

Pension Risk Transfer Monitor



Legal & General Retirement America
 Legal & General Retirement Institutional

Special edition - US and UK PRT market overview

Market update

Both the US and UK Pension Risk Transfer (PRT) markets experienced a strong second half of 2021, with a potentially record-breaking year in the US. Below, we reflect on the market performance and trends in 2021, and what we expect in 2022 for both markets.

In the US -

Fueled by an increased number of large-to-jumbo transactions in 2021 and after the second largest quarter ever in Q3 (\$16b¹), we are expecting last year to be the largest year on record for the US PRT market. We estimate the total annual volume to be between \$38-40 billion, up significantly from 2020 in which the market totaled \$27 billion², exceeding the current record of \$36 billion³ from 2012. This unsurpassed market volume is attributed to the 10 transactions close to, or over, \$1 billion that closed last year.

\$38-40bn

Estimated 2021 total market size in the US

As we mentioned in our [Q3 PRT monitor](#), the average funded status of defined benefit (DB) plans continued to increase throughout 2021 due to strong investment returns and rising interest rates. This may incentivize more

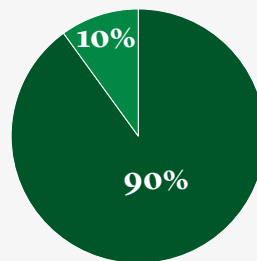
plan sponsors to move forward with transferring their pension risk in 2022.

We estimate the total volume for the last quarter of 2021 to be between \$12-14 billion. Although Q4 slowed down slightly in comparison to Q3, this volume was the momentum necessary to complete a record-breaking year in the PRT market.

Lift-outs were more prevalent in the second half of the year. Most notably, in Q4, lift-outs generated approximately 90% of total premiums compared to plan terminations. Overall, plan terminations have slowed down when compared to years prior, but market expectation is that we may begin to see this change. Read more about this observation in the 'Looking forward' section.

90%

of Q4 US deals by premium



■ Retiree lift-outs
 ■ Plan terminations

Top 5

2021's largest publicly announced deals in the US

HP (Lift-out Buyout)	\$5.2b
Lockheed Martin Co. (Lift-out Buyout)	\$4.9b
JCPenney (Lift-out Buyout)	\$2.8b
Lumen Technologies (Lift-out Buyout)	\$1.4b
Arconic (Lift-out Buyout)	\$1.0b

In the UK -

The UK market has experienced rapid growth over the past decade. A baseline of over £25 billion of annual volume is now well-established and we expect the market to go from strength to strength in the coming years. 2021 was another successful year with the pace and volume of transactions increasing significantly in the second half of the year, and this momentum has continued into 2022.

Not all transactions in 2021 have been publicly announced yet, but we expect the total volume will approach £30 billion. This makes the second half of 2021 - at around £22 billion - one of the largest and busiest six-month periods in the history of the market.

Several factors have driven this strong demand. Pension plan funding

1. <https://www.limra.com/siteassets/newsroom/fact-tank/sales-data/2021/q3/3q-2021-prt-buy-out.pdf>

<https://www.limra.com/siteassets/newsroom/fact-tank/sales-data/2021/q3/3q-2021-prt-charts-buy-in.pdf>

2. <https://www.limra.com/en/newsroom/news-releases/2021/secure-retirement-institute-fourth-quarter-u.s.-single-premium-pension-buy-out-sales-jump-21/>

3. <https://www.ai-cio.com/news/us-pension-buyout-sales-more-than-triple-in-q3-to-15-8-billion/>

