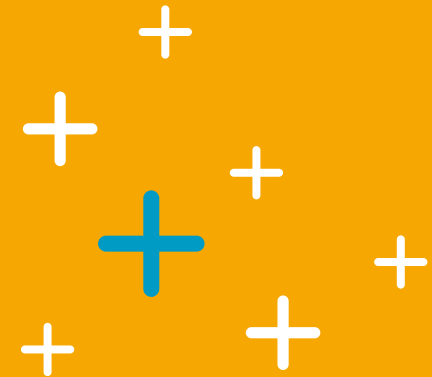
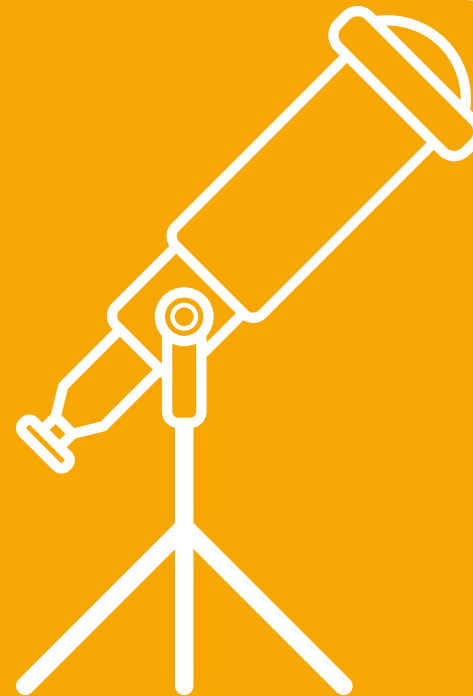


Our latest views and insights on pension buy-ins and buy-outs

LCP pensions de-risking update
September 2018



At the start of 2018 we predicted a record year for buy-ins and buy-outs on the back of improved funding positions. Combined with arguably the best insurer pricing in 10 years, 2018 has indeed got off to a flying start breaking all previous records for half year volumes.



*Charlie Finch
Partner*

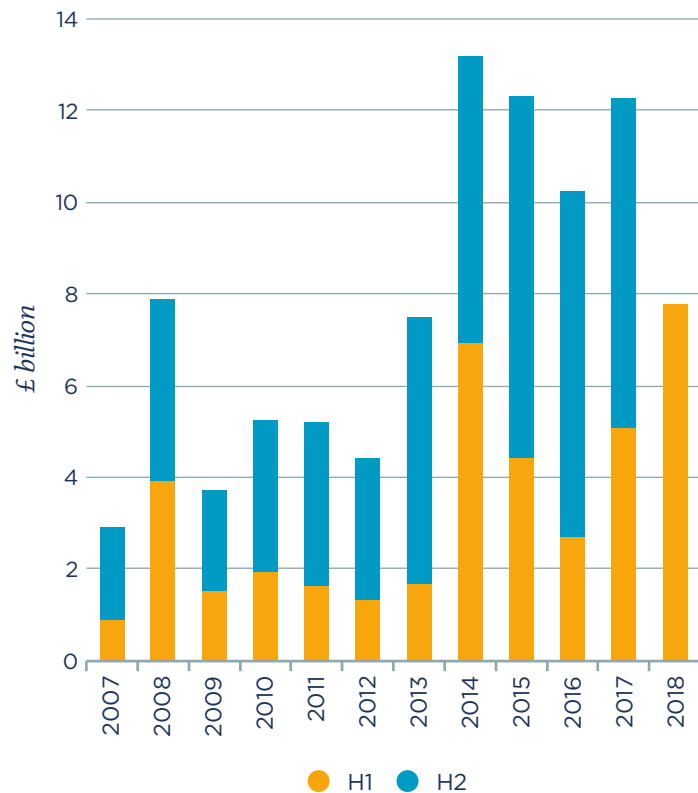
2018 is proving to be a bumper year for the buy-in and buy-out market. This year we have already seen significant pensioner buy-ins for the pension plans of Littlewoods (£880m) and Marks & Spencer (£1.4bn) as well as a full buy-out (£855m) for PA Consulting's pension plan and we were delighted to play a leading role in each. By building in the latest pricing improvements, many pension scheme trustees are finding that they are in a much better position than they realise, making a buy-in/buy-out feasibility exercise worthwhile.

