

# Buy-outs, buy-ins and longevity hedging – H2 2022

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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 second half of 2022, and the year to 31 December 2022 ('the last year').

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# Buy-outs and buy-ins – deals during H2 2022

The total value of buy-out and buy-in deals struck in H2 2022 was around £16.0bn. It was around £28.0bn\* for the year to 31 December 2022 – similar to the volume completed in 2021, despite the increase in long-term interest rates, which reduced asset and liability values.

Demand for transactions continued to gather pace during 2022. Market volatility resulted in a busy second half of the year, and the total number of transactions in 2022 was at its highest for nearly 10 years, with more than 200 transactions completed. H2 2022 saw a flurry of transactions as many pension schemes took advantage of the opportunistic insurer pricing available, and with increasing yields many insurers worked hard to meet their capital deployment targets for the year.

The market continued to be dominated by small and medium transactions – only five transactions were worth more than £1bn.

Buy-out and buy-in deals	Number of deals completed				Value of deals completed			
	H1 2022	H2 2022	Total 2022	Total 2021	H1 2022	H2 2022	Total 2022	Total 2021
Aviva	18	32	50	45	£1,860m	£2,575m	£4,435m	£6,165m
Canada Life	4	-	4	5	£343m	-	£343m	£1,008m
Legal & General (L&G)*	20	24	44	44	£3,715m	£3,511m	£7,226m	£5,315m
Pension Insurance Corporation (PIC)	10	12	22	14	£2,371m	£1,718m	£4,089m	£4,700m
Standard Life	6	7	13	7	£1,639m	£3,152m	£4,791m	£5,471m
Just	14	42	56	29	£588m	£2,238m	£2,826m	£1,935m
Rothesay	4	5	9	11	£1,010m	£2,320m	£3,330m	£2,997m
Scottish Widows	2	2	4	1	£430m	£520m	£950m	£80m
<b>Total</b>	<b>78</b>	<b>124</b>	<b>202</b>	<b>156</b>	<b>£11,956m</b>	<b>£16,034m</b>	<b>£27,990m</b>	<b>£27,671m</b>

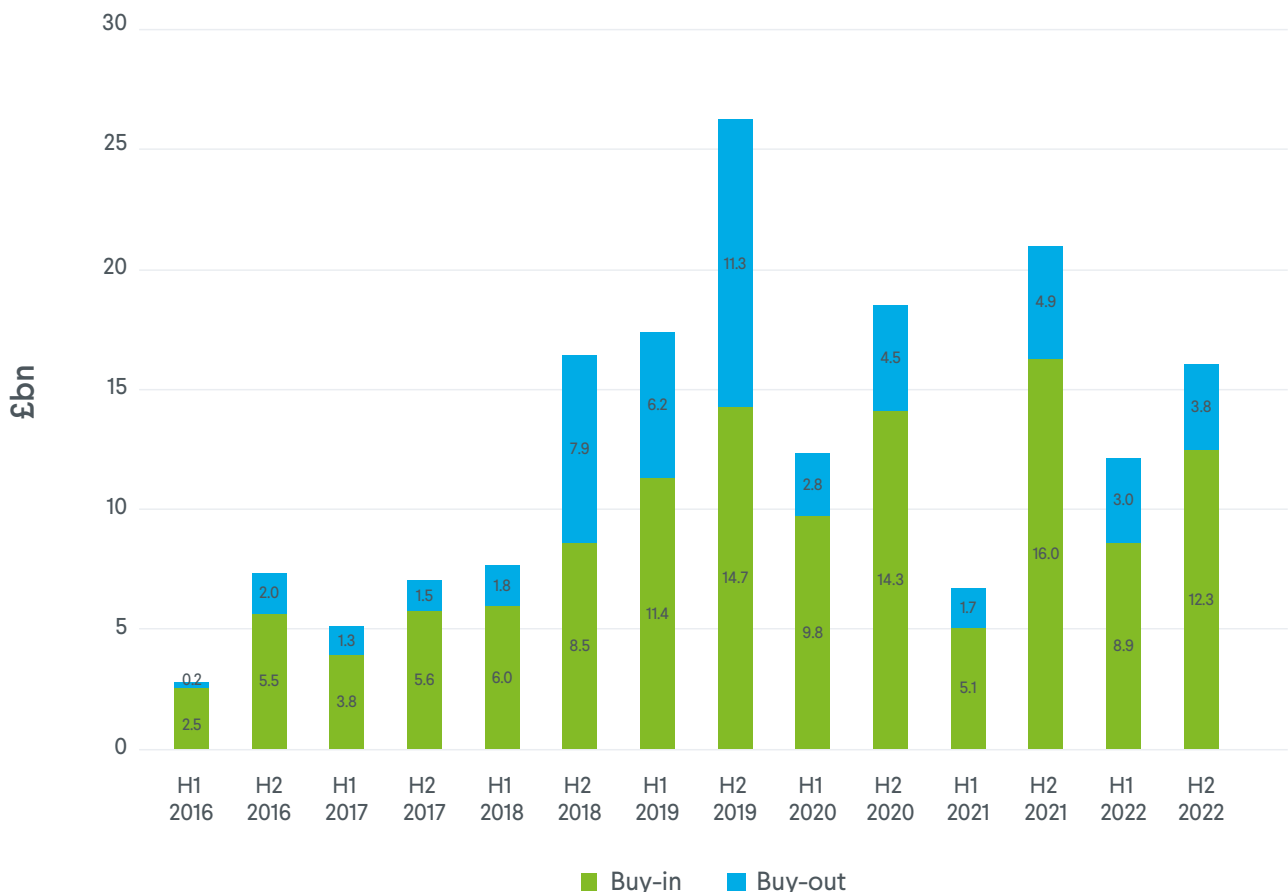
\*Excluding 3 Assured Payment Policy (APP) transactions.

