Aon's UK Risk Settlement Market Review 2020

Helping you navigate through the bulk annuity, longevity swap and consolidation options

Empower Results®

Welcome
What a year 2019 was for the UK risk settlement market!

Bulk annuities

The volumes of bulk annuity transactions exceeded £43bn in 2019, which is well in excess of historic totals (the previous high being c£24bn, in 2018). Activity during 2019 led to at least six of the eight insurers writing their highest volume of business in their history, and four of the eight insurers writing the largest UK bulk annuity transaction in their history. Completing this volume of transactions required the market to find new solutions to both old and new issues, paving the way for more schemes to de-risk through bulk annuities in the future.

We are incredibly proud to say that Aon has been at the forefront of this, having been the lead adviser on bulk annuity transactions totalling over £20bn of liabilities in 2019, and enhancing security for over 100,000 scheme members during the year.

Longevity swaps

Volumes in the longevity swap market in 2019 were dominated by the second largest transaction ever of its type, a £7bn longevity swap involving the HSBC Bank (UK) Pension Scheme and Prudential Insurance Company of America (PICA). We are delighted to have advised HSBC in Bermuda on this transaction.

Market Insights

Our 2019 transactions were characterised by both collaboration and innovation. We are excited to share market insights from a selection of the Aon-led transactions with you throughout this risk settlement market review report:

- **Asda Group Pension Scheme** - why was demand from large schemes so high in 2019?
- **HSBC Bank (UK) Pension Scheme** - the sign of more to come?
- **telent GEC 1972 Plan** – successfully transitioning a complex £4.7bn asset portfolio
- **National Grid UK Pension Scheme** - when you can't secure the full scheme, how do you choose which members to insure?
- **Rolls-Royce UK Pension Fund** – innovation through a partial £4.6bn+ buyout covering 33,000 members

Martin Bird
Senior Partner and Head of Risk Settlement
martin.bird@aon.com

In addition, we delve into:

- Our view of the developments in the market for sub £100m bulk annuity transactions, and how smaller pension schemes can access competitive pricing using Pathway, our streamlined bulk annuity proposition
- The results of the Aon Insurer Survey, completed in December 2019 by all eight active UK bulk annuity providers
- An overview of insurer appetite, and views from insurers on what headwinds could affect their ability to meet planned 2020 business volumes
- An overview on current insurer sentiment on GMP equalisation
- Recent life expectancy trends – Is now a good time to be insuring against members living longer than expected?
- How to prepare your investments for risk settlement
- How best to increase insurer engagement

Finally, we take a look at the background to 'Part VII' transfers and consolidation options, both of which we expect to be topical issues in 2020.

Expectations for 2020

We anticipate strong appetite from insurers and reinsurers to grow the market further in 2020 and despite the views of some market commentators we think, if approached in the right way, opportunities will exist for not just the larger transactions but for those at the smaller end too.

The start of the year has been extremely busy. **The volatility in markets caused by Covid-19 is providing both short-term opportunities and challenges. Please refer to our separate updates for our latest views on the impact of Covid-19 on risk settlement providers, the viability of transactions and whether transaction processes should be adapted.**

Recognised excellence

More than ever those schemes who can correctly navigate the current busy marketplace and are ready to capture risk settlement opportunities that arise will be best placed to achieve their objectives.

If you are thinking about whether risk settlement might be suitable for your own scheme, then now is certainly a good time to start planning.

Aon's leading risk settlement credentials

2019 in numbers

£21bn
Bulk annuity placement

50% market share
Market record for any adviser

8

Led advice on transactions with all eight insurers in 2019

40%
Of Aon's transactions since 2018 were £100m or less

95%
Of transactions that Aon took to market in 2019 transacted

Market credentials

2
largest UK bulk annuities to date

£4.7bn
telent &
£4.6bn
Rolls-Royce buyouts

£7bn
Longevity swap

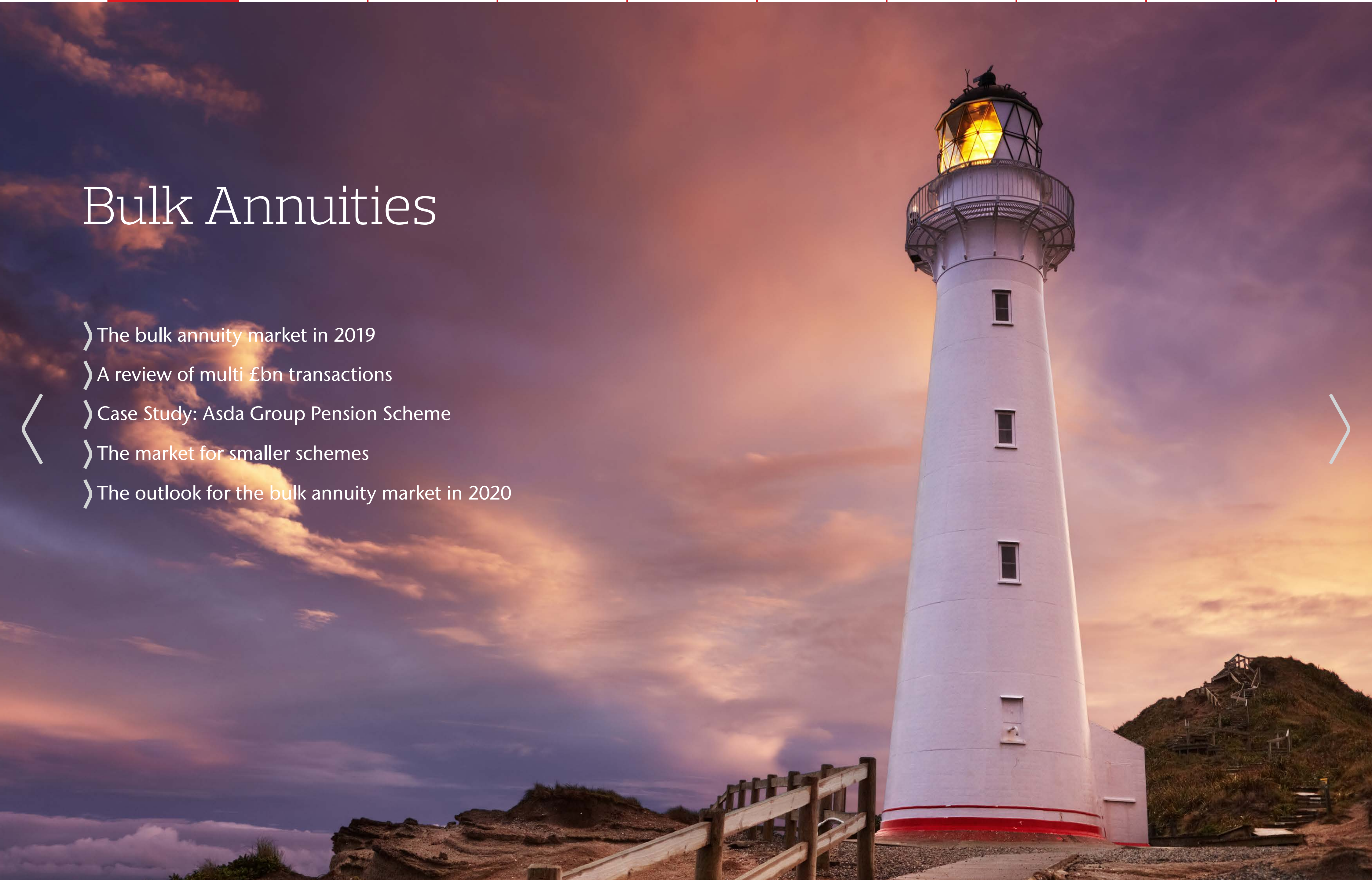
Advised HSBC on the creation of a bespoke Bermuda captive

