

Buy-outs, buy-ins and longevity hedging – H1 2023

Managing pension scheme risk

Welcome to our half-yearly update, summarising the activity in the buy-in, buy-out and longevity hedging markets during the first half of 2023, and the year to 30 June 2023 ('the last year').



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Buy-outs and buy-ins – deals during H1 2023

The total value of buy-out and buy-in deals struck in the first half of 2023 was £21.2bn, the highest for the first half of a calendar year and the second-highest ever recorded for a six-month period. The total number of transactions in the first half of 2023 was 96.

In contrast to the second half of 2022, large transactions dominated the market. Nearly 60% of the bulk annuity market by value (£12.4bn) resulted from five deals in excess of £1bn, including the record-breaking £6.3bn buy-in between the two defined benefit (DB) schemes sponsored by the RSA Group and PIC.

With unprecedented demand from pension schemes, the buy-in market is expected to exceed all previous records over the next year and beyond. Pension schemes will need to embrace changes to the way they approach the insurance market and adopt a targeted approach as insurers' capacity becomes more constrained. The opportunities that strong demand brings are attracting the attention of insurers not already in the market. In early 2023, M&G announced its entry into the bulk annuity market, marking the first increase in the number of insurers in the market in seven years. At the time of writing, M&G has announced two transactions, both completed in the second half of 2023.

Buy-out and buy-in deals	Number of deals completed			Value of deals completed		
	H2 2022	H1 2023	Total	H2 2022	H1 2023	Total
Aviva	32	19	51	£2,575m	£2,430m	£5,005m
Canada Life	-	1	1	-	£37m	£37m
Legal & General (L&G)*	24	19	43	£3,511m	£4,866m	£8,377m
Pension Insurance Corporation (PIC)	12	5	17	£1,718m	£6,535m	£8,253m
Standard Life	7	10	17	£3,152m	£3,236m	£6,388m
Just	42	35	77	£2,238m	£1,447m	£3,685m
Rothesay	5	5	10	£2,320m	£1,900m	£4,220m
Scottish Widows	2	2	4	£520m	£715m	£1,235m
Total	124	96	220	£16,034m	£21,166m	£37,200m

