

The Defined Benefit endgame



The UK perspective & how it might apply to Ireland



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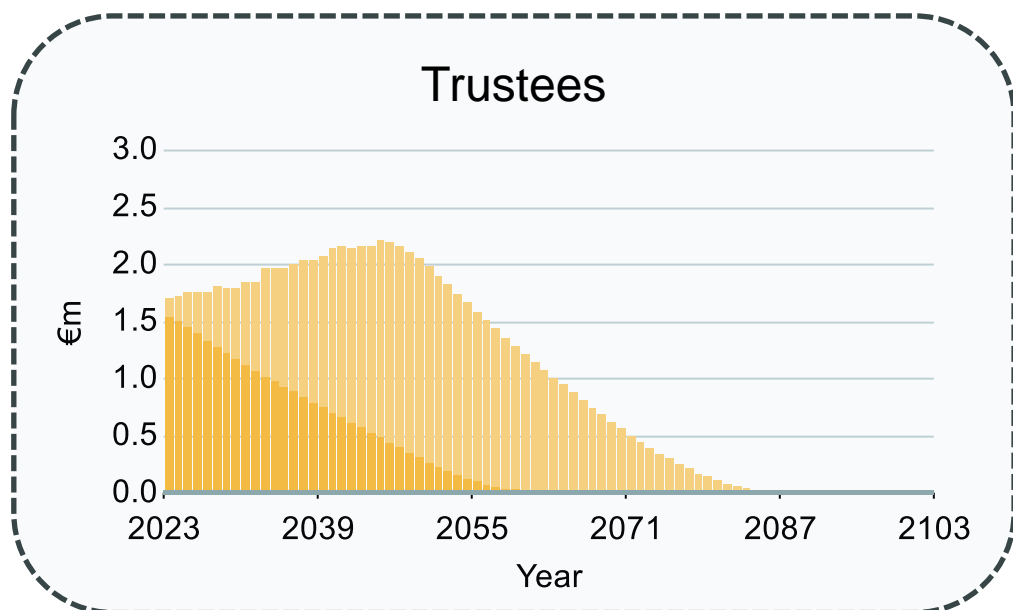
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What are the DB endgame options?

Where will members pensions ultimately come from?

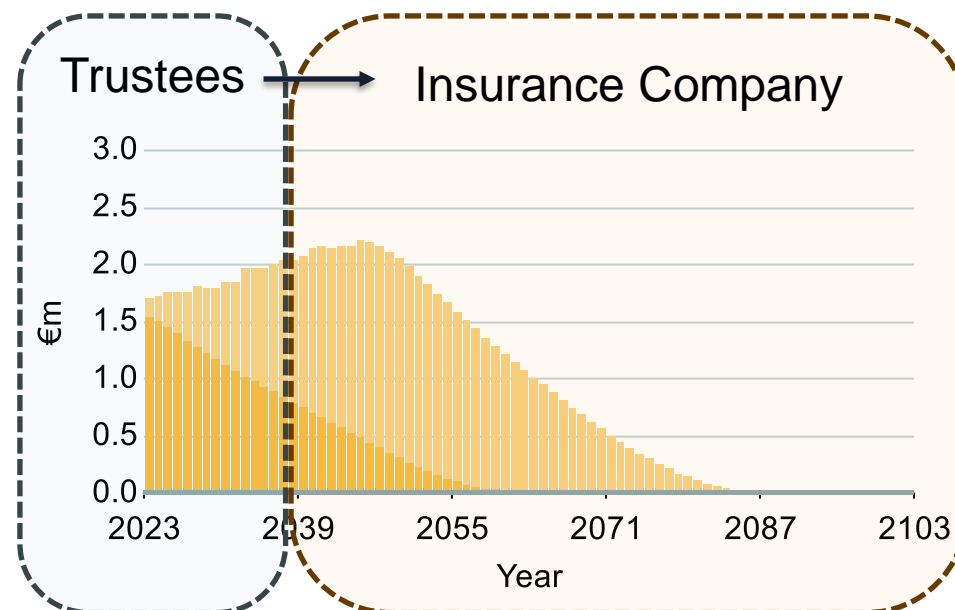
Long-term run off

- Trustees run the Scheme until all pensions are paid and the last member dies.
- Trustees continue to manage the risks relating to paying pensions.
- Sponsor responsible for funding deficits.

