

# Riding the swell

De-risking accelerates as the Pension Endgame comes into view

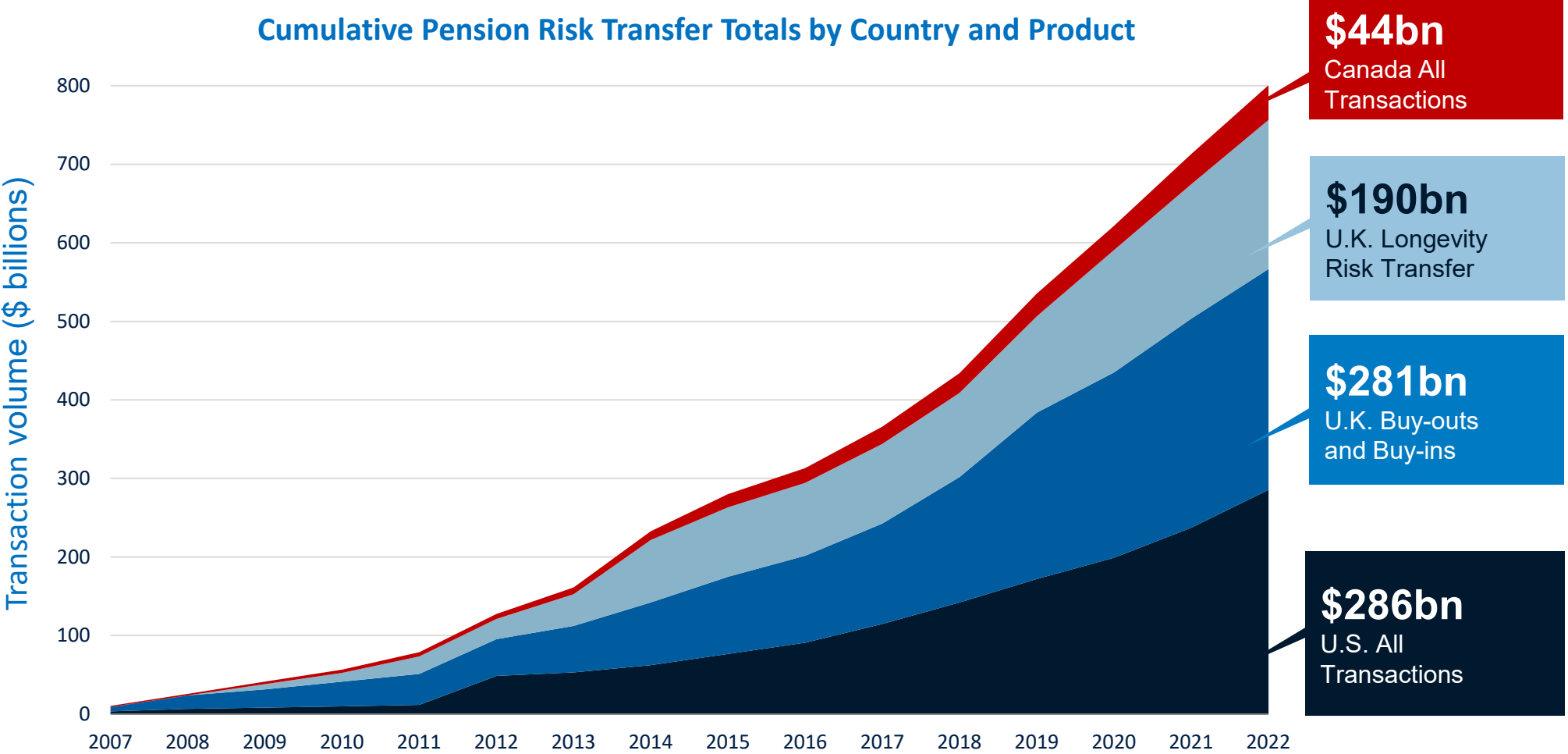
Rohit Mathur, Head of International Reinsurance Business, Prudential Financial, Inc. (PFI)

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**PFI**

# Since 2007, there have been more than \$800B in pension risk transfer transactions in the U.S., the U.K. and Canada alone