Looking forward, our specialist team at LCP expects that 2018 will set a new record of over £15bn, and could possibly even hit £20bn of buy-ins and buy-outs for the first time. The challenge for insurers is scaling up to process the higher number of transactions and to source the greater volume of assets necessary to continue to offer pricing at current attractive levels. Pension plans should step back and consider their strategy for approaching the market. We already have a queue of transactions targeting 2019; I am confident that there will continue to be attractive opportunities, but in a busier market they may be harder to access.

H1 2018: facts and figures

A record £7.8bn of pension buy-ins and buy-outs were completed by UK pension plans in the first six months of 2018. This makes the first half of 2018 the busiest ever start to the year.

Buy-in and buy-out volumes over time



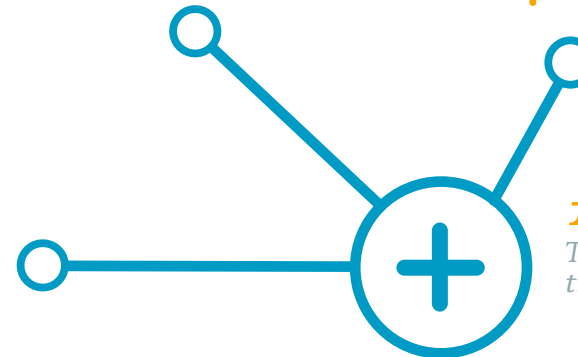
£12bn
Record annuity
'back book' transfer
from **Prudential** to **Rothsay Life**



£2bn
Longevity swap by
National Grid



£7.8bn
Record half year
of pension buy-ins
and buy-outs



£21.8bn
Total longevity risk
transfer in the UK



£1.3bn
Largest transaction by
a single insurer
Siemens

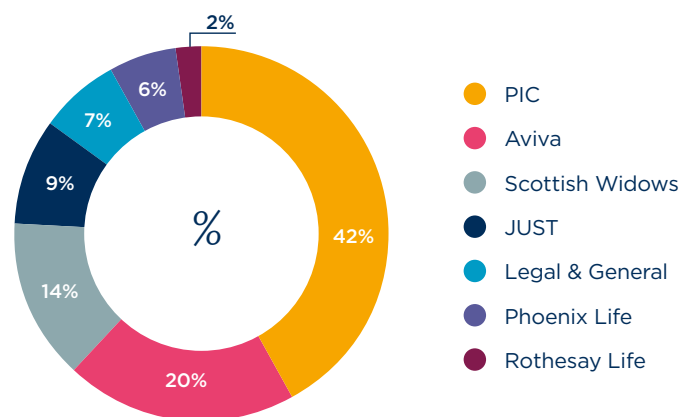


£1.4bn
Largest volume insured
by a single pension plan

Marks & Spencer

Buy-ins and buy-outs in the UK: insurer breakdown

Buy-in and buy-out volumes in H1 2018



Insurers ranked by buy-in and buy-out volumes

Rank	H1 2018 (£m)	H1 2018 share	H1 2017 (£m)	Total 2017 (£m)	2017 share (rank)
1. PIC	3,257	42%	1,875	3,654	30% (1)
2. Aviva	1,539	20%	326	2,045	17% (3)
3. Scottish Widows	1,105	14%	405	645	5% (6)
4. JUST	718	9%	295	998	8% (4)
5. Legal & General	507	7%	1,504	3,405	28% (2)
6. Phoenix Life	470	6%	0	0	0% (8)
7. Rothesay Life	170	2%	405	960	8% (5)
8. Canada Life	0	0%	276	544	4% (7)
Total	7,766	100%	5,086	12,251	100%

Source: Insurance company data.

Only business with a UK pension plan is included. The table therefore excludes the £12bn transfer of annuities from Prudential to Rothesay Life in March 2018.