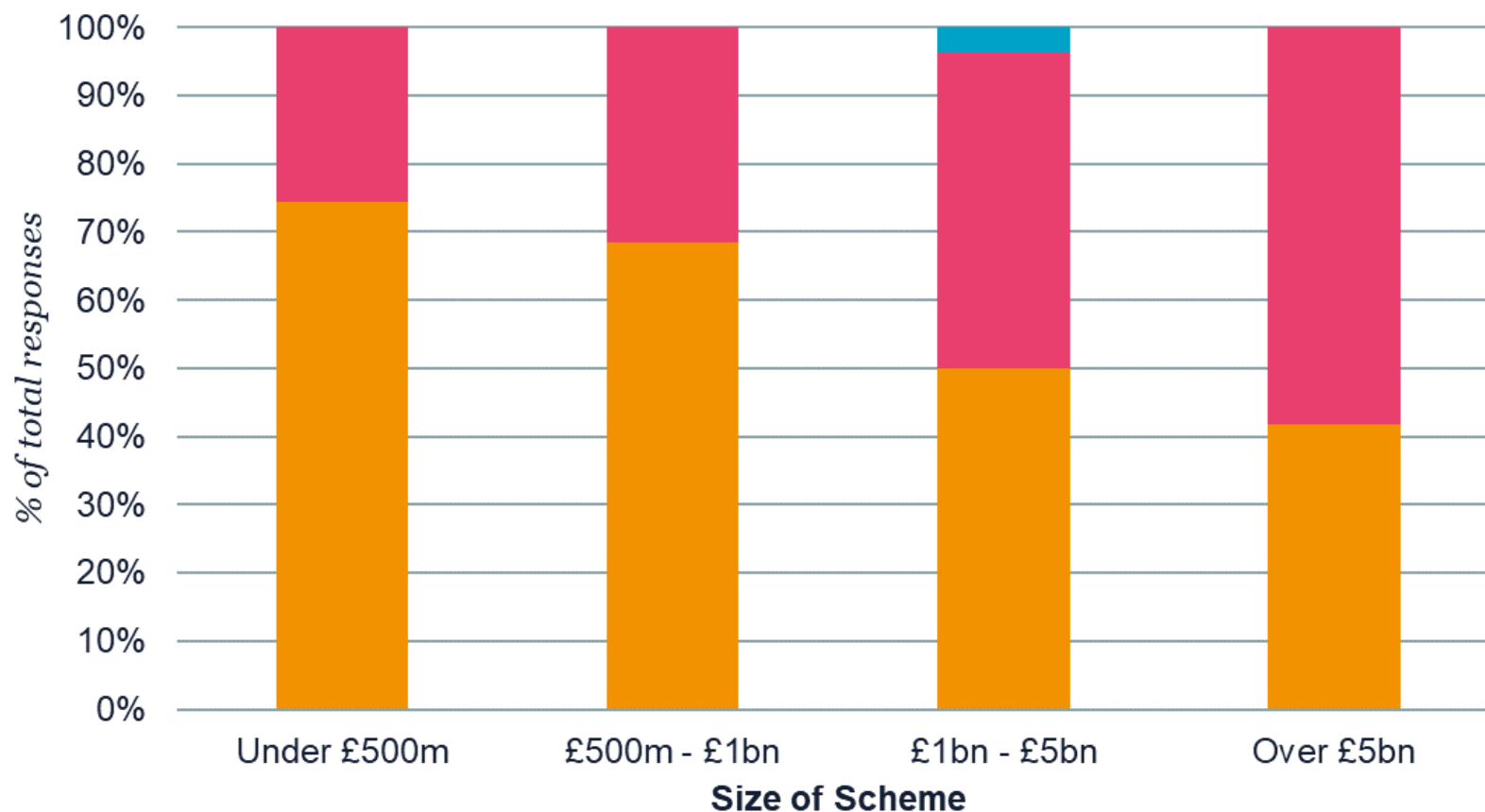


Insurance buy-out

- The Scheme's liabilities are secured with an insurance company.
- Insurance company responsible for managing risks relating to paying pensions.
- Scheme removed from sponsor balance sheet.



What endgame options are UK schemes choosing?