£500M+ bulk annuity transactions since 1 January 2016: (up to end of February 2020)

Lead adviser to transactions since 2016	Number of schemes (deals over £500m)	Number of schemes (deals over £1bn)
Aon	15	8
LCP	10	1
Hymans	2	2
Mercer	3	1
WTW	2	1
KPMG	1	1
PwC	1	1

Contents

Click on a section >>



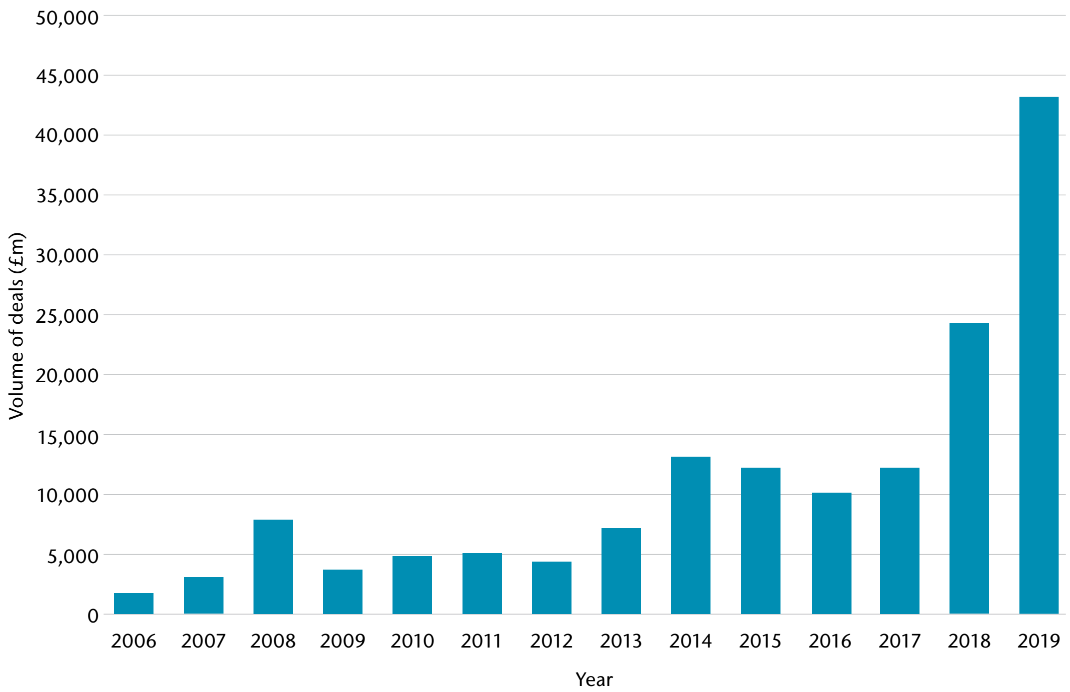
Bulk Annuities

Bulk annuity market in 2019

Over 1.25 million individuals are now covered by a buy-in or a buyout policy across the eight active UK insurers. This means you are now more likely to bump into someone in the street who has their defined benefit pension secured with an insurer than someone who is still an active member of a defined benefit scheme.[1]

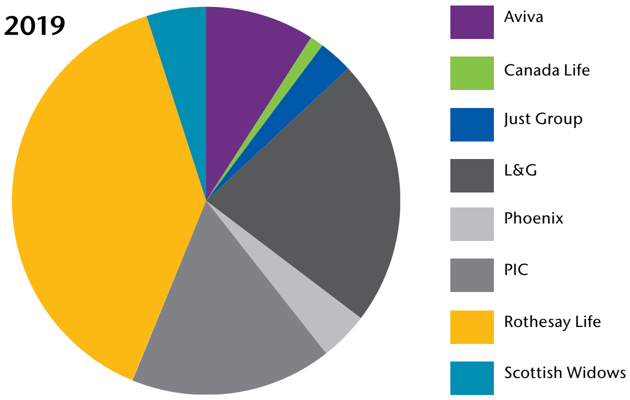
Increasing demand from pension schemes combined with expanding insurer supply and attractive pricing meant that bulk annuity market volumes exceeded £43bn in 2019, far surpassing all previous totals.

Bulk annuity business written with UK pension schemes



[1] Source: Purple Book 2019 and Aon Insurer Survey, December 2019

Market Share 2019



During 2019, Aon advised clients on bulk annuity transactions totalling over £21bn of premium, enhancing the benefit security of over 100,000 scheme members.

Aon was lead adviser to the following transactions over £1bn:

Scheme	Transaction type	Transaction size	Aon's role
Rolls-Royce UK Pension Fund	Partial buyout	In excess of £4.6bn	Risk settlement adviser to the Trustee
GEC 1972 Plan	Full scheme buyout	£4.7bn	Risk settlement adviser to telent and the Trustee
Asda Group Pension Scheme	Full scheme buyout	£3.8bn	Risk settlement adviser to the Trustee
National Grid UK Pension Scheme (Section A and Section B)	Partial pensioner buy-ins	£2.8bn and £1.6bn	Risk settlement adviser to National Grid and the Trustee

Inevitably, it was the jumbo deals that dominated the headlines, but we are also extremely pleased to report that there remains a strong market available for smaller schemes. In fact, around 30% of Aon-advised transactions in the past 18 months have been £30m or under (see page 12 for more commentary).

Across all Aon-led transactions there were some common themes:

- Strong collaboration across joint trustee and sponsor working groups
- Well-defined governance maps and clear objectives to ensure efficient decision making
- Innovative solutions to enable schemes to meet their de-risking objectives
- Meticulous preparation and planning to ensure that these projects were attractive to the insurers and stood out from the crowd

Another development in the 2019 bulk annuity market related to the High Court of Justice ruling against the planned transfer of business from the Prudential to Rothesay Life. This is of interest to schemes as it:

- Potentially has implications for how insurers prioritise insurer back book transactions versus pension scheme transactions going forwards (with pension scheme transactions potentially becoming more attractive)
- Is likely to provide reassurance that the High Court approval process is robust and that policyholder views are a key consideration for the presiding judge

More detail is set out on page 37.

