

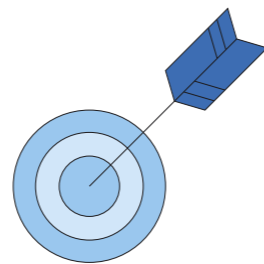


Overview of the UK Pension Risk Transfer market

Buy-ins and buyouts

March 2024

2023: A record year



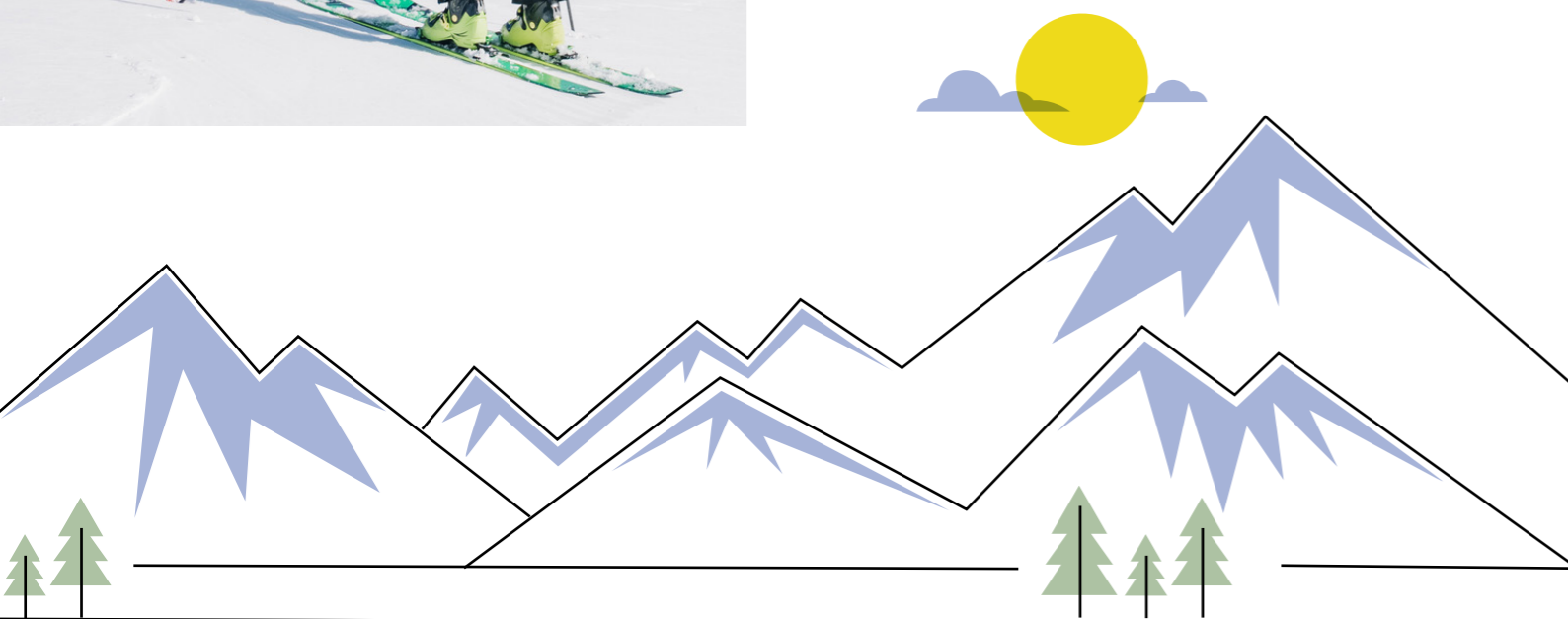
2023 was a record-breaking year for the UK bulk annuity market, with an estimated £50 billion of retirement income secured through buy-ins and buyouts. We expect volumes to remain high in the coming years as improved pension scheme funding levels drive unprecedented demand.

In this report, we look at our Pension Risk Transfer ("PRT") volumes for 2023, how we're innovating to develop tailored solutions for schemes, our focus on customers, and how we're investing for the future.

UK new business volumes

2023 was a landmark year for our PRT business. We transacted £12 billion of new business in the UK, making it our largest year ever, with 33 policies written across a range of scheme sizes. This compares to £7.3 billion of new business premiums across 47 policies in 2022.

Bulk annuity sales 2023	<£100m	£100m - £500m	£500m+
Total size (£m)	390	2,085	9,573
Average size of quote (£m)	18	298	2,393
Number of transactions	22	7	4



Providing solutions for the whole of market

Two thirds of our total transactions in 2023 were for premiums of less than £100 million. This demonstrates that small schemes are still able to attract insurer engagement in a busy market. Our Flow proposition for smaller schemes enables efficient pricing and transactions for a segment of the market where the streamlining of processes is key if, as a market, we are to meet the increased demand we're seeing as a result of improved funding levels. The majority of small schemes that we transact with are existing LGIM clients and choose to use our fund novation solution to lock into affordable pricing and seamlessly pay the premium. We have included further details on this and our future outlook for Flow in the *Looking Forward* section.

