HYMANS ROBERTSON

# Risk Transfer Report 2022

Your annual overview and analysis of the risk transfer market

# Welcome to our unique insight into the risk transfer market

## 2021 was another strong year for the bulk annuity market. Despite the continuing impact of the pandemic, the total value of buy-in/buy-out transactions was around £30bn.

Although Covid-19 brought about another year of uncertainty for many, it was still a successful year for defined benefit (DB) pension schemes looking to transfer risk. A quiet start to 2021 led to a busy second half of the year driven by a steady increase in demand for small and medium-sized transactions. As noted later in the report, increased innovation in the deferred longevity hedging space led to some very attractive full buy-out pricing for DB pension schemes reaching their end-game goal.

Looking forward, 2022 is set to be another busy year with a significant proportion of trustees indicating that they will be seeking buy-in quotations over the next year. This will continue beyond 2022 with a majority of pension schemes now targeting full settlement of benefits with an insurer. It's now more important than ever to be transaction-ready if you want insurers to view your pension scheme as a high priority case in 2022 and beyond. We also expect further developments in the market for alternative risk transfer solutions over the next year and the first transfers to a superfund to complete in 2022.

I'm delighted to share our sixth annual report as we track the key changes in the bulk annuity market and look at what these changes could mean for your DB pension scheme.

We explore the following five key areas:

During 2021 we have led on buy-ins and buy-outs:

totalling **£5.6bn**
expected to be **c.20%** of the market

ranging from **£50m - £1.8bn** in size

covering **£2bn** of deferred member liabilities

including **4** **transactions** with **FTSE100** sponsors

In addition, during 2021 we:

won **8** new risk transfer clients

had a **5x larger** footprint in the risk transfer market than our DB market share

welcomed **1,200** attendees at **8** webinars

added **6** new team members

advised on **every risk transfer structure** - longevity swaps, buy-ins/outs, superfunds, capital backed journey plans etc.

were **highly commended** **Risk Reduction Adviser* and Derisking Consultant** of the Year**
** UK Pensions Awards ** PIPA*

We have also recently been appointed to the PPF's buy-out adviser panel.

We also provide an overview of how transaction volumes have changed since the market took off in 2007 and share insights on each insurer in the market.

I hope you find our report helpful for your journey towards your pension scheme's long-term goal and together, we can build better futures for your pension scheme members. We'd love to hear from you if you have any comments or questions about anything covered. Please don't hesitate to get in touch with me, or one of the authors listed on page 35.

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# 1 Bulk annuity insurers overview

## 2021 in review

**By Sam Warburton**, Risk Transfer Specialist

Despite the continuing economic and social impact of the Covid-19 pandemic, 2021 was a strong year for buy-ins and buy-outs, with plenty of demand from pension schemes looking to take that next significant step in their journeys.

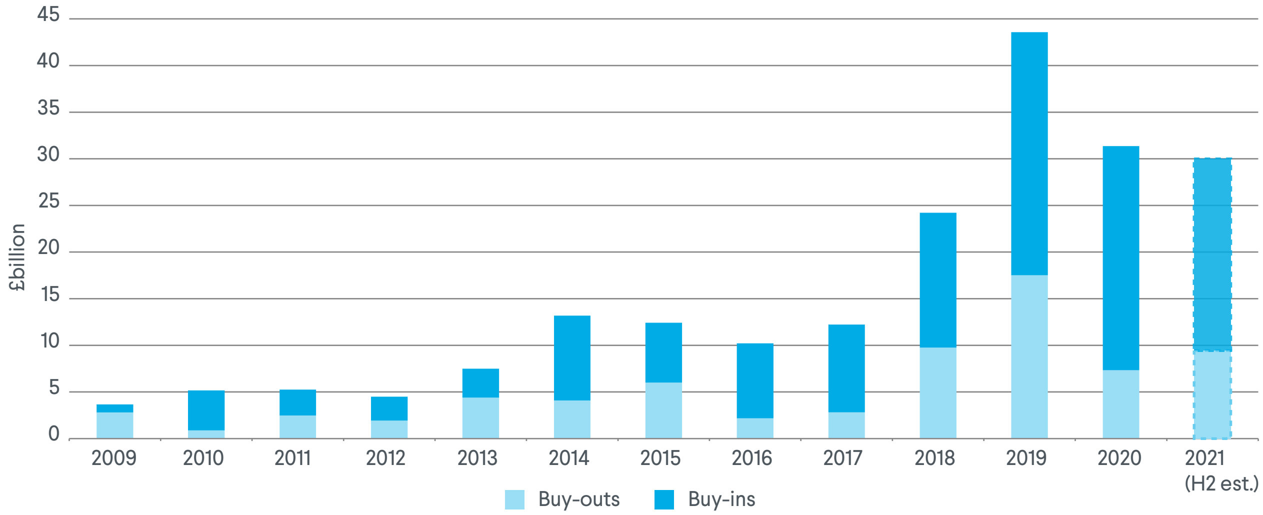
### Another strong year for volumes

Volumes of buy-ins and buy-outs reached around £30bn, very similar to the volume in 2020.

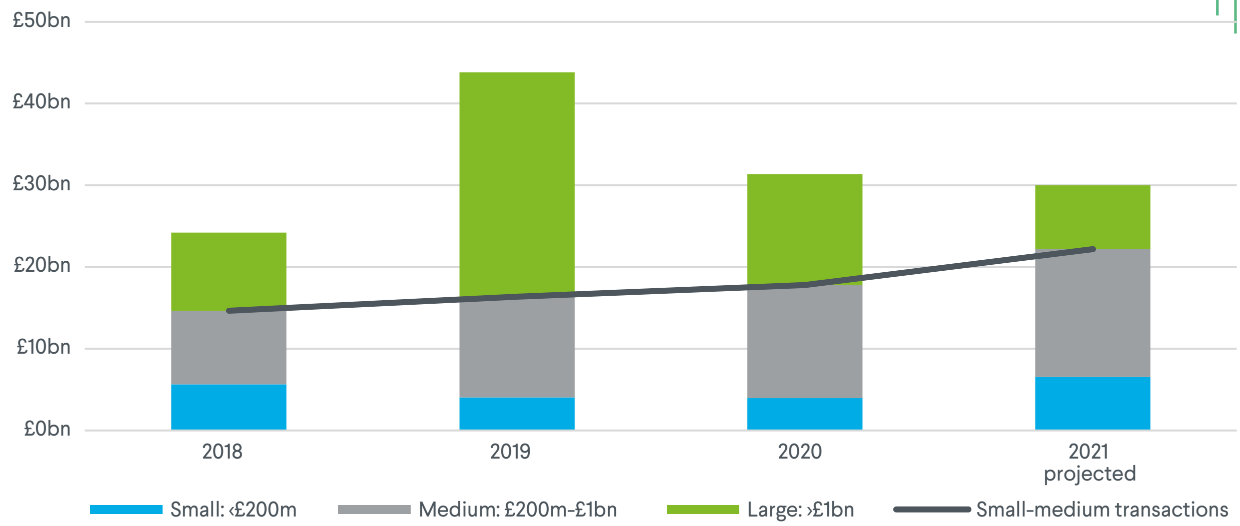
Looking past the headline figures, a pattern is emerging. Similar to the overall DB universe, the total value of transactions each year is dominated by relatively few very large pension schemes. The charts below show how the overall volumes over the past few years break down into different transaction sizes.

While annual headline volumes are heavily dependent on jumbo transactions, there has been a steady increase in the number of small and medium transactions. This signals a growing demand from schemes that are getting better funded over time, looking for opportunities to de-risk, and many of whom are headed towards the same endgame.

**Buy-in/buy-out volumes**



**Breakdown of bulk annuity volumes**




### Return of the year-end rush

It was a slow start to 2021 for bulk annuity transactions, likely reflecting a bit of a lull after a very busy second half of 2020. This set the scene for a return of the year-end rush – a phenomenon not seen since 2018 – as some insurers looked to meet their new business volume targets. This led to transaction volumes in the second half of 2021 tripling those from the first half.

Perhaps as a result of a quiet start to the year, insurers were keen to get as much business as possible in the door a little earlier in the calendar year. This meant that, while some remarkable opportunities were available in Q4 for those ready to take advantage, the market was consistently delivering very attractive pricing throughout the year.

### Deferred longevity innovation

As we cover later in the report, the market for deferred longevity reinsurance continues to develop. Insuring deferred members has always been a more costly option for schemes, largely due to the cost for insurers of holding onto longevity risk, and the limited ability to pass the risk to reinsurers. High demand from the UK bulk annuity market in recent years has driven innovation in longevity reinsurance for deferred members, in turn, driving down the cost of buy-out pricing.

This has resulted in some very attractive full buy-out pricing. Over the last two years, around 1/5 of the longevity reinsurance supporting bulk annuity business has been in respect of deferred members.

### A quiet year for emerging solutions

Newer risk transfer options such as superfunds, capital backed vehicles and alternative insurance offerings had a relatively quiet year. Only one such transaction completed in 2021, with Legal & General entering into a £925m Assured Payment Policy transaction with one of its own schemes.

While surface level noise has been muted, lots of activity has been happening behind the scenes, as we come on to a little later in this report.

# Market outlook for 2022

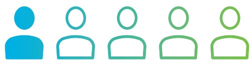
**By Claire O'Neill,** Actuary and Risk Transfer Specialist

## Demand expected to continue to grow

Every year, we survey a group of pension scheme trustees on some topical issues – called our 'Trustee Barometer' survey. There were a couple of compelling and telling statistics from our 2021 Trustee Barometer survey:

**1 The year ahead:**

1 in 5 trustees we surveyed in our Trustee Barometer survey expect to seek buy-in quotations over the next year.



**2 Longer term:**

3 in 5 respondents are targeting full settlement via insurance or transfer to a superfund, compared to just 1 in 5 in 2016.

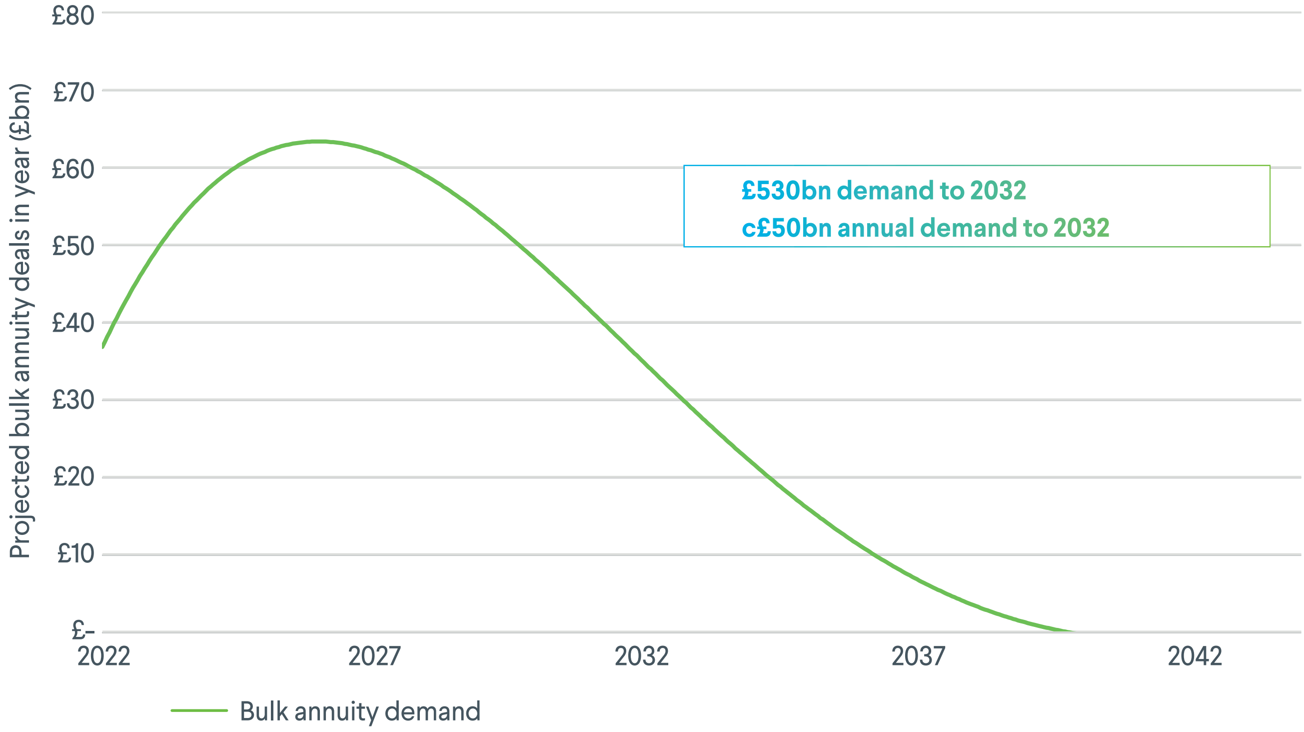
The drive towards risk transfer for DB schemes has been gaining momentum for a few years now, driven by a combination of factors such as:

- **Affordability.** Funding levels and insurer pricing have improved significantly in recent years. For many, buy-out is no longer a pipe dream.
- **Reality check on sponsor strength.** For many schemes, insurance represents a safe haven for members compared to continuing to run with sponsor support. The potential fallibility of UK DB scheme sponsors has come into sharp focus in the wake of the pandemic.
- **Objective setting.** In reality, when many schemes thought they would run-on forever, they hadn't envisaged getting to the point of affording buy-out and asked themselves what they'd do at that point – buy-out or run-on. Regulatory policymaking is encouraging trustees and sponsors to think ahead, choose a long-term objective and plan for it.

With the majority of schemes targeting full settlement, a big proportion of the £2 trillion of DB liabilities will be looking for a home in the bulk annuity market. For the trustees we surveyed, the average expected time to settlement was under 10 years.

The chart overleaf shows how this may play out.

**Chart 1: Projected bulk annuity demand**




*Demand is expected to ramp us as the majority of ›£2 trillion of DB liabilities looks to find a home in the insurance market over the next 20 or so years. Projected demand averages c. £50bn p.a. over the next 10 years, compared to a record £44bn in 2019.*

While we've smoothed our projection, the lumpiness we've experienced over the past few years is expected to continue, with some years far exceeding, and some years underperforming, the central expectation as large schemes pick their moment in the market.

While the market hasn't shown signs of creaking yet, surging demand will mean more schemes vying for insurers' attention. Being well prepared, with a clear process and an up-to-date understanding of the market will be needed to get the best out of an increasingly busy market.

