

Willis Towers Watson special report

Pension risk settlement in the COVID-19 era

30 September 2021



Pension risk settlement in the COVID-19 era

18 months on from the UK entering its first lockdown, we are launching this special report on how the risk settlement market has fared over the COVID-19 era.

The headlines:

The market for risk settlement has been incredibly robust over the course of 2020 and 2021, as well as offering some exceptional pricing opportunities. We are very proud that Willis Towers Watson has been at the forefront of this. We have been the lead trustee adviser on:

- 28 bulk annuities totalling over £11bn of liabilities, representing over a quarter of the market

- 6 longevity swaps covering £27bn of liabilities, representing a huge 74% of the market
- The first-ever deferred pensioner longevity swap, for AXA
- At £3.3bn, the largest bulk annuity transaction of 2020

In this special report, Ian Aley, head of transactions and Shelly Beard, senior director of transactions, review the last 18 months and what lies ahead for these markets.

Willis Towers Watson's record since 1 January 2020 in numbers

49%

Best record for any adviser

of the market across bulk annuities and longevity swaps

Our bulk annuity record since 1 January 2020

28

 bulk annuities totalling **£11bn of liabilities**

27%

market share
Best record for any adviser

£2.5m

Our **smallest transaction**

Nearly half of WTW's transactions were

£100m

 or less

£3.3bn

Largest bulk annuity transaction of **2020**



Largest bulk annuity transaction of **2021** so far

Recent pricing of up to **gilts + 60 bps**

Our longevity swap record since 1 January 2020

£27bn

 of longevity swaps

74%

 market share

1st ever deferred pensioner longevity swap

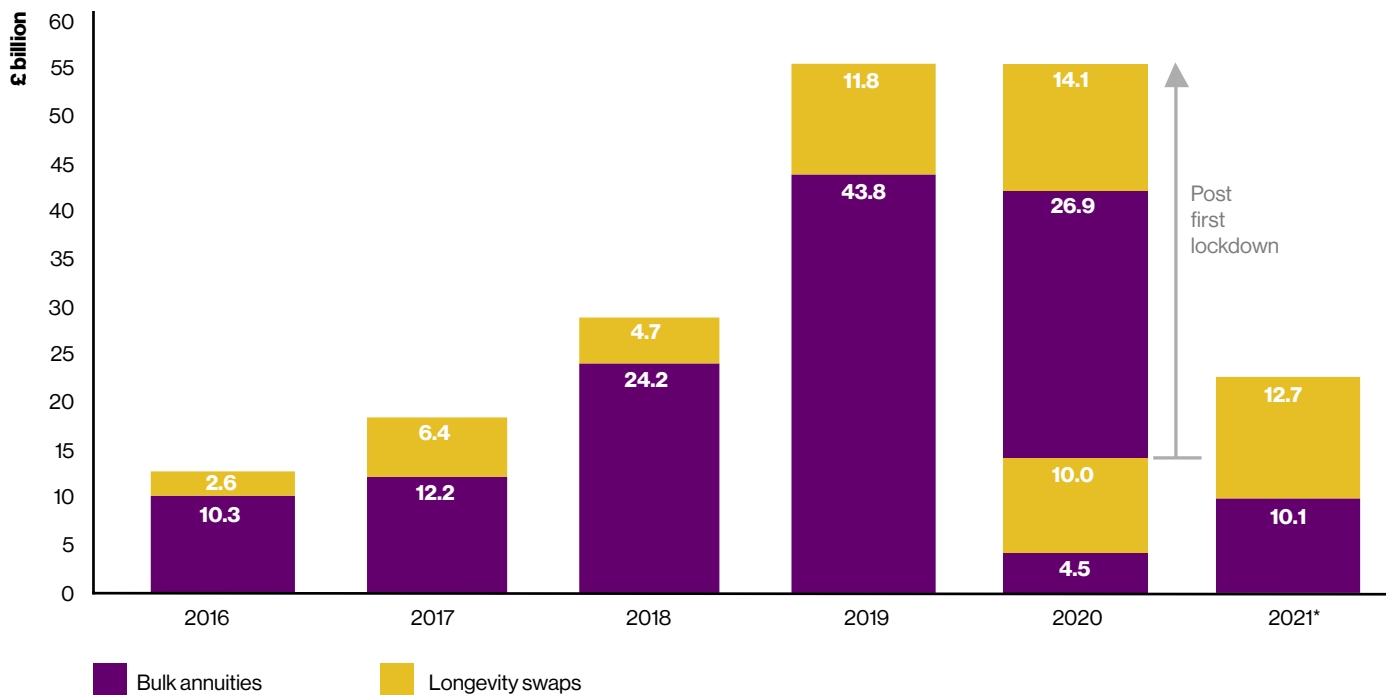
Overall volumes of longevity risk transfer

As can be seen in *Figure 1*, the bulk annuity and longevity swap markets remained incredibly busy despite the challenges of COVID-19. In fact the period immediately following the first lockdown in March 2020 was one of the busiest periods the market has experienced.