The risk transfer market remained resilient at a time of unparalleled market volatility and challenges for pension scheme trustees. Market volatility led to widening of credit spreads, resulting in excellent pricing opportunities for some pension schemes already in the market during Q4 2022.

Material increases in long-term interest rates led to many pension schemes' buy-out funding levels improving, and buy-out is now a viable target in the short term. The risk transfer market is therefore expected to be extremely busy in 2023 and beyond. Insurers are looking for innovative ways to adapt to the growing demand, and some insurers have already put in place structures for smaller schemes who are prepared to work with that insurer on an exclusive basis.

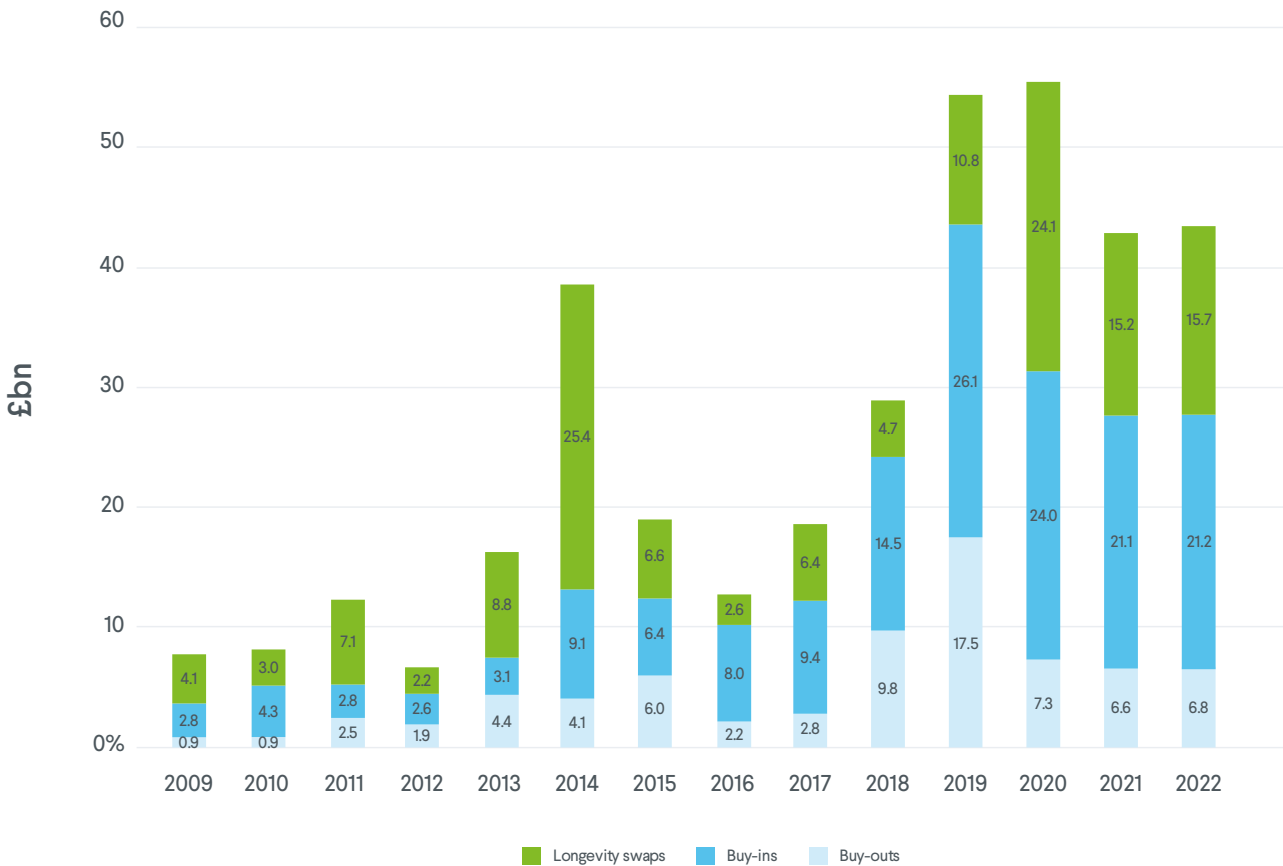
# Buy-ins vs buy-outs

Buy-ins continue to dominate the market. Many schemes are pursuing full-scheme buy-ins rather than gradually reducing risk through partial buy-ins. Over 2021 and 2022, most transactions were partial buy-ins. However, we expect whole-scheme buy-ins to dominate the market from now on. Pension schemes will often avoid moving straight to buy-out, given the work involved and the potential accounting impacts for pension scheme sponsors.