Largest buy-ins and buy-outs to date in 2018

Pension scheme name	Size (£m)	Insurer	Type of transaction	Date	LCP lead adviser
Siemens	1,265	Pension Insurance Corporation	Pensioner buy-in	Jun-18	
Marks & Spencer	925	Aviva	Pensioner buy-in	Mar-18	✓
Littlewoods	880	Scottish Widows	Pensioner buy-in	May-18	✓
PA Consulting	855	Pension Insurance Corporation	Full buy-out	Jun-18	Trustee-side
Marks & Spencer	470	Phoenix Life	Pensioner buy-in	Mar-18	✓
BAA (Heathrow Airport)	325	Legal & General	Pensioner buy-in	May-18	
Undisclosed	275	Pension Insurance Corporation	Pensioner buy-in	Apr-18	
Kingfisher	210	Pension Insurance Corporation	Pensioner buy-in	Apr-18	✓
Undisclosed	200	Pension Insurance Corporation	Pensioner buy-in	Apr-18	✓
Undisclosed	200	Aviva	Full buy-out	Jun-18	✓
Undisclosed	195	Pension Insurance Corporation	Pensioner buy-in	Jun-18	
Toshiba	170	Rothesay Life	Full buy-out	Apr-18	
Undisclosed	160	Aviva	Deferred buy-out	Jun-18	
Undisclosed	100	Scottish Widows	Pensioner buy-in	Jan-18	
H2 announced to date					
BHS	800	Pension Insurance Corporation	Full buy-out	Jul-18	
Hays	270	Canada Life	Pensioner buy-in	Jul-18	✓
600 Group	200	Pension Insurance Corporation	Full buy-out	Jul-18	

Note: This table does not include transactions by JUST, other than those in the public domain.

PIC wrote the largest volume in H1 2018 at £3.3bn, retaining their leading position from 2017. Aviva followed with £1.5bn in H1 2018. Both insurers' H1 2018 volumes are only slightly short of their 2017 full-year totals.

Buy-in/out market in 2018 and beyond



Activity in 2018 so far

One of the key drivers of the high level of buy-in and buy-out activity in the first half of 2018 is the increased affordability on the back of improved buy-out funding levels. In LCP's annual de-risking report published in January, we highlighted that the average buy-out funding level of the FTSE 100 had increased by nearly 10% since August 2016.



Outlook for the rest of 2018

2018 has reached a tipping point and may be the first year where demand from pension plans for buy-ins and buy-outs outstrips insurer capacity. With significant volumes already written, and a number of high-profile transactions close to completion, several insurers have taken a step back in the second half of the year as they rebuild their supply of suitable assets. The recent consultation on the treatment of equity release assets also has the potential to impact pricing as a number of insurers have been using equity release assets to support competitive pricing.



Looking into 2019...

Other than pension plans that are already in the market, 2018 is now effectively closed for new business. We have a significant pipeline of transactions lining up for 2019; unusually many of these are full buy-outs rather than pensioner buy-ins reflecting improved funding positions.

Looking into 2019, we anticipate renewed appetite from the insurers, who are scaling up to source greater volumes of suitable attractive assets. However activity levels are likely to remain high if funding positions stay at current levels. This will mean insurers being ever more selective and pension plans needing to be more intelligent about how they approach the market if they wish to seize opportunities at the pricing levels seen in 2018 to date.

Over the first half of 2018 bulk annuity pricing has arguably been at its best level in 10 years. This has been driven by a combination of:

- 1. continuing evidence of a slowdown in longevity improvements;*
- 2. innovation in the assets insurers use to support their pricing; and*
- 3. strong price competition between both insurers and reinsurers.*

Insights from our experts: A collaborative approach to full buy-out for the PA Consulting Pension Scheme

In June 2018, the Trustee of the PA Pension Scheme completed a £855m full buy-out with Pension Insurance Corporation (PIC). David Fink, who was part of the team advising the Trustee, discusses the key aspect of the transaction.



David Fink
Partner

How had the Trustee prepared the Scheme prior to this full buy-out?

Longevity risk had been identified as a key unhedged risk for the scheme and LCP had advised the Trustee on a comprehensive “buy-in readiness” project, including data cleansing and drafting benefit specifications, in anticipation of approaching the market for pensioner buy-in pricing. Improved insurer pricing in late 2017 meant the focus shifted from a pensioner buy-in to a full buy-out – the work undertaken on the buy-in readiness project meant the Trustee was well prepared and able to react quickly to Company appetite to investigate a full buy-out.