Data in USD billions. Cumulative totals.  
Sources: LIMRA, Hymans Robertson, LCP, and SunLife Canada

# Why companies de-risk their pension plans



Decrease or eliminate future contributions



Redirect cash flow to R&D or M&A



Increase focus on restructuring initiatives



Improve investor returns compared to pension-heavy peers



Secure pensions and financial wellness employees and retirees

# The U.K. Market



# We are entering a new paradigm

The alignment of these conditions drives the market into uncharted territory



**107.4%**<sup>1</sup> Average funded status  
**~66%**<sup>2</sup> Are holding illiquid assets



**£40bn-50bn**<sup>2</sup> Near-record market volumes  
**10+**<sup>3</sup> Transactions £1bn+  
**£6.5bn**<sup>3</sup> Record buy-in (RSA)



**+1**<sup>4</sup> New insurers enter the market  
**11+**<sup>4</sup> Reinsurers to support growth



Regulatory changes – Solvency II  
Pandemic impacts on longevity and NHS



<sup>1</sup> XPS Group: U.K. Funded Status as of 30 June 2023 (110%)

<sup>2</sup> LCP: Preparing scheme assets for buyout – Illiquids and other considerations

<sup>3</sup> Company Announcements

<sup>4</sup> EY: New Entrants and Alternative Structures

# What does it all mean?

The alignment of these conditions drives the market into uncharted territory



The market is running near capacity  
Pricing is competitive



Insurers may refine deal criteria  
Reinsurers may also become more selective

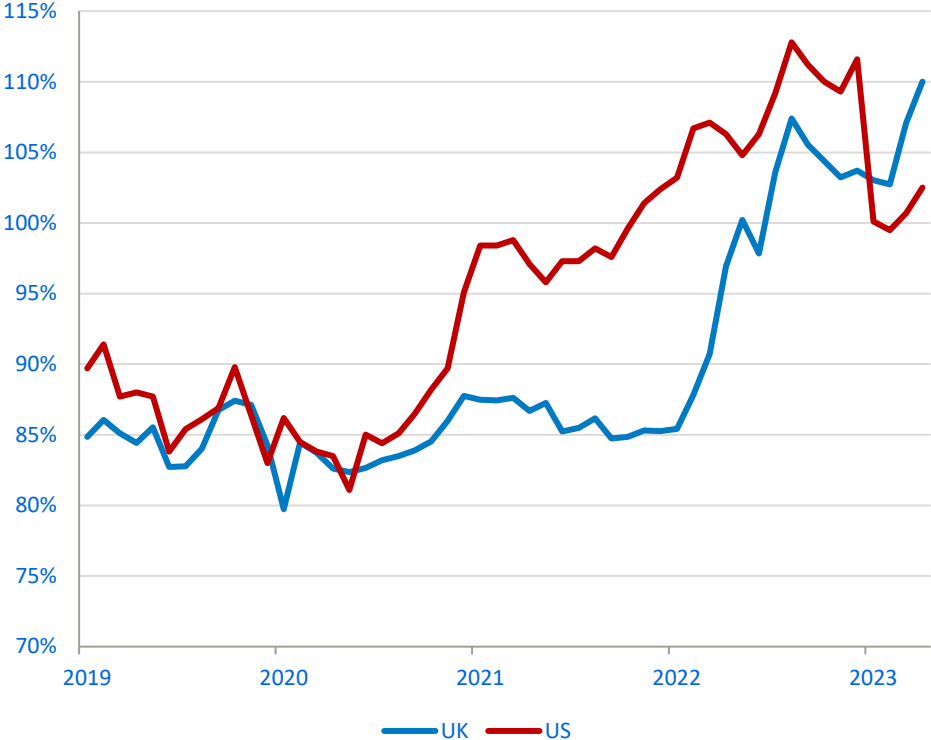


**Pension schemes need to be well-prepared**  
**Smaller deals may fight for attention**



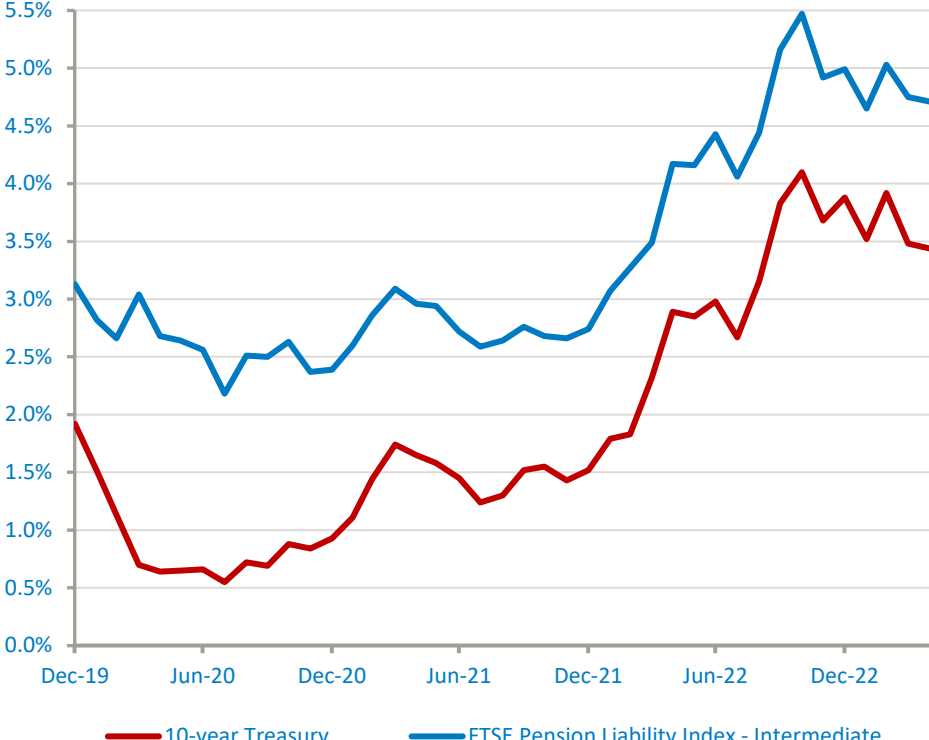
# Factors are aligning

Funded status is currently high, but not immune to volatility



XPS Group: U.K. Funded Status as of 30 June 2023 (110%)  
 Milliman: Funded Status of 100 Largest US Pension Plans as of 30 June 2023 (102.7%)

Discount rates are the primary driver of elevated funded status



The U.S. Treasury: 10-year Treasury yield  
 SOA: FTSE Pension Liability Index - Intermediate