We aspire to provide solutions to pension schemes of all sizes. Our smallest transaction in 2023 was c.£3 million and our largest was c.£4.8 billion. We triage carefully on a scheme-by-scheme basis, considering factors including timescales, existing relationships, and standard of data. We will naturally prioritise schemes that are willing to work with us in partnership. In the context of a busy market, pension schemes that are well-prepared and pragmatic in their approach with clear decision-making criteria tend to attract the strongest engagement from insurers.

In order to manage increasing demand and continue quoting on a wide range of scheme sizes, we are focussed on expanding our capabilities through growing and developing our team and continuing to develop our technology and processes.

Looking after our customers

Our customer-centric ethos lies at the heart of our business. We won six awards at the Customer Contact Association's (CCA) Global Excellence Awards 2023 and hold a World Class rolling 12-month Net Promoter Score (NPS) of +70.

As demand from pension schemes increases, we remain committed to maintaining a high level of service to our customers. At the smaller end of the market, this means increased standardisation through our Flow platform. See the *Looking Forward* section for more details.

A key feature of the growing market has been the increase in the size of schemes coming to market. Larger schemes often require additional focus given their scale and complexity. We maintain our high customer service standards through significant preparation in advance. As well as growing our own teams, we have worked in collaboration with in-house administration teams as part of a transaction to ease the transition of administration.

Reaching milestones overseas

Legal & General Retirement America (LGRA) completed \$1.9 billion of business in 2023, securing the benefits of 29,000 members. This included a \$0.8 billion transaction, which is the single largest transaction completed by LGRA to date.

LGRA reached the milestone of \$10 billion of total written premium and over 100 transactions since inception in 2015, with roughly \$5 billion secured in the past three years.

Total volumes for the US PRT market in 2023 are estimated to be around \$45 billion, making it the second largest year on record following the \$52 billion written in 2022.

Boots Pension Scheme: a record-breaking £4.8 billion full scheme buy-in

In November, we completed the UK's largest full buy-in by premium size with the Boots Pension Scheme, securing a total of £4.8 billion of liabilities. All 53,000 members were insured, making it our largest ever single transaction by number of members. The complexities associated with a transaction of such size required collaboration across all parties and innovative solutions to meet the Trustee's and Sponsor's objectives.

Collaboration was the key to success

We have a long-standing relationship with the Trustee and Sponsor having provided investment management services to the Scheme for over 20 years. Following a competitive process, we were selected to partner further with them and ultimately complete the de-risking journey for the Scheme. The Trustee was able to provide added long-term protection to its members' benefits by removing market uncertainty and other pension scheme risks. In addition, the Sponsor was able to create certainty over its future commitments to the Scheme.

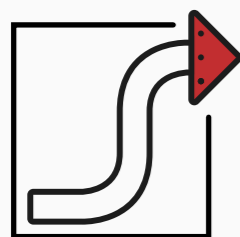
To capture the opportunity for the Scheme all parties had to work very closely together. This was particularly important given the Scheme had a significant portfolio of illiquid assets including property, private credit and infrastructure investments. We worked with the Trustee, Sponsor and their respective advisors to develop a series of innovative solutions that provided both certainty of price and certainty of execution within the required timeframe.

Providing flexibility through innovation

To support the Trustee and Sponsor in using the illiquid assets in the most efficient way, we provided flexibility through a combination of solutions that included:

- Taking responsibility for the sale of some of the assets (whilst they were warehoused on the Scheme's balance sheet).
- Accepting some of the assets in-specie to hold long-term in our annuity portfolio.
- Providing a deferred premium while the Scheme sold some of the assets themselves.
- Providing a backstop, meaning that if after a short time the Scheme had been unable to sell the asset, we would take on responsibility for the sale.

This transaction represents another innovative step forward in pension scheme de-risking by providing a combined investment and insurance solution for the Scheme's asset holdings, allowing the Trustee and Sponsor to achieve the certainty of a transaction whilst also maximising value by transferring its assets (or the associated sale proceeds) to us.



Transferring assets in-specie



Offering flexibility through deferred premiums



Taking responsibility for selling assets



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Looking forward



We continue to develop solutions and create value for schemes of all sizes

In an increasingly busy market, trustees are looking to insurers to provide innovative solutions to help overcome potential obstacles on the path to buyout. We are continuously developing our proposition through feedback from advisors and the wider market in order to support and create value for schemes. In addition, we are using the breadth of experience and capabilities across our Group to support trustees on their journey to buyout. Over the coming months, we will share the results of our latest round of independent market research which will feed into ensuring that our proposition continues to meet the requirements of the market.

Flow

Working with small schemes is key to our whole of market approach and we are enhancing our Flow offering to support more schemes under £150m in size. We are committed to ensuring this is done sustainably, particularly given the increase in the number of schemes of this size coming to market.