## Current insurer appetite

While the insurers remain the same, there have been some changes to the eight bulk annuity insurers, which has implications for competitiveness in different areas of the market.

Below is the latest view of insurer appetite by transaction size and profile. We provide an overview of each bulk annuity insurer in Appendix 2.

| | Deferreds? | <£50m | £50m - £100m | £100m - £0.5bn | £0.5bn - £2bn | >£2bn |
|---|---|---|---|---|---|---|
| Aviva | ✔ | More likely to quote | More likely to quote | More likely to quote | More likely to quote | Unlikely to quote |
| Canada Life | ✖ | More likely to quote | More likely to quote | More likely to quote | Unlikely to quote | Unlikely to quote |
| Just | ✔ | More likely to quote | More likely to quote | More likely to quote / More selective | Unlikely to quote | Unlikely to quote |
| Legal & General | ✔ | More selective | More selective | More likely to quote | More likely to quote | More likely to quote |
| PIC | ✔ | More selective | More likely to quote | More likely to quote | More likely to quote | More likely to quote |
| Rothesay Life | ✔ | Unlikely to quote | Unlikely to quote | More selective / More likely to quote | More likely to quote | More likely to quote |
| Scottish Widows | ✔ | Unlikely to quote | More selective | More likely to quote | More likely to quote | Unlikely to quote |
| Standard Life | ✔ | Unlikely to quote | More selective | More selective / More likely to quote | More likely to quote | More likely to quote |

✖ Unable to write
✔ Able to write

● Unlikely to quote
● More selective
● More likely to quote

## Potential new entrants

Given the general expectation of strong and sustained demand for buy-ins and buy-outs, it's not surprising that a number of institutions are considering whether to enter the market.

While the barrier to entry is relatively high due to the stringent requirements of Solvency II, we are aware of a number of potential new entrants, and expect some to formally enter the market over the next few years.

## PPF+ cases

As we emerge from the pandemic, the unfortunate reality is that a number of companies will fail. Either because they were hurt too badly by lockdowns and economic turmoil, or because they fall victim to the lasting social and economic impact.

Because of this, it's no surprise that we anticipate an increasing number of schemes looking to buy-out 'PPF+' level benefits. While superfunds add an interesting alternative option (see pages 10 to 11), for now we still expect many of these schemes to exit the PPF via the traditional insurance route.

## Superfunds break through

2021 was a landmark year in risk transfer as it opened up a new endgame for schemes that had not previously existed, as TPR completed the assessment of Clara-Pensions. Superfunds provide more options to protect members' benefits, especially for those schemes where there are significant doubts about their ability to be able to insure benefits in full at some point. We expect the first actual transactions to cross the finish line in 2022.

# 2 The trustee perspective

## A PPF+ quandary

**By Michael Abramson**, Partner and Risk Transfer Specialist

For trustees that find themselves facing sponsor insolvency, a number of complex tasks and difficult decisions lie ahead. This is particularly true where a scheme is in the fortunate position of having enough assets to buy-out benefits at or above the PPF level.

Historically, once such a scheme has been tidied up and it's clear what level of recovery is forthcoming from the insolvency sponsor, a trustee would look to maximise benefit coverage through an insurance buy-out.

The emergence of superfunds provides trustees in this situation with a new alternative.

TPR's 'gateway test' means if a scheme can afford to secure a full buy-out, that's exactly what it should do, but the decision is a more nuanced one for those schemes which can insure somewhere between PPF level and full benefits. In such cases, the trustees will need to decide between insuring as much as they can afford, or transferring to a superfund aiming to deliver a higher level of benefits than insurance.

This decision presents some interesting challenges:

### The superfund sweet spot

Superfund transfers currently require a bulk transfer of assets and liabilities. Such a transfer without member consent requires the Scheme Actuary to certify that members are expected to be no worse off after the transfer.

To clear this hurdle, the benefits promised by the superfund post-transfer must be at least of equivalent value to those promised by the ceding scheme. However, in a PPF+ situation, it is not a given that full transfer to a superfund will be affordable from scheme assets and recoveries from the insolvent sponsor.

Therefore, for a superfund transfer to happen in a PPF+ scenario without member consent, a sweet spot is needed where a scheme can afford full benefits from a superfund, but not from insurance.

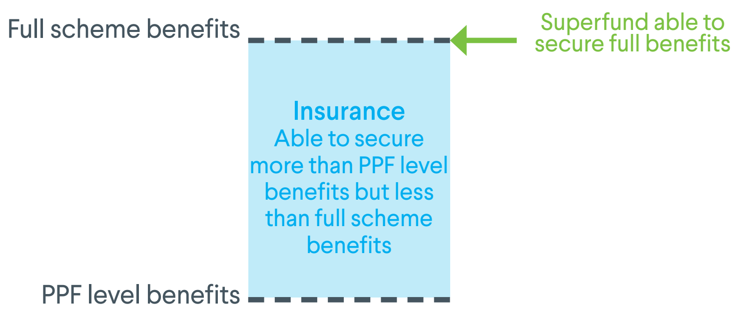
Without this, member consent will be needed. However, it seems unlikely that trustees would want to go down the route of individual consent, with members offered a choice of two benefit levels, one via a superfund, one via insurance.

### Comparing apples and oranges

How do you compare 90p in the £ (for example) of insurance with 100p in the £ with a superfund?

This is not a decision that trustees are typically faced with, and there are different ways in which the issue can be framed. For example, some might argue that the primary objective for trustees is to deliver the members' benefits in full, which could suggest that trustees should prioritise the superfund option and exhaust this as a possibility, subject to them satisfying the gateway tests set by TPR. Other trustees may argue that the default position in this scenario is to buy-out reduced benefits via insurance, which might then rule out superfunds or raise the bar for them. Suffice to say that although every case will differ, trustees will watch activity in this space with a keen eye in order to see how industry thinking evolves.

### Superfund "sweet spot"



# Alternative risk transfer solutions

**By Iain Pearce**, Head of Alternative Risk Transfer

Over the past few years we have seen significant innovation in the risk transfer space, with a number of new solutions being developed to use capital to help schemes manage risk. Below we highlight key developments with the main new solutions out there. We provide an overview of each solution below.

### Legal & General's Insured Self Sufficiency and Assured Payment Policy

**Think of it a bit like...**

- Insured Self Sufficiency: buy-in that pays full benefits unless a worse than 1-in-200 downside risk event occurs
- Assured Payment Policy: A buy-in without longevity protection

Legal & General has entered into a third Assured Payment Policies (APP) – a £925m transaction with one of its own schemes.

They also demonstrated the real key benefit of APP as a route to full insurance, having converted around 20% of the Allied Irish Bank Scheme's APP into a £61m buy-in.

### Superfunds

**Think of it a bit like...**

- Superfunds: A more affordable but less secure alternative to buy-out outside of the insurance regulatory regime

Headlines have been lacking in 2021, and all seems unusually quiet on the superfund front. But behind the scenes, TPR has been very busy carefully scrutinising the superfunds against their published guidance. Only once they've completed this pre-assessment to their satisfaction will the superfunds' names be added to TPR's website, signalling they are ready to accept clearance applications from sponsors of candidate schemes. Whilst there have been some false dawns, the latest expectation is that this will happen in a matter of weeks and not months.

The requirement to get TPR clearance for every case means that whilst the conclusion of TPR's initial assessment will be a welcome milestone to expand the range of options trustees can use to deliver benefits for members, it is not the final hurdle. We expect TPR to closely scrutinise all cases, paying particularly close attention to the first movers and whilst the superfunds look to achieve scale.

The likely candidates to be the first schemes to transfer to a superfund are already very well progressed and have been engaging with TPR for some time. Therefore, we'd expect those first formal applications for transfers to Clara-Pensions to be submitted very quickly following TPR's pre-assessment.

We expect that Clara-Pensions, and other superfunds in due course, will go through a learning process as they onboard schemes and build scale. It is possible that demand for superfunds may outstrip supply in the early years of the market, which may require schemes to either be patient, or to have to insure less than full benefits even if they have a preference for a transfer to a superfund.

The timings of these transactions will be dictated by TPR's review of the clearance applications. TPR has signalled that a number of key factors of their assessment, such as capital adequacy, will continue to be assessed once clearance applications are made. Therefore, whilst we could see the first transfers finalised as soon as Q2 2022, it is possible that a degree of patience is still required until the first wave to complete.

## Capital backed vehicles

**Think of it a bit like...**

- Capital backed vehicles: An investment product with capital backing to underpin returns needed for an agreed journey plan

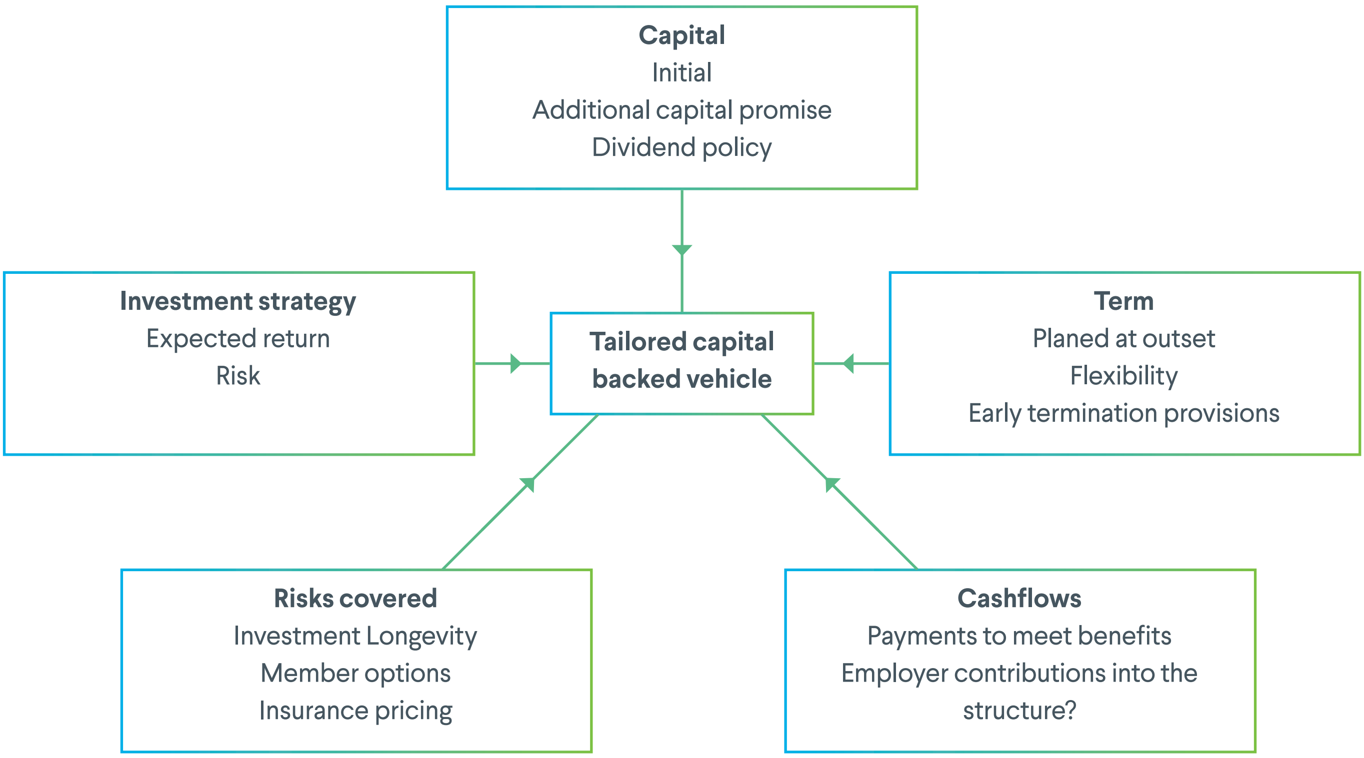
Since the first transaction by Aspinall, announced in the first half of 2020, there has been a lot of interest in understanding capital backed journey plan structures and whether they can add value for schemes.

While there have been no further transactions in 2021, a number of other capital providers have been developing their own versions, and so we expect new providers to emerge over time.

There is also a lot of flexibility to structure a capital backed vehicle to suit the needs of an individual scheme. While such tailoring adds complexity and cost versus an off-the-shelf product, it also means a vehicle can be designed and negotiated to suit the particulars of a given scheme.

Below we highlight some of the key structuring variables which could be adapted for a particular scheme.

## Capital backed vehicles: structuring variables




We expect more capital backed vehicle transactions to happen in the coming years, as fresh capital looks to support and profit from the DB market.

# 3. External influences

## Will there be a Brexit dividend?

**By Andy Scott,** Life Consultant

Pension scheme trustees and sponsors will want a regulatory regime for insurers that ensures that buy-in and buy-out providers are run in a sound and prudent manner that protects scheme members and sponsors. However, they will also want the powers that be to ensure that there aren't areas of regulation that are unnecessary, since insurers' costs – both of complying with regulations and of holding the required level of capital – may be passed on through higher pricing.

Against this backdrop, the Government contends that there are certain areas of the insurance regulatory regime – which was developed while the UK was a member of the EU – that could better reflect the business models of the UK insurance sector. Now that the UK has the ability to diverge from the EU's regulatory regime, the UK Government has announced a review with the stated objectives of spurring an internationally competitive insurance sector, protecting policyholders and supporting insurers to provide long-term capital.

Precisely what this means in practice isn't entirely clear yet, since the detailed regulations aren't made by the Government but by the Prudential Regulation Authority ("PRA"). The PRA carried out a so-called "quantitative impact study" or "QIS" in 2021 in which it asked insurers to determine the impact that various changes to the regulations would have on their balance sheets. The PRA stated that observers should not use the scenarios being tested to draw inferences about the regulatory changes that are being considered, but it's hard not to think that the QIS must offer some insight into the PRA's current thinking.

If the changes tested as part of the QIS were to be implemented in practice, then it's likely that they would disappoint the industry – and it's unlikely that they would have a significant impact on pricing. The precise impact of the changes would vary from insurer to insurer, but it's conceivable that the changes in the two main areas relevant for bulk annuities (specifically changes in respect of the "risk margin" and the "matching adjustment") would broadly offset each other – meaning that the impact on the total amount of capital that insurers have to hold might be limited.

Similarly, it's unclear that the potential changes would help insurers invest in a wider range of assets – which might improve investment returns and thereby improve pricing for pension schemes. The range of assets in which insurers are permitted to invest might increase, but the potential changes to the amount of capital that insurers have to hold against particular assets might discourage investment.

