Reaching cruising altitude

Navigating demand and supply in the buy-in and buy-out market

OCTOBER 2024

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We have been publishing a report on the buy-in, buy-out and longevity swap market since 2007. The report, now in its 18th year, looks at the opportunities for sponsors and trustees to transfer the risks associated with defined benefit pension schemes.

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Beat the triage: Hints & tips

LCP's market-leading credentials since the start of 2023:

Market share

27%

LCP's market share by volume – the highest of any adviser

Larger deals

Lead transaction adviser on

9 buy-ins over £1bn

Smaller deals

LCP has led **29** smaller streamlined buy-ins / outs totalling

over £1.5bn

Welcome to LCP's 2024 report

Introduction

Last year we saw a seismic shift in the market, with demand for buy-ins and buy-outs rocketing on the back of improved funding levels, and insurers reporting a 50%+ increase in the number of pension schemes seeking quotations.

Coming into 2024, we've seen dynamics stabilise as market volumes reach 'cruising altitude'. The first half of the year saw record activity driven by growth at the smaller end of the market, and with a flurry of £1bn+ deals in the second half we expect that 2024 volumes will close a little below the record £49.1bn volumes in 2023.

There have also been significant regulatory, market and industry developments in the last couple of years, and with funding much improved, there is a wider range of endgame options and timescales being assessed.

In this report we consider whether insurance – through a buy-in or buy-out – is still going to be the ultimate end-goal for the majority of pension schemes. What will demand for pension buy-ins / outs look like in the future? And what do these changing demand dynamics mean for those pension schemes who are carrying out transactions?

We hope you enjoy reading our analysis and we would be delighted to discuss how we can help you work through the implications for your pension scheme.

Imogen Cothay
Partner

Ruth Ward
Principal

Charlie Finch
Partner

Key conclusions

Buy-out funding levels and demand for insurance continues to be high. There is increased interest from pension schemes for longer-term run-on and alternative endgame strategies, but for most schemes the key question remains 'when' not 'if' they insure some or all of their liabilities.

This dynamic, combined with some schemes simply taking more time to prepare for a transaction, is **having a smoothing effect on future demand.** Our projections show a slight dampening over the next 5 years with higher demand in later years and demand remaining at c£400bn to c£600bn over the next decade.

At the same time, we've seen an **expansion in insurer capacity to comfortably support over £50bn of annual new business at competitive pricing,** with established insurers and new entrants contributing positively to the market.

Taken together these dynamics are positive for pension schemes approaching the market. Schemes currently running processes are experiencing **some of the best full scheme buy-in pricing** we have seen for years, and appetite and engagement from a wide range of insurers.

Looking ahead, with increasing pressure on insurers and administrators **as more schemes move to buy-out,** it is more important than ever to use an experienced specialist to ensure post-transaction processes avoid bottlenecks and delays.

> *The stabilisation of market dynamics is putting pension schemes back into the driving seat, and delivering great outcomes for trustees, sponsors and members alike.*

LCP powering possibility

1 Is insurance the right answer for your scheme and, if so, when?

2024 has seen a marked increase in schemes assessing their endgame strategies and considering alternatives to insurance. In our experience, it remains a question of 'when' not 'if' a scheme should fully insure and buy out its liabilities, and what it aims to achieve on its journey.

Ruth Ward, Principal, LCP

Is insurance the right answer for your scheme?

UK schemes are actively considering an expanding range of alternatives to full insurance

Why now is a good time to be thinking about your endgame strategy

There have been significant recent changes in the DB pension landscape (see table). Affordability of full buy-out has increased sharply for many schemes, driving the record insurance activity last year through buy-ins and buy-outs.

The position in 2024 is more nuanced. Trustees with well-funded schemes years ahead of schedule but no 'burning platform' to transact a short-term buy-out are taking stock in key areas (data readiness, benefit certainty, illiquid asset run-off, member experience etc) and defining their principal objectives for an endgame strategy. Sponsors are considering whether deferring buy-out (ie longer-term run-on) can provide better value for both them and scheme members. This debate has been fuelled by the proposed Mansion House reforms and a rise in pensioner action groups lobbying for discretionary pension increases or other surplus sharing, as well as increased media scrutiny. Amidst the noise, trustees are having to balance the opportunities and risks and deliver on their fiduciary duties to act fairly in the interests of beneficiaries.

Evidence of a changing mindset

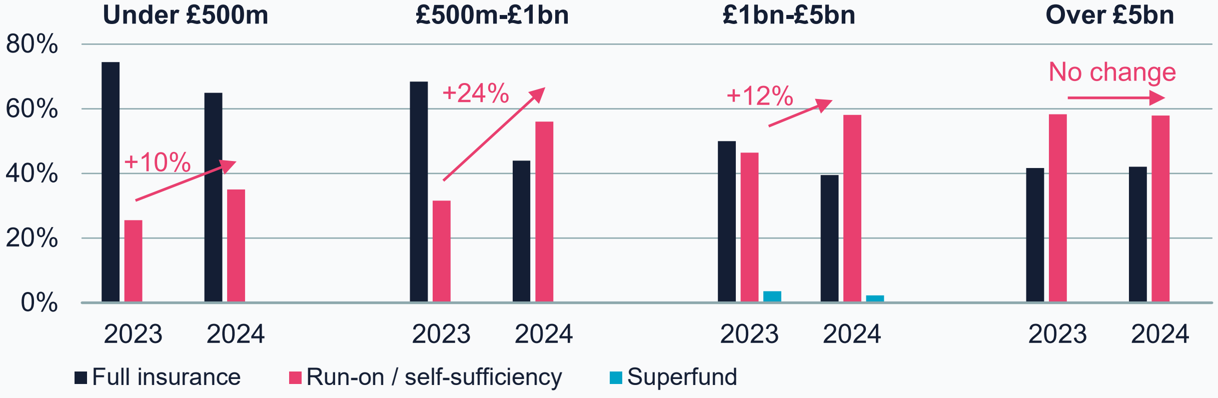
Our 2024 survey showed a marked increase in schemes considering run-on strategies versus full insurance at an earlier stage, except for giant schemes over £5bn (see chart).

However, as we go on to explore, there are many factors which feed into the decision on a scheme's preferred endgame strategy, and it pays to keep any strategy under active review. Often the question is 'when' not 'if' full insurance makes sense, and it is the intermediate journey that is the subject of much debate, with the holy grail a 'win, win, win' solution – offering additional value for members and sponsors, and a high level of security over the long-term benefit promises.

2022-24 developments influencing UK DB schemes' endgame strategies

Regulatory	Market	Industry
New DB funding regime	Higher gilt yields and volatile inflation	Growing understanding of systemic risks of different endgames
Solvency UK developments	Increased buy-out funding levels for many schemes	Revised leverage ratios and LDI collateral requirements
DB options consultation	Record 2023 buy-in / out numbers and volumes	Innovation in capital backed options and other solutions
New superfund guidance	First superfund transfers	Sensitivities around use of surplus and loss of discretionary benefits on insurance

Proportion of schemes of different sizes targeting alternative endgames



Source: LCP 2023 and 2024 annual DB pension scheme survey

How do the current endgame options compare?

What potential endgame options are available?

Options that keep the sponsor in place
('**on balance sheet**' options)

Run-on / self-sufficiency

Invest assets in line with risk appetite – normally for a finite period – with sponsor support.

Buy-ins / longevity swaps

Both hedge longevity risk as part of a run-on strategy. A full buy-in could be held on a long-term basis.

Captive based insurance

Scheme undertakes a buy-in with some risks reinsured to a sponsor-backed captive insurer.

Capital-backed arrangements

External capital used to support a (typically) higher risk investment strategy as part of journey to ultimate endgame target.

Options that remove the sponsor
('**off balance sheet**' options)

Buy-in then buy-out

Buy-in policy replaced with individual policies between member and the insurer. Scheme can then be wound-up.