*excluding 3 APP transactions

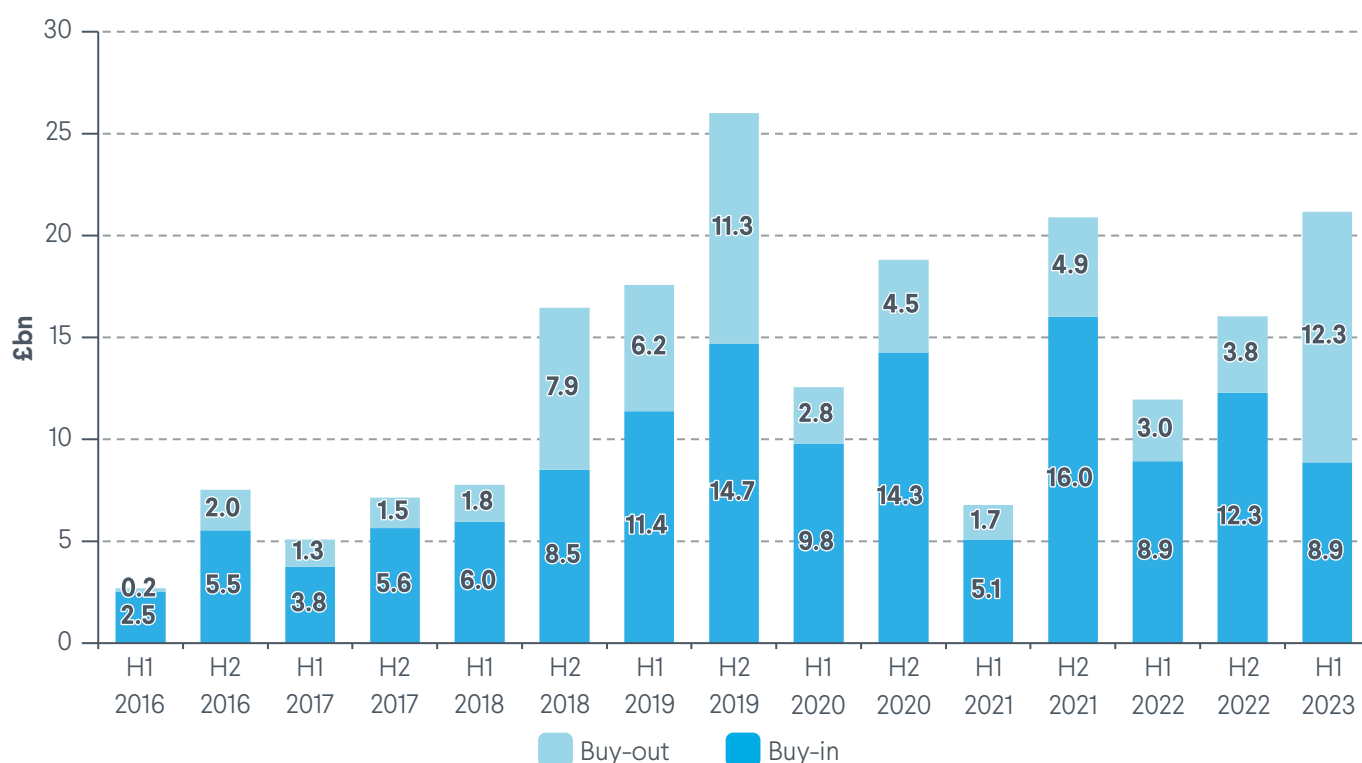


We expect more new entrants during 2024. Their entry will help the market to meet the increasing demand, as will the existing insurers increasing their transaction capacity.

Buy-ins vs buy-outs

Whole-scheme buy-ins continue to dominate the market, and we expect this trend to continue as many pension schemes can afford to fully insure.

Value of buy-ins and buy-outs since 2016



Note. In this chart, buy-outs include transactions that insurers have said are full-scheme buy-ins.

Buy-ins, buy-outs and longevity swaps



In the last year there were **220 transactions**, totalling **£37.2bn** – the second-largest volume of transactions for a year to 30 June.