The deadline for insurers to provide their data for the QIS exercise was 20 October 2021. The Government and the PRA have said that they will work together to analyse the results, with the intention of proposing changes to regulations which will be consulted on in early 2022. It remains possible that the changes may be more significant than those analysed as part of the QIS, and market participants will be watching with interest.

# Environmental, Social and Governance (ESG) considerations

**By Paul Hewitson**, Actuary and Risk Transfer Specialist

### Insurer strategy

It's been hard not to notice the increased focus from global leaders and policymakers on climate issues over the past year, with the UK hosting both the G7 Summit and COP26. In the world of ESG, nothing stands still, and so it shouldn't!

For pension schemes, the Pension Schemes Act 2021 came into force, with new climate reporting obligations. These are supported by regulations requiring large schemes to disclose their approach to managing climate risks, in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD), and building on the UK government's TCFD roadmap for making climate reporting requirements mandatory by 2025. The scope of these requirements is likely to be extended.

TCFD is, of course, nothing new – since it was published in 2017, support for the TCFD framework has grown to nearly 1,500 organisations, including every type of financial market participant across the private and public sectors.

Trustees have been required for the past couple of years to document their approach to addressing ESG and climate-related issues in their Statement of Investment Principles (SIP), and publish an implementation statement setting out how they acted on the policies set out in their SIP. TCFD disclosures for larger schemes will extend the information that trustees must publish.

Whilst public disclosure increases the likelihood of public scrutiny, it remains to be seen whether trustees simply comply with the letter of the law or make decisive changes to their strategy.

For those trustees who are considering changes to their strategy in relation to ESG or climate-related risks, the approaches being adopted by different buy-in and buy-out insurers will play a key part, especially where the long-term goal of the Scheme is to buy-out. Understanding insurers' approaches for how ESG risks are integrated into their standard processes and investment decision making, and comparing this with the approach being taken by the pension scheme, will prevent unexpected differences coming to light at the point an insurer is selected.

It is common for buy-ins to be funded by pension schemes' gilt holdings. Where this is the case, trustees could be trading an asset with Carbon Intensity in line with the UK Government (c.155 tonnes of CO2 equivalent per $1m revenue) for a buy-in backed by an insurer's portfolio with a higher Carbon Intensity rating. This should give trustees pause for thought. However, with many schemes moving towards a position where they will insure all members benefits, it is more important to have an eye on whether your selected insurer's overall approach to ESG risks are aligned with those of the trustee.

| Insurer | Net Zero target | | Other commitments |
|---|---|---|---|
| | On investments | On own operations | |
| Aviva | 2040 | 2030 | 25% reduction by 2025<br>60% reduction by 2030 |
| Canada Life | 2050 | 2030 | |
| Just Group | 2050 | 2025 | 50% reduction by 2030 |
| Legal & General Group | 2050 | 2030 | |
| Phoenix Group (Standard Life) | 2050 | 2025 | 25% reduction by 2025<br>50% reduction by 2030 |
| Pension Insurance Corporation | 2050 | 2025 | |
| Rothesay Life | 2050 | 2023 | 20% reduction by 2025 |
| Scottish Widows | 2050 | 2030* | 50% reduction by 2030 |

**Net zero target for Lloyds Banking Group*

## Measuring progress to net zero

During 2021, as part of Hymans Robertson's centenary year, we set a climate pledge to play our part in a net-zero carbon future. Our aim is to become carbon neutral from 2021, halve our carbon footprint by 2025 and be lifetime net zero by 2025 – off-setting all of our carbon footprint back to 1921. We extended this commitment by joining the Net Zero Investment Consultants Initiative and are working to embed Net Zero considerations into all aspects of our advice.

In March 2021, Aviva announced they were the first major insurer worldwide to target Net Zero carbon from their investments by 2040, with Net Zero carbon emissions from their own operations and supply chain by 2030. All other insurers active in the bulk annuity market have since followed suit in sharing their own Net Zero targets, mostly targeting Net Zero from investments by 2050 in line with the UK Government's target of bringing all greenhouse gas emissions to net zero.

Whilst the direction of travel is clear, what is harder to quantify is each insurer's starting point and progress against their targets. Not all insurers are disclosing their starting points and where they do, measurements vary:

- Rothesay disclosed that their overall portfolio for the year end 2020 had a weighted average Carbon Intensity of 188 t $CO_2$ equivalent per \$1m (scope 1 and scope 2 emissions only);
- Just confirmed their Carbon Intensity to 31 December 2020 was 0.36 t $CO_2$ equivalent per full time employee; and
- Scottish Widow's 2019 estimated emissions were 116t $CO_2$ equivalent per £1m invested.

Over time, as additional disclosures are released, consensus should begin to form on consistency of reporting.

With many more pension schemes reaching the point where buy-out is affordable, trustees' time horizons for making their own investment decisions could be relatively short. However, it is important that trustees form their views on ESG and climate risk issues so that these can be taken into account at the point of selecting an insurer to take over investing those funds and paying their members' pensions for many years.

# GMP equalisation – what's on insurers' minds?

**By Tim Wanstall**, Actuary and Risk Transfer Specialist and **Kate Sinclair**, Risk Transfer Specialist

Over three years on from the 26 October 2018 Lloyds Bank judgment, many pension schemes are still planning how to approach the mammoth task of GMP equalisation.

For many scheme trustees, particularly those looking to buy-out their liabilities with an insurer in the not-too-distant future, a key question is how they should be taking insurer's views and capabilities on GMP equalisation into account when planning and implementing the process.

In summary, over the past few years, insurers have greatly increased their ability to explore various methods of GMP equalisation. Immediately following the 2018 judgment, GMP conversion was generally the only method that insurers were able to administer in order for a scheme to buy-out.

Now, most insurers can also either already administer dual records methods or will be able to in the very near future.

**Key GMP equalisation methods***

**B** Dual Records: Pay the higher of the "male" and "female" total pension each year.

**C** Dual Records: Similar to B but track the cumulative total of "male" and "female" pension payments over time.

**D** Actuarial value methods involving changes to benefits, including GMP conversion.

**Method A, equalise total benefits element-by-element, was also deemed acceptable under the Lloyd's judgment. As it is administratively complex and costly to carry out, it is not expected to be widely adopted by the industry.*

We regularly keep in touch with insurers to understand their preferences and capabilities when it comes to GMP equalisation. Some bulk annuity insurers prefer a certain method, or way of implementing that method, whilst others do not. We provide an overview of the position of the eight insurers active in the bulk annuity market on the next page.

## Acceptable or preferred methods for bulk annuity insurers

### Conversion methods

All bulk annuity insurers can administer converted benefits, whether immediately upon transacting or in the future.

### Actuarial value methods of GMP equalisation

**D1** One-off actuarial value calculation. Extra pension granted of equal value to shortfall between "male" and "female".

**D2** Similarly, an actuarial value calculation (GMP conversion). Convert all GMP into non-GMP of equal value.

For schemes which were in the process of being bought out, method 'D1' was typically used in the industry prior to the Lloyd's judgment. However, the judgment determined that method D1 is not permitted for the Lloyd's scheme, as any extra pension granted by the actuarial value calculation causes unnecessary interference to beneficiaries' rights.

We believe that D1 will generally be hard to justify for new cases where GMP equalisation was not relatively advanced before the Lloyd's judgment.

For insurers to be comfortable with D2 conversion, they may require assurance that it has been done in such a way that LTA issues are avoided.

### Dual records

A number of insurers are now able to administer dual record GMP equalisation approaches. This capability generally covers the industry-standard approaches of B, C1 and C2.

Whilst method C2 was originally the default method for schemes to adopt following the judgement, method B has the advantage of being simpler to understand and calculate. Therefore schemes will need to work with insurers to understand in more detail their preferences when it comes to choosing a dual records approach.

### Dual records methods of GMP equalisation

**B** Dual Records: Pay the higher of the "male" and "female" total pension each year.

**C1** Pay the "male" or "female" pension which gives the higher cumulative total of pension payments to date.

**C2** Similar to C1, allowing for interest on those cumulative pension payments to date.

## A glance at the GMP equalisation capabilities of the eight bulk annuity insurers in the market

| Insurer | Method B | Method C | Method D |
|---|---|---|---|
| 1 | Not yet able to administer | Not yet able to administer | Can administer; Preferred |
| 2 | Can administer | Can administer | Can administer |
| 3 | Can administer | Can administer | Can administer; Preferred |
| 4 | Will be able to administer in next year | Will be able to administer in next year | Can administer |
| 5 | Can administer | Can administer | Can administer; Preferred |
| 6 | Can administer | Can administer | Can administer |
| 7 | Can administer | Can administer | Can administer; Preferred |
| 8 | Can administer | Can administer | Can administer |

- Can administer
- Will be able to administer in next year
- Not yet able to administer
- Preferred

## Working with insurers on GMP equalisation

When a scheme is equalising GMP, it is important to keep any existing insurer well-informed of the process and approach being taken. For schemes who have a buy-in contract in place already, trustees should open up this dialogue relatively soon, so insurers' views over approach and timing can be factored into GMP equalisation plans.

Trustees will need to understand what the buy-in contract says about adjusting insured benefits. Older buy-in contracts may have no specific terms to allow GMP equalisation. However, there may be terms for adjusting benefits more generally, perhaps at the point of wind-up, which could be used to implement GMP equalisation. Nevertheless, there is likely still a way forward in collaboration with the insurer.

Further, most insurers will consider taking on GMP equalisation methodology risk (the risk that the methodology used turns out to be unlawful) as part of their residual risk cover offering (if available). This means it's even more important to ensure an insurer is on board with the chosen method.

## Impact of equalisation methodology on bulk annuity pricing

Whilst conversion carries a higher one-off cost for a scheme to carry out the required calculations and implement the conversion, this is likely to be exceeded by the long-term administration costs of comparing dual records year-on-year. These admin costs will be passed down to the scheme in the buy-out premium.

Most insurers do not yet have the experience of pricing dual records. However, overall, we understand that the costs charged by insurers are likely to fairly reflect the extra administration cost incurred. The degree of complexity associated with hedging the liabilities for dual records method may also impact the price, but this is expected to be marginal.
There is less uncertainty regarding the implication of dual records methods than for conversion methods. Therefore, methodology risk cover may be more widely available or lower cost when a dual record approach is used.

# 4. Longevity risk update

## On closer inspection: why pension schemes should look beyond the pandemic headlines

**By Mark Sharkey**, Head of Client Delivery, Club Vita (UK) LLP
**Introduced by Emma Horsfield**, Actuary and Risk Transfer Specialist

### Introduction

When we advise pension schemes on risk transfer solutions, we look to Club Vita to provide the latest longevity insights. As Club Vita provides longevity analytics across the industry, including to insurers and reinsurers who sit on the 'other side' of risk transfer transactions, this strategy ensures that pension schemes can approach the market with confidence.

In this article, Club Vita UK's Head of Client Delivery, Mark Sharkey, considers the disparity in current life expectancy amongst pensioners across the socio-economic spectrum, and explores whether the lingering after-effects of the pandemic could widen the gap further. With insurers and reinsurers having access to sophisticated techniques that allow them to investigate the socio-economic mix of a scheme's membership, could a pension scheme that uses a "one size fits all" approach to longevity assumptions be at a disadvantage?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### A 1-in-100-year catalyst

Working from home is not a concept that arrived overnight in March 2020. However, as the COVID-19 pandemic took hold, it became clear that seeing your colleague's home bookshelf was about to get a lot more common, and the importance of a well-executed home working strategy was ramping up for businesses big and small.

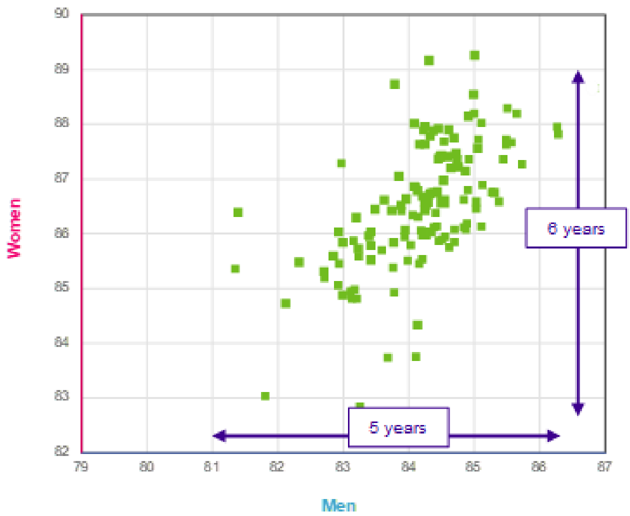
In a similar way, considering longevity is nothing new to pension schemes keen to manage risk. However, the pandemic has focussed minds, and trustee meeting agendas, on the mortality experience of the membership as a whole, and may well have flagged the imbalance that occurs in our society depending on which end of the socio-economic spectrum we look at.

### One size doesn't fit all: mis-estimation risk

Life expectancy is a vital component of calculating the liabilities of a defined benefit pension scheme. It is not straightforward to estimate, and every scheme has a different average life expectancy, depending on the specific characteristics of its membership.

Even before taking account of the impact of the COVID-19 pandemic, there is significant diversity in the average life expectancy observed by the schemes we work with – a spread of around 5 and 6 years for male and female life expectancy respectively (as seen in chart on the right). Given that every additional year of life expectancy broadly equates to a 4%-5% increase in buy-out liabilities, a pension scheme that simply uses a life expectancy assumption based on the general population could be materially mis-estimating the true life expectancies of their members and therefore their scheme's liabilities.

The issue is even more acute at the individual member level, where we see a 10 year gap in the life expectancies of 65 year old males in our data set – driven by factors such as their lifestyle, affluence, health status and the type of work that they perform. Taking a "one size fits all" approach to setting longevity assumptions would generally overestimate the life expectancy of members at the bottom of this scale and underestimate the life expectancy for the longer living individuals. So, what is the problem with that? Well, a typical pension fund will have the majority of its liabilities linked to more affluent, higher paid, longer living members. Underestimate the life expectancy of these members and you significantly underestimate the liabilities of the scheme as a whole.