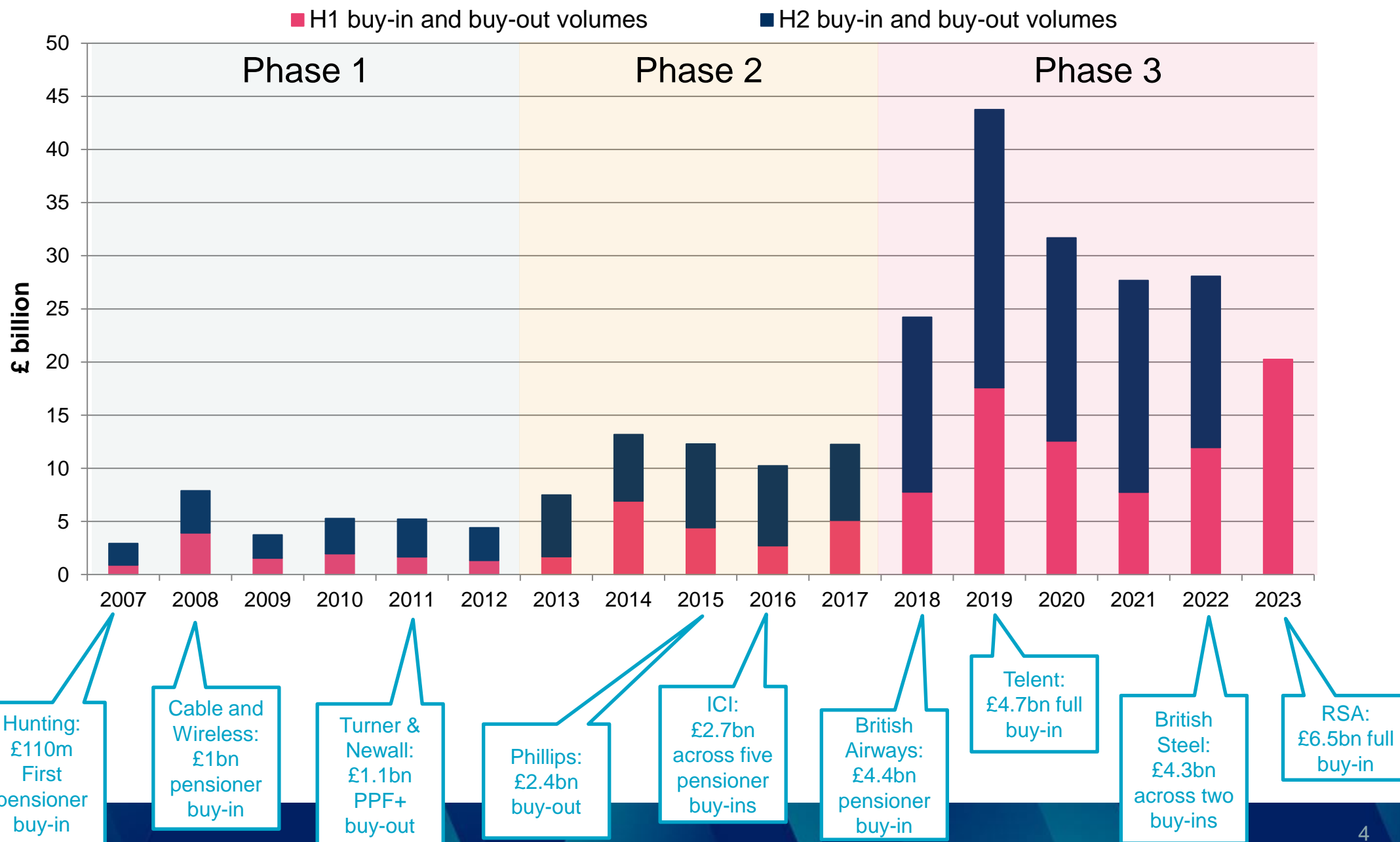
Source: LCP survey. Chart your own course 2023