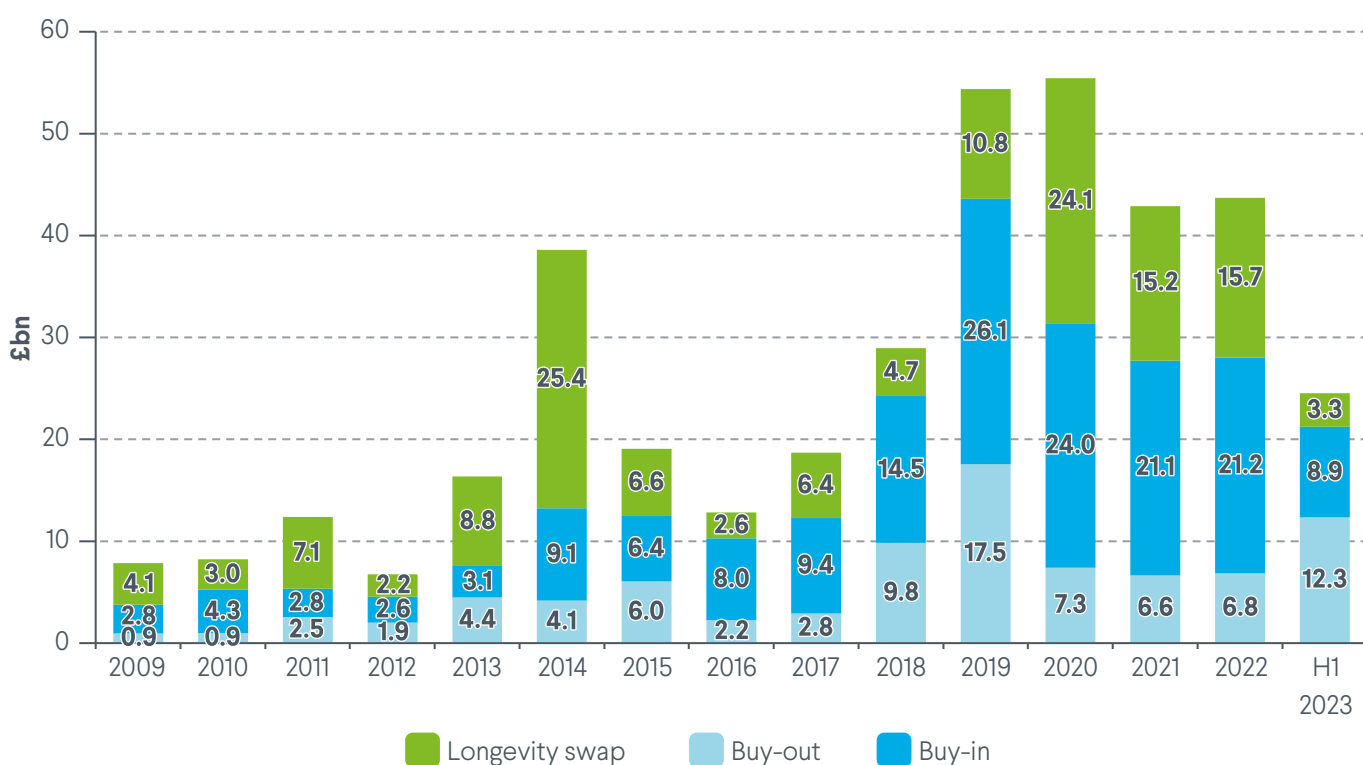


During the first half of 2023, **£3.3bn of longevity swaps were completed.**



The largest longevity swap in 2023 to date is the **£5bn BT Pension Scheme** longevity swap that transacted in the second half of 2023.

Value of buy-ins, buy-outs and longevity swaps since 2009



This table shows the ranking of the total value of buy-in and buy-out transactions completed over the previous five years (12 months to 30 June and six months to 30 June).

Year	Total for year (ranking)	Total in first half of year (ranking)
2023	£37.2bn (2nd)	£21.2bn (1st)
2022	£32.8bn (4th)	£12.0bn (4th)
2021	£25.6bn (5th)	£6.8bn (5th)
2020	£38.8bn (1st)	£12.6bn (3rd)
2019	£34.0bn (3rd)	£17.6bn (2nd)

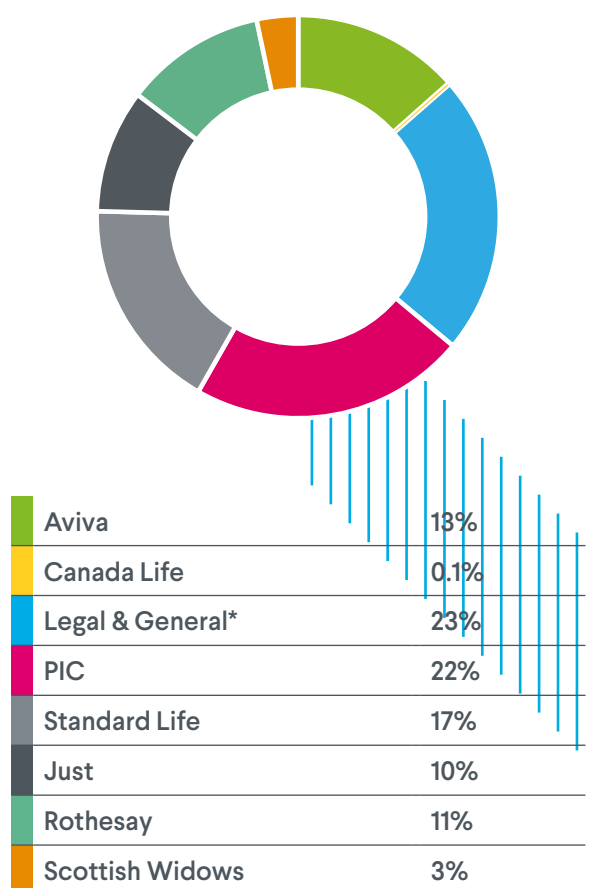
Buy-ins and buy-outs: Market share (by value) during the year to 30 June 2023

The overall average buy-in and buy-out deal size for the last year was £169m, an increase from the year to 31 December 2022, when it was £139m.