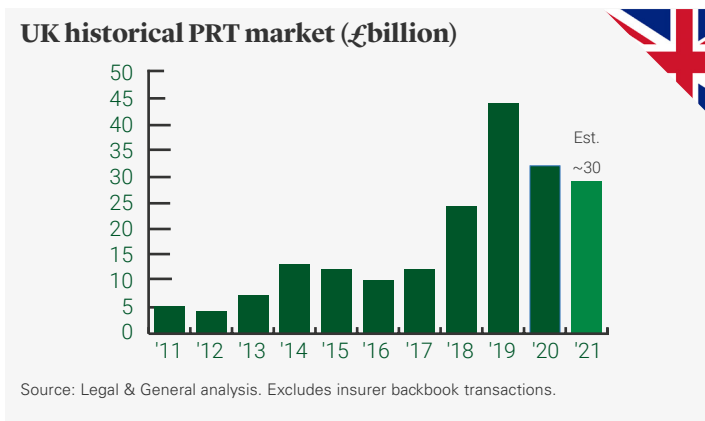
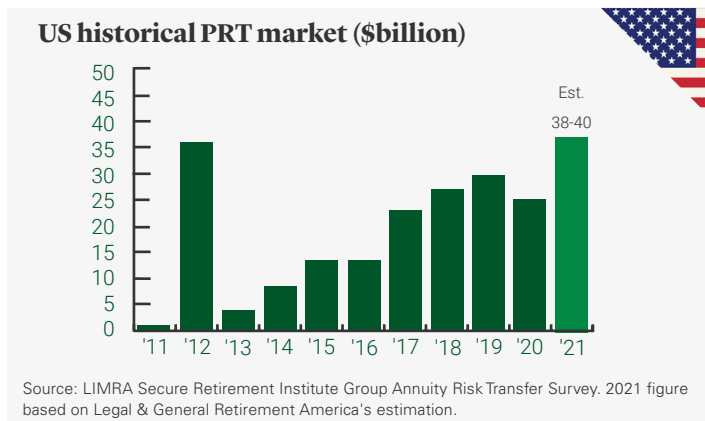
In the UK (cont.) -

improved significantly over the course of the year, and more plans are moving closer to their endgame and full buyout funding. Insurers and their reinsurance partners are both geared up for this demand and have increased their appetite for new business.

We've seen insurers post strong new business figures across the market reflecting a competitive and vibrant environment for pension plans of all sizes. The largest transaction completed in 2021 was the Metal Box Pension Scheme's £2.2 billion buy-in with the Pension Insurance Corporation (PIC).

£30bn

Estimated 2021 total market size in the UK



Looking forward

In the US -

A busier first half of the year expected

We expect the appetite for plan sponsors with de-risking ambitions to increase in 2022. A handful of large transactions over \$750 million are already in the pipeline for this year, potentially paving the way for a robust first half of the year compared to recent years. This could indicate that more plan sponsors with fully funded pension plans are beginning to take interest in mitigating their pension risk, likely resulting in a busier H1 than the past couple of years. As a new insurer has joined the market in 2021, plan sponsors who are looking to de-risk in 2022 could benefit from competitive pricing.

Plan terminations to make a comeback

In the second half of 2020, various pension consultants noted an uptick in plan sponsors starting the plan termination process, resulting in the potential to see more plan terminations enter the market in the coming months, given that plan terminations can take 12-18 months to complete.

More buy-in transactions coming to market

We have also seen continued interest around buy-ins for plan terminations. In Q4 2021 there were four buy-in transactions completed. This type of deal has become an attractive solution for plan sponsors looking to benefit from removing risk at the start of the plan termination process, by taking advantage of locking in more favorable pricing ahead of the 12-18 months it typically takes to complete. Should Q1 be indicative of the rest of the year, we expect to see more buy-in transactions come to market.

In the UK -

Preparation and early engagement remain key

We expect volumes to continue to grow in the UK market. This growth will be driven by various factors such as market movements, asset availability and the number of large pension plans coming to market.

A record breaking 2019, in which £43 billion of new business was completed, demonstrated that the market has sufficient capacity for higher volumes and numerous multi-billion transactions.

With the market poised for future growth, pension plans that prepare thoroughly and engage early will attract the most interest from insurers.

Opportunities for small and mid-sized pension plans

75% of UK pension plans have assets of less than £100 million and it can sometimes be challenging for smaller pension plans to get insurer engagement in a crowded market. However, solutions do exist, particularly if the trustees are prepared to work with a single or smaller group of insurers, or with an advisor that has negotiated pre-agreed terms for smaller transactions with insurers.

Buyout - the endgame target of choice for most

[Aon's Global Pension Risk Survey 2021/22](#) reported that buyout has overtaken self-sufficiency as the most common long-term objective for UK DB pension plans and that the average expected timescale to reach that target is now under nine years. The endgame choices available to pension plans today are greater than ever with new innovations increasing flexibility and affordability. Ultimately, the survey supports the view that buyout is seen as the gold-standard destination of choice for most UK pension plans.

Find out more

Sheena McEwen (Head of Distribution) and John Towner (Head of New Business) discuss what to expect in 2022 in our popular Institutional Insights series.

[Watch here >](#)

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