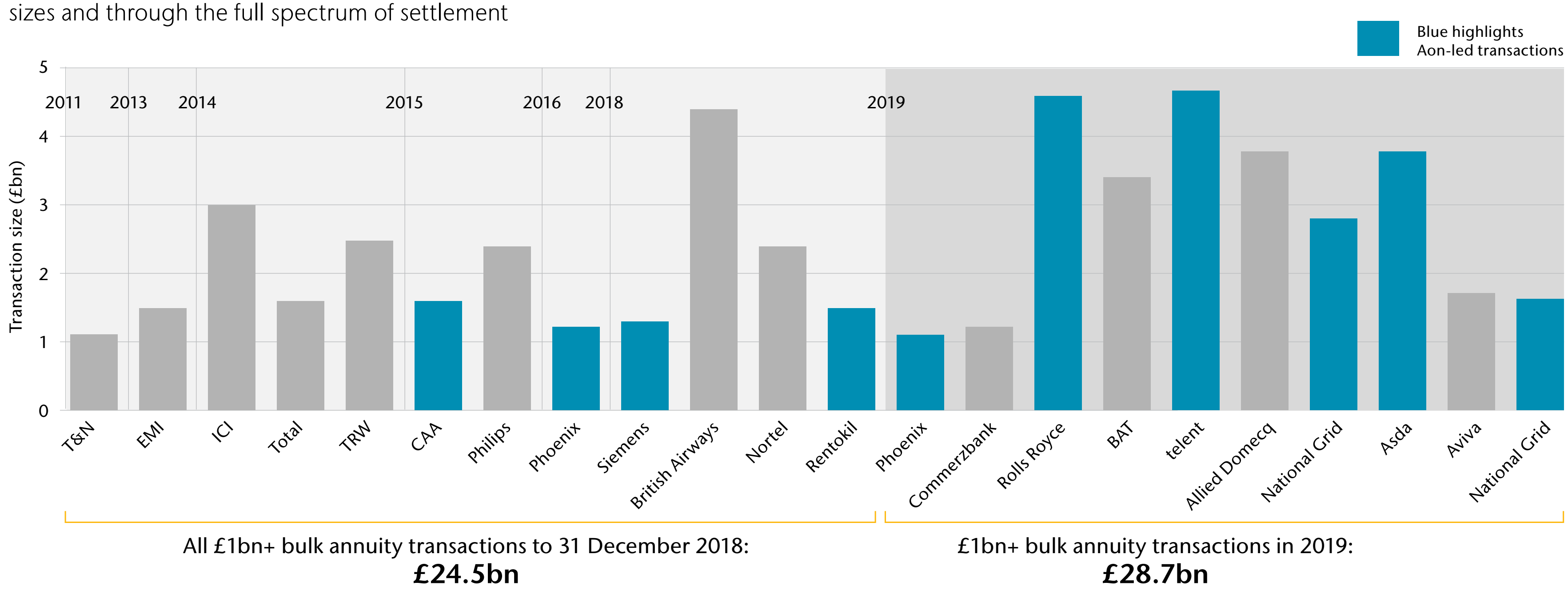
John Baines
Partner
john.baines@aon.com

A review of multi £bn transactions

The record breaking volumes in 2019 were driven by 10 bulk annuity transactions of over £1bn, many more than has been seen previously in a 12 month period. In fact, the total volume of £1bn+ transactions over 2019 was higher than the total volume of £1bn+ transactions in the history of the UK bulk annuity market up to 31 December 2018.

These 'jumbo' transactions came in all shapes and sizes and through the full spectrum of settlement options from partial pensioner buy-ins, longevity swap conversions and both partial and full scheme buyouts.

The range of insurers securing the 10 transactions over £1bn also showed encouraging breadth. Five insurers have now written transactions over £1bn, with Phoenix and Aviva doing so on their own schemes and as a possible sign of intent for wider market activity in 2020 and beyond.



Why was demand for bulk annuities from large schemes so high in 2019?

The demand from large schemes was driven by two factors:

- Strategic buy-in transactions prompted by strong capacity and pricing – schemes looking to reduce longevity and financial risks through phased buy-in transactions, as part of their overall investment and risk management strategy. Capacity offered by insurers meant that competitive pricing could be achieved across greater volumes than in previous years and was a key driver in the second National Grid UK Pension Scheme transaction (Section B - £1.6bn) following so quickly after the first (Section A - £2.8bn).
- Full scheme buyout funding being achieved earlier than expected – the **telent** and **Asda** transactions are examples of this, with different underlying drivers behind the acceleration in timescales.

"Rothesay Life completed four large transactions in 2019 and two of them, the telent and Asda buyouts, resulted from unforeseen accelerations in scheme settlement timelines. Opportunities arose – either through getting ahead of plan, or through company funding becoming available - that meant that the schemes found themselves in the position to be able to secure benefits in full earlier than expected."

Sammy Cooper-Smith, Rothesay Life

Bulk annuity case study

Trustee of the Asda Group Pension Scheme – £3.8bn full scheme buyout with Rothesay Life

Aon was the lead settlement and actuarial adviser to the Trustee for the transaction, supporting the Trustee in preparing for and structuring the transaction, ensuring members' benefits were insured in full and acting for the Trustee in all direct engagement and negotiations with the insurance market.

In early 2019, the Trustee agreed with Walmart and Asda to explore a full buyout of the Asda Group Pension Scheme. A sponsor contribution of c£800m ultimately enabled the Trustee to secure benefits fully with Rothesay Life. Structuring the transaction required a number of innovative solutions to be developed including managing liquidity constraints relating to the Trustees' illiquid asset holdings and managing residual risk exposure relating to members benefits and for the Trustees following the transaction.

"This was a highly bespoke transaction, not least due to the size of the scheme and the liability profile, achieved against the backdrop of the busiest ever year in the bulk annuity market and an uncertain political environment.

This transaction was made possible by robust negotiation with the insurance market, the development of a number of innovative features and putting in place a bespoke governance structure which enabled all parties to make effective decisions throughout the process."

Mike Edwards, Partner, Aon

Mike Edwards
Partner
mike.edwards@aon.com

The market for smaller schemes

Bulk annuities are not just a market for the big schemes, risk settlement transactions at the smaller end of the market are also incredibly important. The ongoing operational expenses of running smaller schemes make a bulk annuity transaction attractive, and buyout is commonly the long-term target that the scheme is aiming for.

Smaller schemes can often find that:

- Governance can be more challenging, with many smaller schemes struggling to attract suitable candidates for MNT roles
- Sponsor covenant is likely to be more uncertain, and more volatile, if the employer is also smaller
- The fixed running costs of the scheme can look expensive
- It is much harder to hedge longevity risk in isolation

Therefore, it is very important that smaller schemes can continue to access the bulk annuity market. But as demand exceeds supply, there is a wider perception that smaller pension schemes can no longer access competitive pricing and contractual terms from insurers who are otherwise busy on the larger, so-called 'mega' transactions.

Aon's experience is different to this, with 40% of Aon led transactions since 2018 being less than £100m. This proves that smaller schemes can still access competitive insurer pricing and attractive terms – if they approach the market in the right way.

40%

of Aon transactions since 2018 were for less than £100m

Achieving successful outcomes for smaller transactions

In recognition of an evolving market for smaller transactions, we have further developed Aon's Pathway proposition to fit insurers' expectations of (typically) sub £100m transactions more effectively.

Pathway adopts a streamlined approach to bulk annuity broking, starting with a tried-and-tested approach to preparation, a quick and robust bidding process and a straightforward execution. This makes Pathway transactions more attractive to insurers, leading to more competition and better outcomes on pricing and terms for smaller pension schemes.