Insurance buy-out Long-term run off Consolidator/superfund

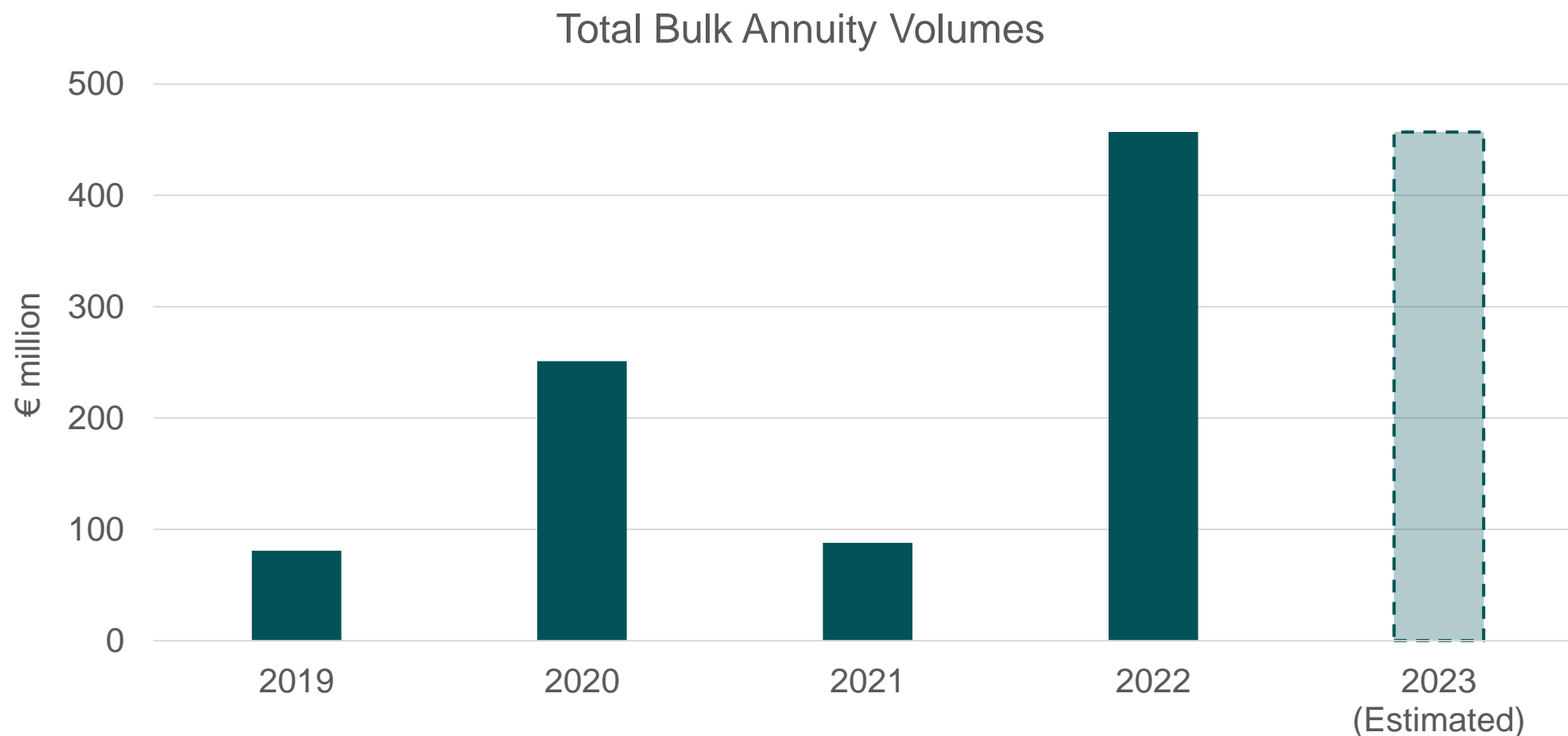
Buy-out remains the most popular endgame target for UK DB schemes, particularly smaller ones.

Given the smaller scale of Irish schemes, is this likely to be the case too?

Evolution of the UK bulk annuity market



Evolution of the Irish bulk annuity market



Prior to 2019, market volumes were negligible and predominantly driven by wind-ups.

Is the Irish market in its first phase of 'real' growth right now?

Key drivers for current market activity

Trustees and Sponsors work together to consider affordability and contribution requirements

Insurers

- Strong asset pipelines - attractive yields
- Competitive longevity reinsurance
- Availability of capital

Scheme Trustees

- Rising interest rates improving positions for under hedged schemes
- Strong asset performance
- Regulatory focus on long-term strategy

Sponsors

- Opportunity to secure benefits at lower cost
- Reduce volatility on balance sheet
- Increasing regulatory burden on corporate activity