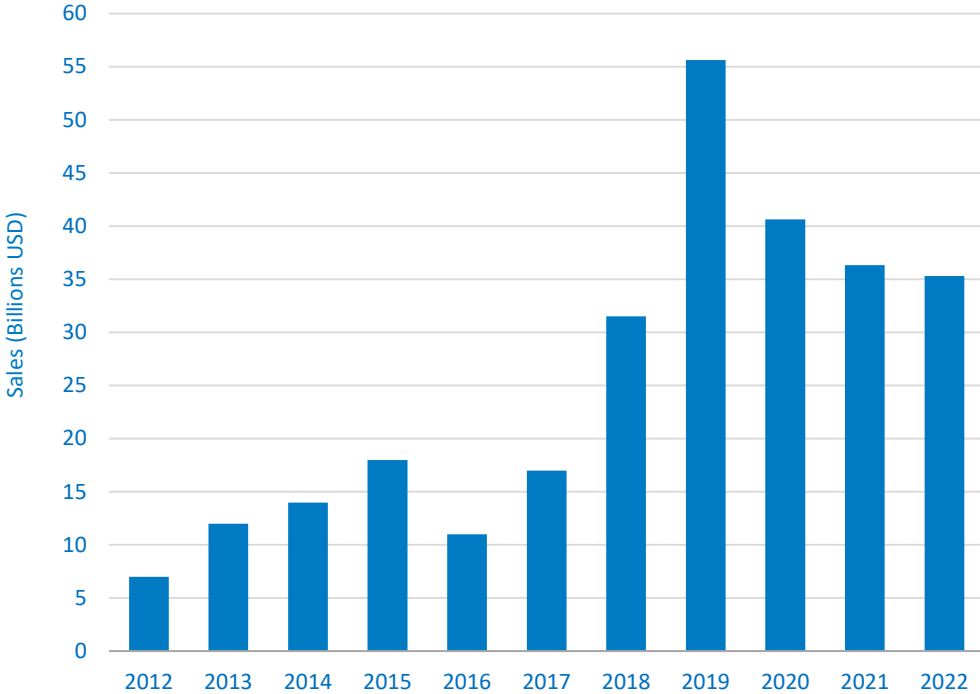
# Factors are aligning

## UK pricing remains attractive



Source: Legal & General analysis. For illustration purposes. Relates to a pensioner only buy-in for a typical scheme of c.12 years' duration.

## Transaction volumes are high, and insurer capacity remains ample – for now



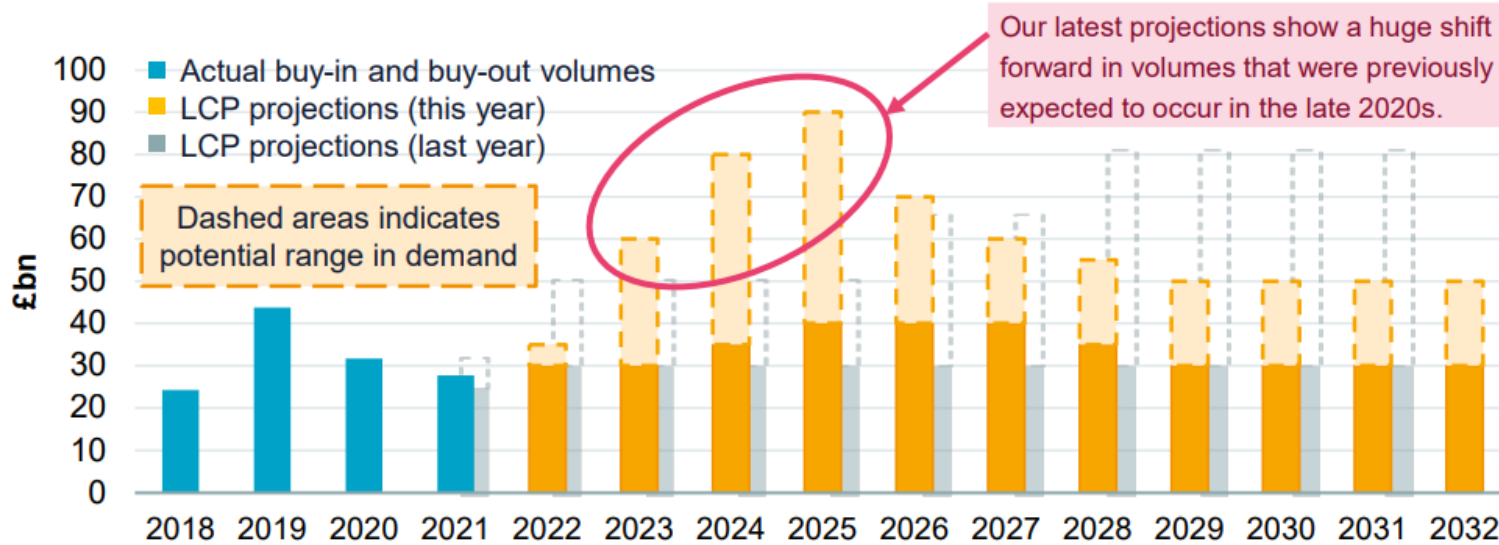
Source: Aon UK Risk Settlement Market Update. Data as of December 31, 2022





# Potential for rapid growth in the near-term

## Projections forecast record-setting volumes in the next few years



Source: LCP analysis

40% of pensions schemes plan to fully insure in the next five years, and 75% have a buy-out as their long-term target.\*