Traditionally seen as 'gold standard' off balance sheet option for trustees and sponsors who can afford it.

Superfunds

Scheme's assets and liabilities transferred to 'superfund' scheme supported by external capital in lieu of sponsor support.

Permitted where no realistic prospect of buy-out in foreseeable future.

Potential endgame option / target

Part of journey to ultimate endgame

How do the options compare?

Key benefits

On balance sheet

- Trustee control, eg over investments / discretions
- Potential to generate surplus, eg to provide discretionary increases / fund DC contributions
- Flexibility to take advantage of future developments / innovations (eg a potential public sector consolidator)
- Buy-ins / longevity swaps can help manage risk

Off balance sheet

Insurance

- Maximum level of risk reduction for trustees and sponsor
- Buy-out a well-established exit option for trustees
- High level of covenant protection and member security provided through PRA-regulated insurance regime
- Potential to use any surplus for benefit of members and/or sponsor on wind-up

Further considerations

On balance sheet

- Regret risk if buy-out affordable but not implemented and funding position deteriorates
- Current (unhedged) risks remain – supported by sponsor covenant
- Ongoing running costs and governance requirements remain
- Careful consideration required if allocating surplus on an ongoing basis

Off balance sheet

- Discretions need to be codified
- Insurers may not be able to replicate all bespoke benefit features / options
- Some 'residual risks' may remain, which could be covered by a sponsor indemnity
- Superfunds have limited track record compared to insurers, so greater focus on security and member experience

What might drive analysis of the right endgame?

How might different factors influence a scheme's endgame decision

There are a myriad of factors that will feed into a scheme's endgame decision, and almost as many lenses through which they may be viewed – member / trustee / sponsor perspective, short- / medium- / long-term horizon, likelihood / timing of future developments etc.

We've taken a closer look at some of these below, but other important considerations include stakeholder views, member expectations, the accounting impact, the costs and governance time involved, and responsible investment ambitions.

Also, potential regulatory reform / market / legal developments (eg issues like the Virgin Media case), appetite for risk and reputational concerns, membership profile / maturity, and current pricing levels / ability to respond to future opportunities.

Member experience, including availability of / terms for member options and application of benefit discretions, is also a key driver which we explore in more detail later in the report.

Illustrative factors that may influence a scheme's endgame decision: key questions and considerations

	On balance sheet	Off balance sheet
Risk appetite and views on surplus	• Is there appetite to grow surplus beyond buy-out affordability (eg to fund discretionary pension increases or DC contributions)? • What are the potential cash funding requirements and how might these change under different scenarios (eg de- / re-risking)?	• Is a buy-out affordable immediately? If not, over what period is it expected to be on the trustees' / sponsor's preferred terms? • What are the scheme rules on wind-up and use of surplus?
Investment strategy / illiquid assets	• Scheme maintains investment flexibility and risks • Avoids potential haircut on early redemption of any illiquid assets • Can use insurance to manage longevity risk as part of strategy	• Removes exposure to investment risk (and potential upside) • Can a cost-effective solution be found for any illiquid assets? • Removes all running costs
Covenant	• Scheme remains reliant on sponsor covenant, eg in a downside event is additional support available if running on beyond point of buy-out affordability / sponsor covenant reliability period? • Members retain protections of the TPR funding regime and PPF	• Members rely on insurer / superfund long-term financial strength • Member protections would change under buy-out – FCA / PRA insurance regulatory regime and Financial Services Compensation Scheme

How does member experience compare?

It's important members are well supported at each stage of a scheme's journey

When weighing up the pros and cons of run-on versus transferring to an insurer (or superfund) it's important to consider the experience your members will have and any timing considerations around this. For example, the member interface at retirement is often highly important, and trustees rightly focus carefully on processes for offering member options and crystallising benefits.

In general, insurer standards of administration are high and many members will see an improvement in service after a buy-out. That said, for schemes that have invested in providing a bespoke member experience (for example through online portals, bespoke options, or provision of an IFA), it will be important to understand whether some or all of these features could be retained after buy-out – see our summary table below.

	Current status / in run-on	Post full buy-out
Member status	Member of pension scheme	Insurer policyholder
Member benefit discretions	The trustees determine how to exercise any member benefit discretions	Insurer will pay benefits insured in line with the way they have been codified by the trustees
Member option terms (eg transfer values and cash commutation at retirement)	The trustees set the member option terms in line with the scheme rules – this could include bespoke options such as pension increase exchange at retirement	Most standard and some bespoke options offered Member options calculated on insurer's terms (potentially adjusted at outset to better align with scheme terms) - these are typically updated more frequently than scheme factors
Administrator of member benefits	Trustees' administrator – typically 5-10 day Service Level Agreements (SLAs). Many third-party administrators (TPAs) are currently resource constrained by industry-wide projects, eg GMP equalisation and pension dashboards, plus data cleanse activity	Administration will move to the insurer – typically lower target SLAs (see page 20). Some insurers use TPAs, but have a ring-fenced team, ie protected resource, typically with more ability to flex this to accommodate higher demand
Member online offering / IFA support	Current approach. Whether an online offering or Independent Financial Adviser (IFA) support is available is scheme specific – some schemes have chosen to provide such additional services but the quality and effectiveness varies	Our research shows that 8 out of the 9 insurers have an online offering for policyholders, with varying levels of functionality (see page 20). One insurer is currently offering access to financial advice to retirees
Member complaints	Trustee Internal Dispute Resolution Procedures (IDRP) and Pension Ombudsman – some discretion for administrator and trustees	Insurer with Financial Conduct Authority (FCA) supervision and Financial Ombudsman – requirement to treat 'any expression of dissatisfaction' as a complaint
Member communications	The trustees can tailor for their membership	Insurers have expert teams to put together high-quality communications
Overall	**Pros:** scheme-specific knowledge, control over benefits / processes, enhanced offerings for some schemes (eg member portal with high functionality) **Cons:** TPA resource constraints potentially affecting experience / service levels	**Pros:** significant investment in continuing service improvements / enhancements (see page 20), strict regulatory requirements for member complaints and more support for vulnerable members **Cons:** less flexibility over benefit options, trustees lose control over discretions / option terms, some insurers may not be able to replicate current bespoke member experience features

Insurance: is the real question 'when' not 'if'?

Run-on strategy includes deciding when and in what circumstances to insure and buy-out

Why many schemes may ultimately wish to insure and transfer off balance sheet

The decision between run-on and full insurance is not binary. Whilst run-on in theory could be forever, in practice for most schemes it will be for a finite period. Over 90% of DB schemes are closed to new members[1] so will naturally mature over time. At some point it will make sense for most schemes to pass the ongoing management and stewardship to an insurer or other consolidator and benefit from scale.

What drives the timing of this?

In short, the same factors as per page 7. For lots of schemes, the answer will be, 'as soon as practicable', having spent years working towards such a goal and, in many cases, having now found it within reach.

