

Pension Risk Transfer Monitor



Legal & General Retirement America
Legal & General Retirement Institutional

Special Edition - US and UK PRT Market Overview

Market update

While the outbreak of COVID-19 has resulted in significant market volatility, both the US and UK Pension Risk Transfer (PRT) markets have seen a continued appetite for de-risking throughout the first half of the year. Although 2020 looks like a strong year, we do not anticipate volumes at year-end to match the figures for 2019.

In the US -

We estimate the total market volume for H1 2020 to be approximately \$8 billion, down from \$10.5 billion in the first half of last year. The plan termination trend that we've been seeing is still standing strong. Over 70% of transactions, by premium, with finals in the first half of the year were plan terminations, compared to only 38% over the same period in 2019.

This increasing proportion of plan terminations could, in part, be due to the recent market fluctuations. Plan sponsors preparing for a termination in the first half of this year would have been far along in their planning, which includes managing assets to avoid funded status volatility. This preparation can help plan terminations push forward despite market disruptions, something that may be more difficult for discretionary retiree lift-outs.

In 2019, the US PRT market saw a total volume of \$30 billion. We expect this year's total to be approximately \$15 - \$25 billion.

In the UK -

2019 was an exceptional year, with several multi-billion pound transactions being completed, including five over £3 billion¹.

The recent increase in volumes attributable to large transactions has meant that some smaller pension plans have been overlooked. Whilst the lack of "mega deals" in the market for 2020 is likely to impact on overall transaction volumes, it presents an opportunity for smaller plans. According to analysts, 2020 could see growth of up to 25% in the market for transactions covering liabilities of less than £100 million².

In line with analyst views, Legal & General have also seen an increase in small to mid-sized transactions, writing over 20 such transactions in the year to date.

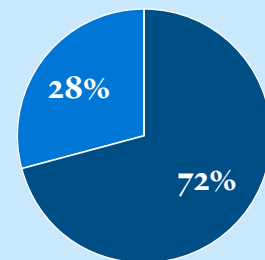
In general, 2020 looks set to be a strong year, with volumes for DB pension plans in the UK expected to reach £25 billion, which would be the second largest annual total on record³.

See back page for US and UK historical PRT volumes charts.

\$8b

Estimated H1 2020 total volume for US PRT market

US H1 2020 Transaction Type Breakdown (by premium)



■ Retiree lift-outs ■ Plan terminations

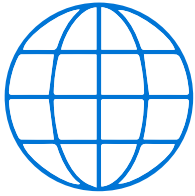
£25b

Estimated 2020 annual total market size in UK³

1. <https://www.hymans.co.uk/insights/research-and-publications/publication/risk-transfer-market-report-buy-in-buy-out-longevity-swaps-2020/>

2. <https://www.lcp.uk.com/media-centre/2020/05/lcp-predicts-number-of-small-scheme-buy-inouts-to-increase-by-a-quarter-in-2020-as-demand-surges-for-streamlined-processes/>

3. <https://www.lcp.uk.com/media-centre/2020/04/lcp-expects-2020-buy-inbuy-out-market-volumes-to-be-second-on-record/>

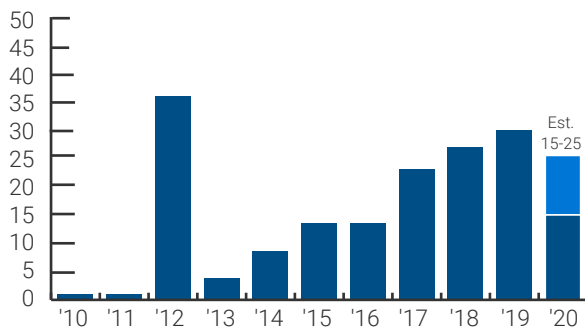


Transaction spotlight - Our first global transaction

In May 2020, we announced two simultaneous PRT transactions with IHS Markit – one in the UK and another in the US. The pension plans covered were IHS (Global) Ltd. Pension and Life Assurance Scheme in the UK and IHS Retirement Income Plan in the US.

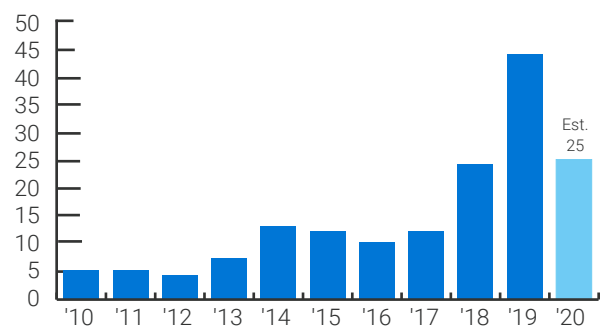
The UK transaction was for £37.8m (\$46.7m), covering around 150 members, and the US transaction was for \$97.2m (£78.4m), covering around 1,200 members.

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: Data from Lane, Clark & Peacock³



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