Market share during the year to 30 June 2023	Total value of deals	Total number of deals	Average deal value
Aviva	£5,005m	51	£98m
Canada Life	£37m	1	£37m
Legal & General*	£8,377m	43	£195m
PIC	£8,253m	17	£485m
Standard Life	£6,388m	17	£376m
Just	£3,685m	77	£48m
Rothsay	£4,220m	10	£422m
Scottish Widows	£1,235m	4	£309m
Total	£37,200m	220	£169m

*Excludes 3 APPs (c£0.1m)

Share of the buy-in and buy-out market (by transaction value) for the year to 30 June 2023



In the last year, four insurers (PIC, L&G, Standard Life and Aviva) between them held 75% of the market by value. L&G held the largest market share in the last year, of 23%, following its second transaction with the British Steel Pension Scheme in the first quarter of 2023 (£2.6bn).

Having completed the largest ever buy-in in the first quarter of 2023, with the RSA Group, PIC had a 22% share of the market.

Standard Life's share of 17% puts it in third place. During the first half of 2023 it secured a £1.1bn transaction with Mitchell & Butlers and a £1bn transaction with Chubb Pension Plan.

Aviva's share of 13% puts it in fourth place. It transacted an £870m deal with Thomas Cook Pension Plan in the second quarter of 2023.

Rothesay typically tends to focus on the medium and upper end of the market by transaction size, but during the first half of 2023 it completed five transactions ranging from £34m to £440m. It also secured a £1.4bn transaction with Safeway Scheme.

Just completed the most deals in the year to 30 June 2023, transacting on 35% of all buy-ins. Just has historically focused on small and medium transactions, and its average deal size was £48m in the year to 30 June 2023. However, its appetite for large transactions has grown, and we expect its average deal size to increase in future years.

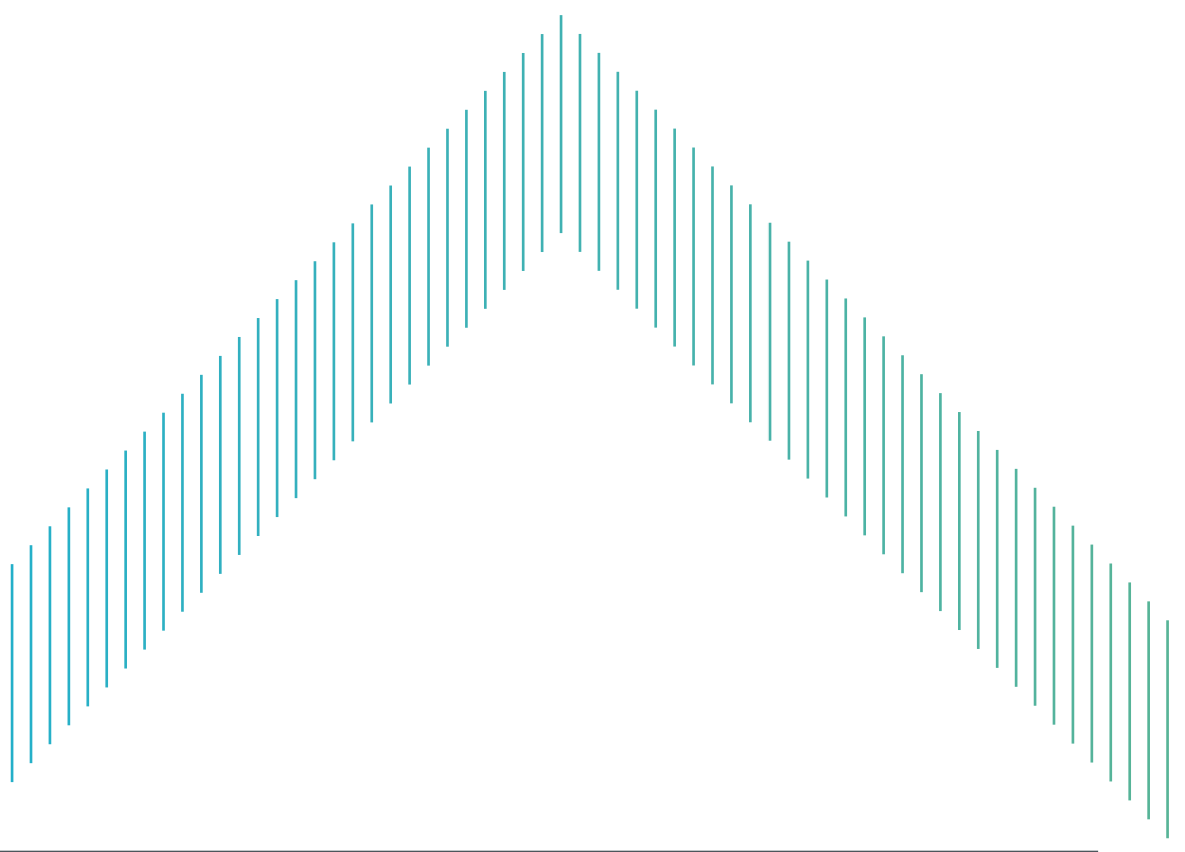
Scottish Widows completed four transactions in the last year, including the £380m transaction with Harrods Group in the first half of 2023.

