Legal & General Retirement America

# Pension Risk Transfer Monitor

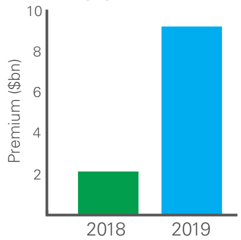
September 2019

## Market update

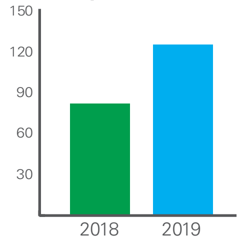
The US Pension Risk Transfer (“PRT”) market has remained very active throughout the first three quarters of 2019 with consistent deal flow that is starting to ramp up for the typical Q4 rush. Comparing this year to last, we have seen a 12% increase in total deal count. Total premium only increased by 1%, largely due to an outlier transaction in Q2 2018 ($6bn, FedEx). Excluding FedEx, the premium increase is nearly 53%.

The increase in Plan Terminations that we observed earlier this year has continued. Plan Terminations accounted for just under $4bn of sales in 1H ‘19, nearly surpassing total Plan Termination sales in 2018. The charts below show the substantial increase year over year, particularly in total premium.

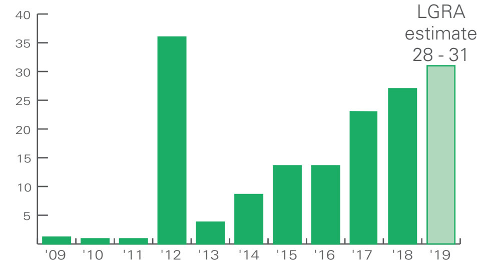
**Plan Terms by premium***




**Plan Terms by count***




### Historical PRT volumes ($bn)




Source: LIMRA Secure Retirement Institute Group Annuity Risk Transfer Survey

### UK spotlight

In June, Legal & General Retirement Institutional completed the **largest ever** UK group annuity transaction with Rolls Royce for **$5.2bn** covering around 33,000 pensioners. We expect that the UK market will exceed £30bn this year for the first time.

## Hot topic - ESG investing

As *The Wall Street Journal* reported recently, U.S. funds operating with an environmental, social and governance (ESG) consideration attracted over $8 billion in investments in the first half of 2019, easily surpassing the 2018 total of $5.4 billion.

Market indications and investor sentiment suggest this upward trend will continue. But, from a defined-benefit pension-provider perspective, is an ESG mandate valuable? And if so, why?

We spoke with Legal & General Investment Management America’s John Hoeppner, Head of US Stewardship and Sustainable Investments, to explore:

“Before we weigh in on whether an ESG mandate matters in the defined benefit space, it’s important to understand why ESG is a priority now across the investment spectrum. There’s a confluence of factors that has created what we at Legal & General consider the ‘perfect storm’.

First and foremost ESG is no longer considered a question of ethics but of financial materiality. At the same time that perception has shifted, we’re seeing:

- Innovation in ESG data analytics and reporting
- Consumer demand for sustainable products
- Regulatory pressure

With this context, we can now look at the value of an ESG consideration within a pension plan. And the most effective way to think about ESG is as one of many proxies for risk. So, it’s not a question of whether an ESG mandate specifically supports the duration of a liability, it’s about considering it as you would any other risk proxy. ESG factors play a crucial role in determining asset prices, so when well managed, an ESG consideration is advantageous. When poorly managed, it’s not. As a firm, we believe sustainable investing is very much here to stay. It reflects our culture while aligning with our clients’ values, but more importantly, it is about identifying long-term themes and opportunities while managing the risks of a changing world.”

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