Source: Lane, Clark, and Peacock in 2022 pensions de-risking report

\*Hymans Robertson Risk Transfer Report 2023



# Illiquid assets pose a challenge

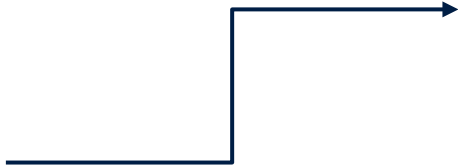
As more plans move to terminate, how to handle illiquids can be a thorny question

## Exit strategies

- Primary redemption
- Secondary market sale
- Run-off
- Pass to insurer
- Transfer to sponsor
- Pass to a related scheme

## Strategic Options

- Deferred premium
- Third-party financing
- Corporate loan
- Split or delay transaction



Source: Insurance company data, as analyzed by Lane, Clark, and Peacock in May 2023 pensions de-risking update



# Market may face capacity constraints

Insurer-led capital raises may help



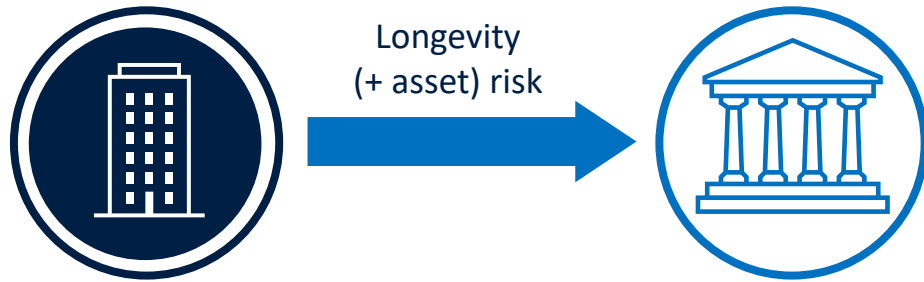
Insurers can raise capital themselves

- ✗ Asset capacity**
- ✓ Capital capacity**
- ✗ Human resource capacity**

While seeking new investors can help alleviate capital constraints, it won't necessarily help with asset and human resources capacity.



# Reinsurance could ease these constraints



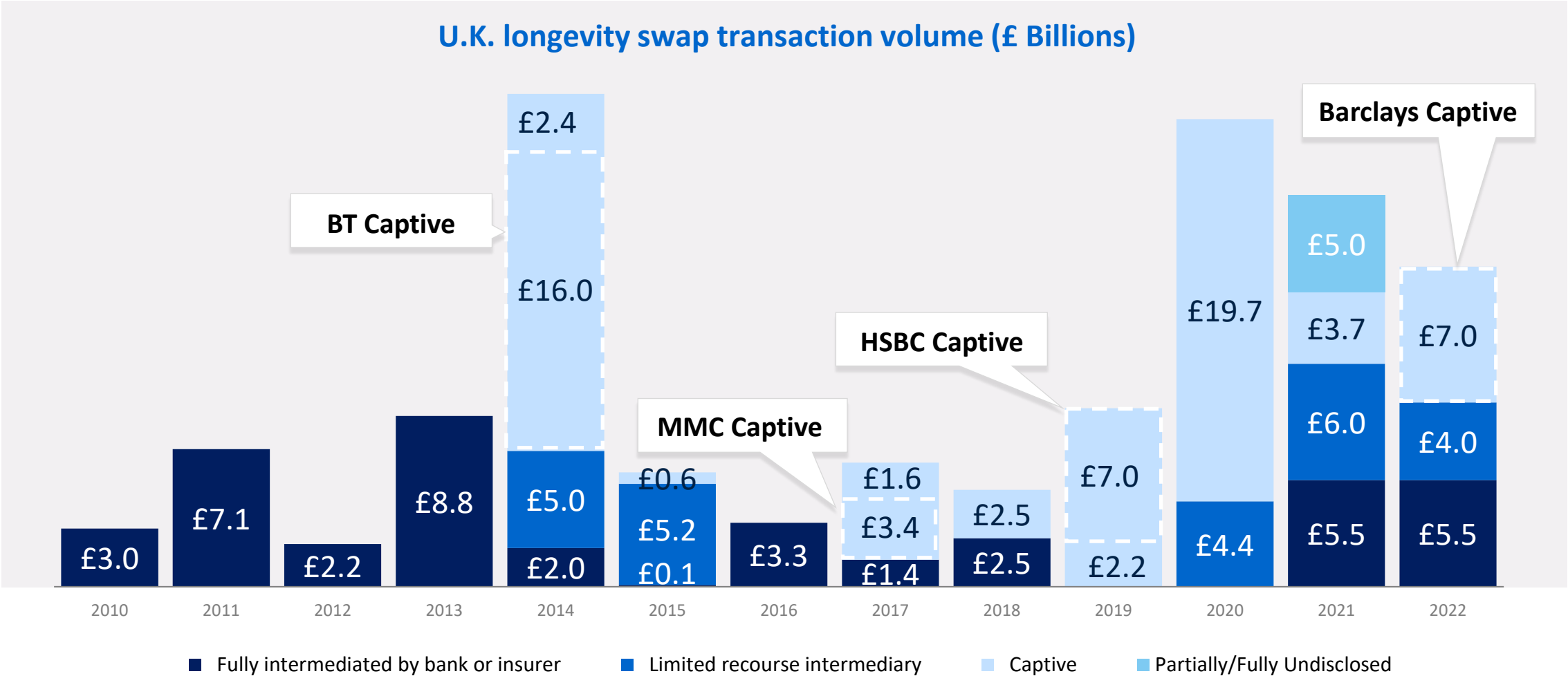
...or they can use reinsurance  
to manage risks