In a transaction led by Hymans Robertson, in June 2023 Canada Life completed its first buy-in to include deferred members. The insurer is continuing to build up its deferred member proposition.

Given the current and expected high demand for bulk annuity transactions, it's no surprise that other insurers are entering the market. In 2023 M&G announced that it entered the buy-in market using its insurance company, Prudential Assurance Company. M&G is actively quoting on buy-in transactions, with a focus on medium transactions, and at the time of writing completed two transactions totalling £617m in the second half of 2023.

M&G plc was formed by a merger between M&G Investments and Prudential UK. The combined business was then de-merged from Prudential plc to form M&G plc in 2019. M&G plc continues to hold the remaining Prudential UK back book of annuities, which total around £20bn.

The entry of M&G ends seven years of a pension scheme buy-in market with eight active insurers. We expect other insurers to follow its lead as strong demand creates many more opportunities.



Buy-ins and buy-outs in 2023

As pension schemes' funding levels have sharply improved and the market has become busy, many schemes have been reassessing their endgame plans. Alternative risk transfer is getting more attention, but even schemes that are targeting traditional buy-ins and buy-outs will need to change the way they approach the insurance market, seeking advice on the most appropriate approach.

In the current busy market, small schemes (with assets below £100m) seeking buy-in quotations may need to or be advised to consider exclusivity: making an informed decision over a single insurer to work with, and then only requesting pricing from that insurer. This approach could help some schemes gain priority from insurers. From analysing reported transactions and talking to insurers, we estimate around

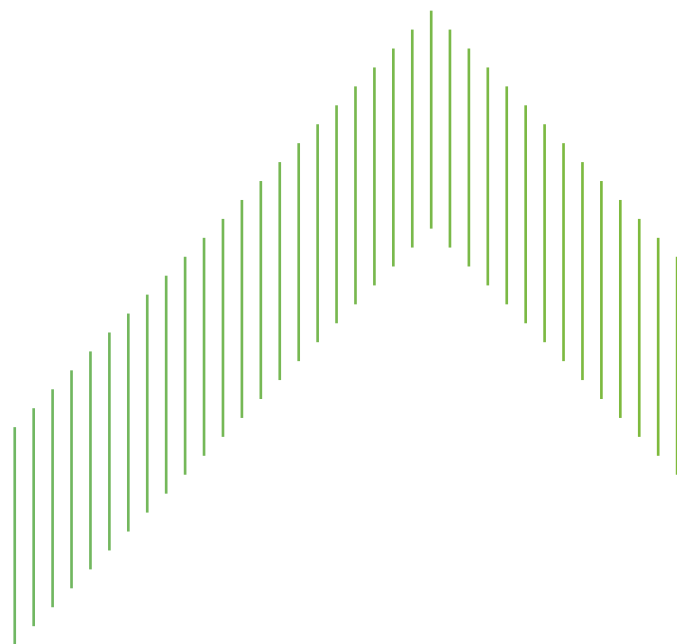
one-third of the buy-in and buy-out market in 2022 was transacted in this way. Before making a decision, trustees and sponsors should understand the pros and cons of this approach over a competitive tender.