## Buy-ins, buy-outs and longevity swaps

The last year was the fourth successive year where more than £27bn of buy-in and buy-out transactions were completed. It was the third successive year for disclosed longevity swaps to exceed £15bn, with £15.7bn in 2022.



The risk transfer market has steadily grown over the past five years as increasing numbers of DB pension schemes look to implement an endgame strategy. Had interest rates been comparable to previous years, 2022 would have been close to a record year for the market, potentially beating the £43.6bn record set in 2019 for buy-in and buy-out transactions.

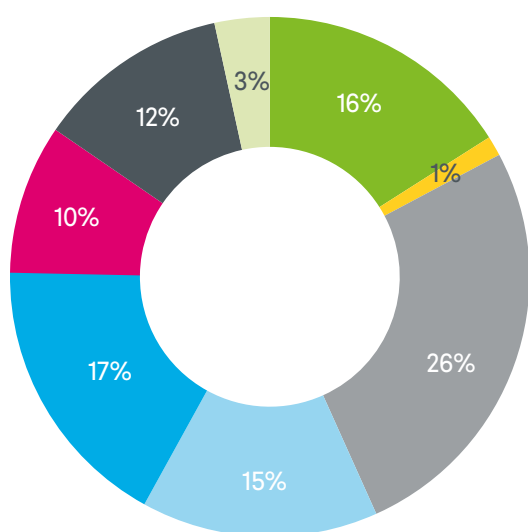
This table shows the ranking of the total value of buy-in and buy-out transactions completed over the previous five years (12 months to 31 December and six months to 31 December).

Year	Total for year (ranking)	Total in second half of year (ranking)
2022	£28.0bn (3rd)	£16.0bn (5th)
2021	£27.7bn (4th)	£20.9bn (2nd)
2020	£31.3bn (2nd)	£18.8bn (3rd)
2019	£43.6bn (1st)	£26.0bn (1st)
2018	£24.3bn (5th)	£16.5bn (4th)

# Buy-ins and buy-outs: Market share (by value) during the year to 31 December 2022

The overall average buy-in / buy-out deal size for the last year was £139m. The decrease from 2021 (£177m) is the result of the increase in long-term interest rates during 2022.