What were the key ingredients to achieve full buy-out?

As well as the extensive preparatory work, the buy-out project was combined with two member option exercises. The Scheme ran a Pension Increase Exchange and Enhanced Transfer Value (ETV) exercise as part of the wider project. This helped improve the economics of the buy-out and make it affordable. The innovative structuring of the ETV exercise meant the Scheme benefitted from absolute price certainty whilst continuing to run the exercise after the buy-out was signed.

What was the outcome?

The Trustee successfully completed the full buy-out with PIC in June 2018 with the final result meeting both the Trustee and Company objectives which were set at the start of the project. It’s another example of how important a collaborative approach amongst all stakeholders can be in achieving a great outcome for all parties.

What advice would you give someone planning to do the same?

Be prepared to react quickly to opportunities! Undertaking data cleansing and benefit specification preparation work puts you in a great position to capture pricing opportunities and to maximise insurer engagement when you do approach the market – standing out as a well prepared scheme is increasingly important as demand steps up in this record-breaking market.

You never failed to deliver and because of that the Scheme has achieved the ultimate goal; something we never thought we would be able to do if you had asked us two years ago.

Daniel Baker, Pensions Manager (UK & Ireland), PA

Our latest de-risking content

Upcoming events:



LCP's annual conference "The long and the short of it" takes place on 18 September 2018 in London.

+ [Learn more and register here.](#)

Investment



LCP Vista keeps you informed of our latest investment thinking - Issue 8 aims to highlight some innovative investment ideas, from asset classes through to investment strategy.



+ [Read now](#)

Watch our 15 minute webinar for a snapshot of our quarterly investment update on markets, macro and more.

+ [Watch now](#)

In case you missed it



If you missed our webinar "Are you closer to buy-out than you think?" covering five key de-risking questions you should be asking yourself, you can now view it on demand.



+ [Watch now](#)

Our viewpoint



In this blog, Jack Sullivan explores efficient risk management and the impact of falling bond yields on investment strategy.



+ [Read it here](#)

Resources



LCP Life analytics - use this sophisticated tool to measure how much longevity risk you're running in your pension scheme

+ [Discover more](#)

Watch and share our video series to help you to understand in simple terms what buy-ins, buy-outs and longevity swaps are, when they make sense for pension schemes and how they work.

+ [Watch now](#)



Take a look at how others have de-risked their pension schemes, including [case studies](#) from the Post Office, Pearson, ICI and Philips.

+ [Read now](#)

Contact us

For further information please contact our team.



Clive Wellstead
Partner

clive.wellstead@lcp.uk.com
+44 (0)20 7432 6651



Myles Pink
Partner

myles.pink@lcp.uk.com
+44 (0)20 7432 3067



Charlie Finch
Partner

charlie.finch@lcp.uk.com
+44 (0)20 7432 0625



Michelle Wright
Partner

michelle.wright@lcp.uk.com
+44 (0)20 7432 3073



David Stewart
Partner

david.stewart@lcp.uk.com
+44 (0)1962 872785



Ken Hardman
Partner

ken.hardman@lcp.uk.com
+44 (0)20 7432 6629

We've been
appointed lead
adviser on over
40% of all buy-ins
and buy-outs over
£100m in the
past 4 years.

+ [Want to know why?](#)

LCP is a firm of financial, actuarial and business consultants, specialising in the areas of pensions, investment, insurance and business analytics.

Lane Clark & Peacock LLP London, UK Tel: +44 (0)20 7439 2266 enquiries@lcp.uk.com	Lane Clark & Peacock LLP Winchester, UK Tel: +44 (0)1962 870060 enquiries@lcp.uk.com	Lane Clark & Peacock Ireland Limited Dublin, Ireland Tel: +353 (0)1 614 43 93 enquiries@lcpireland.com	Lane Clark & Peacock Netherlands B.V. Utrecht, Netherlands Tel: +31 (0)30 256 76 30 info@lcpnl.com
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