August 2022

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 experienced a strong first half of 2022, which we anticipate being the largest to date for the US. Read on to learn more about the market performance and trends we're seeing.

In the US -

2021 was the largest year on record for the US pension risk transfer (PRT) market with $38.1[1] billion in total market volume, and we see a surge in momentum for 2022.

As predicted in our Q1 PRT Monitor, we expect the first half of this year to be the strongest to date with around $18 billion in total market volume. This is significantly higher than we typically see in H1, as this time is generally slower in terms of deal flow. For reference, we saw $6.7 billion close in H1 2020[2] and $9.0[3] billion in H1 2021. Both the first and second quarter this year were also record-breakers at $5.3 billion[4] and an estimated $13.0 billion respectively.

c.$18bn

Estimated H1 2022 total market size in the US

One contributing factor to these sizable totals is an increase in the average size of transactions coming to the market. We have seen a 27% increase in transaction size compared to H1 2021, and an 87% increase from H1 2020.

Additionally, we saw five transactions over $1 billion each close in H1 and expect more to come in the second part of the year, more information on that in the Market Trends section below.

These factors are setting 2022 up to be another significant year for the US PRT market. Though it's too early to tell by how much, we do estimate this year's total market volume to surpass last year's.

In the UK -

Rising interest rates, combined with widening credit spreads have improved pension plan funding levels and increased buyout affordability.

c.£12bn

Estimated H1 2022 total market size in the UK

The second half of 2021 was one of the largest six-month periods on record taking the total volume for the year up to £28.6 billion. We expect the volume for the first half of 2022 to be around £12 billion. This represents a c.50% increase compared to the first half of 2021 when approximately £8 billion of new business was completed.

We expect this increase in demand from pension schemes to continue during H2 and into 2023, including an increase in demand from some large pension plans. We anticipate that the market volume for 2022 will reach £30-35 billion overall, an increase from 2021 and likely to be the second largest year ever in the UK market. The volume could potentially exceed £35 billion depending on whether the large transactions currently in the market complete this year, or in 2023.

We expect to see £30-50 billion of transactions per annum for the next few years. As demand from pension plans increases it is becoming increasingly difficult for insurers to participate in all transactions. Early engagement will help pension plans to attract insurer interest and make the most of opportunities that may arise.

This year, we celebrate the 35th anniversary of our first PRT transaction with Routledge & Keegan Paul in January 1987. We are the longest serving active provider in the UK market. In our 35 years' experience we have found the most successful outcomes to be as a result of thorough preparation and a collaborative approach between the insurer, the pension plan and its advisors.

Looking forward

In the US -

Large transactions

The large transaction trend has continued in the US PRT market. As noted above, we saw five transactions over $1 billion come to market during the first half of the year, and another few are expected to close in the second half of the year. This may well surpass last year's total of eight transactions over $1 billion completed and be a key contributor to the record-breaking market volumes we're seeing.

Plan termination comeback

Plan terminations dominated the market by count in the first half of the year, a trend we predicted in our last few monitors, as those plan sponsors who held off on initiating the 12–18 month plan termination process in the beginning of the pandemic picked it back up again towards the end of 2020 and the beginning of 2021.

In the UK -

Full pension plan transactions

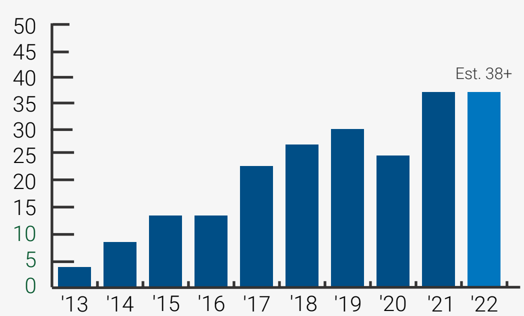
Improved funding levels have contributed to an increase in the number of full pension plan transactions, rather than pensioner only cases. We expect this trend to continue in the current market environment where many pension plans are finding themselves closer to being fully funded against a buyout target than expected.

Sole insurer processes

We've seen several pension plans move away from accepting the traditional auction process and instead choose to partner with an insurer, or a small panel of insurers, to deliver the best outcome for the plan. This is becoming more widespread as the market gets busier. The insurer(s) are typically selected based on factors other than price, such as member experience, administration capabilities, financial strength, brand and Environmental, Social, and Governance (ESG) considerations.

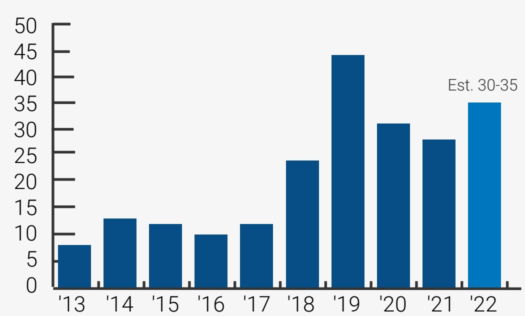
By setting clear objectives and timeframes for the chosen insurer(s) and having nimble governance in place, the plan benefits from the insurer's complete focus and will be well placed to secure a transaction at an opportune time and at a price that they set.

US historical PRT market ($billion)



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

UK historical PRT market (£billion)



Source: Legal & General analysis. Excludes insurer backbook transactions.

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