Share of the buy-in and buy-out market (by transaction value) in 2022



- Aviva
- Canada Life
- Just
- Legal & General
- PIC
- Rothesay
- Scottish Widows
- Standard Life

	Total value of deals	Total number of deals	Average deal value
Aviva	£4,435m	50	£89m
Canada Life	£343m	4	£86m
L&G*	£7,226m	44	£164m
PIC	£4,089m	22	£186m
Standard Life	£4,791m	13	£369m
Just	£2,826m	56	£50m
Rothesay	£3,330m	9	£370m
Scottish Widows	£950m	4	£238m
<b>Total</b>	<b>£27,990m</b>	<b>202</b>	<b>£139m</b>

\*Excludes 3 APPs (c£0.1m)

In 2022 four insurers (L&G, Standard Life, Aviva and PIC) held nearly 75% of the market by value. Having completed the largest buy-ins of the year with the British Steel Pension Scheme, L&G held more than a quarter of the market, giving it the largest share.

L&G focuses on transactions of at least £100m, and is typically more selective with smaller transactions. The insurer has introduced a flow scheme proposition to further improve efficiency for small scheme transactions via an exclusive broking process.

Standard Life's share of 17% puts it in second place. During 2022 it secured a £1.1bn transaction with WH Smith and £700m buy-in for the Whitbread Group Pension Fund.

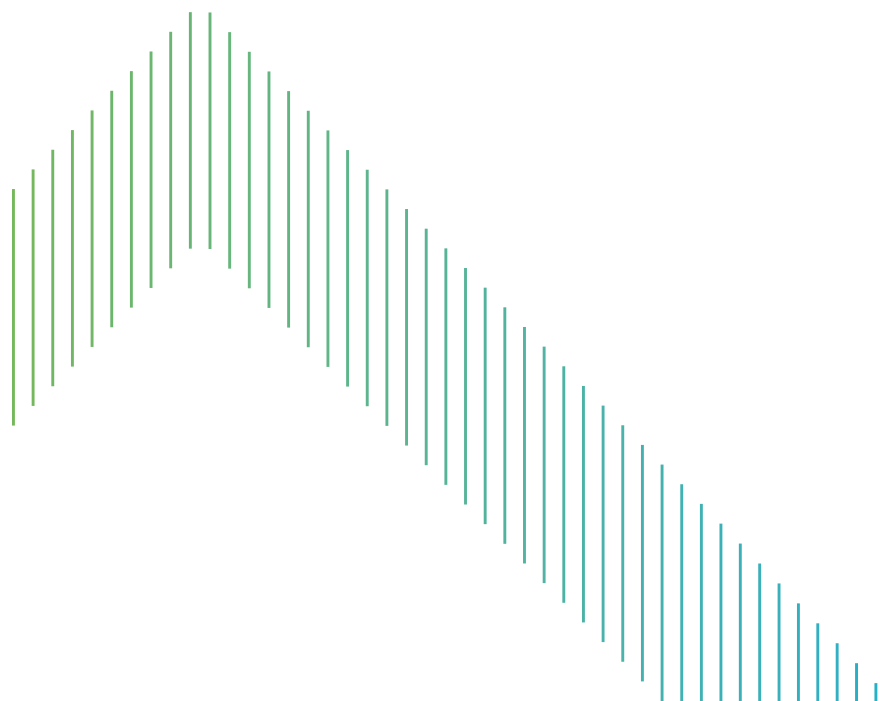
Not far behind is Aviva, with 16% of the market. It transacted the largest buy-out of 2022, worth £600m, and a buy-in of £800m. Aviva is likely to quote across the market, including for small transactions. In 2022 PIC had a 15% market share and transacted on a £1.1bn buy-in for the Electronic Data Systems (EDS) 1994 pension scheme. PIC tends to quote on transactions of all sizes over £50m.

Rothesay tends to focus on the medium and upper end of the market by transaction size. It completed a £1.2bn full-scheme buy-in with the Co-operative Pension Scheme in H2 2022. Rothesay's average deal size in 2022 was the largest of all insurers, at £370m.