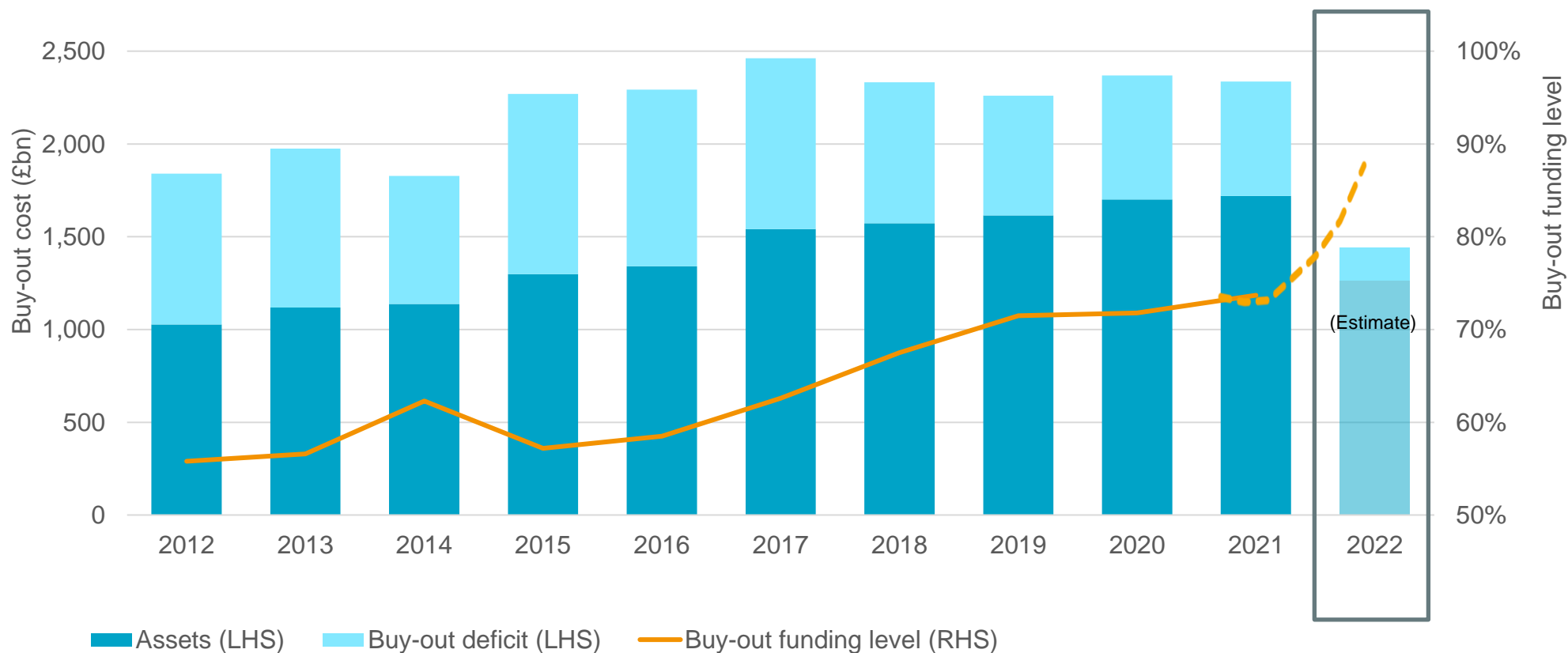
Broadly similar drivers of activity on both sides of the Irish Sea.

Large Irish transactions to date have been primarily driven by Sponsors.