We are working through developments to enable us to scale up the number of pricing slots available under our Flow proposition over the second half of this year. Having streamlined our pricing approach we are now also working to streamline the buy-in process through standardising the data cleanse, making project

management more efficient and streamlining our member options process. Our vision for Flow ensures that we will be able to continue to support the smaller end of the market at scale whilst maintaining a high standard of service to our customers.

Innovative solutions for illiquid assets

As we saw with the Boots transaction, we are developing solutions for pension schemes with illiquid asset holdings that are looking to secure a buy-in. This is one of the key challenges for our industry given the recent sudden increase in funding levels. Our solutions for illiquid assets include accepting assets in-specie as part of the premium payment, allowing for a period of premium deferral, and supporting the sale of these assets.

Adding value for LGIM clients

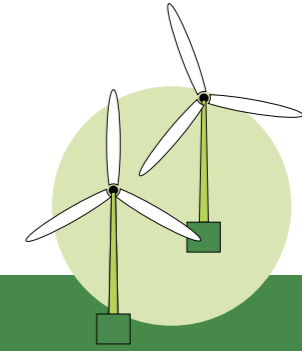
We have a strong track record of delivering value for LGIM clients by being able to lock our pricing to the value of their assets and accepting the assets in-specie as premium payment. This flexibility now extends to smaller LGIM clients through our PMC unit novation solution.

Schemes who invest in LGIM's universe of weekly dealt PMC unit funds can lock our premium to the value of these funds, giving them price certainty. We will also accept novation of the fund units at mid-value as premium payment, which delivers further value to the scheme by reducing dealing costs.

Funded reinsurance

Funded reinsurance has increasingly been used by insurers to help manage capital and risk, as a means of gaining access to the asset origination capabilities of reinsurers, and to allow them to improve the pricing that they can offer for very large schemes. We see value in using funded reinsurance as part of a diversified asset strategy and will gradually look to use external funded reinsurance where we believe it can enhance overall value for trustees.

Understandably, the increased use of funded reinsurance has resulted in a commensurate increase in the level of scrutiny of such arrangements from the PRA. We welcome this level of oversight as one of the hallmarks of a healthy financial market. Ongoing evaluation of risk management reflects sound governance and provides a positive benefit for both potential and existing insurance clients.



Investing responsibly for the future

As a Group, we believe it is our duty to generate value not only for our shareholders and customers but also for our communities. The assets held to back our annuity book allow us to demonstrate how we put this approach into practice as an investor with clear interim targets on our path to net zero by 2050. This sits alongside our commitments to influence as an asset manager (LGIM) and to operate our business responsibly.

We set out the full details of L&G's approach in our Climate and Nature Report 2023 and Social Impact Report 2023 – both of which will be available on our Group website on 13 March 2024. It is exciting to see our Climate report, which we have published for many years, expanded to include our impact on nature. The reports include examples of L&G's investments in early-stage companies to help facilitate a transition to net zero, such as Cambridge Electric Cement, who are pioneering the decarbonisation of the cement industry. We will also provide an update on our annuity portfolio's de-carbonisation progress in April 2024 – please let us know if you would like to receive a copy of this.

It is great to see responsible investment increasingly being considered by trustees and schemes when selecting a bulk annuity insurer. Many employee benefit consultancies run surveys of insurers' ESG credentials to advise their clients on ESG matters when selecting an insurer and share feedback from these surveys with us. This feedback consistently ranks us as one of the leaders in this field, reflecting the many years of commitment across the L&G Group.

As the latest sign of our commitment, we are pleased to have been a founding signatory of the Sustainability Principles Charter for the bulk annuity process launched by [Accounting4Sustainability](#) earlier this year. We hope this continues to raise standards across the market.

PRT trends in 2024 and beyond

Introducing Natalie Bentley, Head of Pricing Execution



We are delighted to introduce Natalie Bentley, our new Head of Pricing Execution. Since joining Legal & General in 2011, Natalie has held several senior roles spanning a range of functional responsibilities including pricing and underwriting, financial reporting, management, and distribution. Natalie joined our buy-in and buyout business in 2019 as Head of Operational Business Development within our Investments team, before being appointed Head of Finance Strategy and Global Business Manager in 2022. In January 2024, Natalie joined our Pension Risk Transfer team as Head of Pricing Execution, where she is responsible for the production of PRT quotes and maintaining our existing reinsurance contracts and relationships. Natalie has a Maths and Statistics degree from the University of Warwick and is a Fellow of the Institute of Actuaries.



Natalie Bentley
Head of Pricing Execution,
Legal & General Retirement Institutional

In the latest installment of the PRT podcast, Natalie Bentley, Head of Pricing Execution, and John Towner, Managing Director of UK PRT, discuss the key trends and market dynamics expected this year and beyond.



Contact us

For further information, please contact:

 derisking@landg.com

 legalandgeneral.com/prt

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