Just focuses on small to medium transactions. In 2022 it completed its largest transaction to date, worth £500m, with Barloworld UK Pension Scheme. Just completed the most deals during 2022, transacting on 28% of the total number for the year. Just's average deal size in 2022 was £50m.

Over 2022 Scottish Widows revamped its deferred proposition, and Canada Life built up its proposition. Both insurers now have appetite to write transactions with deferred members. Canada Life tends to focus on transactions up to £500m, whereas Scottish Widows also participates in larger transactions.

Given the expected increase in demand in the bulk annuity industry, insurer appetites are likely to adapt in 2023 and beyond.



# The market in review

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## 2022 in review

As 2022 reached its halfway point, the risk transfer market remained resilient in delivering robust transaction volumes and attractive pricing, despite concerns about rising inflation and economic uncertainty. Then came the 'mini budget' on 23 September. In late September, large yield rises triggered a feedback loop of defined benefit pension schemes selling gilts to deleverage or potentially scale back hedging.

Schemes that could transact in the fourth quarter managed to access excellent bulk annuity pricing opportunities. The prices were partly due to the impact of widening credit spreads, and partly due to gilt yields rising by less than swap yields at a duration similar to that of pensioner liabilities.

As the dust settled after the market volatility, schemes reassessed their endgame journey plans. Most schemes that had not fully hedged against interest rate movements found their funding levels improved, giving them an opportunity to lock in asset gains and reduce the time to full buy-out funding.

Schemes targeting a partial buy-in as the next step on their de-risking journey may have found that more stringent collateral requirements led to delaying when such a step could be taken or reducing the intended transaction size.

Deferred member pricing continued to improve in 2022. The improvement was driven by improved longevity reinsurance pricing and capacity for deferred liabilities, increased access to long-dated assets, greater availability of funded reinsurance and materially shorter liabilities as a result of higher interest rates.

## Market outlook

The pension scheme buy-in market is expected to exceed record highs of £50bn every year for the foreseeable future and could top £70bn in some years. We expect 80% of future bulk annuities to be whole-scheme buy-ins or buy-outs, in stark contrast with the past 16 years, when pensioner-only buy-ins predominated.

Projections show that by 2030, half of all the UK's private-sector DB pension scheme liabilities will have been insured, covering 5m members' benefits and close to £1trn of liabilities. Excellent pricing remains, but the market is no longer simply a buyer's market. Pension schemes need to be smarter than ever in how they prepare and approach the market for buy-in quotations. For example, upfront shortlisting of insurers can be a powerful strategy. For some small schemes, exclusive partnerships will deliver the best results.



# Appendix

## Largest buy-ins and buy-outs in 2022

The last year saw at least 31 deals in excess of £200m, of which at least 15 were over £500m. The largest transactions were the British Steel Pension Scheme transactions with L&G for £2.3bn and £2.1bn, followed by Electronic Data Systems (EDS) 1994 with PIC. The largest buy-out in 2022 was by Aviva and was worth £570m.

