosed	Phoenix	£290m	Buy-in	Q4 2019
18	ESAB Group	Rothesay Life	£255m	Buy-in	Q4 2019
19	Undisclosed	Scottish Widows	£410m	Buy-in	Q1 2020
20	Merchant Navy Officers Pension Fund	PIC	£1,590m	Buy-in	Q1 2020
21	Co-operative	PIC	£1,035m	Buy-in	Q1 2020
22	Co-operative	PIC	£410m	Buy-in	Q1 2020
23	Co-operative	Aviva	£350m	Buy-in	Q1 2020
24	Xylem	Rothesay Life	£255m	Buy-in	Q1 2020
25	Allied Irish Bank	L&G	£850m	Buy-in	Q1 2020
26	Undisclosed	Aviva	£220m	Undisclosed	Q1 2020
27	Undisclosed	Aviva	£250m	Undisclosed	Q1 2020
28	IPC Media	Rothesay Life	£290m	Buy-in	Q2 2020
29	Undisclosed	PIC	£280m	Buy-out	Q2 2020
30	Undisclosed	Rothesay Life	£205m	Buy-out	Q2 2020
31	Undisclosed	Aviva	£240m	Undisclosed	Q2 2020
32	Undisclosed	Aviva	£220m	Undisclosed	Q2 2020
33	LV=	Phoenix	£800m	Buy-in	Q2 2020
34	Co-operative	Aviva	£1,000m	Buy-in	Q2 2020
35	3i Group	L&G	£650m	Buy-in	Q2 2020

## Risk transfer deals (including longevity swaps)

Total pension scheme risk transfer deals over the last year covered liabilities of around £59.0 billion.

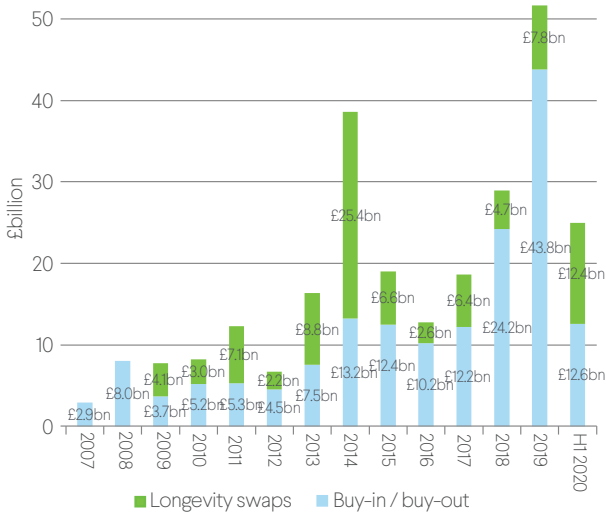


## Average buy-in and buy-out deal size

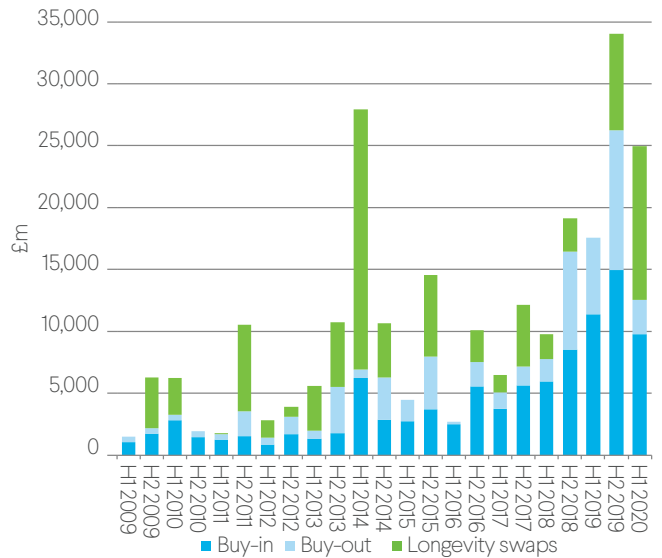
The overall average buy-in/buy-out deal size for the last year was £238 million, which is a small increase compared with the average of £211m over the year to 30 June 2019.

	Total value of deals	Total number of deals	Average deal value
Aviva	£5,820m	61	£95m
Canada Life	£122m	4	£31m
Legal & General	£7,185m	41	£175m
Pension Insurance Corporation	£4,732m	15	£315m
Phoenix	£1,750m	6	£292m
Just	£1,182m	22	£54m
Rothsay Life	£16,350m	10	£1,635m
Scottish Widows	£1,670m	4	£418m
<b>Totals</b>	<b>£38,811m</b>	<b>163</b>	<b>£238m</b>

## Volume of risk transfer deals since 2007 up to H1 2020



## Half-yearly risk transfers since 2009



## Buy-ins and Buy-outs

Buy-ins and buy-outs covered around £39 billion of pension scheme liabilities during the 12 months to 30 June 2020, with £12.6 billion completed in H1 2020, with eight insurance companies. Rothesay Life holds the largest market share over the year (42%, by total value), followed by L&G and Aviva, with 19% and 15% respectively.