Medium schemes (with assets between £100m and £1bn) should make sure that their broking process, and requests of the insurers, are simple enough to ensure their transactions become priorities, while remaining appropriately tailored for the scheme. Large schemes (with assets of more than £1bn) typically have unique considerations that need to be addressed, so their focus is on optimal timing for all stakeholders. They need to define clear objectives and requirements at the outset, with detailed insurer engagement.

Market outlook



We expect the pension scheme buy-in market to exceed **record highs of £50bn** every year for the foreseeable future, and **could top £70bn** in some years. We expect most future bulk annuity transactions to be whole-scheme buy-ins or buy-outs, in stark contrast to the period before 2022, when pensioner-only buy-ins dominated.



Appendix

Largest buy-ins and buy-outs in the year to 30 June 2023

The last year saw at least 33 deals in excess of £200m, of which at least 16 were worth more than £500m. The largest transactions were RSA Group's £6.3bn transaction with PIC, followed by the two British Steel Pension Scheme transactions with L&G.

	Pension scheme	Provider	Value	Deal type	Date
Buy-ins and buy-outs					
1	RSA Group – Sal Pension Scheme	PIC	£6,255m	Buy-in	Q1 2023
2	British Steel Pension Scheme	L&G	£2,604m	Buy-in	Q1 2023
3	British Steel Pension Scheme	L&G	£2,063m	Buy-in	Q4 2022
4	Safeway Scheme	Rothesay	£1,400m	Buy-in	Q2 2023
5	Mitchells & Butlers	Standard Life	£1,143m	Buy-in	Q2 2023
6	Co-operative Bank	Rothesay	£1,110m	Buy-in	Q4 2022
7	WH Smith Pension Trust	Standard Life	£1,097m	Buy-in	Q3 2022
8	Chubb Pension Plan and Chubb Security Pension Plan	Standard Life	£1,038m	Buy-in	Q2 2023
9	Thomas Cook Pension Plan	Aviva	£870m	Buy-in	Q2 2023
10	Arcadia Group	Aviva	£860m	Buy-in	Q1 2023
11	Morrisons	Rothesay	£730m	Buy-in	Q4 2022
12	Undisclosed	Standard Life	£641m	Buy-in	Q4 2022
13	Pearl Group Staff Pension Scheme	Standard Life	£562m	Buy-in	Q4 2022
14	Cobham Pension Plan	Standard Life	£527m	Buy-in	Q3 2022
15	Undisclosed	Aviva	£525m	Buy-in	Q3 2022
16	GKN Pension Scheme – owner Melrose Industries	Just	£513m	Buy-in	Q1 2023
17	Barloworld	Just	£484m	Buy-out	Q3 2022
18	Undisclosed	Aviva	£435m	Buy-in	Q4 2022
19	Tioxide Pension Fund	L&G	£430m	Buy-in	Q4 2022
20	TT Group	L&G	£400m	Buy-in	H2 2022
21	Interserve Pension Scheme	Aviva	£400m	Buy-in	Q4 2022
22	Amey OS Scheme	PIC	£393m	Buy-in	Q4 2022
23	Undisclosed	Aviva	£390m	Buy-in	Q3 2022
24	Harrods Group Pension Plan	Scottish Widows	£380m	Buy-in	Q2 2023
25	Undisclosed	Scottish Widows	£365m	Buy-in	Q4 2022
26	Coats	Aviva	£350m	Buy-in	H2 2022
27	Yell	PIC	£344m	Buy-in	Q3 2022
28	Undisclosed	Rothesay	£340m	Buy-in	Q3 2022
29	Undisclosed	Just	£336m	Buy-out	Q1 2023
30	Undisclosed	Scottish Widows	£335m	Buy-in	Q2 2023
31	Undisclosed	Standard Life	£320m	Buy-in	Q2 2023
32	Smith & Nephew	Rothesay	£260m	Buy-in	Q2 2023
33	British American Tobacco	PIC	£233m	Buy-in	Q4 2022

Longevity swaps – deals since 2009

Since 30 June 2009, 60 deals have been completed, covering liabilities worth around £142.4bn. In the first half of 2023, £3.3bn of disclosed longevity swaps were completed.

