

Pension Risk Transfer Monitor

Special edition - US and UK PRT market overview



Market update



In this international edition of our Pension Risk Transfer (PRT) Monitor, we offer a side by side analysis of the US and UK PRT markets. Coming off a record-breaking calendar year for the UK market and the second largest year on record in the US, we examine the outlook for 2024 at what looks set to be an inflection point for both markets.

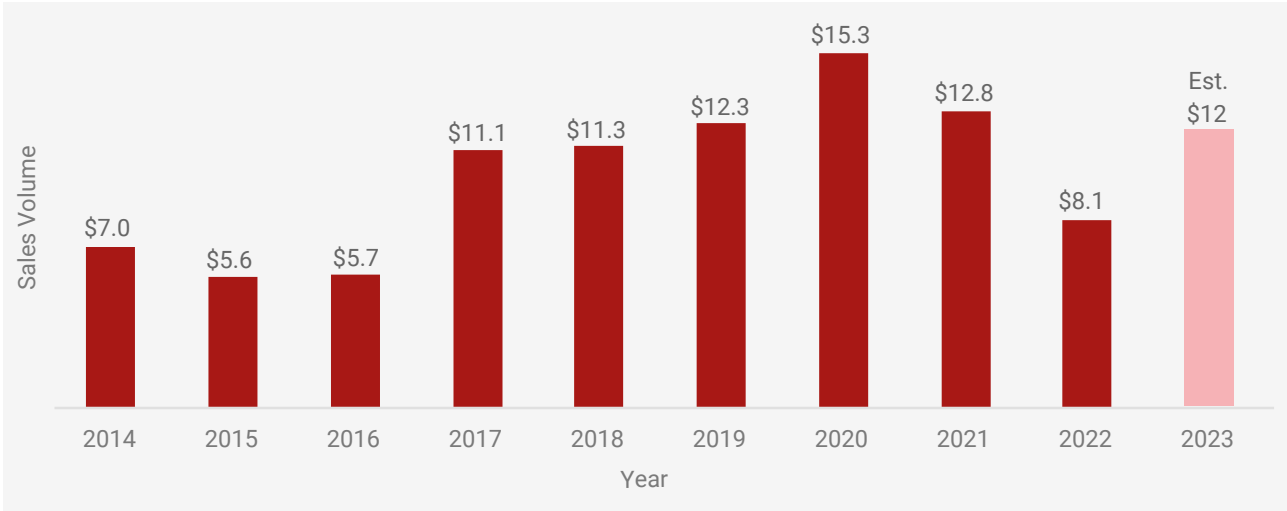
2023 recap In the US



The US PRT market continues to flourish as 2023 marked another momentous year in terms of both total market volume and number of transactions. We estimate the full year volume to be around \$45 billion, the second largest on record behind the \$51.9 billion secured with insurers in 2022¹. We also saw a substantial increase in the number of transactions that came to market, demonstrating the continued demand for PRT in the US.

Volume in the fourth quarter of 2023 is expected to reach over \$12 billion, which is higher than Q4 2022's total of \$8.1 billion¹ and is one of the larger fourth quarters we've seen to date (see table below).

US Q4 Total Market Volume (\$billion)



Source: LIMRA Secure Retirement Institute Group Annuity Transfer Survey. Q4 2023 figure based on Legal & General Retirement America's estimation.

1. <https://www.limra.com/en/newsroom/news-releases/2023/limra-2022-single-premium-buy-out-sales-topple-prior-record/>



In the UK



2023 was a record-breaking year for the UK PRT market, with an estimated £50 billion in total market volume. This record-breaking volume was driven both by increased demand from pension schemes of all sizes, and particularly from larger schemes demonstrating that insurance at a scale is achievable.

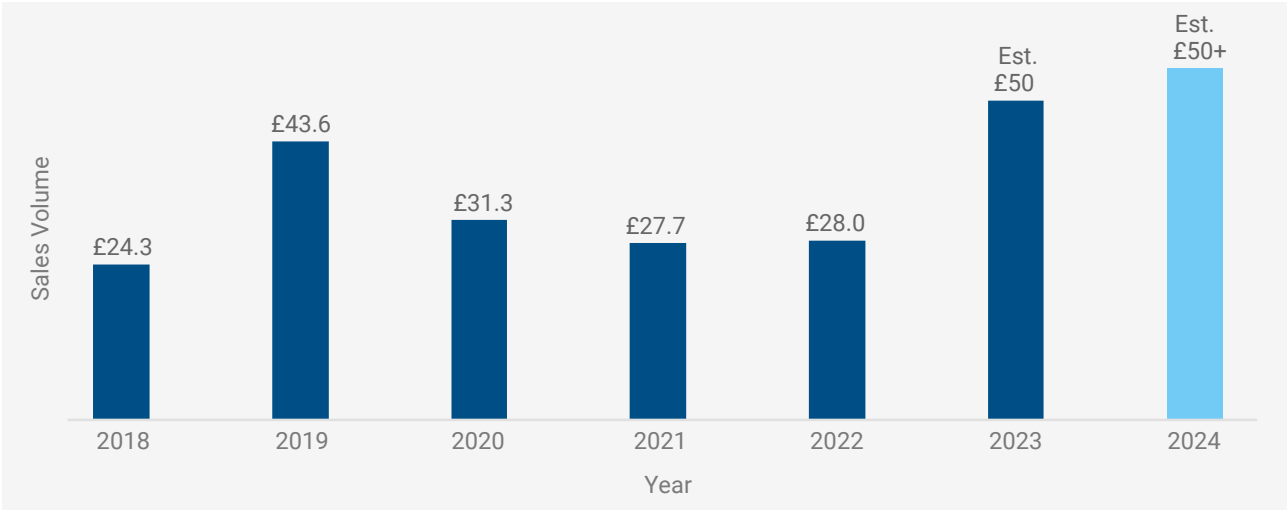
The year was distinguished by a series of landmark moments. The British Steel Pension Scheme became the largest in the UK to have fully insured its members'

