February 2023

Pension Risk Transfer Monitor

Legal & General Retirement America
Legal & General Retirement Institutional

Special edition - US and UK PRT market overview

Market update

The US and UK Pension Risk Transfer (PRT) markets saw a strong second half of 2022, with an unparalleled year in the US. Read on to learn about the market performance and trends in 2022, including a 2023 outlook for both markets.

In the US -

2022 was another record-breaking year for the US PRT market with an estimated $53 billion in total market volume, significantly exceeding the previous record of $38 billion from 2021. While the first three quarters of the year were also record-breakers of their own, we're estimating the fourth quarter to be around $9 billion, which is a decrease from the $12.8 billion[1] we saw in Q4 2021. The fourth quarter has typically been the busiest of the year, but 2022 is the second year in a row that the fourth quarter did not have the largest sales volume. This may indicate a positive shift in the market where demand is more evenly spread throughout the year.

c.$53bn

Estimated 2022 total market size in the US

As we mentioned in our [November 2022 PRT Monitor], 2022's record year was driven mainly by large transactions coming to market, with the largest being IBM's $16 billion lift-out in Q3[2]. We also saw eight other transactions near or over $1 billion close throughout the year, including Lockheed Martin Corp. at $4.3 billion[3] and Pactiv LLC at $1.3 billion[4].

There are several contributing factors for this surge in PRT activity. Most notably, the improved funded status for pension plans as a result of the rise in interest rates has put some plan sponsors in a better financial position to transact. The recent financial market volatility may also be playing a part as sponsors look to transfer their asset risk to an insurer.

There are also some longer-term factors that may be adding to the increased demand. The per participant rate that sponsors pay to the US Pension Benefit Guaranty Corporation continues to increase, with 2023's rate at $96 per participant compared to $42 ten years ago[5]. Sponsors pay this fee regardless of member benefit amount and may be looking to reduce or eliminate these payments by completing a lift-out or full termination. Additionally, the evolution of the market over the last 10 years, with market volumes increasing and more transactions being announced publicly is helping to broaden knowledge and understanding among plan sponsors as PRT becomes more common in the US.

In the UK

For the fourth year in a row the UK PRT market secured more than £25 billion of retirement income, as it enjoys a remarkable period of sustained growth from single digit billions just a decade ago.

c.£26bn

Estimated 2022 total market size in the UK

Around £12 billion of retirement income was secured with insurers in H1 and a surge in transactions in the second half of the year translated to another extremely strong performance, once again reflecting the resilience of the market. Whilst we await final new business volumes from the different insurers, 2022 appears, superficially at least, to be the fourth largest year on record.

However, this somewhat masks the significant fall in liability values. In simple terms, this means that transactions completed towards the

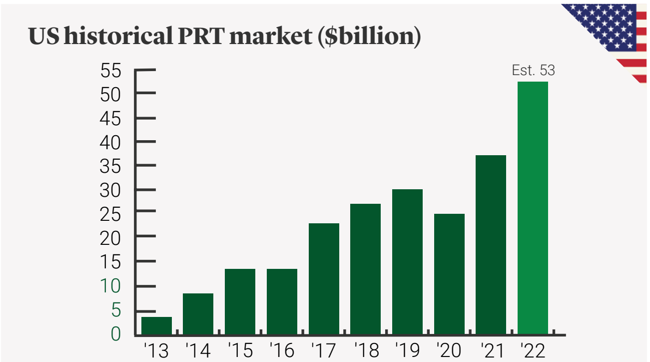
1. https://www.limra.com/en/newsroom/news-releases/2022/secure-retirement-institute-u.s.-single-premium-pension-buy-out-sales-jump-37-in-2021-marking-highest-sales-since-2012/
2. https://www.pionline.com/pension-risk-transfer/ibm-offloads-16-billion-pension-liabilities-annuity-purchases
3. https://www.pionline.com/pension-risk-transfer/lockheed-martin-offloads-another-43-billion-pension-liabilities-insurer
4. https://www.pionline.com/pension-risk-transfer/pactiv-wraps-deal-shift-126-billion-liabilities
5. https://www.pbgc.gov/prac/prem/premium-rates

In the UK - (cont.)