Others will choose to deliberately delay moving to full insurance to achieve better value overall. For example:

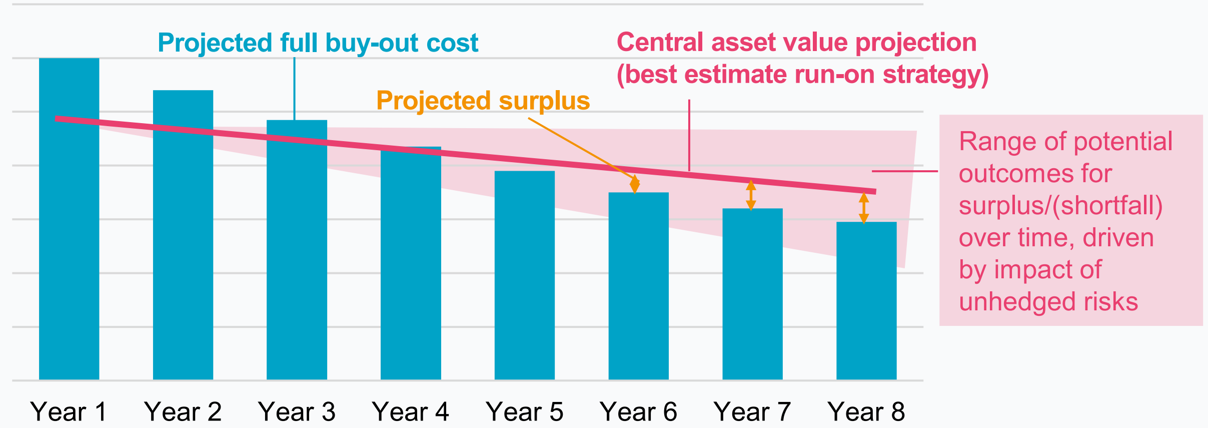
- To complete certain cleansing activities on price-sensitive data items and/or due diligence on scheme benefits – particularly important where residual risk cover is being sought;
- Until more of the membership has retired – allows the trustees to control the service members receive (eg where the scheme offers a bespoke member option or a complex at-retirement benefit that is not easily insurable), and should be structurally cheaper; or
- Until illiquid assets have run off (eg to avoid haircuts on a secondary market sale).

What about an objective to deliberately grow and share surplus over time?

A growing number of schemes are considering running on past the expected point of full buy-out funding, with plans to generate a surplus (see diagram) which could be shared between the sponsor and members – either on an ongoing basis or at the point of future wind-up.

[1]Source: The Pension Protection Fund's Purple Book 2023

Illustrative impact of medium-term run-on on cost of full buy-out and estimated surplus



Motivations for running on to aim to generate a surplus can vary, but include:

- Providing discretionary pension increases / augmented benefits to members;
- Funding contributions for accruing benefits (eg for a DC section within the same trust); or
- Pursuing an ESG agenda (eg through investing scheme assets to support the green energy transition or social housing initiatives).

To make such a strategy a genuine 'win, win, win' approach, trustees need to carefully consider their fiduciary duties and have a robust framework to provide suitable comfort over benefit security during the run-on period, eg building in suitable downside protection against sponsor covenant and funding / investment risks, often with contingent assets.

Finally, whatever the endgame strategy, given the rapidly evolving landscape, it's more important than ever to keep it under active review to be able to respond efficiently to changing circumstances.

2 The evolving demand and supply dynamics in the buy-in / out market

As schemes assess their strategic endgames and insurers ramp up their capacity, the market is reaching maturity with more stable dynamics.

Charlie Finch, Partner, LCP

Projected growth in demand for buy-ins and buy-outs

UK schemes are actively considering an expanding range of alternatives to buy-out

To assess potential demand from pension schemes for buy-ins and buy-outs over the next decade, we have conducted analysis to project buy-out funding levels into the future. From this, by making assumptions about the proportion of schemes that will seek to fully insure and when, we can estimate how potential future demand may develop.

How have buy-in / out funding levels changed over the year?
We estimate that c20% of schemes that have not yet been insured are fully funded on a buy-out measure. Additionally, there's a further c30% of schemes projected to reach full funding on buy-out within the next five years.

Average funding levels for non-insured schemes have improved slightly over the year but this average has been offset by some of the better funded schemes moving to full buy-in. The improvement in funding has predominantly been driven by particularly competitive insurer pricing over 2024 – this is discussed further in section 3.

What are the key drivers of projected demand?
The key drivers of projected demand are:

1. the expected pace of improvement in funding (for those schemes not yet fully funded on buy-out); and
2. the strategic decisions on endgame strategy being taken by trustees and corporate sponsors.

Our demand projections include complex assumptions on the decisions around the nature and duration of endgame strategies that will be pursued.

This year we have adjusted our assumptions to take account of the latest evidence on the endgame strategies that schemes are considering in light of the recent regulatory, market and industry developments set out in section 1. This includes an assumption that schemes may run-on for a slightly longer period before moving to insurance and that others will take more time to prepare before entering into a transaction.

The top of the projected range assumes that the majority of schemes choose to insure when it becomes affordable to do so, with the bottom of the range allowing for a much greater proportion of schemes choosing to run-on, even after reaching full buy-out funding.

We estimate that average full buy-in / out funding levels have improved slightly over the year – with 50% of schemes now fully funded or within 5 years of being fully funded on buy-out – in large part driven by highly competitive insurer pricing across the market.

With schemes so well funded, the greatest influence on future demand for buy-ins /outs will increasingly be schemes' decisions on endgame strategy.

Projected growth in demand for buy-ins and buy-outs

UK schemes are actively considering an expanding range of alternatives to buy-out

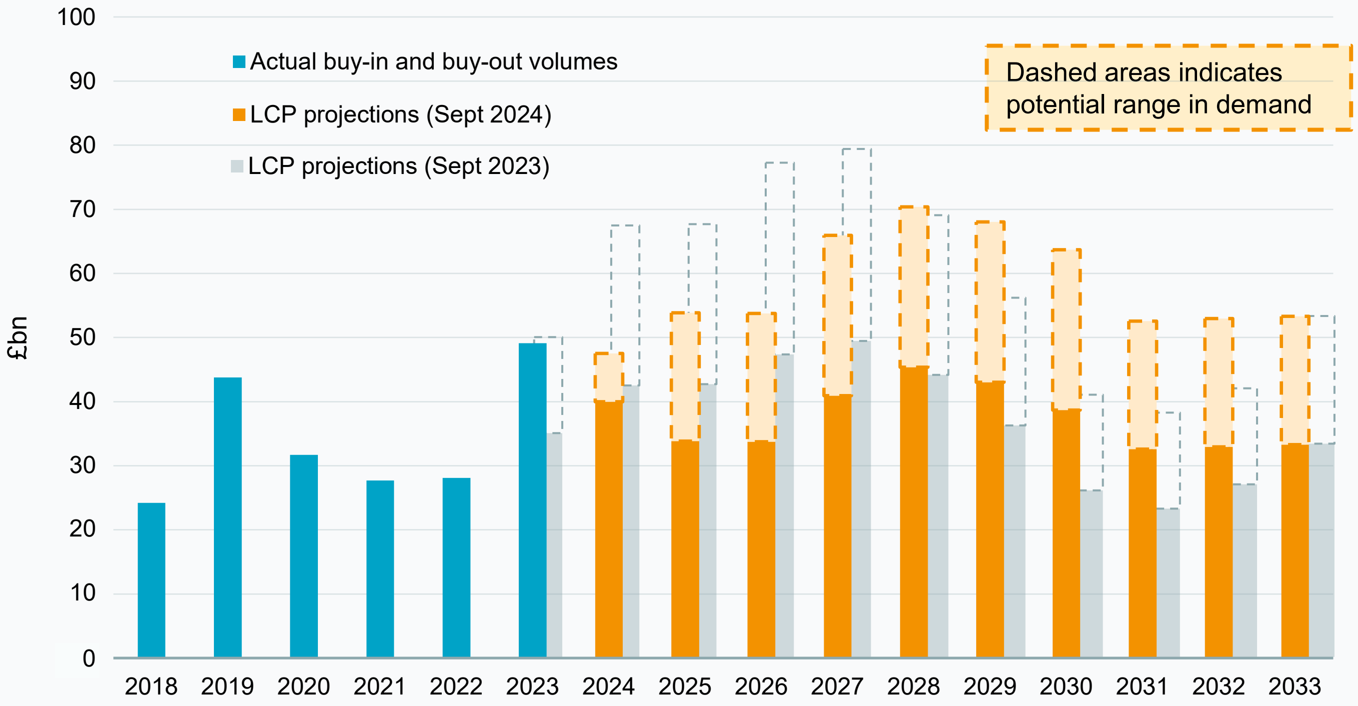
How have our demand projections changed?

The chart opposite shows our projections for future buy-in and buy-out volumes over the next decade, with total volumes estimated to be in the range of c£400bn to c£600bn.

