

# Navigating you through your de-risking journey

Risk settlement market 2018



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# Overseas

Part of the Risk Settlement Market Review 2018

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Navigating international  
settlement markets

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# Navigating international settlement markets

## What is happening globally?

Over the past three years, a record \$110bn of pension liabilities have been transferred to insurers in the UK, the US, the Netherlands and Canada, highlighting both the global nature of the risk settlement market and the continued focus around the world on pension risk management. We expect volumes to increase significantly over the next three years.

Our latest [Global Pension Risk Survey](#) showed that around a quarter of all plans are intending to insure their pension liabilities. Both improved funding levels and improved insurer pricing in many territories mean that now is the right time to execute those de-risking strategies. As ever, early preparation is vital to capitalise on best pricing.

### Proportion of pension plans with a long-term objective to insure their benefits

2015		2017
N/A	◀ Ireland ▶	<b>30%</b>
15%	◀ US ▶	<b>25%</b>
N/A	◀ Germany ▶	<b>25%</b>
5%	◀ Canada ▶	<b>20%</b>
15%	◀ Switzerland ▶	<b>20%</b>
5%	◀ Netherlands ▶	<b>10%</b>



## Trends, themes and transactions

At the larger end of the market, transactions are increasingly utilising:

- Plan-specific mortality data – with \$250m emerging as a baseline transaction size
- Asset-in-kind premium funding – representing a movement toward the UK system where bonds are directly used to fund the transaction. Aon recently led a transaction where we saved our client over \$4m or 1.5% on their \$250m premium.

## Insurer capacity

Sales diversification and insurer capacity increased in 2017, with 14 insurers actively insuring pension buyouts, six of which closed aggregate transactions in excess of \$2bn. Three new insurers emerged over 2017 – Athene, Mutual of America and CUNA Mutual, with Athene quickly becoming a major player, writing in excess of \$2bn of business in 2017.

## Lump sums

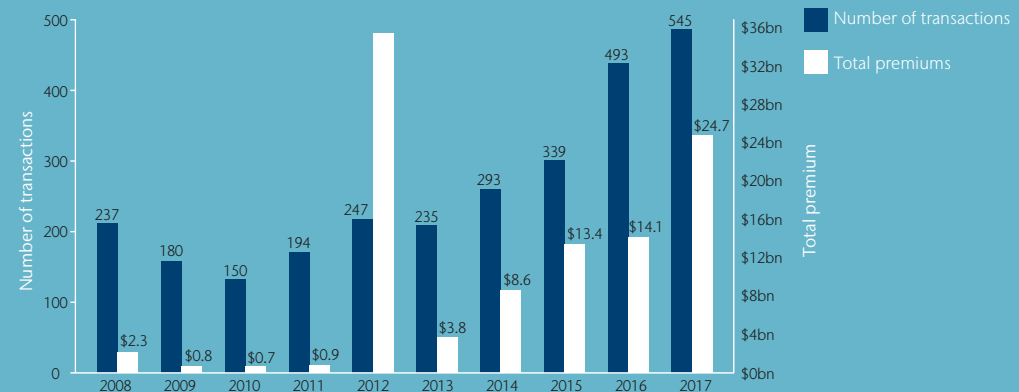
Lump sum payments continued to be a popular pension risk transfer mechanism, with take-up rates continuing at around 55% in 2017. Around half of Aon's US clients have run a lump sum window, giving members the option to convert their vested accrued DB pension for a one-time lump sum payment, in the last few years, but this is expected to slow down dramatically in 2018, both due to mortality table changes made by the IRS, effective from 1 January 2018, and due to the fact that many have run these exercises already.

“Pricing remained strong in 2017, supporting a growing appetite from companies to de-risk their pension plans, particularly for retiree transactions where multiple bidders are typically involved”

**Ari Jacobs, senior partner and US settlement lead**



Annuity plan settlement transaction



Source: Year-end 2017, as reported in insurer responses to Aon Investment Consulting's survey of the most significant U.S. insurers



## US

2017 was another year of tremendous growth for the US pension risk transfer market. A market volume of \$24.7bn represents a fifth consecutive year of growth. The dominant market theme was small benefit pensioner buyout transactions of between \$100m – \$1bn, driven by a focus on reducing Pension Benefit Guaranty Corporation premiums (similar to the UK PPF) where premiums are calculated on a per member basis and an unfunded liability basis.