*Observed life expectancy of large pension schemes in Club Vita (age 65, 2015-2019 data).*

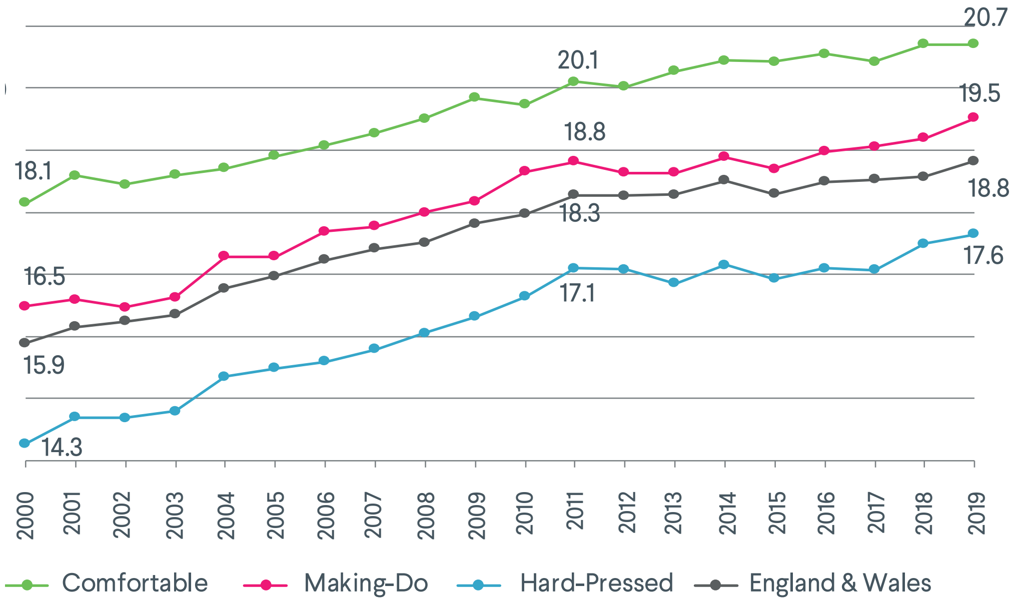
To help those managing pension schemes get a handle on these different life expectancies, we have developed our three VitaSegments groups[1]:

1. "Comfortable", the most affluent group;
2. "Hard-Pressed", the most deprived group; and
3. "Making-Do", the group in the middle.

The chart below shows how life expectancy has varied across these groups since 2000 compared to the general population of England & Wales.

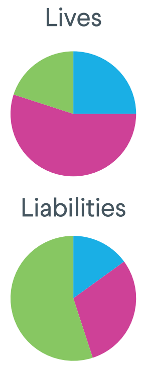
Armed with this additional granularity, pension schemes, insurers and reinsurers can dig past the headlines and understand how life expectancies have changed for the specific mix of individuals involved in a transaction (e.g. the profile as shown in the pie charts below), rather than relying on population level figures that may not be fully representative.

**Life expectancy at age 65 (men)**




*Progression of period life expectancy for men aged 65 across VitaSegments groups, compared with the E&W population average.*

## Typical scheme profile




*Typical scheme membership split across VitaSegments groups on both a lives (headcount) and liability basis.*

[1]Further details on how VitaSegments are constructed can be found here: https://www.clubvita.co.uk/collaborative-research/trends

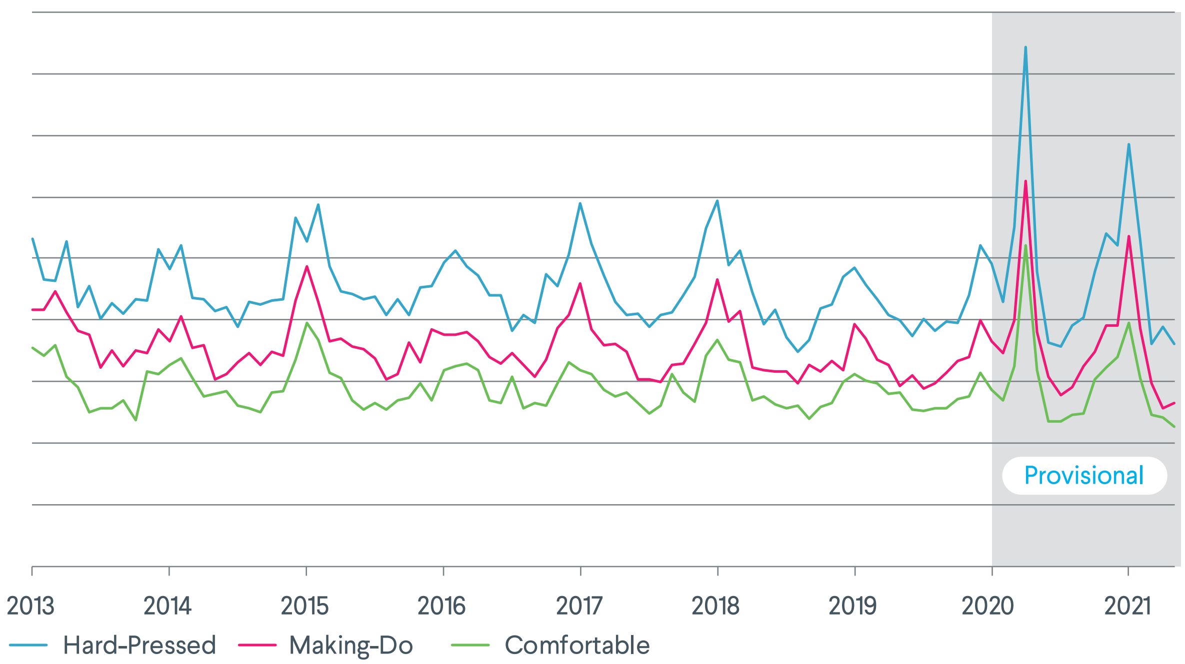
## The pandemic brings with it a need for timely longevity analytics

At the end of 2019, back when you could squeeze everyone with a correct understanding of the word "furlough" into the Club Vita stationary cupboard, we embarked on a project to reduce the lag-time for our analytics. By regularly screening our data set for recent deaths, we can scan the horizon and provide pension schemes with early warning signals of evolving longevity trends.

Rather than waiting a year or more to understand how different groups of pensioners are impacted by today's headlines, pension schemes can now get a much more timely view of the changing situation. A perfect example is the effect that the pandemic has had on mortality rates, as shown in the chart below – although we can see clear spikes in mortality rates in the first and second virus waves in the UK, the latest evidence suggests that less deprived pensioners, like those in our "Comfortable" VitaSegments group, have been more resilient, particularly during the second wave.

In isolation, the excess mortality experienced in 2020 and 2021 is unlikely to materially shift liabilities for most pension schemes. However, as we explored earlier this year during our COVID-19 scenario analysis[1], it is the lingering after effects of the pandemic that could really move the dial on pensioner life expectancy and lead to significant increases or decreases in liabilities. At this stage, it is too early to know whether negative longevity drivers, such as the disruption to our health service, or positive longevity drivers, such as improvements in vaccine technology, will dominate our post-pandemic environment. However, one thing that can be said with some certainty is that different groups of people are likely to feel these effects to differing extents. Pension schemes monitoring how life expectancy is changing in the years after the pandemic risk falling foul of the "flaw of averages" – allowing for changes in general population life expectancy, which mis-estimates the impact on the scheme membership.

**Age standardised male crude monthly mortality rates - by socio-economic group**



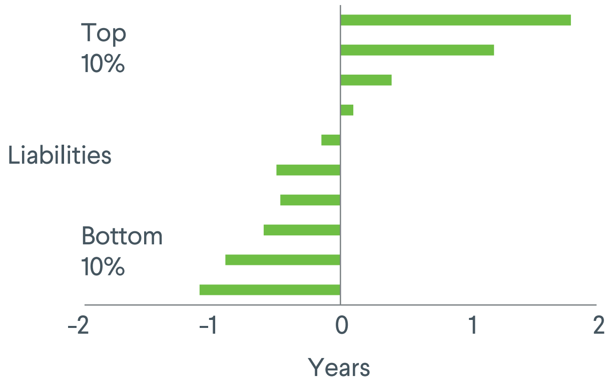

*Progression of age standardised male crude monthly mortality rates across VitaSegments groups.*

[1]https://www.clubvita.co.uk/collaborative-research/covid-19-longevity-scenarios-a-bump-in-the-road-or-a-catalyst-for-change

**The "flaw of averages" has real world consequences**

Surprises are rarely pleasant when a pension scheme approaches the risk transfer market, and longevity risk that has not been carefully monitored certainly has the potential to take us by surprise. At the stage of the process when an insurer analyses member data to provide a pricing quote, they will undertake granular analysis that fully captures the bespoke socio-economic mix of the individuals covered by the transaction. A pension scheme that has taken a "one size fits all" approach to life expectancy, applying an average life expectancy to a more affluent pensioner population, could find the insurer's view of these members' life expectancies to be significantly higher, as is the case shown in the chart to the right, leading to a price quote that is much greater than initially anticipated.

**Life expectancy vs scheme average**




*Analysis for a typical scheme showing that individuals representing the top 10% of liabilities have life expectancy almost 2 years longer than the scheme average, whilst those representing the bottom 10% of liabilities have life expectancy around 1 year shorter than the scheme average.*

## Learn more about Club Vita

Club Vita is an independent longevity data analytics company, which facilitates the pooling and statistical analysis of demographic data from defined benefit (DB) pension schemes to reveal insights that would not be evident to the schemes acting alone. Club Vita was founded in the UK in 2008 and have since established operations in Canada and the USA in 2015 and 2019 respectively. Today, Club Vita analytics are seen as a global longevity currency, used by pension schemes, advisors, asset managers and the insurance market to develop strategies that actively monitor and manage longevity risk.

For further information, please see www.clubvita.co.uk.

# Longevity swaps during the pandemic

**By Baljit Khatra**, Actuary and Risk Transfer Specialist

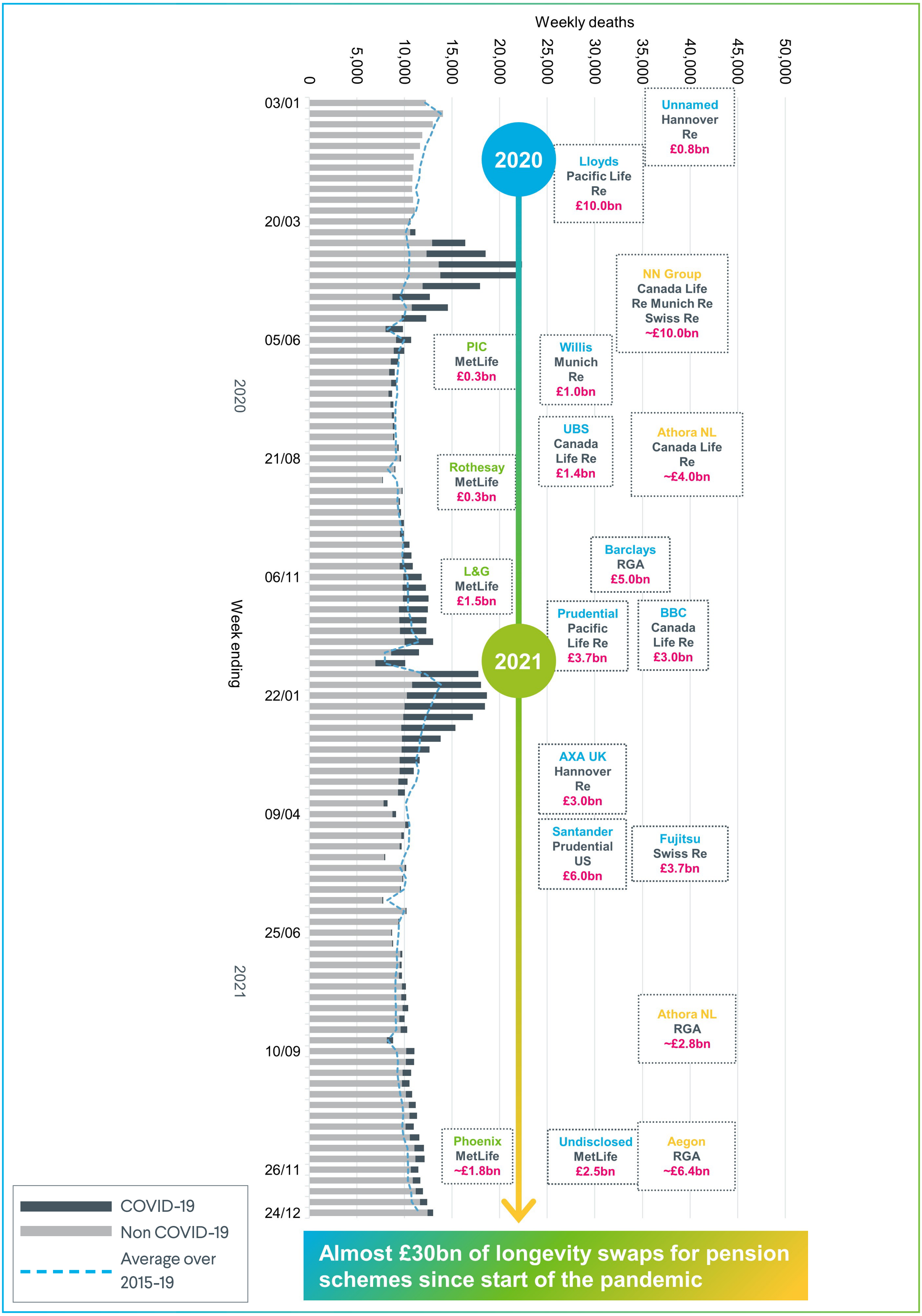
**Longevity swap: the transfer of longevity risk through the exchange of cashflows based on expected and actual mortality experience, thereby providing a hedge against a DB pension scheme's longevity exposure.**

The longevity swap market over 2020 and 2021 has continued to be busy, with activity in all areas of the market comprising transactions up to £10bn in size. The market has proved to be resilient despite the backdrop of Covid with UK pension schemes alone transacting almost £30bn of longevity swaps since the start of the pandemic.

The chart overleaf shows the now grimly familiar picture of the number of weekly deaths in the UK, with darker bars showing those attributable to Covid. Alongside this are longevity swaps that have been announced in the market since around the start of the pandemic.

For longevity swaps transacted by pension schemes (in blue), the timing of these fell into 3 broad groupings since the start of the pandemic.