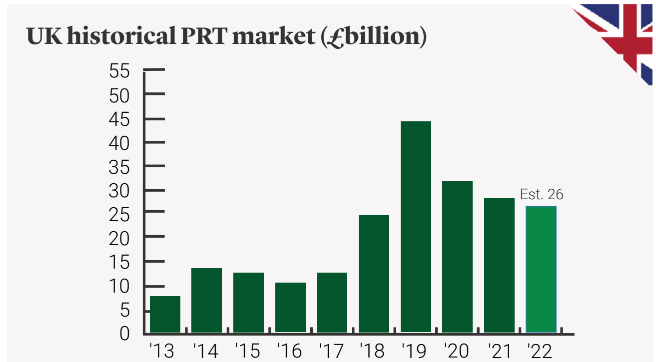
end of 2022 would have been considerably larger (by transaction value) had they been completed earlier in the year. Normalising for these factors, 2022 was the second busiest year in the history of the market.

Five transactions of over £1 billion were announced publicly[6] including the WH Smith Pension Trust's £1 billion buy-in with Standard Life, Electronic Data Systems (EDS) 1994 Pension Scheme's £1.1 billion full buy-in with PIC, the Co-operative Bank Pension Scheme's £1.2 billion full buy-in with Rothesay and the British Steel Pension Scheme's (BSPS) second and third buy-ins with Legal & General which totaled more than £4 billion. The BSPS transactions represent one of the largest de-risking arrangements Legal & General has ever implemented with a single partner in a calendar year.

6. https://www.professionalpensions.com/news/3062718/list-biggest-bulk-annuities-buy-ins-buyouts-announced-2007



Source: LIMRA Secure Retirement Institute Group Annuity Risk Transfer Survey. 2022 figure based on Legal & General Retirement America's estimation.



Source: Historic volumes: LCP. 2022 volume: based on Legal & General's estimate

2023 look ahead

In the US -

Another busy first half of the year expected

The momentum from 2022 has carried over to 2023 for the US PRT market and we're anticipating another busy first half of the year with several transactions close to or over $1 billion already in the pipeline.

Increasing plan termination trend

In addition to the continuation of large transactions coming to market, we're expecting more of the plan termination trend that we've seen developing over the last several years. We expect plan terminations to make up around 72% of Q1 deals by count this year compared to approximately 64% in Q1 last year.

Increase in reinsurance use

One final trend to watch for this year is an increase in the use of reinsurance. Using reinsurance can increase insurer capacity, diversify balance sheets, and help insurers provide solutions to different areas of the market. As more insurers use reinsurance, we expect to see the market becoming increasingly competitive.

In the UK

Accelerating demand

We expect 2023 to represent another inflection point. Market conditions have greatly accelerated the journey to buyout for many pension schemes and almost half are now 90% funded or above. Some market participants have projected that demand for buy-ins and buyouts could total £200 billion over the next few years.

There has been a notable increase in the number of pension schemes approaching the insurance market and the pipeline in 2023 is the busiest we have seen. For insurers and industry counterparties this will mean stepping up to the challenge to increase capacity.

In the UK - (cont.)

Solutions focus

Insurers are looking at how they can support schemes to achieve buyout using bespoke solutions, including flexible options for those with significant illiquid asset holdings. There is also a market-wide focus on standardisation and streamlining of processes to make them more efficient and to ensure opportunities exist for small and mid-sized schemes. We have set out more details on these items in our top 5 trends for 2023.

With more pension schemes approaching the market than ever before, insurers will be unable to quote on all transactions. Now, more than ever, it is vital that pension schemes do not rush their approach to market and can demonstrate that they are well prepared for a transaction. To help pension schemes with this we have prepared a simple step-by-step de risking checklist.

Find out more

Alex Gagnon (Distribution Manager at LGRA) and Aysha Patel (New Business Origination Lead at LGRI) discuss market dynamics and 2023 trends in our popular Institutional Insights series.

Watch here >

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