The market for risk settlement has been incredibly robust over the course of 2020 and 2021, as well as offering some exceptional pricing opportunities.

Figure 1: Bulk annuity and longevity swap volumes since 2016



Source: Willis Towers Watson, September 2021

* Transactions led by Willis Towers Watson or publicly announced to date

The bulk annuity market

Since March 2020 over £37 billion of bulk annuities have been announced. Importantly, many transactions achieved some of the best pricing (relative to gilt yields) ever available in this market, particularly those that were able to move quickly and transact in April 2020 when credit spreads were at their widest.

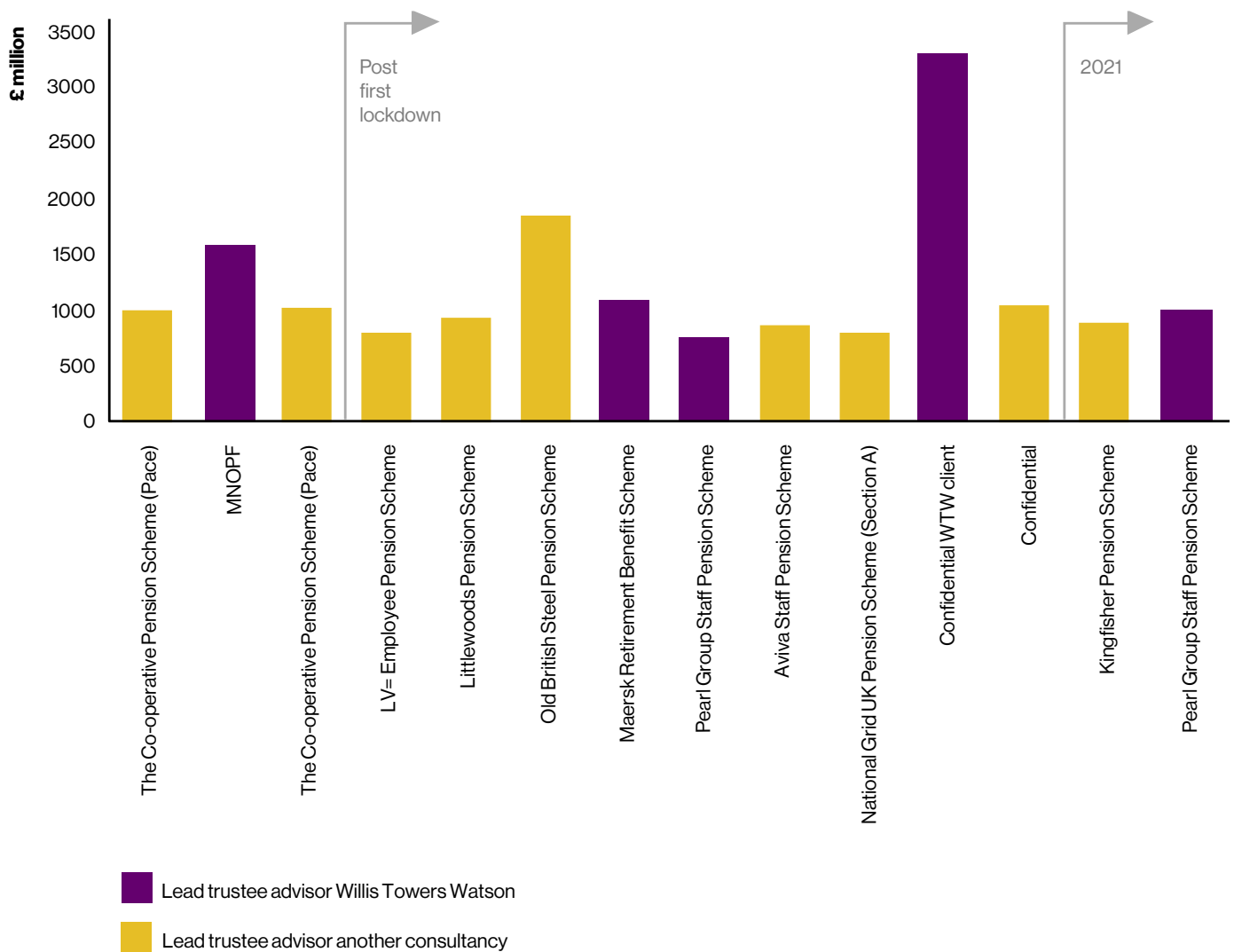
The market was also very active across all sizes of transactions and our team led over a quarter of the deals, acting as lead adviser across the entire breadth of the market. Our work here included leading the largest bulk annuity of 2020, a £3.3bn pensioner buy-in with Rothesay and also the largest bulk annuity so far in 2021, a £1bn



Willis Towers Watson led 28 bulk annuity transactions covering £11bn of liabilities since 1 January 2020.

buy-in for the Pearl Group Staff Pension Scheme. At the smaller end of the market, we've led buyouts for two £10m schemes as well as a £2.5m buyout for the BHS Senior Management Scheme.