Whilst these total volumes are broadly unchanged from our previous analysis, the projections show a shift in the shape of future demand for buy-ins and buy-outs:

- Compared to previous projections, we expect there to be a modest dampening of demand over the next five years. This reflects that, as set out in section 1, there has been an uptick in schemes choosing to run-on for a period prior to moving to full buy-in and others simply taking more time to prepare. This effect reduces our central projected demand by c£25bn to £40bn over the next five years.
- In contrast, volumes in the early part of the 2030s are projected to increase as schemes that have previously delayed or been in a run-on strategy choose to move to full insurance – leading to additional projected demand of c£35bn to £60bn over 2029 to 2033.

Projected buy-in and buy-out volumes over the next decade



Source: LCP analysis. Note this analysis only considers buy-ins and buy-outs with a UK pension scheme, and in particular it excludes Rothesay's acquisition of the c£6bn Scottish Widows bulk annuity portfolio from Lloyds Banking Group in 2024.

LCP's projection of buy-in /out demand remains at £400bn to £600bn over the next decade. Compared to last year, the demand profile is flatter over the next five years, with the demand projected to arise later than previously projected.

Expanding insurer transaction capacity

There have previously been concerns about whether insurer capacity at competitive pricing levels is sufficient to keep pace with pension scheme demand. There are four key constraints on insurer capacity:

- **Resource constraints**: to process transaction opportunities and onboard schemes;
- **Reinsurance capacity**: most longevity risk is reinsured, so reinsurance capacity to quote and take on larger volumes of longevity risk is a potential limiting factor;
- **Insurer asset pipelines**: to provide attractive pricing, the insurers need sufficient availability of suitable long-dated assets with attractive risk-adjusted returns; and
- **Capital:** insurers need to put up new capital to write business.

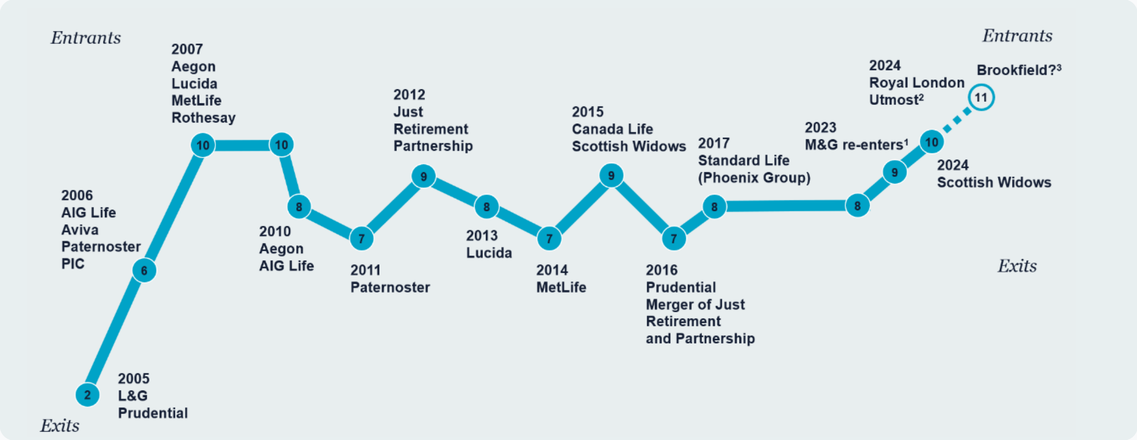
Insurer capacity has expanded over the past year and we estimate the market could now comfortably support over £50bn of annual business at competitive pricing levels. Operational resource, which had previously been a key insurer constraint, has eased as insurers have expanded their quotation teams and implemented new technologies and processes to streamline operations (particularly at the smaller end of the market). The use of funded reinsurance has also helped bolster capacity from certain insurers.

Furthermore, a number of new insurers have entered the market, potentially taking the market to a record 11 active insurers:

- **M&G** and **Royal London** each wrote a further c£0.3bn transaction in the first half of 2024, with Royal London since confirming completion of their first deal with an external scheme in July;
- **Utmost** recently announced that it now has Board approvals to write new deals; and
- It has been reported that **Brookfield** is seeking to establish a new insurer and has applied for PRA approval to enter the market.

This flurry of new entrants illustrates the growing interest in the pension risk transfer market, both from established insurers and new long-term investors to the market.

Buy-in / out market participants reach record numbers



[1]M&G was formed from the de-merger of Prudential plc in 2019 with the UK insurance business becoming part of M&G plc
[2]Utmost Life and Pensions gained Board approval in September 2024 to formally enter the bulk annuity market.
[3]In July 2024 it was reported that Brookfield plans to enter the UK bulk annuity market later in the year

The new entrants bring additional capital and further competition, particularly for smaller and mid-sized deals. Their impact is limited to date (having written only c£2bn between them to the end of H1 2024) but we expect them to make a bigger impact on the market in 2025. With pension schemes seeking to achieve a first-class outcome across price, terms and member experience, new entrants will need to prove they have the wider capabilities to establish a significant market presence.

We estimate that insurers could comfortably support over £50bn of annual business at competitive pricing levels, after insurers have significantly ramped up their new business operations – meaning there is spare capacity against estimated 2024 volumes. So far the new entrants have only had a modest impact, but they have the potential to add further material capacity to the market over time.

Insurer implementation capacity

Should schemes be concerned about post-transaction bottlenecks?

Not only have transaction numbers increased – H1 2024 saw a record 133 buy-ins – but over 95% are full buy-ins which take significantly more implementation work compared to pensioner buy-ins. This has led to a huge growth in the workloads for insurers' post-transaction implementation teams.

The usual next step following a full buy-in is to complete a full data cleanse, often as a precursor to buying out and winding up the scheme. This is a complex process that can take a number of years to complete.

Typical post-transaction workstreams

Operations during buy-in

Scheme administrator and insurer liaise to ensure benefit payments, calculations and day-to-day admin continues during buy-in, including implementing insurer member option terms and changes to calculation routines.

Member communications

Provide members with the right information at the right time to reassure them about the changes. Ensure compliance with statutory notice requirements throughout.

Data cleanse

Review and address issues with scheme data and benefits, which can be extensive. Final tracing of members and verification exercises. Settling balancing premium.

Other benefits / surplus assets

Benefits outside the buy-in will need to be addressed, such as AVCs, DC accrual, historic annuities etc - this needs specialist advice. There may also be surplus assets to manage.

Admin and payroll handover

Ensuring a smooth transition from scheme administrator to the insurer including issuing individual policies to members and taking over the regular payroll.

Final wind-up

Trigger wind-up at the right time and complete all necessary tasks: notifying authorities, settling final costs, managing residual assets, final accounts and run-off insurance.

What are the current challenges?

Post-transaction work involves multiple workstreams and decisions requiring input from insurers, administrators, legal advisers, actuarial teams, trustees and sponsors.

Some key challenges the industry is facing include:

- Bottlenecks at pension scheme administrators (who are also having to navigate large industry-wide projects like GMP equalisation and Dashboards);
- Challenges for insurers in recruiting experienced people meaning limited resource and so implementation slots having to be booked well in advance…
- …with the result that any delays can mean losing your position in the queue, putting overall timetables at risk, and creating tension between different parties.

These pressures are going to become significantly more pronounced over the next few years given the rapid projected growth in insurer implementation pipelines.

The exponential growth in the number of schemes that insurers are moving to buy-out

Growth in the past 2 years

Insurers report

2x

more schemes moving to buy-out in 2024 than in 2022

Projected future growth

Insurer pipelines have

2x

the number of schemes set to move to buy-out in 2025 and beyond than are set to do in 2024

How can schemes mitigate post-transaction risk?

Having the right resource and expertise in place is key to a successful buy-out and wind-up

It's no secret that the industry will need more resource over the next few years to cope with the number of schemes that are expected to go through buy-out and wind-up. There are reasons to be confident that the insurers are prepared – we have seen them respond well to increased demand for buy-in transactions. But there will inevitably be challenges due to the sheer volume of schemes moving to buy-out and wind-up.