- ✓ **Asset capacity**
- ✓ **Capital capacity**
- ✓ **Human resource capacity**

Reinsurance arrangements can offload longevity risk – and asset risk in Funded Reinsurance – while also adding human capital in the form of reinsurer teams.



# U.K. schemes' de-risking journeys continues to drive demand for longevity swaps.



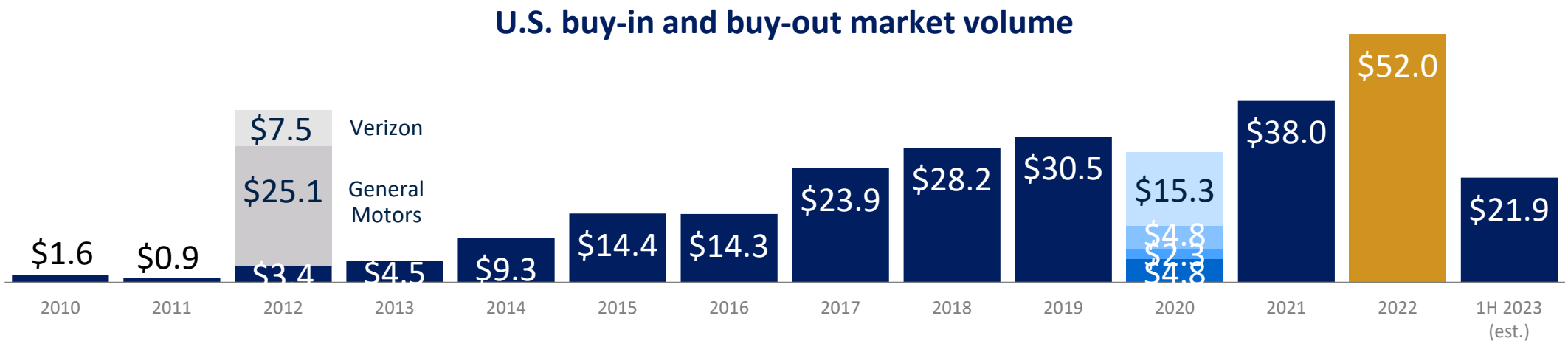
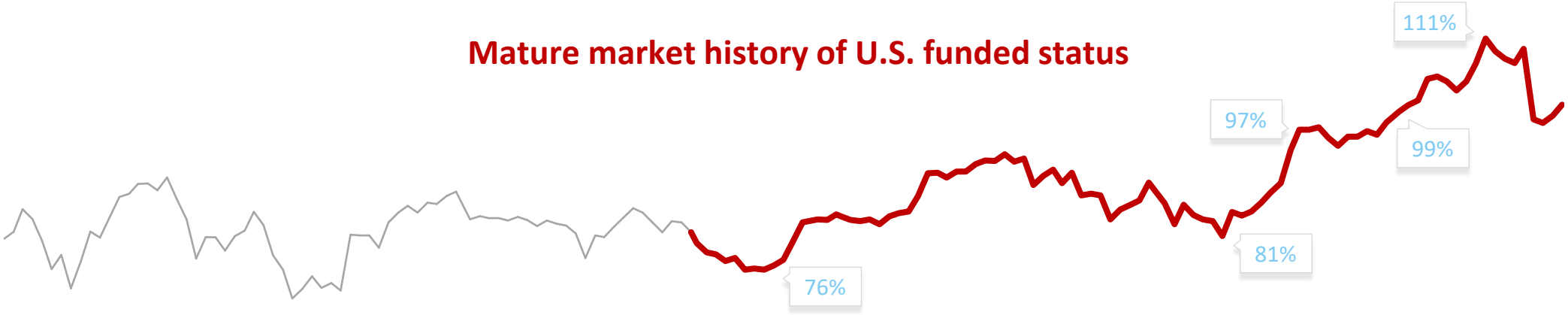
Source: Hymans Robertson and PFI analysis of announced transactions, as of March 2023