- Just after the first wave of Covid in early 2020: £2.4bn was transacted across the Willis and UBS pension schemes. These transactions will have been well underway prior to the pandemic, with strategic rationale and pricing already agreed. There wasn't a lot of data available, and reinsurers were only beginning to think about the potential impacts. Pricing views from reinsurers generally did not change at this stage, particularly where risk was being transferred from a point before or early on in the pandemic.
- Late 2020: after the first wave had passed and just as the second wave was emerging, a further £11.7bn of longevity swaps were transacted across the Barclays, BBC and Prudential pension schemes. Considerations around Covid will have been very topical for these transactions, with the picture beginning to change again with a second wave emerging alongside vaccines becoming available.
- After the second wave in early 2021: a further £12.7bn of longevity swaps were transacted across the Santander, Fujitsu and AXA pension schemes. The vaccination programme in the UK was well underway at this point, and data for 2020 for UK schemes showed a lower impact on mortality compared to the general population.



Weekly deaths
0
5,000
10,000
15,000
20,000
25,000
30,000
35,000
40,000
45,000
50,000
Week ending
2020
2021
03/01
20/03
05/06
21/08
06/11
22/01
09/04
25/06
10/09
26/11
24/12
2020
2021
Unnamed
Hannover Re
£0.8bn
Lloyds
Pacific Life Re
£10.0bn
NN Group
Canada Life Re Munich Re Swiss Re
~£10.0bn
PIC
MetLife
£0.3bn
Willis
Munich Re
£1.0bn
UBS
Canada Life Re
£1.4bn
Athora NL
Canada Life Re
~£4.0bn
Rothesay
MetLife
£0.3bn
Barclays
RGA
£5.0bn
L&G
MetLife
£1.5bn
Prudential
Pacific Life Re
£3.7bn
BBC
Canada Life Re
£3.0bn
AXA UK
Hannover Re
£3.0bn
Santander
Prudential US
£6.0bn
Fujitsu
Swiss Re
£3.7bn
Athora NL
RGA
~£2.8bn
Phoenix
MetLife
~£1.8bn
Undisclosed
MetLife
£2.5bn
Aegon
RGA
~£6.4bn
COVID-19
Non COVID-19
Average over 2015-19
Almost £30bn of longevity swaps for pension schemes since start of the pandemic

The reinsurance market remained active over this entire period both in terms of transactions and providing quotations. Looking at the overall market, the pricing being offered didn't undergo any step changes as a result of Covid, and that continues to be the case to date as data and research on the long term impact of Covid is still emerging and the views remain balanced. The strong competition in the market gives comfort that schemes are able to benefit from the most competitive views, including in respect of Covid, at any point in time. Indeed pricing has generally been very competitive for longevity reinsurance over the last 12 months.

Transferring longevity risk during this ongoing pandemic (where this is the primary risk being transferred – i.e. as part of a swap) requires careful oversight, but the market as a whole has risen to this challenge and continues to help manage this important risk.

MetLife also entered the longevity reinsurance market during 2020, and have been competing strongly in the market alongside the longer established participants, transacting with multiple insurers and also completing their first pension scheme longevity swap at the end of 2021. The chart includes some of the public deals, but generally the bulk annuity market does not announce longevity reinsurance transactions. The majority of longevity risk taken on as part of buy-ins and buy-outs is reinsured and this has continued throughout the pandemic, alongside activity in the Netherlands in particular. This too gives comfort that the market remains strong and vibrant, and is taking any challenges posed by Covid in its stride.

### Developments in the non-pensioner market

Longevity swaps involving non-pensioners are a relatively newer part of the reinsurance market and rising demand has meant that reinsurers have been continuing to develop their propositions in this area. Demand for non-pensioner reinsurance has been driven largely by insurers in the bulk annuity market. Longevity risk in respect of non-pensioners is particularly 'risky' and so requires more capital, and insurers can manage this through reinsurance. The demand is ultimately underpinned by an increasing number of pension schemes reaching buy-out, which typically include a material proportion of non-pensioners. Over 2019/20 around 20% of bulk annuity longevity reinsurance related to non-pensioners, and we expect that trend to have continued over 2021.

This continued demand has resulted in reinsurers continuing to develop their pricing capabilities and capacity to take on non-pensioner risk, and over 2021 we have seen three more reinsurers beginning to actively quote in the market. When looking at reinsurers that offer reinsurance directly to pension schemes, that means 9 of the 11 reinsurers that are active are now able to take on non-pensioners, though to varying degrees depending on their appetites.

This added competition has led to improvements in pricing for non-pensioners over recent years, and this is a trend that has continued in 2021, with pricing now at a level where it has become a relevant consideration for pension schemes, looking beyond the capital benefits themselves.

Covering non-pensioners within a longevity swap does bring an added layer of complexity, particularly around how to deal with the uncertainty of when members retire, how much cash they take or whether they transfer out. A couple of different approaches have come to the fore: a more accurate approach that reflects the exact experience of non-pensioners prior to pension coming into payment, and a more pragmatic approach that offers simplicity by providing coverage on an assumed level of experience prior to pension coming into payment.

The choice between the two is driven by views on the trade-off between accuracy and simplicity and this varies both for reinsurers in terms of what they are willing to offer, and for insurers, though accuracy typically comes at a slightly higher cost. Pension schemes can typically be more flexible in their approach to choosing between the two, allowing them to benefit from competitive processes across a wider pool of reinsurers, but at the same time need to be mindful of whether the long term holder of the swap will be the pension scheme, or an insurer as part of a buy-out.

Pension schemes considering longevity risk management through longevity swaps should look at the merits of including non-pensioners now that the market has become more developed, particularly given hedging pensioners alone typically addresses less than half of the longevity risk in a pension scheme. Careful planning is required upfront, with good quality data on the non-pensioners being key to unlocking the most competitive pricing in the market.

# 5. Getting buy-out ready

## Foreword

**By Richard Wellard**, Partner and Risk Transfer Specialist

With somewhere around 50% of private sector defined benefit pension schemes on a path to be able to afford to buy-out in the next 10 years, we are quite clearly now entering the endgame phase of DB pensions. It will be busy and it will present very different issues than those that pension schemes have had to deal with in the past. The key, as with all change, is forward thinking and forward planning. It's never too early to start planning for the inevitable.

In this section we look at four very different areas that need to be considered carefully as pension schemes get ready for buy-out.

1. On page 28, Christine and Eloise look at how trustees can best manage a buy-out surplus. Asking the key questions that trustees should be addressing early on in the process, if a pension scheme is to reach buy-out using just its own funds – without any final contribution from the sponsor to help balance the books.

2. Buy-ins typically cover pensioners only, where members don't have options over how to take their benefits. On buy-out, deferred members' benefits are insured and they have lots of options – transfer out, take cash at retirement, retire early or late. Iain looks on page 30 at how the terms for members will change on buy-out, and how these terms can vary by up to 35% depending on the choice of insurer.

3. Careful preparation and cleansing of pension scheme data is very important for a successful buy-out. From the eyes of an extremely experienced scheme administrator, Louise looks on page 32 at what is critical in data preparation and the pitfalls trustees and sponsors need to avoid.

4. On page 33, Leonard looks at buy-out from the perspective of the corporate sponsor. With schemes approaching "cheque writing distance" of buy-out, corporates can think strategically and tactically about the timing of a final transaction.

# Much ado about surplus

**By Christine Cumming**, Head of Scheme Wind Ups and **Eloise Hallett**, Actuary and Wind Up Specialist

Being able to afford to fully secure scheme benefits with insurance and still have money left over on wind up is likely every trustee's dream scenario. However, any surplus funds remaining after wind up can bring a number of difficult considerations and decisions for trustees to grapple with.

Before any decisions can be made, it's crucial to understand the provisions in the scheme's rules. There are two key inter-related considerations:

1. Who has the power to trigger wind up; and
2. What happens to any remaining surplus.

We can't do justice to all scenarios in this article. Instead, we'll focus on the second point above, assuming the trustees and / or sponsor have agreed to wind up and there's a surplus to be distributed.

## Legal advice

Legal advice will be needed to determine how any surplus should be treated under the scheme's trust deed and rules. It may be clear that the surplus is due back to the sponsor (subject to a tax charge), or that the trustees must use the surplus to augment members' benefits.

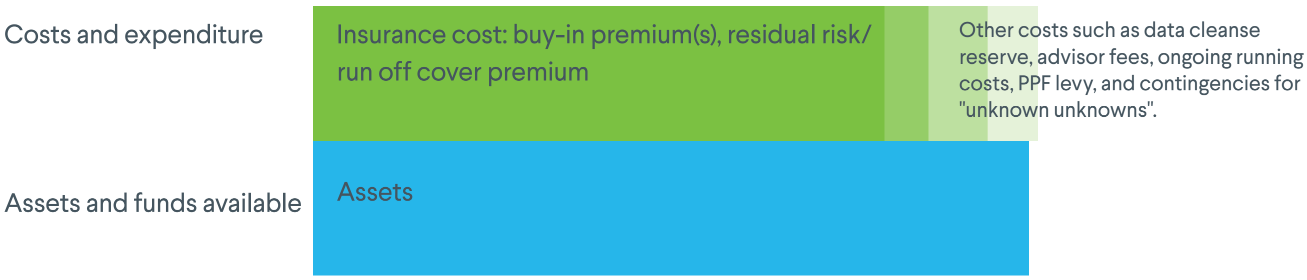
The rules may be far less clear cut, such as the trustees having the ability, but not the requirement, to use the surplus to augment members' benefits, with any remaining surplus paid back to the sponsor.
It's also important for trustees to understand legislative requirements when distributing a surplus. For example, members must be consulted over a five-month period before a surplus can be paid back to the sponsor, and this should be factored into wind-up planning and the member engagement strategy.

## Identifying the surplus

While the final surplus or deficit won't be known until the scheme is fully wound up, it's important to get an early view of the likely end position before entering into a final buy-in. This gives confidence to trustees and sponsors when paying the final buy-in premium that there are sufficient reserves to finalise wind up.

Key to this is fully understanding all costs, expenses and contingencies through to final wind up. Most schemes will have historically used a 'top-down' approach to calculating their wind up expenses, for example the PPF-prescribed approach based broadly on percentage of liabilities. When approaching buy-out, we help schemes produce a 'surplus balance sheet' – an accurate, line-by-line breakdown of all costs through to wind up.

Over time, as uncertainties fall away and costs are incurred and met, the end position will become clearer, helping trustees and sponsors manage the potential surplus.




## Sharing the wealth

Where scheme rules allow but don't compel trustees to use a surplus to augment members' benefits, open and upfront negotiations are vital to reaching a satisfactory agreement over whether to return funds to the sponsoring employer, augment members' benefits, or some combination of the two.

Employers may feel entitled to at least a share of any surplus, particularly where long-standing or generous contributions have been paid into the scheme over time.

On the other hand, trustees may take the view that the scheme's surplus is the result of members' contributions, investment returns, and careful scheme management over time. Also, typically schemes will have closed to accrual in the past, and so trustees may feel a 'duty of care' to use surplus funds to the benefit of members. Care is needed when deciding how to augment benefits to avoid issues such as unfairness between different cohorts of members.

Bringing the trustees and sponsor together to weigh up these considerations and agree principles early on is vital to enable buy-out and wind-up to be managed as efficiently as possible.

## Making it all happen

The exact surplus can only be known with absolute certainty at the very end of the wind up process, once all premiums and expenses have been met. Schemes will generally insure the 'core' benefits with the initial buy-in policy, so it will be important to agree appropriate terms with the insurer to allow benefits to be augmented with any residual surplus.

As always, premium adjustments should be carefully reviewed – the true "cost" of augmentation can only be known once the insurer has priced this in, which will require continued engagement with the sponsor to manage any surprises in the amount of any refund of surplus. Trustees will also want to ensure a smooth transition of administration services to the insurer, and so it's worth carefully timing any augmentations to minimise disruption to members.

## Spreading the news

Securing members' benefits in full is typically a good news story for members. When a surplus is being allocated to members this can become a great news story, however care is required where only certain groups of members are receiving an augmentation (for example, to compensate members impacted by closure, or where a period of service has lower pension increases than others).

Where the surplus is being returned to the employer this can be trickier to message to members. In addition, the requirement to consult with members on this refund can add months to the project timescales. Planning the communications as part of a wider communication strategy on route to wind up will be key.

# Member options on the route to buy-out

**By Iain Church**, Actuary and Member Options and Risk Transfer Specialist

Post buy-out, members have the options provided by the insurer based on the insurer's factors. Insurers can usually provide common pension scheme options (e.g. early/late retirement, commutation, transfers). However, non-standard options may be uninsurable or have cost implications.

During the buy-in phase, there is no requirement to adopt insurer factors and uninsured options can still be offered, but this creates a mismatch between the benefits paid to members and the income received from the insurer.

On the route to buy-out, schemes therefore need to consider how best to transition from their existing options and factors to those offered by the insurer to ensure:

- **Members' expectations are managed** – no large step changes in factors or options offered.
- **Accurate price assessment** – are the quotes from each insurer an 'apples to apples' comparison or does a lower price mean members lose out?
- **Mismatch risk is mitigated** - once fully bought-in, residual assets need careful management to avoid running out of money before the wind up is completed.
- **Fair offers for member options exercises** – are the factors offered by the pension scheme materially different to what members might soon receive post transaction?