"When looking at smaller transactions, PIC will prioritise those which are well prepared, use pre-negotiated contracts and are brought to market by experienced advisors with a strong track record of executing transactions. Aon's Pathway proposition has been designed with these criteria in mind." **Pension Insurance Corporation**

The process for smaller schemes retains the thorough preparation which we recommend for transactions of all sizes but simplifies the broking process further – for example, by having a streamlined bidding process that the insurers trust with an efficient contracting process based on terms negotiated in advance by Eversheds Sutherland in order to maximise engagement and competitiveness.

We look forward to achieving successful outcomes for many more smaller schemes using Pathway in 2020.

"Contract negotiations are often time-consuming and costly for both insurers and trustees. Having confidence that up-front, pre-negotiated 'Pathway contracts' are in place makes a significant difference as they enable a quicker and more efficient execution and can make the difference between whether we choose to quote on a transaction or not." **Aviva Life & Pensions**

Stephen Purves
Partner
stephen.purves@aon.com

The summary case studies below illustrate how Pathway has helped clients with smaller pension schemes to achieve competitive terms, while reducing risk and improving the security of members' benefits.

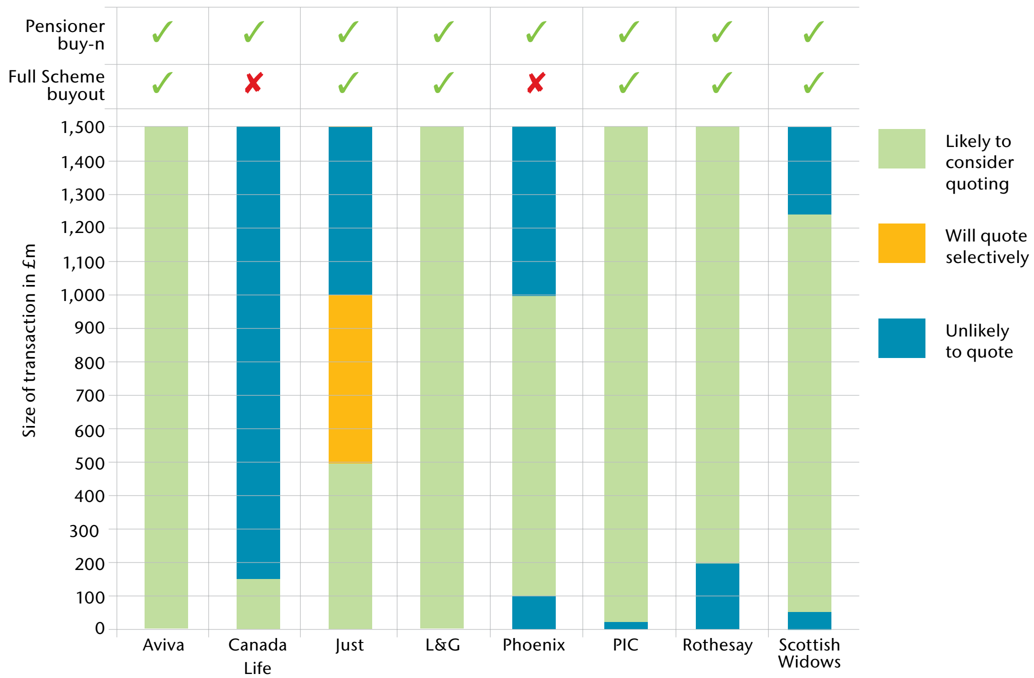
	Case Study A	Case Study B
Type of transaction	Partial pensioner buy-in (oldest members)	Partial pensioner buy-in (all pensioner liabilities for segregated section of larger scheme).
Scheme long term objective	Buyout – with strategic buy-ins to be considered along the way.	Long-term low dependency strategy
Size of transaction	£30m	£40m
What prompted the transaction?	The current funding plan estimated a full scheme buyout could become affordable by 2026. Our assessment showed that an interim partial buy-in could shorten the expected timeframe and increase the likelihood of achieving the long-term objective. The transaction size was derived by considering how the scheme membership would mature, with the aim of having an attractive mix of pensioner/deferred members at the point of future buyout to maximise insurer engagement.	Feasibility of partial buy-in was considered as part of a review of the long term de-risking strategy for the scheme investments.
Insurers participating in the exercise and number of quotation rounds	Three insurers participated and there were two quotation rounds.	Five insurers participated and there were two quotation rounds.
Impact of transaction	The transaction delivered a substantial saving against the Technical Provisions assessment of the corresponding liabilities. In doing so, it achieved the Trustees' objective to shorten the expected timescale to buyout and increase the likelihood of achieving the long-term objective.	The transaction resulted in significant risk reduction, achieved on competitive terms. It allowed the Trustees to pursue their long-term strategy with reduced funding volatility and lower covenant risk.

Michael Walker
Principal Consultant
michael.walker.3@aon.com

Tiziana Perrella
Principal Consultant
tiziana.perrella@aon.com

The outlook for the bulk annuity market in 2020 and beyond

Insurer appetite in 2020



Source: Aon Insurer Survey, December 2019

Our experience is that insurer appetites for transactions of different sizes and profiles change over time, even within a particular year. This may be due to external or internal commercial drivers – insurers commented on this in the Aon Insurer Survey, December 2019:

"We do become more selective as the year progresses depending on demand for quotations and the volume of business written, but we'll usually prioritise schemes that are well prepared." **Just**

Anticipated bulk annuity volumes

In response to the Aon Insurer Survey, December 2019, all insurers stated a commitment to the UK annuity market, with four of the eight insurers having a desire to increase their volumes from current levels. Based on the insurer responses to our survey, overall volumes over the next five years are projected to be £30bn-£40bn a year.

"We expect the strong momentum that we've seen in our market over the past few years to continue and anticipate the total UK PRT market to be broadly £150bn over the next five years (2020 to 2024)." **Legal & General**

While pipelines are strong, 2019 was characterised by a leap in the number of very large transactions. Our prediction is that the innovation and groundwork done in 2019 will pave the way for schemes of all shapes and sizes to transact more effectively and affordably in the future.

We anticipate strong competition for transactions of all sizes in 2020. In particular, we expect there to be fewer multi-billion pound transactions than in 2019 and so insurers will be seeking to write a greater number of transactions to maintain or increase their market share.

Tiziana Perrella
Principal Consultant
tiziana.perrella@aon.com

What factors could affect the insurers' ability to write these volumes?

A number of factors need to come together for insurers to be able to provide quotations, and for the pricing offered by insurers to be viable for schemes. Our insurer survey sought up-to-date views from insurers on what headwinds could affect their ability to meet their planned 2020 business volumes. The insurer responses covered three common themes:

Theme	Concern	What the industry is doing to mitigate the concern?
Sufficient supply of high yielding assets	A sufficient supply of high yielding assets would need to remain available to support market growth and pricing. If the UK annuity market volumes continue at £40bn a year, the supply of appropriate high-yielding assets may be outweighed by demand, pushing asset prices up and yields down. This would directly impact the premiums insurers are able to charge	Providers are increasing the asset sourcing expertise that they draw upon. For some providers, this includes using capital to enter into direct investments in projects that support economic and social sustainability goals and will help to support future new business

"The main headwind is demand outstripping the capacity insurers have to price and true-up." **Just**

Source: Aon Insurer Survey, December 2019.