Mitigants to post-transaction risk

Insurers are recruiting heavily to handle post-transaction work in their pipeline. This is a consistent message from our engagement with all the insurers in the marketplace.

As more schemes complete buy-out, the **depth and breadth of experience** will improve, making the experience smoother in future as processes bed-in.

Insurers and other providers are investing in **enhancing automated processes** (eg member calculation tools) and exploring **technological solutions such as AI** to help increase capacity.

Potential headwinds to post-transaction risk

Hard to find the right skills and experience at present. New personnel may have little experience of this part of a scheme's journey, or even of defined benefit pensions altogether.

More schemes present more challenges as every scheme is unique. The exact route to buy-out will be different for all of them. Bespoke solutions will be needed for scheme-specific challenges.

Missing data cleanse deadlines agreed with insurers can put the whole project timetable at risk. There is heavy reliance on administrators for data cleanse work alongside other demanding projects and BAU administration.

Trustees and sponsors should make sure their buy-out and wind up is carefully managed

Schemes only get to buy-out and wind-up once.

Appointing a specialist with expert project management capabilities and deep experience in this area can complement the scheme knowledge and technical expertise of existing advisers and the insurers' transition teams. This will help trustees and sponsors to challenge providers and ensure their scheme gets the attention it deserves at the crucial final stages of its journey.

With increasing pressure on insurers and administrators over the coming years as more schemes move to buy-out, it is more important than ever to use an experienced specialist to run a post-transaction and buy-out process.

Case study

A 'win win' for members and company, achieved through efficient execution of the transition to buy-out

Buy-in signed: August 2022
Buy-out executed: August 2024

WH Smith Pension Trust

13,000 members

Background

Read full buy-in press release for additional background

- In August 2022 the WH Smith Pension Trust completed a £1bn full buy-in with Standard Life – this included both DB and DC benefits.
- The buy-in was achieved at pricing that resulted in a significant surplus arising to be shared between Trust members and the corporate sponsor – as soon as possible.
- The Trust was the largest DB pension scheme to transition to buy-out with Standard Life; this transition was managed at a time when Standard Life were also onboarding a new Third Party Administration (TPA) provider for its bulk annuity business.

Our solution

LCP's post-transaction specialists worked with the Trust's other advisers and with Standard Life to draw-up and deliver a project plan that optimised execution efficiency. In order to do this, we challenged conventional processes by identifying every area in which workstreams could be run in parallel to minimise periods of inactivity whilst ensuring a robust wind-up process.

In addition to maintaining momentum through rigorous project management, LCP:

- Provided actuarial advice (including specialist advice to inform the Trustee's decision on an appropriate rate of inflation for pensioners) to support the process of enhancing members' benefits and negotiating insuring these cost-effectively.
- Worked collaboratively with Standard Life to implement a Winding-Up Lump Sum (WULS) exercise, agree calculations, ensure implementation of the buy-in policy contract and facilitate smooth transition of administration.
- Managed the sequencing of multiple steps to ensure efficient return of surplus to the corporate sponsor, from the process of statutory notifications through to the practicalities of transferring cash and an illiquid asset out of the Trust once all benefits had been secured.
- Provided additional resources to support the transition process including the drafting of member communications, provision of specialist DC advice and – through our Data Services Team – supporting the Trust's administrator on specific data cleanse workstreams.

LCP has a super-experienced and well-resourced team, that gives us confidence that post-transaction processes will be managed efficiently. If circumstances change, they will know how to adapt and can bring in additional support as required.

Standard Life

Outcome

- The transition to buy-out was completed in just 2 years – a considerably shorter period than would otherwise be the case for a scheme of this size.
- Members received enhancements to their guaranteed benefits.
- All member benefits are now fully secured with a PRA regulated UK life insurer.
- The Trustee board was fully discharged of its obligations.
- The corporate sponsor received a share of surplus, having made significant contributions over the years.

3 How pension schemes can take advantage of the maturing of the market

This year has seen a shift in market dynamics that has delivered higher insurer participation in processes. Where trustees or sponsors have specific objectives, they can use these dynamics to their advantage.

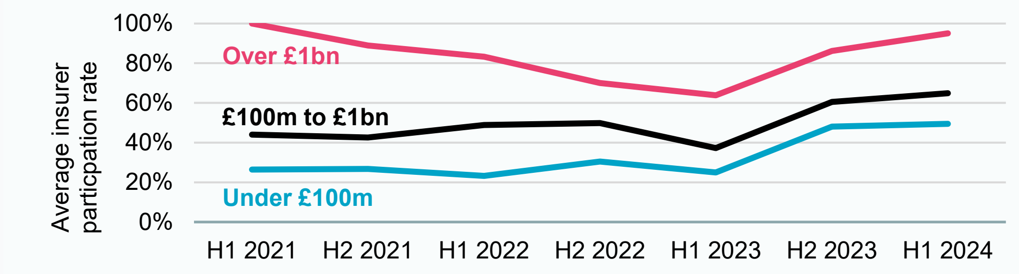
Imogen Cothay, Partner, LCP

Insurer participation rates bounce back

Our insurer survey last year highlighted that insurer participation rates (ie the proportion of transactions insurers quote on) had fallen in the wake of surging demand for buy-ins / outs over 2022/23 as insurers grappled with the sheer number of transactions.

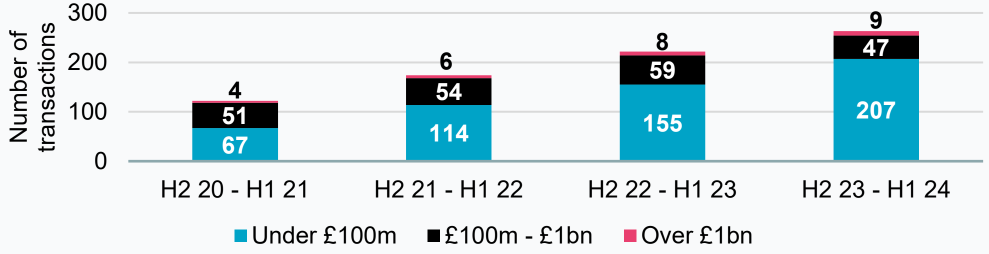
Our 2024 insurer survey shows a sharp bounce back in insurer participation rates over the past 12 months, as shown in the first chart below. Meanwhile, overall transaction numbers have continued to grow steadily (as set out in the second chart), with most of the growth (by number) for transactions under £100m.

Average insurer participation rates by transaction size



Source: LCP survey of insurers

Number of transactions by transaction size



Source: Insurance company data

Large transactions (over £1bn) and mid-sized schemes (£100m - £1bn)

Insurers' willingness to participate has always been, and remains, highest for larger transactions. Prior to 2022, schemes over £1bn were almost guaranteed to receive quotations from all of the insurers who target this segment; however, as a growing number of £1bn+ schemes came to market in 2022/23 insurers became more selective. This also had knock-on effects for mid-sized schemes, with insurer participation falling below 40% over the same period as they were hit hard by insurer resourcing constraints from above and the burgeoning number of smaller schemes coming to market, leading to concerns of 'a squeezed middle'.

Over the last year insurer resource have expanded (through recruitment, streamlining of processes and new technology), and with the mid-sized market contracting slightly (the number of transactions between £100m to £1bn fell from 59 to 47 – see chart), this has allowed participation rates to bounce back.

Insurers are reporting that they are participating in the vast majority (95%) of £1bn+ transactions and participation rates on mid-sized transactions have grown to over 60%. This is a sign of a healthy market dynamic but mid-sized schemes should continue to ensure they approach insurers in a targeted way to get the best engagement.

Small schemes (under £100m)

Smaller schemes have been the key driver in the dramatic growth in transaction numbers over the past 3-4 years, with over 3x the number of deals under £100m completed in the past 12 months versus the same period 3 years prior (207 vs 67).