	Pension Scheme	Provider	Value	Deal type	Date
<b>Buy-ins and buy-outs</b>					
1	British Steel Pension Scheme	L&G	£2,257m	Buy-in	Q2 2022
2	British Steel Pension Scheme	L&G	£2,063m	Buy-in	Q4 2022
3	Electronic Data Systems (EDS) 1994	PIC	£1,131m	Buy-in	Q2 2022
4	Co-operative Bank	Rothesay	£1,110m	Buy-in	Q4 2022
5	WH Smith Pension Trust	Standard Life	£1,097m	Buy-in	Q3 2022
6	Undisclosed	Aviva	£800m	Buy-in	Q2 2022
7	Morrisons	Rothesay	£730m	Buy-in	Q4 2022
8	Whitbread Group Pension Fund	Standard Life	£680m	Buy-in	Q2 2022
9	Undisclosed	Standard Life	£641m	Buy-in	Q4 2022
10	TI Group (sponsored by Smiths Group)	Rothesay	£640m	Buy-in	Q2 2022
11	House of Fraser	PIC	£604m	Buy-in	Q2 2022
12	Undisclosed	Aviva	£570m	Buy-out	Q1 2022
13	Pearl Group Staff Pension Scheme	Standard Life	£562m	Buy-in	Q4 2022
14	Undisclosed	Aviva	£530m	Buy-in	Q3 2022
15	Cobham Pension Plan	Standard Life	£527m	Buy-in	Q3 2022
16	Barloworld	Just	£484m	Buy-out	Q3 2022
17	Undisclosed	Standard Life	£457m	Buy-in	Q2 2022
18	Tioxide Pension Fund	L&G	£430m	Buy-in	Q4 2022
19	Undisclosed	L&G	£421m	Buy-out	H1 2022
20	TT Group	L&G	£400m	Buy-in	H2 2022
21	Interserve Pension Scheme	Aviva	£400m	Buy-in	H2 2022
22	Amey OS Scheme	PIC	£400m	Buy-in	Q4 2022
23	London Heathrow BAA Pension Scheme	L&G	£370m	Buy-in	Q1 2022
24	Yell	PIC	£370m	Buy-in	Q3 2022
25	Undisclosed	Scottish Widows	£365m	Buy-in	Q4 2022
26	Coats	Aviva	£350m	Buy-in	H2 2022
27	Undisclosed	Rothesay	£340m	Buy-in	Q3 2022
28	De La Rue	Scottish Widows	£320m	Buy-in	Q2 2022
29	Undisclosed	PIC	£276m	Buy-in	Q2 2022
30	Undisclosed	Rothesay	£240m	Buy-in	Q2 2022
31	Newell Rubbermaid	L&G	£225m	Buy-in	Q1 2022

## Longevity swaps – deals since 2009

Since 30 June 2009, 58 deals have been completed, covering liabilities worth around £139bn. In 2022, £15.7bn of disclosed longevity swaps were completed.

Organisation	Date	No. of schemes	Provider	Approximate value
Babcock	Q3 2009	3	Credit Suisse	£1.2bn
RSA Insurance	Q3 2009	2	Rothsay Life	£1.9bn
Berkshire	Q4 2009	1	Swiss Re	£1.0bn
BMW	Q1 2010	1	Abbey Life	£3.0bn
British Airways	Q3 2010	1	Rothsay 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	Legal & General	£1.0bn
British Airways	Q4 2011	1	Rothsay 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	Legal & General	£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	Legal & General	£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	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	£2.6bn
Lloyds Banking Group	Q1 2022	1	Scottish Widows - SCOR	£5.5bn
Undisclosed	Q2 2022	1	Zurich - Partner Re	£1.0bn
UBS (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
<b>Total to date</b>		<b>58 (deals)</b>		<b>£139.14bn</b>

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

## FTSE 100 pension scheme risk transfer deals

The table shows risk transfer deals completed with current FTSE 100 companies.

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
	Swiss Re/ Munich Re/ SCOR	£5.0bn	Longevity swap	Mar 2014
Aviva	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
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	Rothsay	£440m	Buy-out	Aug 2013
Imperial Brands	Standard Life	£1.8bn	Buy-in	Dec 2021
Kingfisher	L&G	£230m	Buy-in	Dec 2015
	PIC	£210m	Buy-in	Jan 2018
	Aviva	£910m	Buy-in	Jul 2021
Land Securities	Just	£110m	Buy-in	Dec 2016
	Just	£80m	Buy-in	Dec 2022
Legal & General	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
	Zurich	£2.0bn	Longevity swap	May 2018
National Grid	Rothsay and L&G	£4.4bn	Buy-in	Oct 2019
	Rothsay	£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 Group Holdings	Phoenix	£1.1bn	Buy-in	Mar 2019
	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
	Rothsay	£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
Rothsay	£640m	Buy-in	Jun 2022	
SSE	PIC*	£350m	Buy-in	Dec 2016
	L&G	£800m	Longevity swap	May 2017
Smith & Nephew	Rothsay	£190m	Buy-in	Q2 2013
Taylor Wimpey	Partnership	£206m	Buy-in	Q1 2015
Unilever	L&G	£129m	Buy-in	Q4 2014
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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