Theme	Concern	What the industry is doing to mitigate the concern?
Sufficient reinsurance capacity at a suitable cost	Longevity reinsurance being used to manage risk and capital positions is very important in a Solvency II environment. To the extent that longevity reinsurance is harder to secure at a suitable cost, insurers may be less able to provide attractive premiums or be constrained by risk limits on retained longevity risk	Insurers maintain close relationships with reinsurers, and will have early warning of an impending capacity crunch. Alongside this, providers will continue to innovate and consider additional solutions to ensure they have flexibility if the reinsurance capacity does become constrained in the future

"The reinsurance market remains bullish around their ability to support increasing demand in the bulk annuity market however this is something we continue to monitor closely." **Legal & General**

Theme	Concern	What the industry is doing to mitigate the concern?
Number of appropriately skilled people to do the work needed across the industry	Human resource is one area that may have an impact on volumes written, simply because pricing teams at insurers and reinsurers may not be able to complete the volume of work needed to facilitate the increased volumes of transactions	Providers and risk settlement consultants are expanding their teams with high quality individuals and investing in making processes efficient. Schemes may find that longer timelines are needed, or that insurers focus their attention even more than ever on the transactions they think they have the best chance of winning, and do not provide quotations for more speculative projects

"To the extent transaction volumes increase, there is likely to be a capacity constraint and schemes may find a reduced number of insurers prepared to quote."

Scottish Widows

Karen Gainsford
Principal Consultant
karen.gainsford@aon.com

Longevity Swap Market

The longevity swap market in 2019

Market allows the very largest schemes to effectively access the reinsurance market effectively

Volumes in the 2019 longevity swap market were dominated by the second largest ever transaction of its type, a £7bn longevity swap involving the HSBC Bank (UK) Pension Scheme and Prudential Insurance Company of America (PICA). One other transaction was announced, a £800m transaction for a FTSE 100 scheme with Zurich Assurance Ltd.

Since the turn of the year there has been further longevity swap activity in the UK banking sector, with the announcement of the transactions covering £10bn of liabilities of the Lloyds Banking Group's schemes, transferring risk into the reinsurance market with Pacific Life Re.

Martin Bird
Senior Partner and Head of Risk Settlement
martin.bird@aon.com

The sign of more to come?

It is likely that the HSBC and Lloyds schemes transactions will be followed by significant interest in longevity swaps transactions in the financial sector in the coming years. This is because, in addition to their benefits to any scheme as a risk management tool, longevity swaps typically have a positive impact on capital requirements for any financial institution that is required to include stress tested pension risk on its balance sheet. This contrasts with bulk annuities which are generally more capital intensive.

Case study

Aon's role in the HSBC transaction

The transaction uses a captive solution with an HSBC-owned insurer in Bermuda, with PICA then reinsuring the transaction, which relates to around half the scheme's pensioner liabilities.

A multi-disciplinary team from Aon advised the HBSC captive team on the creation of and licensing of the new bespoke captive entity, with the Aon Bermuda team supporting HSBC with the liaison with the local regulator (the Bermuda Monetary Authority). Beyond the process of incorporating the legal insurance entity to sit between the pension scheme and PICA, the project involved Aon:

- Advising the captive team on the operational infrastructure required to service the transaction on an ongoing basis,
- Identifying roles and activities which should be outsourced,
- Supporting on the selection of and terms negotiation with third party providers
- Managed the implementation and testing.

Aon was able to bring together all the necessary expertise to support this transaction. Working in the various offshore locations on this type of longevity deal requires a combination of both jurisdictional expertise and good local working relationships - as well as the very longevity-specific expertise related to deal structuring and operational implementation.

"Our partnership with Aon was critical to the successful execution of this complex project. The Aon team were professional in their approach and a pleasure to work with - they:

- Integrated seamlessly into the captive team, working collaboratively and constructively with advisers, providers and counterparties
- Leveraged their comprehensive technical and operational expertise to upskill the team
- Provided local advisory support for the Bermudan captive creation and regulatory licensing workstream
- Diligently guided the captive team through resourcing / outsourcing decisions
- Skilfully designed and implemented a bespoke collateral management framework, involving six parties across four time-zones
- Provided critical support to the project management function."

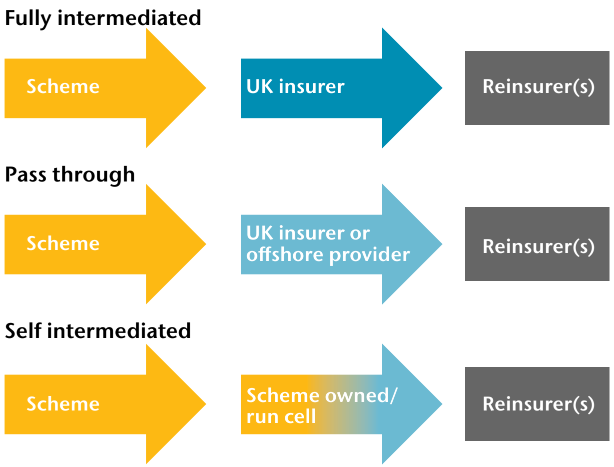
Tom Carroll, Project Director, HSBC sponsor and captive teams

Tom Scott
Principal Consultant
tom.scott@aon.com

Longevity swap structures

Are offshore captive structures as used by HSBC the new norm for longevity swaps?
Put simply – no! As the 2018 National Grid transaction with Zurich demonstrated, the appropriate longevity swap structure will vary from scheme to scheme.

The intermediation structures on offer to schemes are summarised below.



Structures of some notable publicised UK longevity swap deals			
Size	**Scheme**	**Structure**	**Date**
£7bn	HSBC UK Pension Scheme	Bermuda-based sponsor owned	August 2019
£2bn	National Grid	UK Insurer	May 2018
£1.6bn	Bristish Airways Pension Scheme	Guernsey-based trustee-owned captive	August 2017
£0.9bn	Phoenix Group	UK sponsor insurance entity	August 2014
£16bn	BT Pension Scheme	Guernsey-based trustee-owned captive	July 2014
£4.9bn total	BAE Systems	UK insurer	February and December 2013

Information source: Aon's Risk Settlement Group Due Dilligence team

The different intermediation structures for accessing reinsurance capacity each come with different advantages and disadvantages. Various factors including transaction size, risk appetite, costs and governance preferences will all have a say in what is right for a specific transaction.

In the case of HSBC, the existing team in Bermuda and the resource and expertise to leverage for the day-to-day operation of the longevity swap were key contributors in the decision to use the captive structure.

The table above shows the different structures used by several notable UK longevity swaps.