Highlights over H1 2020 were:

- The Merchant Navy Officer's Pension Fund carried out the largest single transaction of the first half of the year, completing a £1.6bn buy-in with PIC.
- In aggregate this transaction was topped by the Co-operative Pension Schemes, who entered into four consecutive buy-ins totalling £2.8bn of liabilities split broadly equally between PIC and Aviva.
- Other notable transactions included the £0.8bn LV= longevity swap conversion to buy-in with Phoenix Life and the £0.7bn buy-in between the 3i Group pension scheme and L&G.

## Recent developments

The first quarter of 2020 saw a number of larger transactions taking place, albeit there was a notable drop in transaction volumes after March 2020. This drop was due to the combination of COVID-19 market turmoil and its reduction in liquid investment opportunities for insurers, as well as a natural tail-off of the record-breaking pipeline of deals in 2019 reaching transaction stage.

Overall, demand for bulk annuities was propped up over the first half of the year by a large number of smaller transactions; H1 2020 saw 76 transactions; a higher number than during the first half of 2019. The average transaction size in H1 2020 was £165m compared to £266m in the same period in 2019.

In the future, commercial consolidators such as Clara and The Pension SuperFund ("PSF") may soak up some of the demand exceeding insurer capacity. TPR's recent publication of a framework for superfunds, as well as

HMRC approval for the PSF, will open up more de-risking options for pension schemes.

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. Our 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

2020 will undoubtedly see lower transaction volumes than 2019, but we still expect volumes to be above 2018 levels (which was itself a record year), so insurers will still be expecting a significant flow of business in the market.

As credit spreads have narrowed back down, the pockets of particularly attractive buy-in pricing seen over March and April have fallen away. Although this window of opportunity has closed, pricing for pensioner buy-ins remains good value and as attractive as it has been since the middle of 2018.

With different economies implementing their paths out of COVID-19 lockdowns, companies will be continually reforecasting their business models and assessing their needs – further volatility in the credit markets is a distinct possibility. Illiquid assets have largely supported improvements in bulk annuity pricing over the last few years, so the freezing of many parts of the economy has made opportunities more scarce.

Going into Q4 2020, some insurers will be very comfortable with the business they have written over the year and their projected future pipeline, whilst some will be keen to write more before the year end. With some large transactions in the market at the moment, 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.

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.

Attractive buy-in pricing means that the trend for pension schemes to convert longevity swaps into buy-ins has continued. Notably, a £800m longevity swap held between LV= and ReAssure was converted into a buy-in with Phoenix Life during the first half of 2020.

The full impacts of COVID-19 on longevity have been less stark than perhaps imagined, with lockdowns across the globe limiting the full impact on mortality. In transferring longevity risk, we expect trustees to proceed with caution, working closely with advisers to understand both the details of the pricing being offered, and the likely impact of COVID-19 (both past and potential future scenarios) to ensure they are comfortable with the hedging terms. Reinsurer thinking is evolving as they carry out research and form their views on the impact of the virus, therefore it's important trustees are similarly well informed, pausing for thought where required.

## Longevity swaps

Pension scheme longevity swap transactions have now covered £91bn of pension scheme liabilities since mid-2009.

Transactions over 2020 included:

- Lloyds Banking Group, facilitated by Scottish Widows, covered around £10bn of liabilities across three pension schemes in the second-largest longevity swap to date. Pacific Life acted as the reinsurer for the swap.
- A £1bn longevity swap entered into by the Willis Pension Scheme, with Munich Re.
- The £1.4bn longevity swap transacted between UBS and Canada Life Re, using a pass-through contract with Zurich. This follows the first transaction to use this pass-through solution in 2019, developed by Hymans Robertson and Zurich. This new-to-market structure allowed the scheme to take on exposure of the reinsurer's credit risk, with Zurich retaining a minority share of longevity risk.

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
BA	Canada Life Re and Partner Re	£1.6bn	Longevity swap	Aug 2017
BAE Systems	L&G	£3,200m	Longevity swap	Jan 2013
	L&G	£1,700m	Longevity swap	Dec 2013
British Airways	Rothsay Life	£1,300m	Buy-in	Jun 2010
	Rothsay 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	Rothsay 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
	Rothsay Life and L&G	£4.4bn	Buy-in	Oct 2019
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
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	Rothsay Life	£1,900m	Longevity swap	Jul 2009
ScottishPower	Abbey Life	£2,000m	Longevity swap	Dec 2014
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
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

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

## 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	Rothesay Life	£280m	Buy-in	July 2013
Dairy Crest	L&G	£150m	Buy-in	Dec 2008
	L&G	£160m	Buy-in	Jun 2009
Hays	Canada Life	£271m	Buy-in	Aug 2018
Home Retail Group	Prudential	£280m	Buy-in	May 2011
Inchcape plc	Aviva	£297m	Buy-out	Dec 2015
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
National Express	Rothesay Life	£105m	Buy-in	Oct 2018
QinetiQ	Scottish Widows	£690m	Buy-in	Apr 2019
Rank	Rothesay 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	Rothesay 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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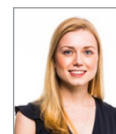
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