“Annuity buy-ins have become more popular in the last few years with a c\$900m single annuity buy-in transaction in 2017. Annuity prices appear robust for ‘blue collar’ transactions. As the size of the Canadian market grows as well as the size of the individual deals, so does the governance required, demonstrating the need for experienced advisers.”

**Tom Ault, partner and Canada settlement lead**



## Canada

The Canadian settlement market continued to grow and innovate in 2017.

- Over the year there was \$3.7bn of group annuities
- We have not seen any further longevity swaps in the Canadian market – although longevity risk continues to attract significant attention.

In 2017, we saw developments in Canada that will positively impact the settlement market in 2018:

- Consistent with the UK, funding of pension plans has steadily improved over the year. The median Solvency Ratio for Aon clients in Canada at end of Q4 2017 stood at 99.2%
- There has been a gradual removal of so called ‘boomerang risk’ – the risk of an insurer going bust and the annuities reverting to plan sponsors, with legislation in place or being drafted across Canada
- A new single product group annuity provider, Brookfield Annuity, entered the market late in 2016; it has been active during 2017 and is expected to grow further in 2018.

## Europe

De-risking activity varies across Europe and is based on local circumstances:

- In Germany, 60% of plans have, or are considering, lump-sum settlement payments to their pensioners
- In Switzerland, insurers are keen to transact on settlement opportunities where the active population is also transferred
- In Ireland, Danske Bank transferred €335m of its Irish DB pension liabilities to Irish Life in the largest deal of its kind in the local market.

## Further afield

De-risking and plan wind-up possibilities are also beginning to emerge in other markets, for example in Japan and Brazil.

## The outlook ahead

The global pension risk transfer market will continue to grow in 2018 and beyond. We expect to see continued innovation and a far greater range of solutions in the less developed markets, including bulk annuities and longevity swaps being offered in more countries, particularly across Europe. Aon's market-leading global, and local, insurance knowledge and capabilities enable our clients to time their transactions and carry out the necessary preparation to enable them to seize the best pension risk transfer opportunities.

		UK	US	Canada	Netherlands	Switzerland	Germany	Ireland	Belgium	Norway	Sweden	Brazil	Japan	South Korea
Settle	Insured annuity	Reasonably common	Reasonably common	Reasonably common	Reasonably common	Possible, could become more common	Possible, could become more common	Reasonably common	Not possible or unlikely to become common	Reasonably common	Reasonably common	Possible, could become more common	Not possible or unlikely to become common	Not possible or unlikely to become common
	Transfer to DC (non pensioner)	Reasonably common	Possible, could become more common	Possible, could become more common	Possible, could become more common	Reasonably common	Not possible or unlikely to become common	Reasonably common	Reasonably common	Reasonably common	Not possible or unlikely to become common	Reasonably common	Reasonably common	Possible, could become more common
Transfer to member	Fixed term payments	Possible, could become more common	Reasonably common	Possible, could become more common	Not possible or unlikely to become common	Reasonably common	Reasonably common	Reasonably common	Reasonably common	Possible, could become more common	Possible, could become more common	Reasonably common	Reasonably common	Reasonably common
	Reduce indexation	Reasonably common	Not possible or unlikely to become common	Possible, could become more common	Reasonably common	Possible, could become more common	Not possible or unlikely to become common	Possible, could become more common	Possible, could become more common	Possible, could become more common	Not possible or unlikely to become common	Not possible or unlikely to become common	Possible, could become more common	Not possible or unlikely to become common
Hedge	Longevity swap	Reasonably common	Possible, could become more common	Possible, could become more common	Possible, could become more common	Possible, could become more common	Possible, could become more common	Not possible or unlikely to become common	Not possible or unlikely to become common	Possible, could become more common	Possible, could become more common	Not possible or unlikely to become common	Possible, could become more common	Not possible or unlikely to become common

Reasonably common
  Possible, could become more common
  Not possible or unlikely to become common

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