

Pension Risk Transfer Monitor



Legal & General Retirement America
Legal & General Retirement Institutional

Special Edition - US and UK PRT Market Overview

Market update

Despite the challenges stemming from the Covid-19 pandemic, the past year has demonstrated the strength of the US and UK pension risk transfer (PRT) markets for companies and plan sponsors with de-risking ambitions. We have seen little disruption on both sides of the Atlantic – in fact quite the opposite considering how many individual transactions have been completed. In this update we'll reflect on a year like no other and look ahead at some of the key trends.

In the US -

The US PRT market ended 2020 with one of its largest quarters ever. We estimate the total volume for the fourth quarter to be over \$14 billion, a significant increase from what we saw in the previous three quarters of the year (Q1: \$4.5b, Q2: \$2.3b, Q3: \$4.6b)¹. This would make it the biggest quarter since the GM and Verizon deals in 2012, surpassing 2019. Though the fourth quarter is typically the busiest in any year, the market volatility we saw earlier in 2020 may have caused some plan sponsors to pause their transactions and bring them to the market later, resulting in an even busier end of the year than normal.

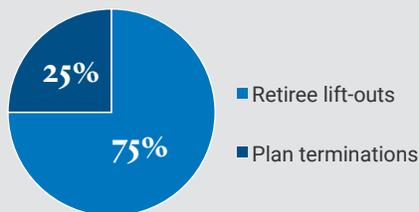
over \$14bn

Estimated Q4 total market size in the US

We estimate the total annual volume to be approximately \$25 billion. In a year of so much uncertainty, the resilience of the market affirms how PRT remains high on the agenda of many plan sponsors.

As we noted in our last [PRT monitor](#) from October, retiree lift-outs were making a comeback after plan terminations dominated the first half of the year. This trend continued into the fourth quarter with retiree lift-outs representing approximately 75% of deals closed by premium. This is a near complete reversal from what we saw in the first half of the year, where plan terminations represented 66% of deals by premium. At Legal & General Retirement America we celebrated our most successful year to date surpassing \$1.6 billion in premiums and we hope to continue building on our momentum in 2021 and beyond.

75%
of Q4 US deals by premium were retiree lift outs



In the UK -

Analysts indicate that around £30 billion of business was completed in the UK PRT market in 2020, making it the second largest year on record. If

2019 was the year of the mega-deal, 2020 has presented an opportunity for smaller and mid-sized pension plans.

£30bn

Estimated 2020 annual total market size in UK

Top 5

2020's largest publicly announced deals

UK market

OBSPS (Buy-in)	£2.0bn
MNOPF (Buy-in)	£1.6bn
Maersk (Full buy-in)	£1.1bn
Co-operative (Buy-in)	£1.0bn
Co-operative (Buy-in)	£1.0bn

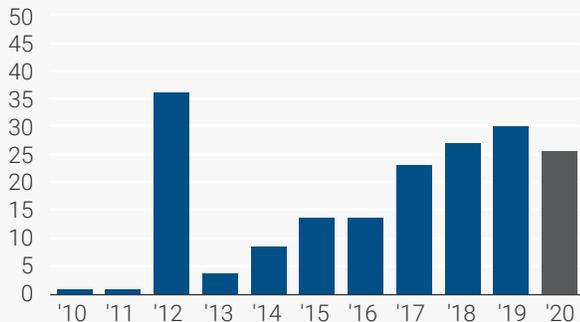
US market

General Electric (Lift-out Buy-out)	\$1.7bn
Lockheed Martin (Lift-out Buy-out)	\$1.4bn
Armstrong World Industries (Lift-out Buy-out)	\$1.0bn
Lockheed Martin (Buy-in)	\$793m
Weyerhaeuser (Lift-out Buy-out)	\$765m

In the UK (cont.) - While there were fewer very large buy-ins and buyouts than in 2019, meaning the overall volume of premium was slightly lower, we saw significant growth in every other market segment, with around a 50% increase in the volume of transactions below £1 billion in size. This is testament to the fundamentals underpinning demand which remain compelling and strong.

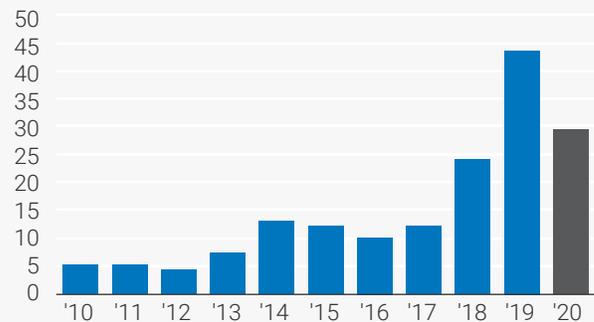
As with the US market, the fourth quarter in the UK proved to be exceptionally busy. During this period we completed our [second global transaction](#), our second [Assured Payment Policy](#), and our [largest transaction of the year](#). In terms of the number of UK transactions that we completed, we saw an increase of more than 40% in transaction numbers compared to 2019, reflecting one of our largest and busiest ever years.

US Historical PRT Market (\$billion)



Source: LIMRA Secure Retirement Institute Group Annuity Risk Transfer Survey. 2020 figure based on Legal & General Retirement America's estimation.

UK Historical PRT Market (£billion)



Source: Legal & General estimate

Looking forward

Both the US and UK PRT markets are now firmly established as £/\$20 billion+ per annum markets.

In the US -

As we covered earlier, last year saw fewer companies initiate plan terminations – where the lead in time can be one to two years. Retiree lift-outs have shorter time frames but are also more sensitive to current market conditions. If markets remain stable, we could see continued growth in this area.

Our main observation is that, as last year demonstrated, companies can pause, delay or cancel these transactions altogether if they are not comfortable with market conditions but opportunities to remove pension risk and protect members' retirement income will continue to be attractive. We expect 2021 to be even more competitive as new insurers have entered the market. The increase in

active insurers can likely be attributed to the widespread use of de-risking strategies that offer long term security to both companies and pension plan members.

In the UK -

We expect to see a continuation of the 'repeat buyer' trend. Roughly half of the £100m+ transactions announced in 2020 were by pension plans who have transacted previously. Pension plans that can demonstrate flexibility and agility in their governance and decision-making processes will continue to attract strong interest. Pension plans that were 'transaction-ready' saw competitive pricing levels relative to gilts in 2020 and we expect these levels will continue into 2021, supported by strong insurer appetite for pension plans of all sizes.

We expect to see many of the transactions that were paused in 2020 return to the fold in the near to medium term which aligns with analyst forecasts predicting similarly strong premium volumes in 2021.



Contact us

Legal & General Retirement America (US)
www.lgra.com | email: info@lgra.com

Legal & General Retirement Institutional (UK)
www.legalandgeneral.com/prt | email: derisking@landg.com

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