Remarkably, insurers have been able to more than match the rapidly growing wave of smaller schemes coming to market as participation rates reached almost 50% in the first half of 2024, compared to a pre-2023 average of c25%. This reflects significant investment insurers have made to bring efficiencies, with Aviva, Just, L&G and PIC all recently launching dedicated streamlined solutions for smaller schemes.

Insurer participation has increased in all market segments which is welcome news for pension schemes as this is a key driver for competitive pricing.

Pricing improves on the back of strong competition

The chart on the right shows insurer pricing for a typical pension scheme expressed as an implied return compared to the yield available from holding gilts. Where buy-in pricing is above the zero line, a pension scheme can typically increase its expected investment returns by exchanging gilts for a buy-in. As such, this is a key benchmark for assessing the value offered by a buy-in.

The pricing chart is generated by LCP's insurer pricing model, which is calibrated quarterly against the actual transaction pricing achieved by LCP clients and which therefore provides one of the most robust insurer pricing benchmarks available.

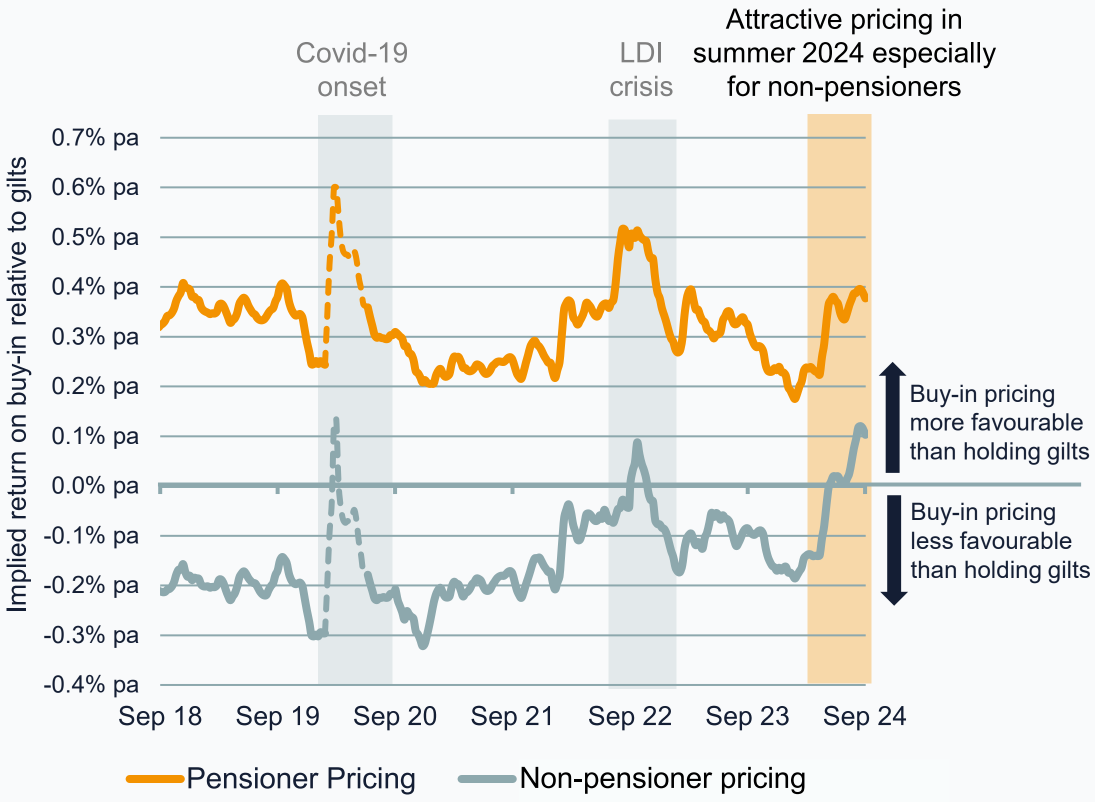
The chart shows that pensioner pricing has continued to be favourable over the past few years, providing a significant yield pick-up compared to holding gilts. However, it is the non-pensioner pricing that has seen particular improvements, now at the best level we have seen in the past six years outside of a crisis period (eg Covid-19 and LDI crisis).

> *Full buy-in pricing is at its best level in years outside of a crisis period. Access to robust pricing information is a key input to setting the right strategy and achieving best value in a transaction.*

Over 2024, with the additional yield on credit at historically low levels, some insurers have increasingly invested in lower-risk investments (such as gilts) and have baked-in an expectation that these assets will be switched into higher yielding assets over time. This, combined with continued improvements in reinsurance pricing, has been particularly beneficial for non-pensioner pricing. It also means insurers currently have limited appetite for receiving credit highlighting the challenges for schemes seeking to match insurer pricing.

To effectively assess whether pricing offers value-for-money, a pension scheme needs access to a robust insurer pricing model, which reflects the latest pricing and is reliable across all size segments and different liability profiles. LCP has developed our model from a leading position in the market, advising on significant numbers of transactions of all sizes in 2023 and 2024.

Insurer pricing improves markedly over summer 2024



Pensioner pricing: **gilts + 0.4% pa**	Non-pensioner pricing: **Equivalent to gilts**	Typical full scheme pricing: **gilts + 0.2% pa**

Source: LCP insurer pricing model, which is calibrated against actual transaction pricing. The gilts benchmark is illustrative only and intended to capture movements in insurer pricing over time relative to gilts (and is adjusted to remove the impact of changing views on longevity). In practice, insurer pricing depends on a wide range of factors such as transaction size, benefit structure, membership profile and insurer appetite and can differ materially from that shown above for any given scheme.

Has the balance shifted in favour of schemes?

How is the balance of power shifting in 2024?

The increased insurer capacity coupled with an influx of new insurer entrants has contributed to a healthy and highly competitive market in 2024. As insurers have vied for new business, well-funded schemes with no 'burning platform' to transact have found themselves in a strong negotiating position on pricing and wider commercial terms.

How are schemes using current market dynamics to negotiate bespoke terms?

Many medium and large schemes that can afford to run-on in a well-funded position are assessing their key criteria for a transaction and their requirements to prefer insurance to the status quo. Such criteria are highly scheme-specific. We have provided case studies in this report with examples where we helped schemes achieve what was important to them.

How insurers are improving administration operations as policyholder numbers skyrocket

In addition to scheme-specific requirements, we're seeing a general trend of insurers developing the member-focused aspects of their propositions. The drivers are two-fold:

1. Firstly, for insurers to have more attractive offerings in the current competitive marketplace, with trustees increasingly citing member experience as a key insurer selection criteria; and
2. Secondly, to improve operational capacity in response to the significant numbers of schemes / members moving to buy-out (see section 2).

These are necessitating an increasing focus on and investment in insurers' operational post buy-in / out capabilities. This includes improvements in administration (see box to the right), revamped AVC offerings (eg through MasterTrusts), giving members access to financial advice, plus ad-hoc perks such as policyholder days.

Improvements in member service levels: key findings from our specialist insurer administration reviews

2-5 days

Insurer response time target

We are seeing a general shortening in target times for insurers to respond to policyholder enquiries (eg retirement quote requests) following buy-out, with some having a 5-day or even a 3-day turnaround time. Most prioritise death cases, with some aiming for 2 working days.

95%+

Targets achieved

Most insurers are dealing with policyholder requests within the target timescale in more than 95% of cases.

8 of 9

Online portal

8 out of the 9 established insurers we research have some form of online offering for policyholders, with varying levels of functionality (ranging from view-only to best-in-class offerings allowing policyholders to produce online retirement quotes). The one insurer who doesn't currently have an online offering is working towards this.