# The U.S. Market



# 2022: the U.S. buy-in and buy-out market volume was the **highest** ever

## Market remains strong this year, and we expect continued growth in 2024.

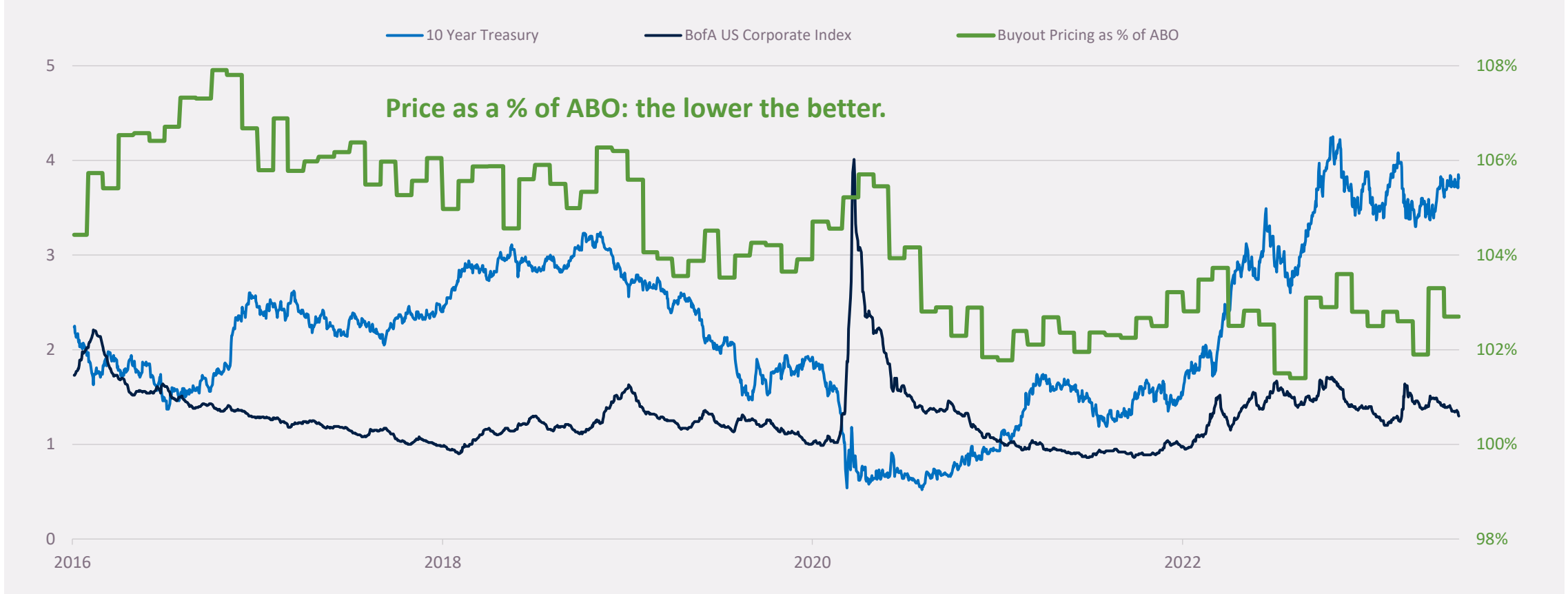


In USD billions. Source: LIMRA Group Annuity Risk Transfer Survey, Q4 2022. Includes single premium buy-outs, buy-ins and terminal funding.  
 U.S. Funded Status Source: Milliman 100 Pension Funding Index; the 100 largest U.S. corporate pension plans, June 30, 2023 (102.5%)



# Market pricing remains attractive.

Schemes that are well-prepared can take advantage of market opportunities.



Milliman Pension Buy-out Index (MPBI), May 2021 (<https://www.milliman.com/en/insight/milliman-pension-buyout-index-july-2023>)

10-year U.S. Treasury and BofA US Corporate Index OAS were sourced from the Federal Reserve Bank of St. Louis.

10-year U.K. Government Bond rates were sourced from the Bank of England website. S&P U.K. Investment Grade Corporate Bond Index rates were sourced from S&P Dow Jones Indices.