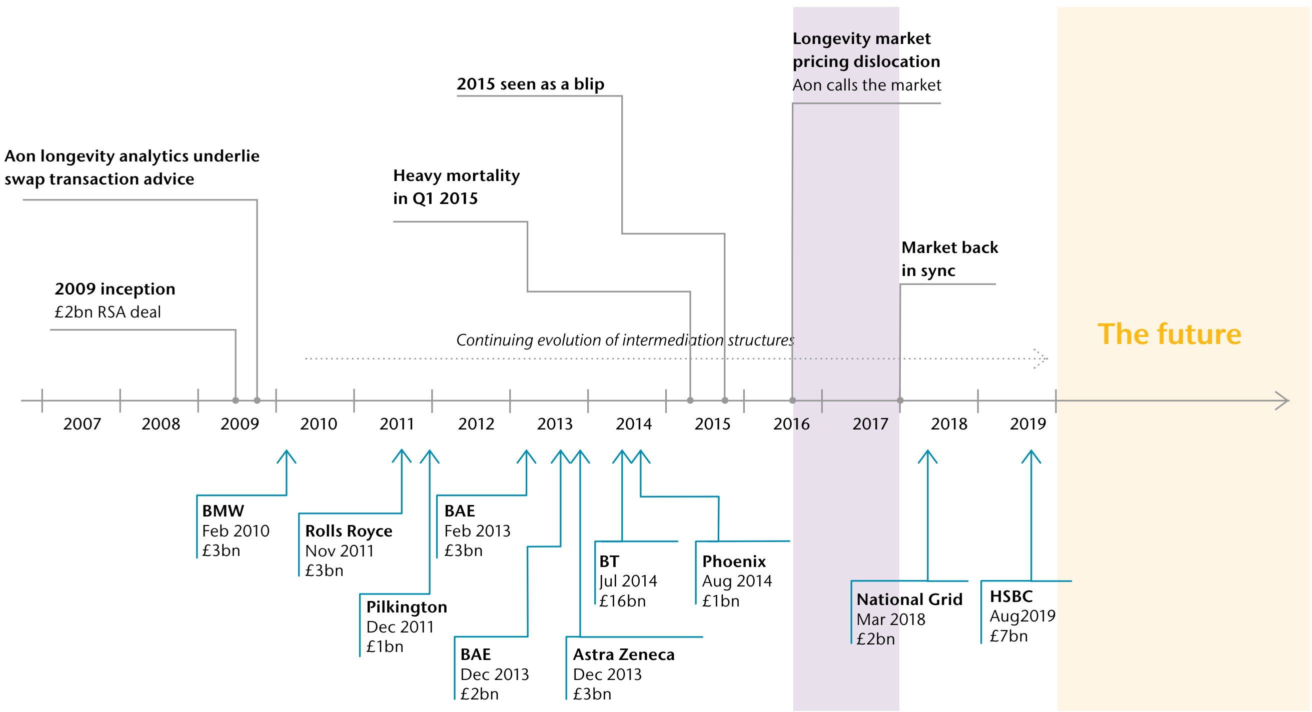
Tom Scott
Principal Consultant
tom.scott@aon.com

Longevity swaps – Outlook for 2020 and beyond

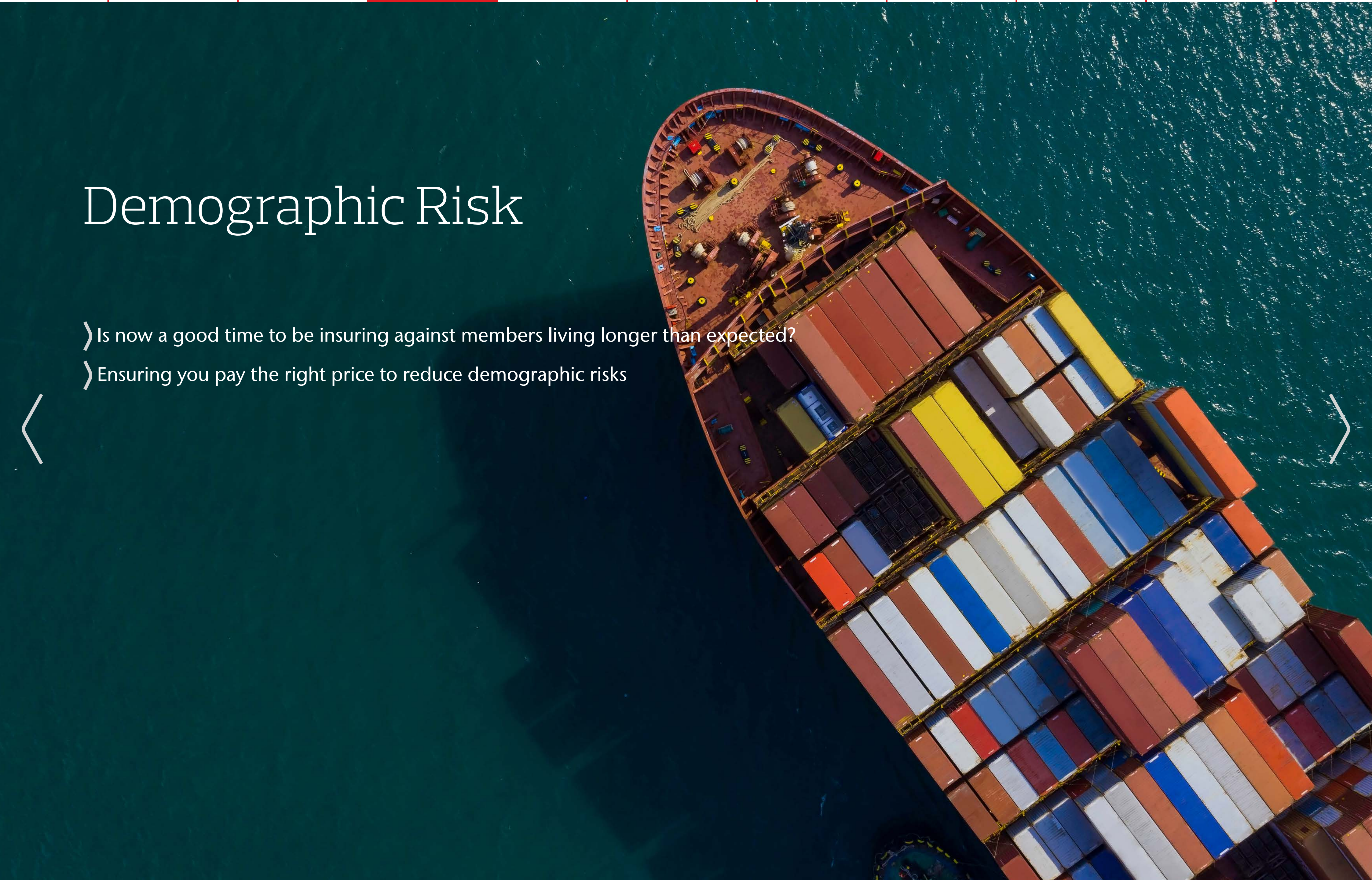
In the short and medium term, human resource is likely to be the dominant market constraint. (Re)insurers are becoming increasingly selective, but capacity remains plentiful as more reinsurers are coming to market. The lower macro-economic outlook continues to drive capital market appetite for insurance risk.

In the longer term, there is a strong possibility that other countries (e.g. Canada) will come to market, but the UK market is likely to remain the epicentre of activity for the foreseeable future.

Could there be more market dislocations? Yes, do not be surprised if there are future periods where we say ‘wait’.