Affordability of bulk annuities

Significant movements for UK schemes over 2022

Estimated buy-out funding positions for UK DB pension schemes



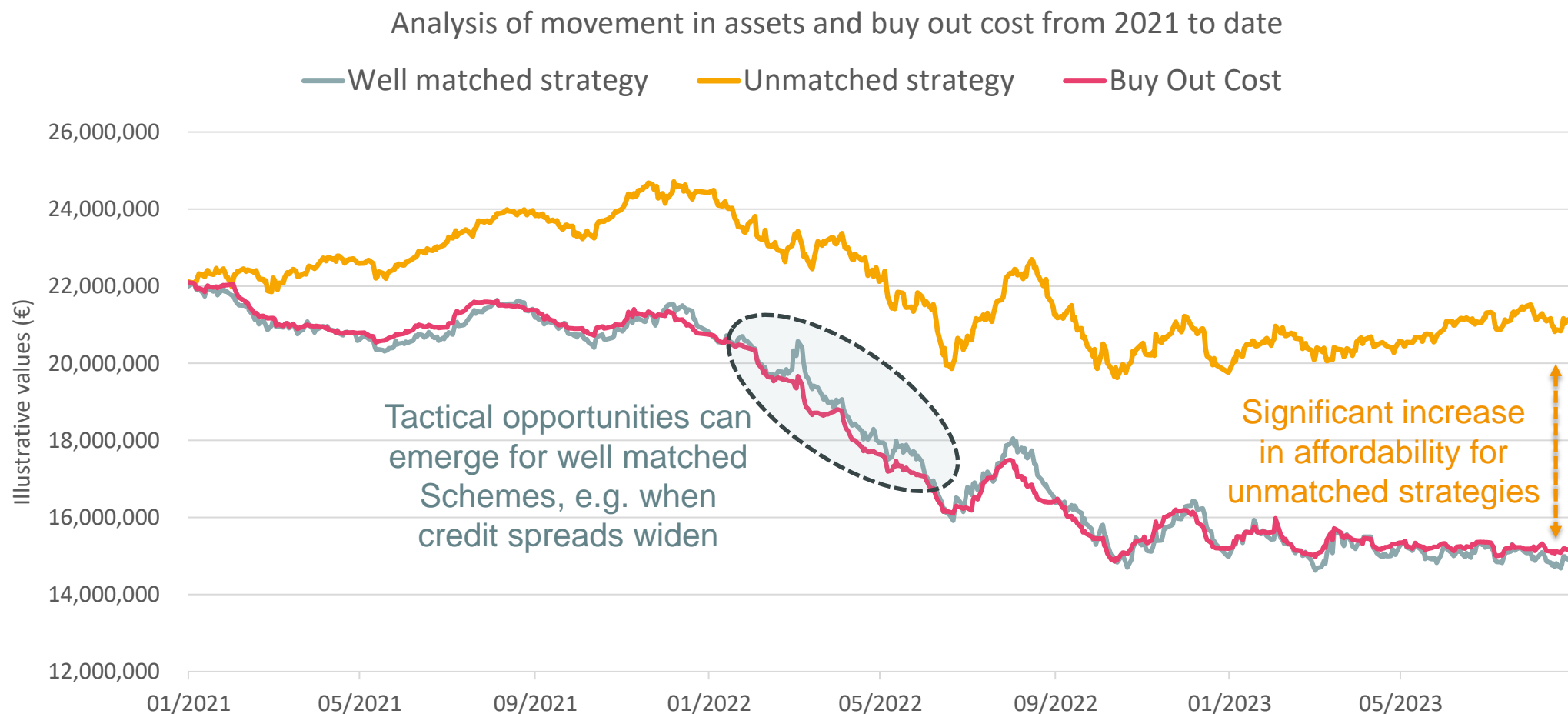
On aggregate, 2022 saw a significant increase bulk annuity affordability for UK DB schemes.

Source: Data up to 2021: Purple Book 2021 data covering UK private sector DB pension schemes at March each year.

Data after 2021: Estimated by LCP, reflecting the movement in estimated buy-out funding observed across LCP clients up to 30 September 2022.

Affordability of bulk annuities

Even more dramatic movements for Irish schemes?



Lower levels of liability hedging and higher growth portfolio allocations have served Irish schemes well as annuity prices fell significantly over last 3 years

Irish Scheme Case Study

Buy-out can offer better value for money than a low-risk run-off!

Background

- LCP Ireland appointed as corporate consultant and asked to investigate buy-out feasibility
- The Scheme was:
 - Well-funded with GC pensioner liability of c **€145m**
 - Prudently invested, with high levels of liability hedging

What happened?

- The Trustees completed a strategic pensioner buy out in July 2022
- Buy-out transacted at c **€130m**. This meant:
 - €15m of surplus was released
 - The yield on the buy-out was 0.7% per annum higher than being achieved by Scheme's bond portfolio. No reason for scheme to hold on to risks.