Organisation	Date	Pension schemes	Provider	Value
Babcock	Q3 2009	3	Credit Suisse	£1.2bn
RSA Insurance	Q3 2009	2	Rothesay Life	£1.9bn
Berkshire	Q4 2009	1	Swiss Re	£1.0bn
BMW	Q1 2010	1	Abbey Life	£3.0bn
British Airways	Q3 2010	1	Rothesay Life	£1.3bn
Pall	Q1 2011	1	JP Morgan	£0.1bn
ITV	Q3 2011	1	Credit Suisse	£1.7bn
Rolls-Royce*	Q4 2011	1	Deutsche Bank	£3.0bn
Pilkington	Q4 2011	1	L&G	£1.0bn
British Airways	Q4 2011	1	Rothesay Life	£1.3bn
Akzo Nobel	Q2 2012	1	Swiss Re	£1.4bn
LV=*	Q4 2012	1	Swiss Re	£0.8bn
BAE Systems	Q1 2013	1	L&G	£3.2bn
Bentley	Q2 2013	1	Abbey Life	£0.4bn
Carillion	Q4 2013	5	Deutsche Bank	£1.0bn
AstraZeneca	Q4 2013	1	Deutsche Bank	£2.5bn
BAE Systems	Q4 2013	2	L&G	£1.7bn
Aviva	Q1 2014	1	Own insurer conduit – Munich Re, Scor Se and Swiss Re	£5.0bn
BT	Q2 2014	1	Own insurer conduit – PICA	£16.0bn
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	£2.0bn
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	£0.1bn
Serco*	Q4 2015	1	Undisclosed	£0.7bn
Pirelli Tyres Limited	Q3 2016	2	Zurich	£0.6bn
Manweb Group	Q3 2016	1	Abbey Life	£1.0bn
Unnamed	Q4 2016	1	Zurich	£0.1bn
Unnamed	Q4 2016	1	L&G	£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	£2.6bn
Lloyds Banking Group	Q1 2022	1	Scottish Widows – SCOR	£5.5bn
Undisclosed	Q2 2022	1	Zurich – Partner Re	£1.0bn
USB (UK)	Q3 2022	1	Zurich – Canada Life Re	£0.5bn
Balfour Beatty	Q4 2022	1	Zurich – SCOR	£1.7bn
Barclays	Q4 2022	1	PICA	£7.0bn
Nationwide Pension Fund	Q2 2023	1	Zurich – Prudential Financial Inc	£1.7bn
Yorkshire and Clydesdale Bank	Q2 2023	1	Zurich – Pacific Life Re	£1.6bn
Total to date		60 (deals)		£142.4bn

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

FTSE 100 pension scheme risk transfer deals

The table shows risk transfer deals completed with FTSE 100 companies at the time of the transaction.