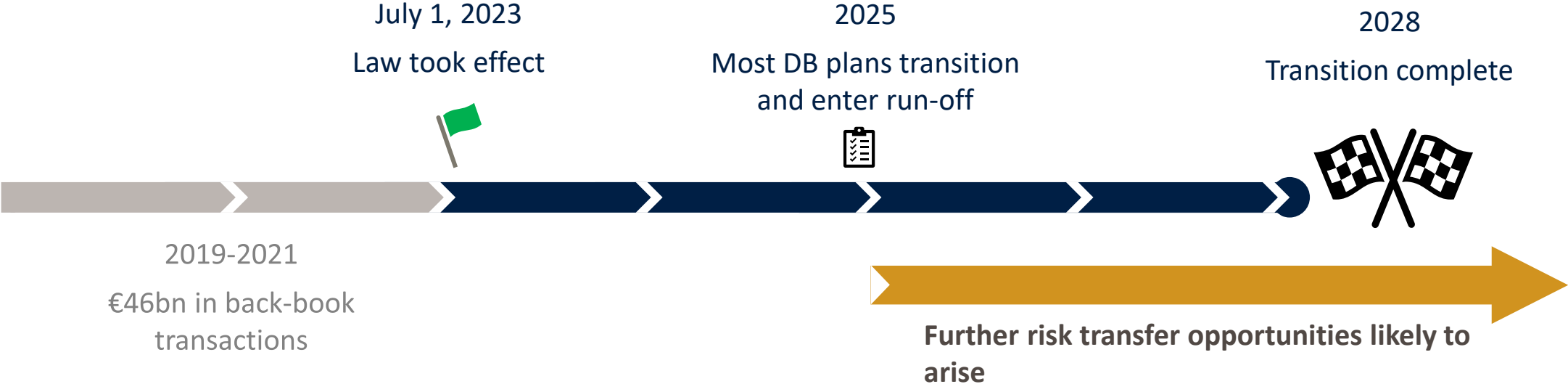
# Emerging Jurisdictions

Regulatory changes and economic shifts are opening up Risk Transfer and Reinsurance markets



# The Netherlands

The shift from a DB to DC-like framework has companies considering pension obligations



# Regulatory Landscape



# Regulatory landscape is evolving in the UK

## Solvency UK changes can be grouped into the following areas

- **Reduction in Risk Margin** for LT life insurance by 65% (effective from December 31, 2023)
- **Broader scope of matching adjustment eligibility**
- Measures designed to **increase competition in the BPA market**
- **Next Steps:** Consultation paper focused on matching adjustment in September 2023 with changes effective in 2024

## PRA focus on Funded Reinsurance

- Increased focus on systematic use of funded reinsurance
- Evaluating risks in funded reinsurance and mitigants - Collateral package, scenarios of a reinsurer failure



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