Figure 2: Bulk annuity transactions over £750m by lead trustee adviser since 1 January 2020



Source: Willis Towers Watson, September 2021

Bulk annuity market share by lead trustee adviser since 1 January 2020

Lead trustee adviser	Volume	Market share
Willis Towers Watson	£11.3bn	27%
Aon	£7.7bn	19%
LCP	£7.1bn	17%
Mercer	£1.2bn	3%
Hymans	£1.2bn	3%

Source: Willis Towers Watson, September 2021

Given the extreme events in the wider world, the market's resilience is testament to the dedication of everyone involved. Despite the hugely challenging environment, trustees and sponsors continue to focus on de-risking opportunities and increasing security for their membership. Insurers quickly transitioned to working at home – in fact we led a £300m buy-in that signed just two days into the first lockdown!

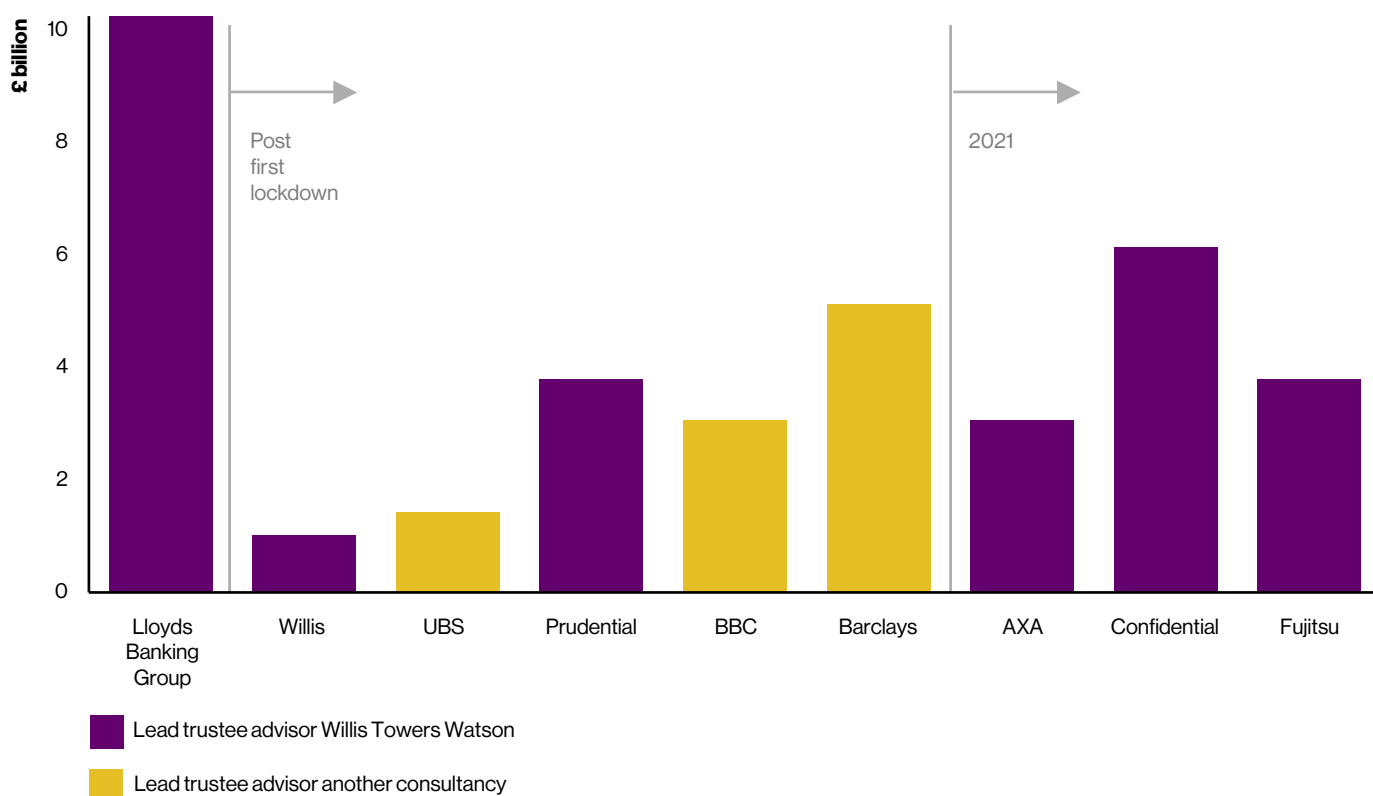
Looking forward we continue to see significant opportunities in the bulk annuity market. A slightly quieter year so far has resulted in a hugely competitive market offering incredibly compelling pricing. We have observed pensioner buy-in pricing of up to gilts + 60bps pa. The same is true in the buyout space, with one of our clients