Hannah Cook
Principal Consultant
hannah.cook@aon.com



Demographic Risk

- Is now a good time to be insuring against members living longer than expected?
- Ensuring you pay the right price to reduce demographic risks

Is now a good time to be insuring against members living longer than expected?

Understanding the demographic risks in your scheme, from members living longer than expected, or more members having eligible dependants than expected, is a key first step in deciding whether insurance is right for your scheme. If you decide to insure against members living longer than expected, it is important that you set an appropriate price threshold, taking into account up-to-date and relevant information.

Is life expectancy rising or falling?

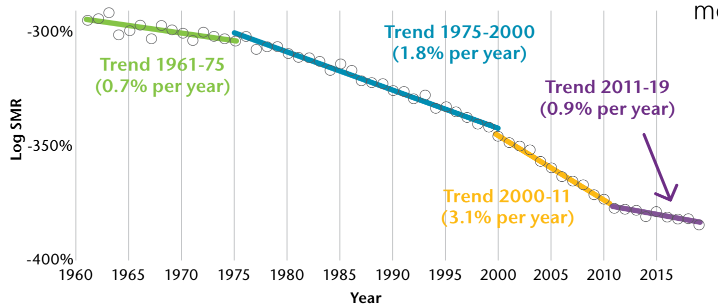
- In short, life expectancy in the country as a whole has continued to increase. However, the speed at which life expectancies have improved was low in 2017 and 2018.
- While life expectancy in the country as a whole has continued to increase, life expectancy from age 65 actually fell over 2011-2018 for women in the most deprived 30% of areas in England.
- Life expectancy changes in the national population are not directly relevant for projecting life expectancy changes in pension schemes. Aon's analysis indicates that improvements in life expectancies for pension scheme members have slowed in recent years, but have remained higher than those in the general population.

Mortality in 2019

In contrast to previous years, **2019 saw a year of relatively high mortality improvement in the national population, translating into higher observed life expectancies.** Analysis of 2019 deaths data suggests a mortality improvement of 3.6% across the whole population, higher than any annual improvement since 2009. This means that 2019 as a whole has seen record low annual mortality rates (represented as the right-hand side in the chart below).

The latest version of the CMI model was published in March 2020. Adding 2019's experience into the model has led to an increase of less than 0.5% in liabilities compared to the 2018 model.

Log standardised mortality rates E&W male



Calculations by Aon using ONS and CMI data.

Impact on insurance pricing and capacity in 2020

We have not seen large movements from insurers over the year on the price of longevity risk. While we do expect insurers to update pricing to allow for the most recent population-level experience, we do not anticipate this to shift pricing materially.

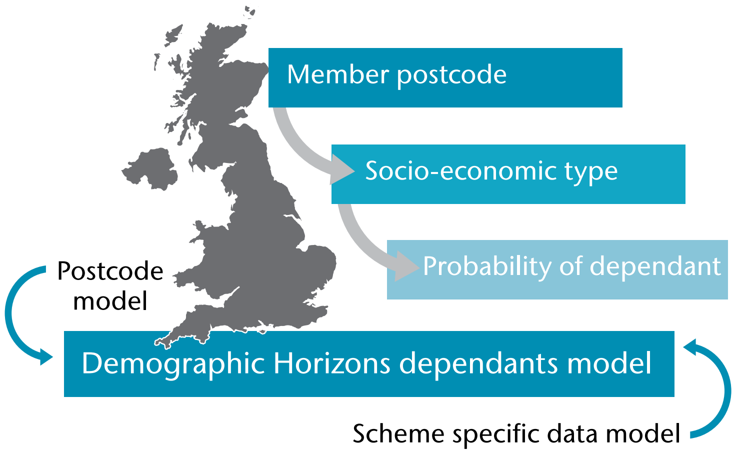
Insurer capacity in 2019 was helped by significant releases of capital reserves which flowed from the CMI models published in 2018 and 2019. The release of capital reserves gave insurers the flexibility to fuel new business to the record levels we saw in 2019. There is some variation across the market as to the timing of adopting the latest versions of CMI models, and this may translate into some variation in pricing across insurers and reinsurers. We expect the impact is likely to be muted in bulk annuity pricing, but perhaps more visible for longevity swap transactions.

Ensuring you pay the right price to reduce demographic risks

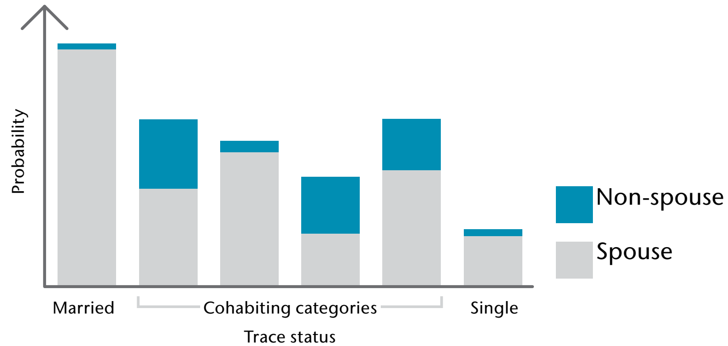
Pension schemes should ensure that they update their mortality assumptions when considering the value of a risk transfer exercise, particularly if they have not been refreshed for a few years. Updating from CMI_2017, for example, could reduce liabilities by over 2%. Schemes should also consider how to adjust for differences between pensioner and population mortality - with the addition of 2019 data, some common approaches will no longer produce appropriate results.

Schemes should also ensure their dependants assumptions are fit for purpose. The assumptions for the proportion of members with eligible dependants and age differences are becoming increasingly important. As set out in the diagram to the right, our Demographic Horizons dependants model uses all available data to produce a best estimate assumption, combining a postcode model with a scheme's data on dependants, to produce a best estimate assumption to compare against insurer pricing.

Our postcode model is robustly calibrated to pension scheme data for 300,000 members from 30+ schemes UK-wide. It also captures age shape and socio-economic variation and has in-built allowance for time trends.



Dependant probability by trace code



Our scheme-specific data model incorporates all available data from write out surveys of members, electronic tracing, and known experience data from recent deaths. Bringing these inputs together, the model:

- Corrects for survey non-respondent bias – the fact that members without a dependant are less likely to respond
- Trace codes provided by electronic tracing – for example 'married' or 'single' are converted to dependent probabilities
- Maps death data to the current membership profile

The allowance made for marital data can be a key driver of price differentials on transactions. Our Demographic Horizons dependants model provides the analysis needed to ensure you make the right allowance in your price threshold when assessing quotations.

Matthew Fletcher
Senior Consultant
matthew.fletcher@aon.com

Preparing your investments

How to prepare your investments for risk settlement

Preparing your scheme assets for a risk settlement transaction is a vital step in avoiding an expensive hard landing when you need to transition your investment portfolio, or the cashed in value of your portfolio, to an insurer. Whether your aim is to complete an opportunistic buy-in for part of your scheme, or to buyout your scheme in full, there are four key investment areas to consider when getting your scheme's assets settlement ready:

1. Direction of travel – Consider how your assets fit with your settlement target

When considering insurance solutions, the specifics of the population to be insured need be carefully considered.