Case study

Tailoring the strategic market approach to achieve objectives

£1.3bn buy-in with PIC

18,042 members

Sept 24

Solving complex illiquid asset challenges: **Coats UK Pension Scheme**

Read full press release

Background

- The scheme had completed a pensioner-only buy-in in 2022 as part of its investment de-risking programme, enhancing its risk-return profile and generating overwhelmingly positive sentiment from the sponsor's (Coats') shareholders.
- Following a marked improvement in the funding position, the sponsor and trustee were keen to explore the opportunity to secure members' benefits via a full buy-in of the remaining liabilities, removing future funding risk years ahead of plan.

This is a significant transaction for the scheme members, who now all have their pensions guaranteed by a UK pension insurance company, and for the sponsor, who has fully de-risked the pension scheme for which it is responsible. The trustee is delighted to have completed this transaction, made possible by the innovative, flexible approach agreed for addressing the complexity of the illiquid holdings.

Chris Martin, Chair of the Trustee and Executive Chair at IGG

Illiquid assets

- As part of a diversified strategy over its original long-term investment horizon, the Scheme had invested in several illiquid assets to generate long-term stable superior returns. These included infrastructure, commercial ground rents, and private credit, making up more than 15% of its total assets.
- The opportunity to secure a buy-in in the short term was contingent on finding a solution to realise appropriate value from these illiquid assets.

Our solution

- We explored a variety of options, including secondary market sales, primary redemptions, and transferring assets to an insurer as part of paying the premium. We pursued a targeted market approach involving insurers who had the capability, practical experience, and potential appetite to receive some of the assets as part of an insurance premium.
- The insurers engaged constructively, assessing the illiquid holdings in detail at an early stage of the quotation process in recognition that this was fundamental to enabling a transaction. PIC put forward the most attractive solution which included taking the largest illiquid holding and a deferred premium, combined with a price which met the affordability criterion.

Outcome

- The buy-in was completed in September 2024, securing members' benefits in full and locking down the sponsor's pension risk. This was received positively by all parties.
- The largest illiquid holding was transferred to PIC as part of the buy-in premium, and a deferred premium was agreed which will be paid as the remaining illiquid assets run off naturally over the next 1-2 years.

Case study

Tailoring the strategic market approach to achieve objectives

£1.1bn buy-in with L&G

9,500 members

July 24

A timely and focused buy-in process: **SCA UK Pension Plan**

Read full press release

Background

Following improvements in the funding position the Trustees and Sponsor decided in the autumn of 2023 to seek to capture these gains. The process was designed to meet the objective of accessing the market in a robust and timely way to minimise the risk that pricing moved away, whilst ensuring seamless integration with existing Trustee processes in the buy-in phase.

Our solution

- The first step was to help everyone compare different market approach models (ie single insurer and multi-insurer) against the objectives of speed and achieving a high-quality, competitively priced buy-in contract through an efficient process.
- The preferred route was to work with a strategic partner insurer and three insurers were considered. A key part of the request was for the insurer to demonstrate that they could meet the Plan's bespoke requirements, whilst providing a high level of transparency on pricing.
- The Trustee selected Legal & General as their preferred partner, receiving a bespoke proposal on price, terms and member experience in April 2024. Following discussion and negotiation, including price benchmarking against the expected market clearing price, the transaction was completed successfully.
- Particular care was taken with the seamless set-up of new monthly buy-in processes with L&G's implementation team, with particular focus on ensuring that members saw no changes to the excellent service they were used to from LCP's administration team.

I'm delighted that the Trustees, Essity, Legal & General and our advisers have been able to work together to complete this transaction so efficiently. It is a further step on our journey towards fully de-risking the Plan and is good news for our members as it increases the level of security behind pension benefits. This was a great team effort.

Carol Woodley, Chair and Independent Trustee Director, SCA UK Pension Plan

Outcome

- The buy-in was completed in July 2024, with LCP acting as lead transaction adviser and advising the Plan's Trustees on all actuarial, administration and investment aspects.
- The process included close, collaborative working between the Trustees and Company and all advisers to both parties.
- The Plan is now entering a programme of post-transaction data cleansing with the aim of agreeing a final insured data set with L&G in 2026.

4 Conclusions

We see the current dynamics of insurance and run-on leading to buy-in and buy-out volumes averaging out at broadly 2024 levels over the next decade with some upside driven by endgame decisions of the largest schemes.

Clive Wellsteed, Partner, LCP

Key takeaways

Conclusions from our analysis

Our analysis reveals that **market dynamics have broadly stabilised in 2024** as market volumes have reached what we view as a 'cruising altitude'.

Buy-out funding levels continue to be high, but rather than volumes continuing to increase ever higher from 2023's record, we see **forward-looking annual volumes broadly levelling out at current levels**, with fluctuations year-by-year driven by the decisions of the largest schemes. For most schemes, we see the key question being **'when' not 'if' they move to insurance**, and the discussion being around what the triggers will be to do that. As such, we project the **same total demand for insurance over the next decade** as we did last year, but with a flatter year-on-year profile in our latest projections.

With **total annual insurer capacity comfortably over £50bn** and new insurer entrants taking total market participants to record numbers, pension schemes are finding that the emerging supply / demand dynamics are delivering great outcomes in current transactions.

How these dynamics will evolve into 2025 is a fascinating question. With some of the **best full scheme buy-in pricing we have seen for years**, could this speed up the decisions for some well-funded schemes to move to insurance, or will they judge the risks and rewards of a period of run-on ahead of insurance as acceptable and appropriate?

Regardless, we expect schemes who are ready to transact to **set a high bar for insurers** to meet, in turn driving positive experience for members both before and after transactions, with particular focus on careful management of post-transaction processes.

We look forward to continuing to help current and future clients **weigh up their endgame options**, from design and execution of successful and appropriate run-on strategies through to leading the market for pension risk transfer transactions when the time is right.

LCP powering possibility

Join our webinars

Shifting buy-in / out market dynamics – how can your scheme benefit?

7 November 2024 11am

Join our webinar where the authors of the report will share highlights and discuss key questions for trustees and corporate sponsors considering the right strategy for their scheme.

+ Register now

Small but mighty – how to get the best price and terms for your small scheme buy-in

2 December 2024 11am

Join our webinar on how smaller schemes (under £200m) can get insurer engagement to obtain the best pricing and terms available, with real life examples and insight from LCP experts who have completed over 100 small scheme transactions between them as well as hearing insurer views from a new market entrant.

+ Register now

Pension Risk Transfer Forum 2025

29 January 2025 2:30pm - 5:30pm

In person at LCP's offices, 95 Wigmore Street, London, W1U 1DQ

Buy-in, buy-out and run-on

Join our team of experts for the latest insights on the Pension Risk Transfer market, including what to consider when setting your endgame strategy – be that insuring now or running-on for a period of time - right through to successful execution and tips for a smooth wind-up.

A must-attend event for those considering buy-ins and buy-outs for their defined benefit schemes in the near to medium term, with attendees limited to trustees, pensions managers and sponsors.