### Insurer vs scheme factors

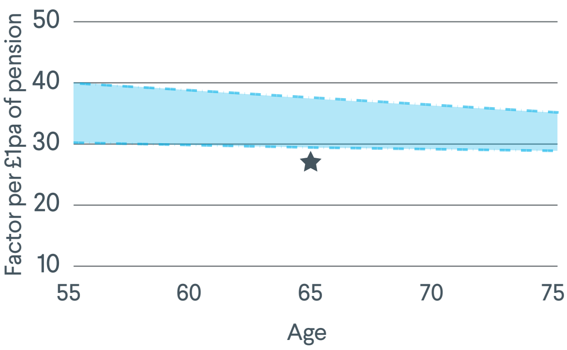
To consider how best to make the transition, it's important to consider the differences in approach to setting factors used by insurers and pension schemes, as summarised below:

| | Pension scheme approach to setting factors | Insurer approach to setting factors |
|---|---|---|
| Key considerations | Trust Deed & Rules, past practice, pensions legislation and regulations. | Treating Customers Fairly[1] requirements. |
| Discount rate | Linked to underlying scheme investment strategy. Discount rate typically gilts based, with a fixed outperformance margin. | Often based on the investment strategy underlying the insurers' annuity back book. Discount rate typically swaps based, with a variable outperformance margin linked to movements in spreads. |
| Frequency of basis review | Triennially. | At least annually. |
| Frequency of updates for market conditions | Monthly for transfer values, other factors may be fixed. | All factors updated monthly for changes in market conditions. |
| Basis prudence | Transfer values at least a best estimate of the benefits given up. Other factors may be different to a best estimate. | Standard factors cost-neutral to the insurer. May include expense loadings. |
| Individual tailoring | Limited tailoring other than to reflect member age and gender. | Typically allow for longevity characteristics of the individual. Some insurers may reflect actual member marital status and age of spouse. |

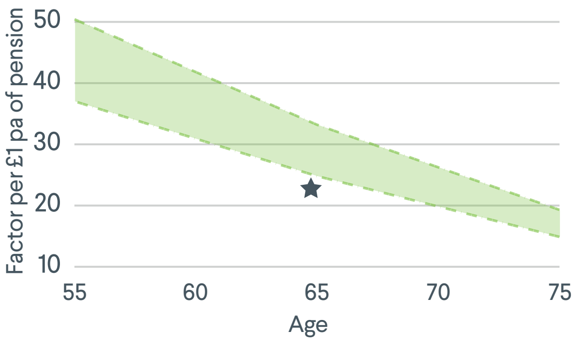
[1]A FCA requirement for insurers to show fair treatment of customers is at the heart of their business model means insurers set their factors with regards to all issued policies, and look to avoid providing more or less generous factors to a particular scheme and/or member

These key differences can result in large differences in the factors of the scheme and the different insurers. To illustrate this, the below charts plot the range of insurer factors for a sample member compared to that of the average scheme[1]:

**Transfer value factors**




**Cash commutation factors**




Range of insurer transfer value factors

Range of insurer commutation factors

★ Average scheme factor at age 65

In particular, it can be observed at age 65:

- Transfer value factors can vary by **c25%** between insurers for the same member. Insurer transfer values will be at least as generous as the average scheme.

- Commutation factors can vary by **c35%** between insurers for the same member. The average scheme's commutation factor is c30% less generous than the average insurer.

It should be noted that scheme factors will tend to increase in the run up to buy-out as the scheme de-risks. Schemes close to buy-out will tend to have higher factors than the average scheme, but it's important to consider where insurer factors are likely to be as part of the regular review process to ensure no unwanted surprises.

**Practical actions for trustees**

There are a number of practical steps trustees can take to manage the transition to insurer options and factors:

- **Monitor regularly –** Consider the differential between scheme and insurer factors in the run up to buy-out as part of regular factor reviews. If close to buy-out, consider undertaking ad-hoc reviews if there are significant changes in market conditions.
- **Know what you're buying –** Look to understand differences between the factors each insurer offers and the options they can administer as part of insurer selection. Some insurers may be able to insure only a proportion of their standard factor - consider any such flexibility and the associated premium impact.
- **Consider timing of change –** Manage member expectations, with either a gradual change of factors or a step change with appropriate communication.

[1]Based on a survey of c90 Hymans Robertson clients

# The importance of data

**By Louise Chalkley**, Senior Administration Manager

Your admin team will be reporting on common and scheme conditional scores annually, in line with TPR requirements, which fulfils your requirement as trustees to report these scores. This is part of knowing that your data is of good quality and enables your provider to pay the right benefits to your members at the right time.

This does not necessarily mean that your data is suitable for your end-game buy-out strategy. You need to ask the right questions and get the right results from your admin team to be able to get a good understanding of the data quality and how that will work for you.

A data gap or health check focussing on data needed by insurers from your admin team will highlight any gaps in actual data, but you'll also need to validate the data held for its accuracy. For example, does every member with service after April 1997 have a post 1997 benefit record? Are pension records held consistently across all members? Are all records held and maintained in the same way?

Over time, most schemes have undergone changes in the administration team, administration system and even scheme changes, which can mean that data is not consistent across all members. This is especially so in more complex schemes or where manual calculations and updates are managed by the admin team.

As trustees you can work with your admin team to plan ahead and get a greater understanding of quality and content of data by carrying out a few exercises early on. This will mean that when all other areas are ready to go, your data is in the best shape possible to secure the correct benefits.

**Sample audit –** ask you admin team to determine a sample matrix of members to review from first principles, picking a selection of members from across the scheme, within different benefit categories, complexity, age, gender. This sample will then give a better idea as to any extent of gaps or data quality issues that might exist and help to prioritise the order of work needed.

**Confirm data held –** data is current and correct as at the date provided. Data changes all the time. For many data items, admin teams are reliant on members notifying us when this might change. For ongoing admin, data changes are not needed until an event requires this. For example, at the point when a member dies, the admin team need to know if there's a remaining spouse. However for a buy-in, the provider uses this information at the quotation stage, so providers want this at the point that we share data with them. Instructing your admin provider to make contact with members to obtain and then record this information is one way to collect this data, but is an exercise in its own right so will require time and planning.

**Updating missing data –** benefits payable to a spouse on the death of a member are typically calculated at that point in time and not held on the member's record in advance. All buy-out insurers will want this information and it will form part of the insurance contract. To calculate this benefit (for schemes where pensions can be commuted for a lump sum at retirement), the admin team will need to know the benefits taken pre-commutation (and therefore spouses pension at that point) to be able to roll that value forward to a current value. This is the Spouses Contingent Pension value. Depending on the population of members, age at which they retired and quality/content of data, obtaining this data and calculating this value can be the most time consuming, resource heavy and costly part of the data cleanse that the admin provider will need to complete.

# Endgame strategy and solutions – the corporate perspective

**By Leonard Bowman**, Partner & Head of Corporate DB Endgame Strategy

Thankfully, it feels like we are past the days of companies and trustees arguing over every little detail of the three yearly funding valuation. As schemes increasingly move towards their endgame, the key to an effective corporate endgame strategy is an open, collaborative dialogue between all stakeholders to agree the destination and how best to get there. For most companies, risk transfer solutions will play a key role in that endgame journey.

## Traditional insurance

For the majority, buy-out will be the ultimate endgame solution; a well-trodden path, providing cost and risk certainty and releasing management time from future strategic pension planning, regulatory challenge and extreme risk events.

However, behind this headline there are a number of key questions and considerations that need to be worked through to ensure the use of insurance in the endgame strategy is economically efficient. Companies need to engage with these areas early, during the formation of the endgame strategy.

**When?**

The timeframes for targeting a buy-out will have profound implications on the funding and investment strategy, but also how you approach operational/ tactical projects such as GMP equalisation, member options etc (more on this below).

It is often said "time is your friend" when looking at insurance pricing, as over time the scheme will mature, members will take options for less than the cost of insurance, and liabilities will become more cost effective to insure as members age. However, a risk transfer solution removes financial uncertainty for the company and pushing that down the road can come at an unwelcome price if downside events happen and the company struggles to absorb the financial implications. "Regret risk" should not be underestimated in endgame planning.

In addition, companies need to respond to the legal and regulatory challenges resulting from the 2021 Pension Act, which raised the bar considerably regarding how companies manage their DB pension commitments when planning corporate activity, such as the sale or purchase of company assets or dividend policies. For some companies these new requirements lead to fresh thinking around the broader commercial value of buying out their schemes sooner than perhaps previously envisaged.

### The role of buy-ins

A buy-in can be a highly effective stepping stone to full buy-out, particularly when buy-out is a number of years into the future. For sponsors, it can be seen as a way to reduce risk and balance sheet volatility, while "testing the waters" before committing to a full buy-out at a later stage. In some situations, it can result in less onerous accounting implications at the point of buy-out, which can be important to some companies.

However, sponsors should ensure that the structure of any buy-in and the overall buy-in strategy does indeed support a future buy-out as opposed to creating unnecessary complication or cost.

### Operational projects

Trustees and sponsors are increasingly seeing the endgame "plan" as an essential component to business as usual activity.

- Will a particular approach to GMP equalisation impact ultimate insurer pricing?
- If you are close to buy-out over the next few years, how does this impact the type of member options you offer and how you communicate them?
- Is the liquidity profile of your investments still fit for purpose?
- And of course, is the scheme actually buy-out ready?

In practical terms this means companies and trustees need to be talking about their endgame strategy now and ensuring they have robust, effective governance in place so key decision making is aligned with the endgame strategy.

### Alternative solutions

Over the last few years we have seen the emergence of many new ideas to compete with traditional risk transfer options, for example consolidators and capital backed solutions. These are covered in detail earlier in our report (page 10). Whilst these new solutions can be very effective and create a win-win for the company and members, they also come with challenges.

### It is not a well-trodden path

Commercially, there can be an early mover advantage as providers are keen to demonstrate these concepts work in practice. But in most cases, the regulatory landscape is still evolving, and advisers do not have a well-used advisory template for the detailed due diligence trustees need to undertake.

All of this means more time, resources and costs to test and implement these solutions. Additionally, companies need to be prepared for higher levels of regulatory scrutiny and oversight of the process.

### A different type of risk transfer

Companies need to understand these new solutions are designed to solve different problems and the price reflects that. For example, this could mean that extreme tail risk remains with the company or that in the event of provider default, the level of protection for the scheme is less than a traditional insurance solution.

Getting "underneath the bonnet" of the idea to really understand what is being offered is essential. Only then can the company understand how aligned the solution is with the company's objectives and the likely reaction of the trustees.

### Three final thoughts

- Virtually every DB scheme in the UK needs to start endgame planning now, and the role of risk transfer is probably the key question to answer.
- Whatever the solution, companies will achieve the best outcome if they invest in robust governance and keep a close eye on how their endgame strategy is delivering.
- Risk transfer is a commercial transaction, and companies which are properly prepared, focussed and advised will achieve the best outcomes.

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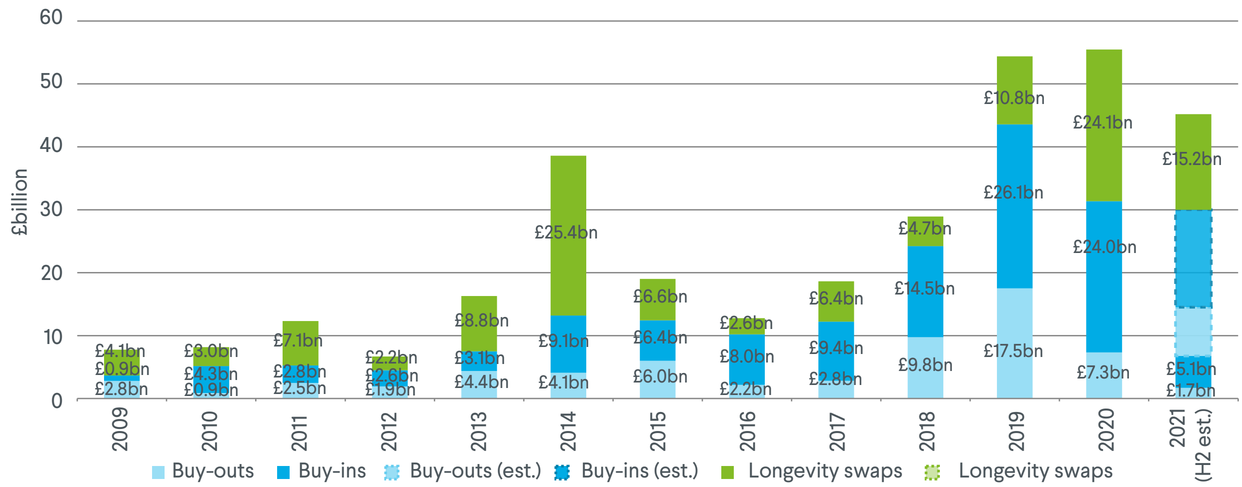
# Appendix II

## Risk Transfer Market Data

### Volume of risk transfer deals since 2009



## Largest buy-ins, buy-outs and APPs

The last year saw at least 32 deals in excess of £200m, of which at least 14 were over £500m.

| | Pension Scheme | Provider | Value | Deal type | Date |
|---|---|---|---|---|---|
| **Buy-ins and buy-outs** | | | | | |
| 1 | Old British Steel | PIC | £1865m | Buy-in | Q4 2020 |
| 2 | Ibstock | Just | £340m | Buy-in | Q4 2020 |
| 3 | Maersk | L&G | £1100m | Buy-in | Q4 2020 |
| 4 | Aon Bain Hogg Pension Scheme | Scottish Widows | £510m | Buy-in | Q4 2020 |
| 5 | Northern Gas Networks | L&G | £385m | Buy-in | Q4 2020 |
| 6 | National Grid | Rothesay | £800m | Buy-in | Q4 2020 |
| 7 | Aviva | Aviva | £870m | Buy-in | Q4 2020 |
| 8 | Evonik | L&G | £544m | Buy-out | Q4 2020 |
| 9 | Undisclosed | PIC | £260m | Buy-out | Q4 2020 |
| 10 | Aberdeen City Council | Rothesay | £240m | Buy-in | Q4 2020 |
| 11 | Undisclosed | Rothesay | £3300m | Buy-in | Q4 2020 |
| 12 | Pearl Group | Phoenix | £750m | Buy-in | Q4 2020 |
| 13 | Undisclosed | Aviva | £300m | Undisclosed | Q1 2021 |
| 14 | Undisclosed | L&G | £215m | Buy-out | H1 2021 |
| 15 | Undisclosed | Rothesay | £300m | Buy-out | H1 2021 |
| 16 | Undisclosed | Rothesay | £300m | Buy-in | H1 2021 |
| 17 | Undisclosed | Rothesay | £750m | Buy-in | H1 2021 |
| 18 | Tui (BAL section) | L&G | £610m | Buy-in | Q2 2021 |
| 19 | Agfa | Phoenix | £230m | Buy-in | Q2 2021 |
| 20 | BAT | PIC | £385m | Buy-in | Q2 2021 |
| 21 | Undisclosed | Aviva | £700m | Undisclosed | Q2 2021 |
| 22 | Undisclosed | Phoenix | £200m | Buy-in | Q2 2021 |
| 23 | Undisclosed | Aviva | £200m | Undisclosed | Q2 2021 |
| 24 | Commonwealth Bank of Australia | L&G | £420m | Buy-in | Q2 2021 |
| 25 | Keysight Technologies | Just | £250m | Buy-in | Q2 2021 |
| 26 | Undisclosed | Aviva | £868m | Buy-in | Q3 2021 |
| 27 | Undisclosed | Aviva | £885m | Buy-in | Q4 2021 |
| 28 | Undisclosed | Aviva | £307m | Buy-in | Q4 2021 |
| 29 | Kingfisher | Aviva | £900m | Buy-in | Q3 2021 |
| 30 | Signet Jewelers | Rothesay | £236m | Buy-in | Q3 2021 |
| 31 | Pearl Group | Phoenix | £998m | Buy-in | Q3 2021 |
| 32 | Signet Group | Rothesay | £236m | Buy-in | Q3 2021 |
| 33 | Undisclosed | Rothesay | £800m | Buy-out | Q3 2021 |
| 34 | Sanofi | L&G | £760m | Buy-in | Q4 2021 |
| 35 | Metal Box | PIC | £2200m | Buy-out | Q3 2021 |
| 36 | Selecta | L&G | £250m | Buy-in | Q3 2021 |
| 37 | John Laing | Aviva | £320m | Buy-in | Q3 2021 |
| 38 | AvestaPolarit | Rothesay | £390m | Buy-in | Q4 2021 |
| 39 | Mitchells & Butlers | L&G | £650m | Buy-in | Q4 2021 |
| 40 | Pearl Group | Phoenix | £440m | Buy-in | H2 2021 |
| 41 | Imperial Tobacco | Phoenix | £1800m | Buy-in | Q4 2021 |
| 42 | Unnamed global distribution company | Just | £345m | Buy-in | Q4 2021 |
| 43 | Institute of the Motor Industry (IMI) | PIC | £250m | Buy-in | Q4 2021 |
| 44 | Gallaher | Phoenix | £1680m | Buy-in | Q4 2021 |
| 45 | Northern Bank | Aviva | £257m | Buy-in (2 deals) | H2 2021 |
| **Assured Payment Policies** | | | | | |
| 1 | L&G Group UK Senior Pension Scheme | L&G | £400m | APP | H2 2020 |
| 2 | L&G UK Pension and Assurance Fund | L&G | £925m | APP | Q2 2021 |