FTSE 100 company	Provider	Value	Deal type	Date
3i Group	PIC	£200m	Buy-in	Mar 2017
	L&G	£95m	Buy-in	Apr 2019
	L&G	£650m	Buy-in	May 2020
AstraZeneca	Deutsche Bank	£2.5bn	Longevity swap	Dec 2013
Aviva	Swiss Re/ Munich Re/ SCOR	£5.0bn	Longevity swap	Mar 2014
	Aviva	£1.7bn	Buy-in	Oct 2019
	Aviva	£870m	Buy-in	Nov 2020
BAE Systems	L&G	£3.2bn	Longevity swap	Jan 2013
	L&G	£1.7bn	Longevity swap	Dec 2013
Barclays	Reinsurance Group of America	£5.0bn	Longevity swap	Dec 2020
	Prudential	£7.0bn	Longevity swap	Dec 2022
British American Tobacco	PIC	£3.4bn	Buy-in	Jun 2019
	PIC	£385m	Buy-in	May 2021
	PIC	£233m	Buy-in	Oct 2022
BT Group	PICA	£16.0bn	Longevity swap	Jun 2014
	Reinsurance Group of America	£5.0bn	Longevity swap	Jul 2023
Coca-Cola	Prudential	-	Captive	Q1 2011
Frasers Group	PIC	£604m	Buy-in	Jun 2022
GlaxoSmithKline	Prudential	£892m	Buy-in	Dec 2010
HSBC	Own insurer conduit – PICA	£7.0bn	Longevity swap	Jul 2019
InterContinental Hotels	Rothesay	£440m	Buy-out	Aug 2013
IMI	PIC	£173m	Buy-in	Dec 2022
Imperial Brands	Standard Life	£1.8bn	Buy-in	Dec 2021
	L&G	£230m	Buy-in	Dec 2015
Kingfisher	PIC	£210m	Buy-in	Jan 2018
	Aviva	£910m	Buy-in	Jul 2021
	Just	£110m	Buy-in	Dec 2016
Land Securities	Just	£80m	Buy-in	Dec 2022
	L&G	£925m	APP	Jun 2021
Lloyds Banking Group	Pacific Life Re	£10.0bn	Longevity swap	Jan 2020
	Scottish Widows and SCOR	£5.5bn	Longevity swap	Jan 2022
Melrose	Just	£513m	Buy-in	Mar 2023
	Zurich	£2.0bn	Longevity swap	May 2018
National Grid	Rothesay / L&G	£4.4bn	Buy-in	Oct 2019
	Rothesay	£800m	Buy-in	Dec 2020
Next	Aviva	£124m	Buy-in	Aug 2010
	Aviva	£600m	Buy-in	Oct 2017
Pearson	L&G	£600m	Buy-in	Oct 2017
	L&G	£500m	Buy-in	Feb 2019
	Phoenix	£1.1bn	Buy-in	Mar 2019
Phoenix Group Holdings	Standard Life	£1.0bn	Buy-in	Jul 2021
	Standard Life	£440m	Buy-in	Oct 2021
Prudential	Pacific Life Re	£3.7bn	Longevity swap	Nov 2020
Reckitt Benckiser	Scottish Widows	£415m	Buy-in	Nov 2020
Rentokil Initial	PIC	£1.5bn	Buy-in	Dec 2018
Rolls-Royce	Deutsche Bank*	£3.0bn	Longevity swap	Nov 2011
	L&G	£4.6bn	Partial buy-out	Jun 2019
Smiths Group	L&G	£250m	Buy-in	Mar 2008
	Paternoster	£250m	Buy-in	Sep 2008
	Rothesay	£150m	Buy-in	Dec 2011
	PIC	£170m	Buy-in	Sep 2013
	Canada Life	£176m	Buy-in	Jul 2019
	Aviva	£142m	Buy-in	Sep 2020
	Canada Life	£146m	Buy-in	Nov 2020
	Rothesay	£640m	Buy-in	Jun 2022
Smith & Nephew	Rothesay	£190m	Buy-in	Q2 2013
	Rothesay / L&G	£260m	Buy-in	Jun 2023
SSE	PIC*	£350m	Buy-in	Dec 2016
	L&G	£800m	Longevity swap	May 2017
Taylor Wimpey	Partnership	£206m	Buy-in	Q1 2015
Unilever	L&G	£129m	Buy-in	Q4 2014
United Utilities	L&G	£1.8bn	Buy-in	Jul 2023
WPP	PIC	£250m	Buy-in	Mar 2020
Whitbread	Standard Life	£665m	Buy-in	Jun 2022

*Converted to buy-in since original swap transaction date.

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This update provides an outline summary of our understanding of the buy-out and buy-in market up to June 2023, with some observations of developments to September 2023. For further information, or to discuss any matter raised, please speak to your usual contact at Hymans Robertson LLP or one of the contacts named in this update. The update is general in nature, it doesn't provide a definitive analysis of the subject matter covered and it's not specific to the circumstances of any particular employer or pension scheme. The information it contains is not to be construed as investment advice and should not be considered a substitute for specific advice in relation to individual circumstances. Where the subject of this update refers to legal issues, please note that Hymans Robertson LLP is not legally qualified to give legal opinions; therefore, you may wish to obtain legal advice. Hymans Robertson LLP accepts no liability for errors or omissions.

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