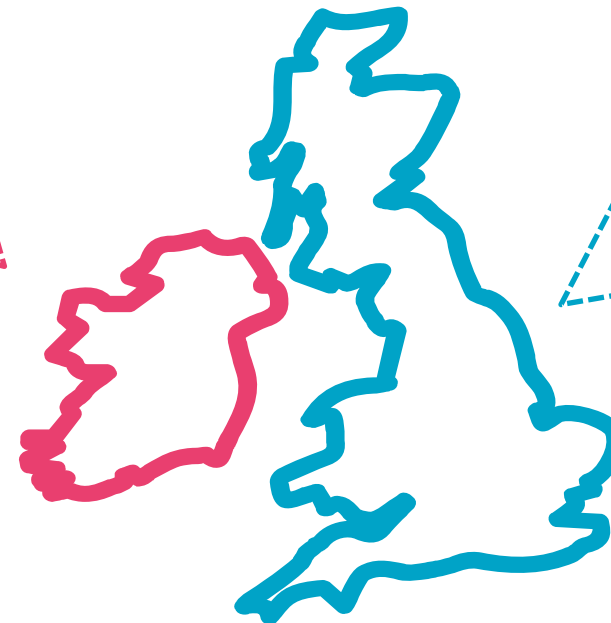
In this case, buy-out was a win-win over a “run-off” strategy, because:

1. It offered higher returns for the Scheme than its own bond portfolio
2. It significantly reduced investment, longevity and operational risks.

What does the future hold?

Ireland

- More buy-ins?
- Deferred member annuities?
- Large scheme (€bn +) participation?
- Capacity issues?
- New insurer entrants?



c €70bn
DB assets

2 active
insurers

c £1,500bn
DB assets

9 active
insurers

UK

- Potential insurer capacity constraints?
- Illiquid asset solutions
- New endgame options – consolidators and capital backed solutions
- Mansion house reforms – alternative use of surplus?

What does this all mean for you?

As a DB Scheme Trustee or Sponsor

1. Your Scheme is likely to use bulk annuities at some point in the future.
2. Bulk annuity is more affordable than you might think.
3. You might be holding onto more risk than you need to and you may be able to achieve a higher return through buy out.

Appendix

Additional reading

An introduction to LCP's risk transfer team

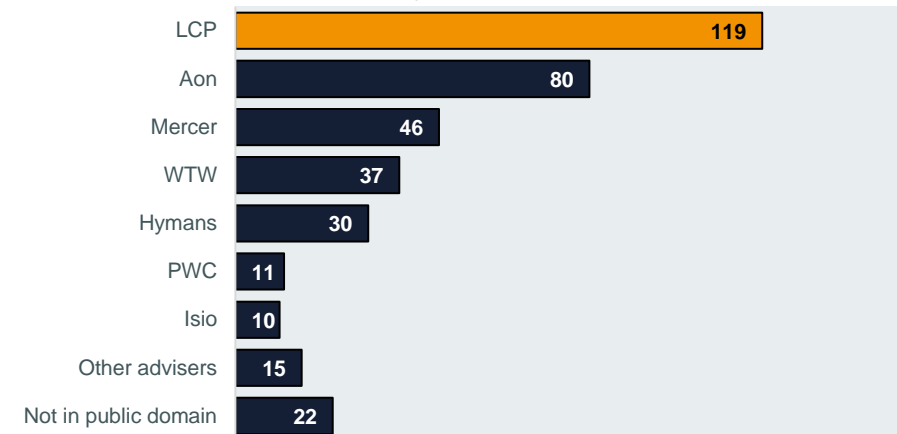
A selection of our risk transfer appointments

We've been **lead adviser** on over **225** transactions insuring over **£65bn** since 2014

..... and over **300** transactions since 2006



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



Source: Insurance company data up to 31 December 2022

Lead adviser on over **100** UK deals under **£100m** since 2014



What are the DB endgame options?

Where will members pensions ultimately come from?

Options that keep sponsor in place ("on balance sheet" options)

DIY approaches / self-sufficiency

Description:
Running investment or other risks with support from the sponsor until all benefits are paid.

Insured buy-ins / longevity swaps

Description:
Insurance products that reduce longevity or other pension risks. Used as part of the journey to full buy-out (or as part of a DIY approach)

Capital-backed options and other insurance solutions

Description:
External capital used to support a (typically) higher risk investment strategy as part of journey to ultimate target (e.g. insured buy-out, superfund, or self-sufficiency)

Options that remove sponsor from scheme ("off balance sheet" options)

Superfunds

Description:
External capital provided in exchange for sponsor removing themselves from supporting the Plan. The Plan's liabilities are transferred to the superfund.

Insured buy-out

Description:
"Gold standard" exit option for trustees and sponsors who can afford it.

The new "alternative" options