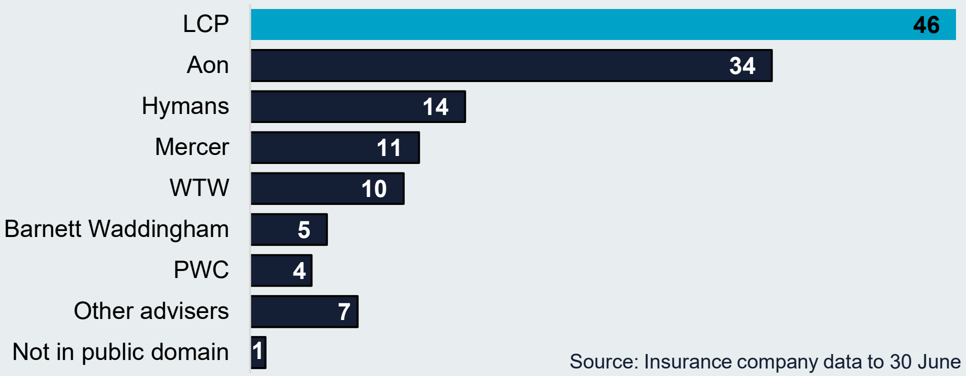
+ Register now

LCP has market-leading experience in helping clients achieve success in all segments of the buy-in and buy-out market

LCP powering possibility

Over £500m

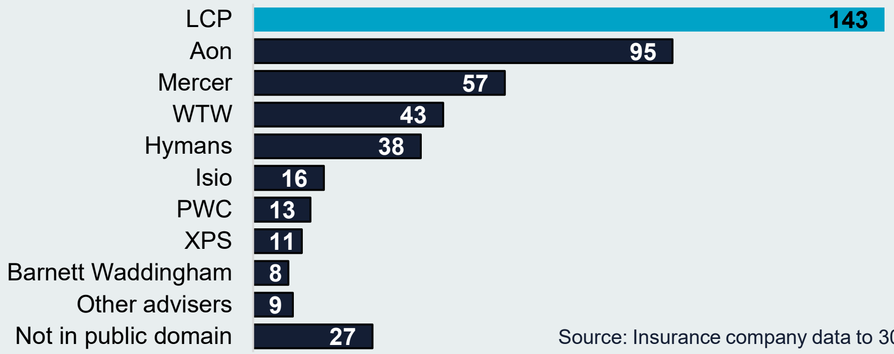
Lead adviser on buy-ins/outs over £500m since 2014



Source: Insurance company data to 30 June 2024

Over £100m

Lead adviser on buy-ins/outs over £100m since 2014



Source: Insurance company data to 30 June 2024

Under £100m

Lead adviser on over 130 buy-ins / outs under £100m since 2014

LCP has been the lead adviser on **over 130 buy-ins and buy-outs under £100m** between 2014 and 30 June 2023. It's not possible to produce objective adviser comparisons like the above for smaller transactions as insurers do not publish granular data on lead adviser for transactions under £100m.

LCP has now completed nearly **100 transactions** through our **streamlined buy-in and buy-out service** for smaller schemes, bringing the total liabilities insured through this service to **over £4bn**.

LCP has been the lead adviser on

130+

buy-ins and buy-outs under £100m since 2014

Read more about our LCP pension risk transfer team market-leading credentials here.

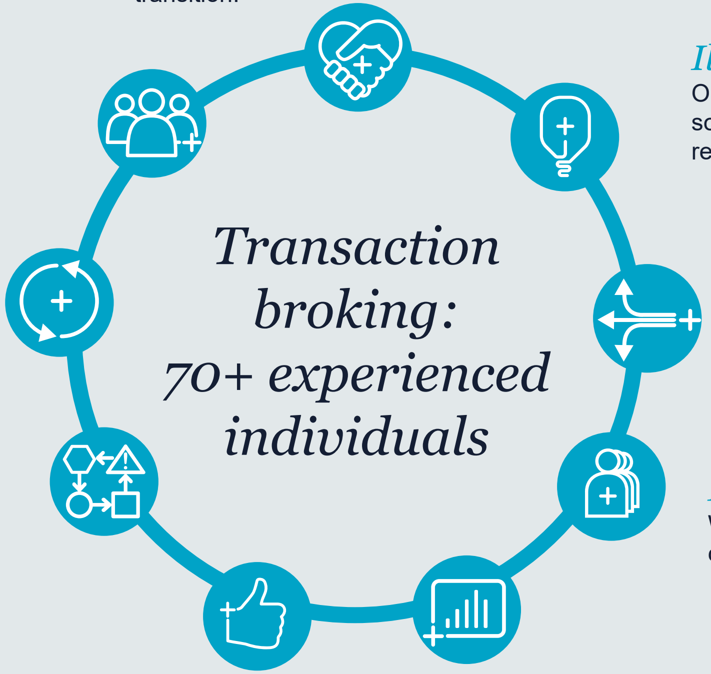
LCP's core and wider PRT teams and our capabilities

Investment strategy
We advise on asset strategy at all stages ahead of a transaction through to effective transition.

PPF+ advisory panel
We are appointed by the PPF to provide transaction services to PPF+ schemes.

Alternative risk transfer
We advise on the full-range of alternative end-game solutions including capital-backed journey plans, superfunds and alternative use of surplus.

Strategic journey planning
We help schemes design, implement and evolve their strategic journey plans using our GEARS framework and our LCP Assure service allows a streamlined approach, with fixed fees for smaller schemes.



Illiquid assets
Our Illiquid Asset Solutions Group finds solutions to release value from illiquid assets required to fund buy-in / out transactions.

Longevity analysis
We support schemes' longevity assessment working with LCP Health Analytics to provide bespoke, tailored advice on expected future improvements with insights from actuaries and health professionals. This helps negotiate optimised longevity pricing.

Insurer due diligence
We provide insurer due diligence in all areas: financial covenant, administration and ESG and climate risk.

Wind-up
We have a specialist post-transaction team, skilled at guiding trustees through the wind-up process.

Data preparation strategy
We have a dedicated team to help schemes prepare their data well for market to maximise insurer engagement and optimise pricing.

Supplemented by experts across our wider pension risk transfer team

Our latest pension risk transfer thinking

Getting buy-in ready: How to get your scheme prioritised in insurer triage processes

Find out what really matters to the insurers, the issues they are facing, and the key preparation steps to take when approaching the market.

+ Beat the triage: Hints and tips

Chart your own course 2024: Taking control of your journey

Our sixth annual report is built around the results of our annual survey of the DB pension scheme market and provides insights across a whole range of areas of DB strategy and endgame planning.

+ Read the report

Longevity report 2024: Unlocking mortality trends

We analyse recent trends in mortality and their impact on pension schemes. We delve into how a rigorous assessment of future mortality can help ensure better outcomes for members, trustees and sponsors of DB pension schemes.

+ Explore the report

Selected 2024 LCP-led transactions

+ TotalEnergies A £1.2bn pensioner buy-in with PIC, securing the benefits of over 5,000 members.

+ ICI A £900m pensioner buy-in with Legal & General, securing the benefits for over 7,000 members.

+ Riverstone Management A £95m pensioner buy-in with Standard Life, securing the benefits for over 7,000 members.

+ Thomas Millar & Co A £140m full buy-in with Aviva, securing the benefits of all members of the scheme.

+ Menzies A £260m full buy-in with Just Group, securing benefits for over 3,000 members.

+ Next Group A £510m full buy-in with PIC, following an earlier buy-in, securing the pension liabilities for over 3,600 members.

+ St Paul's Cathedral An £18m full buy-in with Aviva, securing the benefits for all members of the scheme.

Resources for smaller schemes

With the surge in demand for bulk annuity insurance, some insurers are becoming more selective at the smaller end of the market. These resources will help such schemes understand their options to plan ahead.

+ Register for our upcoming webinar

+ Read the guide to our streamlined buy-in/out service

+ LCP Assure – A streamlined and joined-up strategic journey all the way to wind-up, with fee certainty.

Accounting for Pensions 2024

LCP's latest annual Accounting for Pensions report analyses the 2023 disclosures of FTSE100 companies, highlighting how pension surpluses appear to be embedded, and discusses accounting for full scheme buy-ins.

+ Explore the report

Seize the moment: A pivotal opportunity for corporate sponsors

We explore the variety of options now open to mature DB schemes approaching the end of their journey and urge schemes to get their strategy right before making their plan of action.

+ Find out more

Shifting GEARS: Key stages to success

Our hub for strategic journey planning gathers all the resources you need to design, implement and evolve your endgame plan using our GEARS framework.

+ Find out more

LCP Elevate: A flexible active run-on strategy

A flexible active run-on strategy framework helping our clients turn DB pension schemes into real assets. It challenges what is possible in the new world of better funded pension schemes and enables schemes to run on securely.

+ Find out more

Contact us

If you would like more information please contact your usual LCP adviser or one of our specialists below.

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At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.

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