## Longevity swaps

Fifity-three deals, covering liabilities worth around £123 billion, have been announced since 30 June 2009.

| Organisation | Date | No. of schemes | Provider | Approximate Value |
|---|---|---|---|---|
| Babcock | Q3 2009 | 3 | Credit Suisse | £1.2 bn |
| RSA Insurance | Q3 2009 | 2 | Rothesay Life | £1.9 bn |
| Berkshire | Q4 2009 | 1 | Swiss Re | £1 bn |
| BMW | Q1 2010 | 1 | Abbey Life | £3 bn |
| British Airways | Q3 2010 | 1 | Rothesay Life | £1.3bn |
| Pall | Q1 2011 | 1 | JP Morgan | £0.1 bn |
| ITV | Q3 2011 | 1 | Credit Suisse | £1.7 bn |
| Rolls Royce* | Q4 2011 | 1 | Deutsche Bank | £3 bn |
| Pilkington | Q4 2011 | 1 | Legal & General | £1 bn |
| British Airways | Q4 2011 | 1 | Rothesay Life | £1.3bn |
| Akzo Nobel | Q2 2012 | 1 | Swiss Re | £1.4 bn |
| LV=* | Q4 2012 | 1 | Swiss Re | £0.8 bn |
| BAE Systems | Q1 2013 | 1 | Legal & General | £3.2 bn |
| Bentley | Q2 2013 | 1 | Abbey Life | £0.4bn |
| Carillion | Q4 2013 | 5 | Deutsche Bank | £1bn |
| AstraZeneca | Q4 2013 | 1 | Deutsche Bank | £2.5bn |
| BAE Systems | Q4 2013 | 2 | Legal & General | £1.7bn |
| Aviva | Q1 2014 | 1 | Own insurer conduit- Munich Re, Scor Se and Swiss Re | £5bn |
| BT | Q2 2014 | 1 | Own insurer conduit - PICA | £16bn |
| PGL* | Q3 2014 | 1 | Own insurer conduit - Phoenix Life | £0.9bn |
| MNOPF * | Q4 2014 | 1 | Own insurer conduit - Pac Life Re | £1.5bn |
| ScottishPower | Q4 2014 | 1 | Abbey Life | £2bn |
| AXA UK | Q3 2015 | 1 | Own insurer conduit - RGA | £2.8bn |
| Heineken | Q3 2015 | 1 | Aviva | £2.4bn |
| RAC (2003) Pension Scheme | Q4 2015 | 1 | Own insurer conduit - Scor Se | £0.6bn |
| Unnamed | Q4 2015 | 1 | Zurich | £0.09bn |
| Serco* | Q4 2015 | 1 | Undisclosed | £0.7bn |
| Pirelli Tyres Limited | Q3 2016 | 2 | Zurich | £0.6bn |
| Manweb Group | Q3 2016 | 1 | Abbey Life | £1bn |
| Unnamed | Q4 2016 | 1 | Zurich | £0.05bn |
| Unnamed | Q4 2016 | 1 | Legal & General | £0.9bn |
| Unnamed | Q1 2017 | 1 | Zurich | £0.3bn |
| Skanska | Q2 2017 | 1 | Zurich | £0.3bn |
| SSE* | Q2 2017 | 1 | Legal & General | £0.8bn |
| Marsh & McLennan Companies | Q3 2017 | 1 | Own insurer conduit - Canada Life Re and PICA | £3.4bn |
| British Airways* | Q3 2017 | 1 | Own insurer conduit - Canada Life Re and Partner Re | £1.6bn |
| National Grid | Q2 2018 | 1 | Zurich | £2.0bn |
| Lafarge | Q3 2018 | 2 | Own insurer conduit - Munich Re | £2.4bn |
| Unnamed | Q3 2018 | 1 | Legal & General | £0.3bn |
| HSBC | Q3 2019 | 1 | Own insurer conduit - PICA | £7.0bn |
| HSBC | Q3 2019 | 1 | Own insurer conduit - Swiss Re | £3.5bn |
| Unnamed | Q4 2019 | 1 | Zurich | £0.8bn |
| AXA UK | 2019 | 1 | Undisclosed | £0.6bn |
| Lloyds Banking Group | Q1 2020 | 3 | Scottish Widows - Pacific Life Re | £10.0bn |
| Willis Towers Watson | Q1 2020 | 1 | Own insurer conduit - Munich Re | £1.0bn |
| UBS | Q2 2020 | 1 | Zurich - Canada Life Re | £1.4bn |
| Prudential | Q4 2020 | 1 | Own insurer conduit - Pacific Life Re | £3.7bn |
| Barclays | Q4 2020 | 1 | Own insurer conduit - RGA | £5.0bn |
| BBC | Q4 2020 | 1 | Zurich - Canada Life Re | £3.0bn |
| AXA UK | Q1 2021 | 1 | Hannover Re | £3.0bn |
| Fujitsu | Q2 2021 | 1 | Own insurer conduit - Swiss Re | £3.7bn |
| Undisclosed | Q2 2021 | 1 | Zurich - PICA | £6.0bn |
| Undisclosed | Q4 2021 | 1 | Zurich - MetLife | £2.5bn |
| **Total to date** | | **52 (deals)** | | **£123.3bn** |

*Since the original swap transaction date these deals have been converted to buy-ins.

Insurer summary insights

# Aviva

## 2009 to end of H1 2021

**Risk Transfer deals tracker**

| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| **576** | **£21,401m** | **£37m** |

## Twelve months ending 30 June 2021

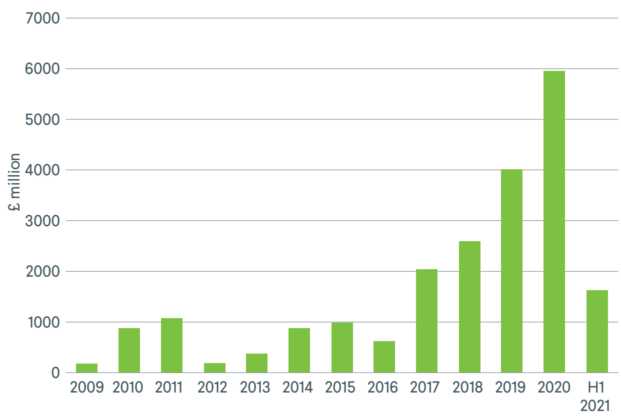
**Risk Transfer deals tracker**

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| **18%** | **36** | **£125m** |

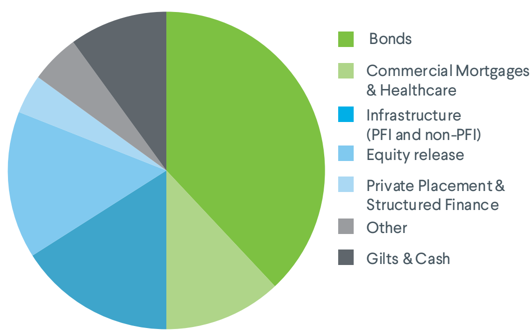
## Noteworthy recent transactions

Aviva completed a £900m buy-in of the Kingfisher Pension Scheme in July 2021.

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: Aviva, October 2021*

## Financial strength – Aviva Life & Pensions UK Ltd

| AKG | Fitch Rating | Moody's Insurance Financial Strength Rating | S&P Financial Strength Rating |
|---|---|---|---|
| **B+** **(very strong)** (March 2021) | **AA-** (March 2021) | **Aa3** (November 2019) | **AA-** (August 2021) |

## Team size

**200**
(including internal support and administration teams).

## Administrator

In house

Insurer summary insights

# Canada Life

## 2009 to end of H1 2021

**Risk Transfer deals tracker**

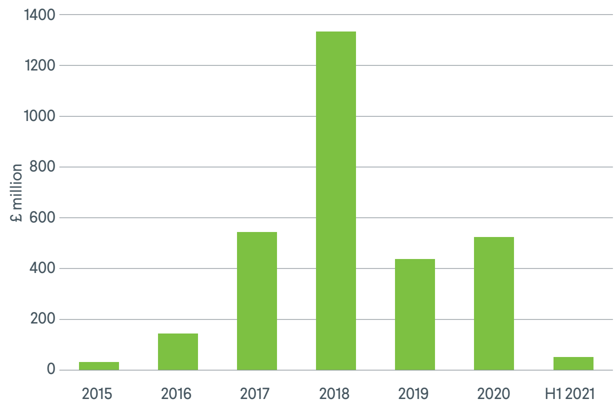
| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| **29** | **£3,068m** | **£106m** |

## Twelve months ending 30 June 2021

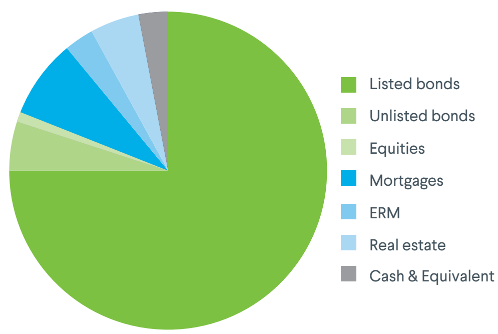
**Risk Transfer deals tracker**

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| **2%** | **4** | **£126m** |

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: Canada Life, October 2021*

## Financial strength – Canada Life Ltd

AKG

**B+** **(very strong)**
(July 2021)

## Team size

**23**

## Administrator

Ring-fenced team at Mercer

Insurer summary insights

# Just

## 2009 to end of H1 2021

Risk Transfer deals tracker

| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| **214** | **£8,557m** | **£40m** |

## Twelve months ending 30 June 2021

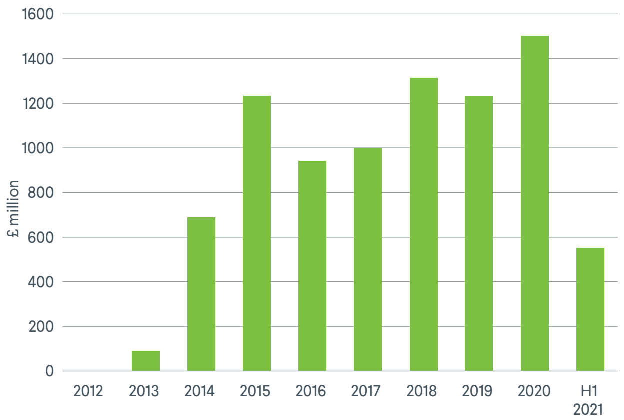
Risk Transfer deals tracker

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| **6%** | **22** | **£72m** |

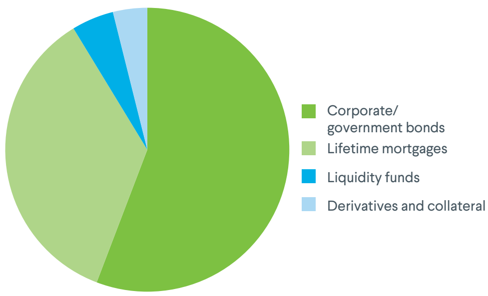
## Noteworthy recent transactions

Just completed a £250m buy-in of the Keysight Technologies UK Limited Retirement Benefits Plan in September 2021.

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: Just Group FY20*

## Financial strength - Just Retirement Ltd

AKG

**B+** **(very strong)**
(August 2021)

Fitch Rating

**A+**
(April 2021)

## Team size

**85**

## Administrator

In house, supplemented by Mercer

## Recent developments

Just have further developed their deferred proposition, and are now able to write buy-outs with a material portion of deferred members. They have also increased the size of transactions they have appetite for, and will generally consider transactions up to around £750m , and larger on occasion.

Insurer summary insights

# Legal & General

## 2009 to end of H1 2021

**Risk Transfer deals tracker**

| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| **734** | **£47,859m** | **£65m** |

## Twelve months ending 30 June 2021

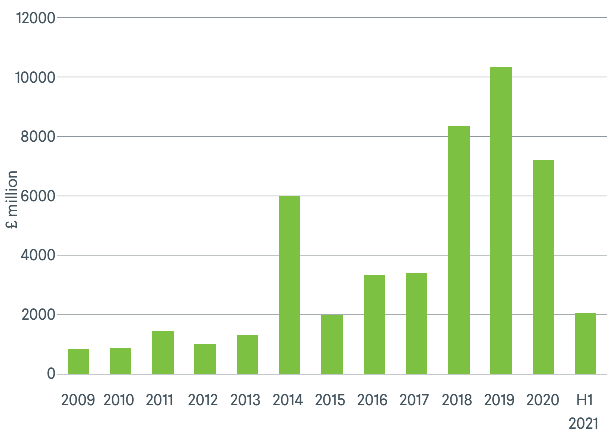
**Risk Transfer deals tracker**

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| **24%** | **34** (excluding APP transactions) | **£178m** |

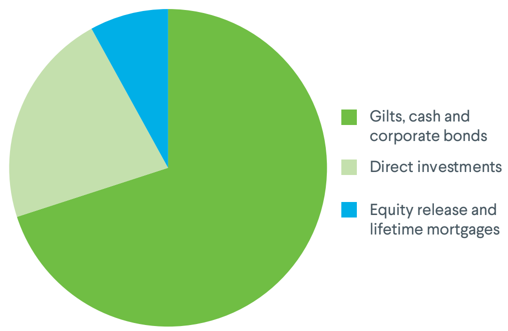
## Noteworthy recent transactions

L&G completed the largest assured payment policy (£925m) to date in July 2021, as well as a £760m buy-in with the Sanofi Pension Scheme in October 2021 and two buy-ins totalling £800m with the Tui Group UK Pension Trust in June 2021.