benefits, completing the last in a series of four transactions with Legal & General. The Boots Pension Scheme and two pension schemes of the RSA Group completed the largest ever single and overall transactions respectively. In late November, the market witnessed the largest volumes ever announced in a single day – almost £9 billion secured between the Boots Pension Scheme's buy-in with Legal & General and the Co-operative Pension Scheme's buy-in with Rothesay. Five transactions of over £2.5 billion were announced in 2023 compared to just one the previous year and only ten between 2014 and 2022.

Largest publicly announced UK transactions in 2023

Name	Size £bn	Insurer
RSA Group: Sal Pension Scheme & Royal Insurance Group Pension Scheme	6.5	PIC
Boots Pension Scheme	4.8	Legal & General
Co-operative Pension Scheme	4.0	Rothesay
British Steel Pension Scheme	2.7	Legal & General
Thales UK Pension Scheme	2.7	Rothesay


Total volumes across the UK market (£billion)



Source: Historic volumes - Hymans Robertson Risk Transfer Report 2024. Estimated figures for 2023 and 2024 based on Legal & General's analysis.



US outlook
Large transactions

 Large transactions continue to drive the record volumes in the US market. We expect two jumbo transactions to close in Q1, including the recently announced \$4.9 billion Shell USA Inc. transaction with Prudential Insurance Co. of America². These transactions should make it the largest first quarter ever at an estimated \$15 billion, easily surpassing the previous Q1 record of \$6.3 billion in 2023³. The number and size of jumbo transactions coming to market will be the key driver in the total market volume this year.

Improved funding status

With global equities recovering in 2023 and interest rates elevated, funding levels for pension plans remain high and continue to be a driving force behind growth in the market. According to Legal & General Investment

Management America's Pensions Solutions Monitor, as of December 2023, the average funding ratio for US corporate defined benefit pension plans increased to 104.1% compared to November at 103.4%⁴. Should funding levels remain at or above 100%, we can expect more plan sponsors to view this as an opportunistic time to reduce risk and begin the pension risk transfer process. There are over \$3 trillion in private sector defined benefit pension plan assets in the US⁵.

Repeat transactions

In 2023, we saw more plan sponsors returning to the market to either fully terminate or de-risk additional tranches of their plans than we had seen in past years. This is another indication of increased demand in the market, and something that we expect to continue to see moving forward.

2. <https://www.pionline.com/pension-risk-transfer/shell-siphons-49-billion-us-pension-liabilities-insurer-prudential>
3. <https://www.limra.com/en/newsroom/news-releases/2023/limra-new-u.s.-pension-risk-transfer-sales-posts-double-digit-growth-in-first-quarter-2023/>
4. <https://www.lgima.com/insights/psm/>
5. https://www.ici.org/statistical-report/ret_23_q3

UK outlook

 Similar to the US, the UK is seeing dramatically improved funding levels, thanks in large part to the significant rise in interest rates over the last 18 months. The Pensions Regulator estimates that over a quarter of all DB schemes could now be more than fully funded on a buyout basis.

We expect that typical annual buy-in and buyout volumes could settle in the £50-60 billion range over the next five years, a significant increase from the average £31 billion that we saw over the five years prior to 2023. Allowing for potential ultra-large transactions, there is also scope for these volumes to spike considerably in any given year.

It is worth remembering however that there are still c£1.4 trillion of DB pension scheme assets sitting on UK company balance sheets. Securing these pension promises for the long-term is likely to be a multi-decade process and signifies the prospect of a healthy market for many years to come.

Solutions focus

Schemes have traditionally followed an auction approach for buy-in and buyout transactions, selecting their preferred insurer based on market conditions on a given day. We are increasingly seeing schemes partner with a single insurer to work collaboratively towards a transaction, and being able to take advantage of



favourable movements in market conditions over that period of collaboration. Our series of buy-ins with the British Steel Pension Scheme is a good example of such a strategic partnership in action.

This approach can also be used to help schemes develop bespoke solutions to challenges they face. The recent rapid improvement in funding levels has meant that many schemes have reached buyout funding earlier than anticipated, and before their illiquid asset holdings have matured. The insurance market has been innovating in this area, providing solutions to help schemes transfer or sell their illiquid assets alongside a transaction.



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