recently achieving buyout pricing around 10% cheaper than their actuary's estimate.

The longevity swap market

Since March 2020 eight longevity swaps have been announced, covering over £25 billion of liabilities, extending what was already one of the busiest periods in the market's history. Unlike the bulk annuity market where risk transfer reverted to 2018 levels, the longevity risk swap market continued to grow. Willis Towers Watson led five of these deals – 65% of the market – guiding our clients through these complex projects, leveraging our provider relationships and unrivalled experience. This included the market's first deferred member longevity swap, a significant innovation.

Figure 3: Longevity swap transactions by lead trustee adviser since 1 January 2020



Source: Willis Towers Watson, September 2021

Longevity swap market share by lead trustee adviser since 1 January 2020

Lead trustee adviser	Volume	Market share
Willis Towers Watson	£27.4bn	74%
Aon	£8.0bn	22%
Mercer	£1.4bn	4%
LCP	-	-
Hymans	-	-

Source: Willis Towers Watson, September 2021

A key question that clients asked was whether hedging longevity remained sensible in the context of the pandemic and we looked at this through several different lenses, including weekly monitoring of scheme-specific death figures for schemes and undertaking in-depth risk analyses. An interesting insight from this analysis was how differently pension scheme members were affected by the pandemic relative to the general population, with many schemes remaining largely unaffected.

For most pension schemes, longevity risk is now one of the largest, if not the largest, unmanaged risks they run. Combine this with the fact that longevity is generally regarded as an unrewarded risk and it's easy to understand why many of our clients are using recent funding level improvements to hedge it.

On the supply side, reinsurer pricing is at historically low levels relative to pension scheme reserves, driven by



Willis Towers Watson led six longevity swaps covering £27bn of liabilities since the beginning of 2020.

increased competition from new entrants to the market and greater appetite from existing reinsurers.

With this attractive pricing looking likely to continue for the next 12 months, we expect the market to continue to be very active. We anticipate pricing opportunities will arise for schemes with more blue-collar liabilities, as providers look to diversify portfolios following the large number of recent deals involving schemes with sponsors in the financial services sector.

Looking ahead

After proving themselves robust over the past 18 months, particularly in the case of the longevity swap market, we expect the de-risking markets to be incredibly busy in 2022 as schemes take advantage of recent funding level improvements and reduce risk.

As schemes define their long-term objectives and consider the best de-risking steps, it will be important to partner with an adviser with an in-depth understanding of all of the market options. Please get in touch if you'd like to discuss options for your scheme

Market share by lead trustee adviser across bulk annuities and longevity swaps since 1 January 2020

Lead trustee adviser	Volume	Market share
Willis Towers Watson	£38.7bn	49%
Aon	£15.7bn	20%
LCP	£7.1bn	9%
Mercer	£2.6bn	3%
Hymans	£1.2bn	2%

Source: Willis Towers Watson, September 2021

Our strength is our depth – meet our team of transaction leaders.



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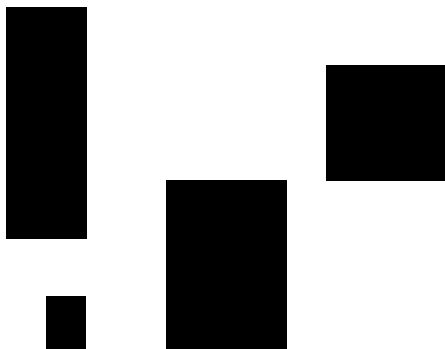
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About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

Disclaimer

The data underlying this report is based on insurance company data, public announcements and deals led by Willis Towers Watson. The market share statistics have been calculated as a percentage of the amount of liabilities transferred based on the lead trustee adviser. The lead trustee adviser information is not always available.

This material is based on information available to Willis Towers Watson as of 17 September 2021 and takes no account of subsequent developments after that date. In preparing this material we have relied upon data supplied to us by third parties. Whilst reasonable care has been taken to gauge the reliability of this data, we provide no guarantee as to the accuracy or completeness of this data and Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors or misrepresentations in the data made by any third party.



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