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: Legal & General, October 2021*

## Financial strength – Legal & General Assurance Society Ltd

| AKG | Fitch Rating | Moody's Insurance Financial Strength Rating | S&P Financial Strength Rating |
|---|---|---|---|
| **B+** **(very strong)** (February 2020) | **AA-** (July 2021) | **Aa3** (March 2021) | **AA-** (July 2021) |

## Team size

**c250**
(including in-house buy-out administration team).

## Administrator

In house

# Pension Insurance Corporation (PIC)

## 2009 to end of H1 2021

**Risk Transfer deals tracker**

| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| **212** | **£40,724m** | **£192m** |

## Twelve months ending 30 June 2021

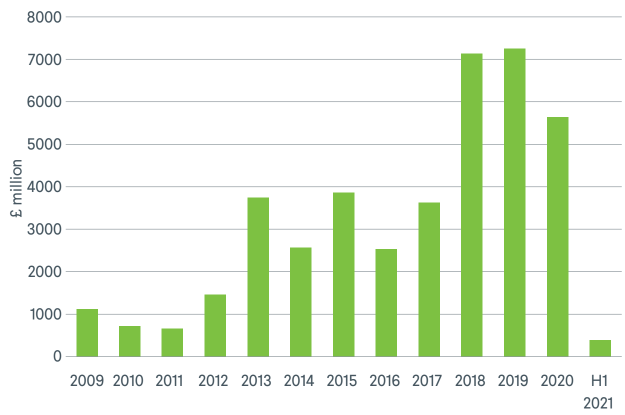
**Risk Transfer deals tracker**

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| **10%** | **3** | **£837m** |

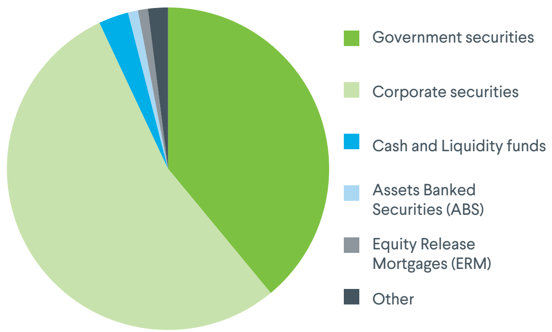
## Noteworthy recent transactions

PIC completed a £2.2bn buy-out of the Metal Box Pension Scheme in October 2021, as well as a £400m buy-in of the British American Tobacco UK Pension Fund in July 2021.

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: PIC Group Limited Annual Report and Accounts 2020*

## Financial strength - Pension Insurance Corporation plc

| AKG | Fitch Rating |
|---|---|
| **B** **(strong)**<br>(August 2019) | **A+**<br>(May 2021) |

## Team size

**219**

(including the origination, pricing and asset sourcing teams)

## Administrator

Ring-fenced team at Capita

Insurer summary insights

# Rothesay

## 2009 to end of H1 2021

Risk Transfer deals tracker

| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| **64** | **£36,056m** | **£563m** |

## Twelve months ending 30 June 2021

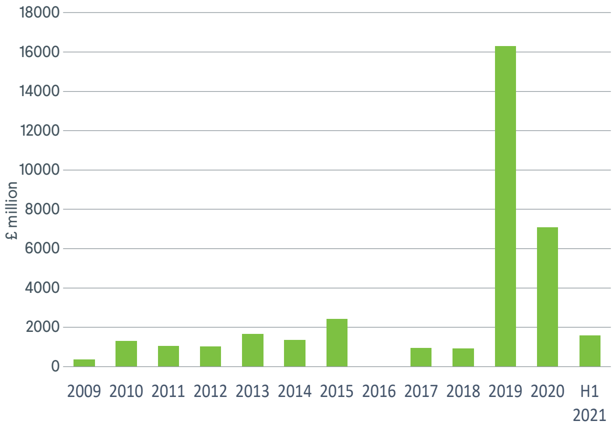
Risk Transfer deals tracker

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| **31%** | **13** | **£608m** |

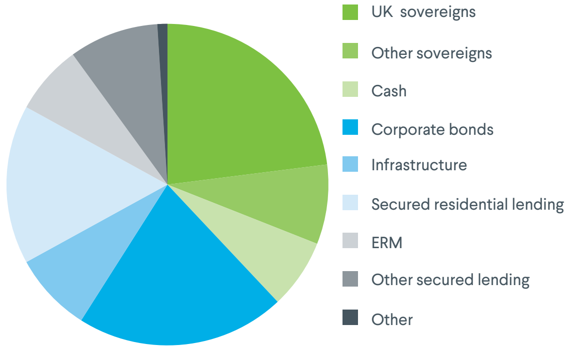
## Noteworthy recent transactions

Rothesay completed a £750m buy-in in H1 2021, as well as a £236m buy-in with the Signet Group Pension Scheme in July 2021.

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: Rothesay Life PLC Annual Report and Accounts 2020*

## Financial strength - Rothesay Life plc

| AKG | Fitch Rating | Moody's Insurance Financial Strength Rating |
|---|---|---|
| **B+** **(very strong)** (August 2021) | **A+** (June 2021) | **A3** (June 2021) |

## Team size

**109**

(excluding internal functions and asset management team)

## Administrator

Ring-fenced teams at Willis Towers Watson, Mercer and Capita.

# Scottish Widows

## 2009 to end of H1 2021

Risk Transfer deals tracker

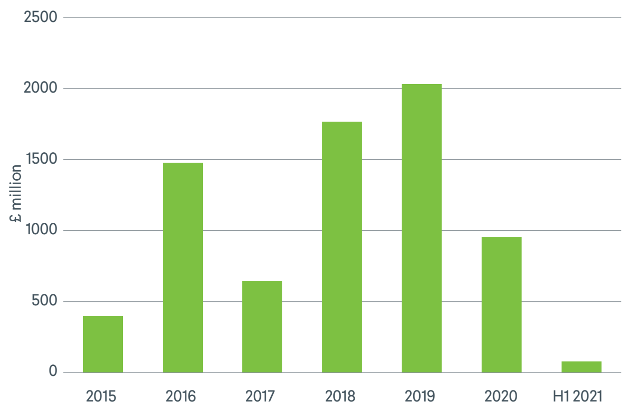
| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| **33** | **£7,352m** | **£223m** |

## Twelve months ending 30 June 2021

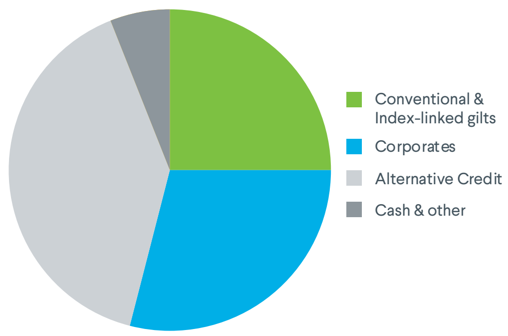
Risk Transfer deals tracker

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| **2%** | **4** | **£157m** |

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: Scottish Widows, October 2021*

## Financial strength - Scottish Widows Ltd

| AKG | Fitch Rating | Moody's Insurance Financial Strength Rating |
|---|---|---|
| **A (superior)**<br>(August 2021) | **A+**<br>(September 2021) | **A2**<br>(March 2021) |

## Team size

**c70**
(includes internal support teams).

## Administrator

Ring-fenced team at Mercer

# Standard Life

## 2009 to end of H1 2021

Risk Transfer deals tracker

| Transactions completed | Value of transactions | Average transaction size |
|---|---|---|
| 18 | £7,141m | £397m |

## Twelve months ending 30 June 2021

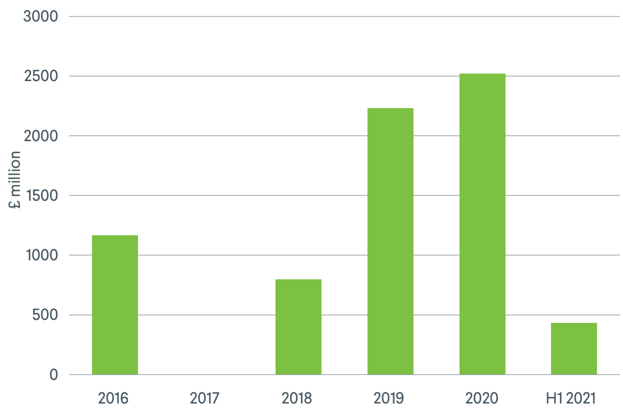
Risk Transfer deals tracker

| Market share | Number of transactions | Average transaction size |
|---|---|---|
| 7% | 6 | £312m |

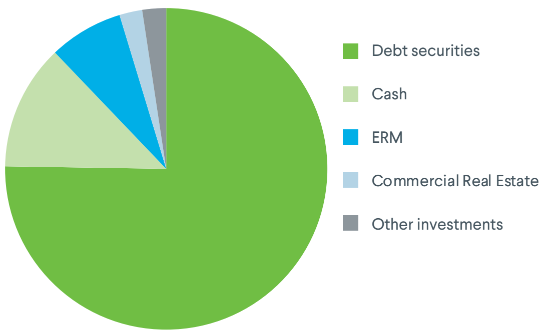
## Noteworthy recent transactions

Standard Life completed two buy-ins with the Pearl Group Staff Pension Scheme (a scheme within the same Group) totalling £1.4bn during 2021, and a £1.8bn buy-in with the Imperial Tobacco Pension Fund in December 2021.

## Volume of DB annuity transactions




## Annuity asset strategy




*Source: Phoenix Group Holdings PLC Annual Report and Accounts 2020*

## Financial strength - Phoenix Life Ltd

| AKG | Fitch Rating |
|---|---|
| **B** (strong) (April 2021) | **AA-** (July 2021) |

## Team size

**40**

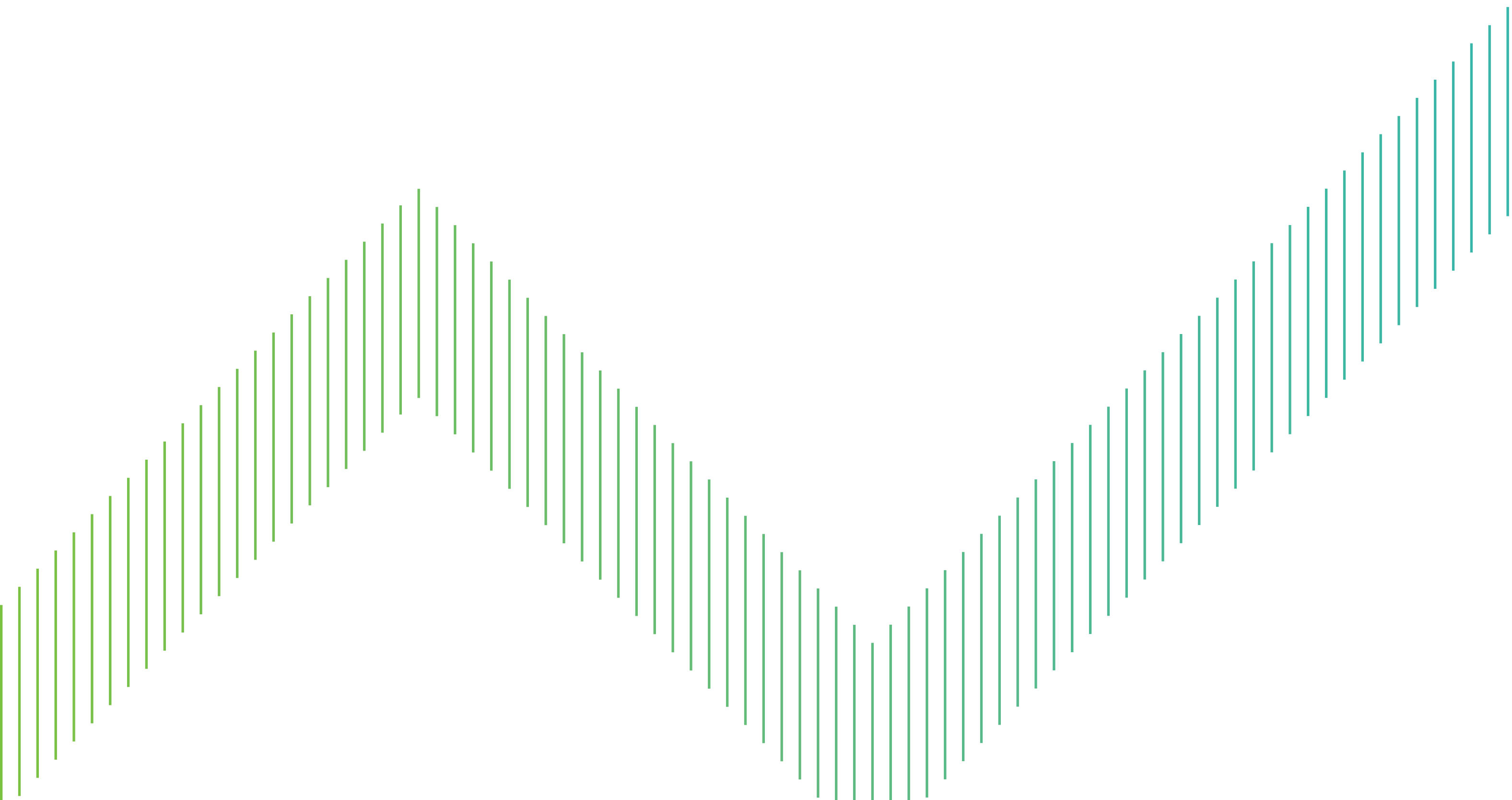
(including the origination, operations and re-insurance team)

## Administrator

Ring-fenced team at Mercer

## Recent developments

Phoenix have adopted the Standard Life brand they purchased in Q1 2021 and have been ramping up their efforts over the past year or so after entering the market in 2017. This year, they've been active across the spectrum, including a focus on demonstrating their deferred member capabilities.



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