Preparing assets for buyout	Preparing assets for buy-in
Getting ready for a buyout should begin years before the planned transaction date. At a high level, you will need to determine return and risk parameters and the overall timeframe to close any buyout funding gap in your scheme. As the scheme moves closer to your target, a plan should be in place to reduce volatility (i.e. improving or increasing hedging, and focussing on asset specific risks).	As a buy-in is an illiquid investment, it needs to be considered in terms of how it fits in with your overall longer-term strategy, whether that is a long-term low dependency target or buyout. A scheme must consider how the remaining assets, not used to fund the buy-in, can still maintain hedging levels and generate the required level of return to close any funding gap without increasing risk.

2. LDI – Interest rate and inflation hedging

- Ensuring that your liabilities are fully hedged to interest rate and inflation, reduces the risk of your assets moving in a different way to insurance pricing
- Simplifying your LDI portfolio can reduce the cost of unwinding any complex derivative position at the point of a transaction
- Other considerations include the appropriate liability profile to hedge (i.e. consider if any margins should be excluded), how to treat external assets within the LDI portfolio and the level of illiquidity in the LDI portfolio.

3. Manage illiquid assets and overall liquidity

For illiquid assets, it is critical that an exit strategy is in place. For large illiquid blocks, engaging with brokers early can help assets be sold at a reasonable price.

4. Engage with insurers

For large transactions, talking to insurers well in advance gives you a chance to get a better understanding of each insurer's view on taking assets in-specie. In return, the insurer gets a better understanding of your scheme and the level of planning and preparation going into the transaction. Both should lead to insurers prioritising your transaction.

Lucy Barron
Investment Partner
lucy.barron@aon.com

Case study

telent GEC 1972 Plan – successfully transitioning a complex asset portfolio

The challenge

Having considered buyout to be over ten years away just a few years ago, and with funding having improved much faster than expected, the Plan's investment portfolio was complex and not particularly 'insurer-friendly'. However, in 2019, the Plan trustees found themselves in the position of approaching the insurance market for buyout quotations and having a very real prospect of transacting much earlier than anticipated.

The key challenges from an asset perspective were:

1. A complex LDI portfolio containing over £1bn notional of illiquid derivatives which alone would cost tens of millions of pounds to unwind

2. Over £700m in less liquid assets including closed-ended vehicles with over five years to run – these needed to be sold at a reasonable price for the transaction to be successful

Key actions

It was clear from the outset that early insurer engagement would be critical, and this proved to be the case. In-depth conversations with certain insurers helped inform the insurers' individual preferences, and willingness and ability to receive some of the more exotic investments. This enabled Aon to advise on key areas such as:

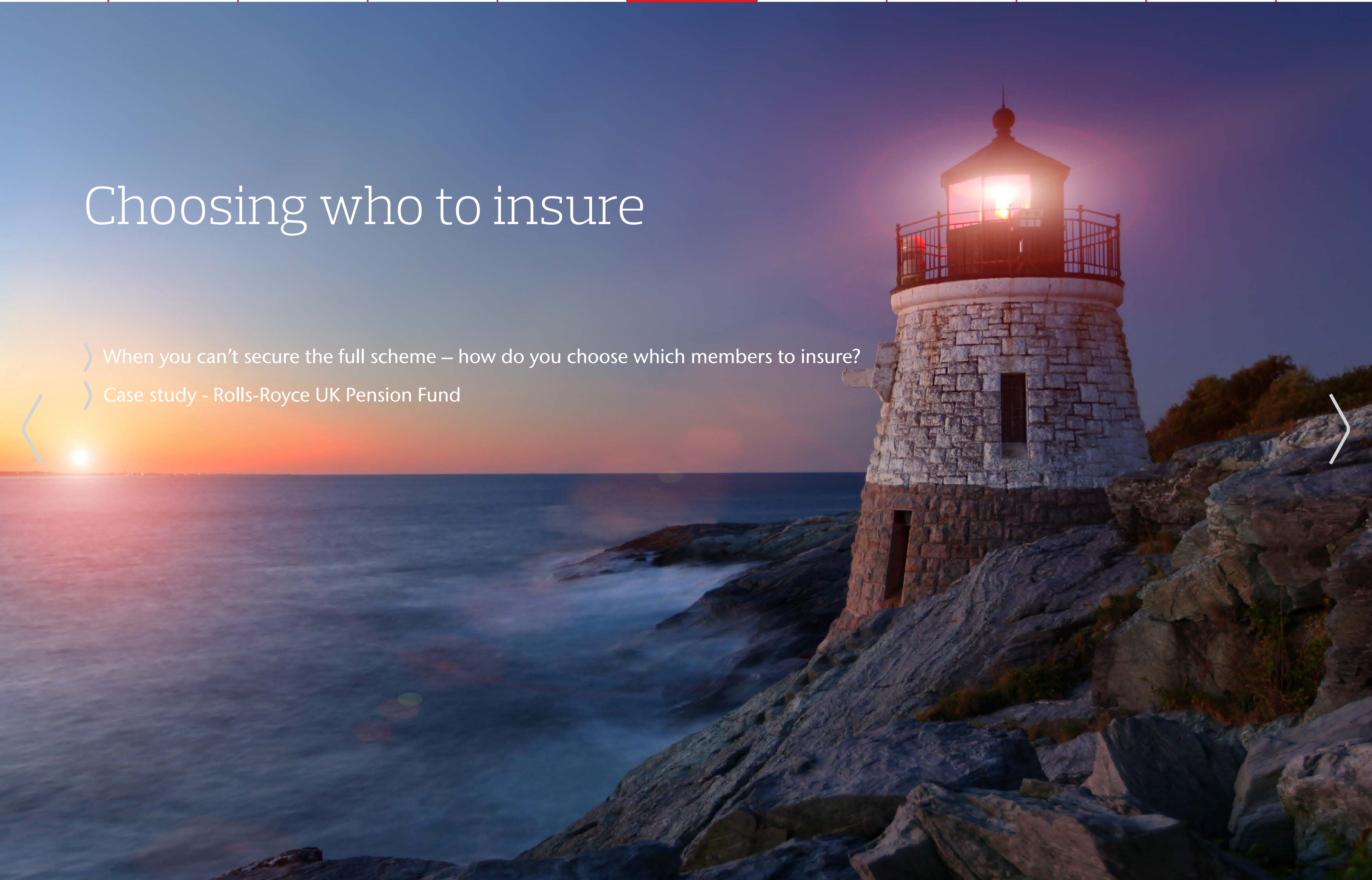
- Prioritisation of appointing specialist brokers to sell illiquid assets: in particular loans, long lease property and other property
- Identification of areas of focus on the clean-up of the LDI portfolio (agreeing strategy for LPI swaps, reducing the number of swaps and standardising CSA terms)
- Minimising risks associated with the asset transition and sales through careful planning and communication with the managers

The timing of the placement of the transaction into a market with plentiful other £1bn+ transactions was another key contributing factor to the success of transaction. Speaking to the insurers well ahead of time to ensure they had sufficient details on the physical assets and derivatives enabled a much more streamlined and effective process with insurers when exploring the price lock and transition portfolio.

The result

Over £3bn of assets were transferred in-specie as above to the chosen insurer, Rothesay Life, which helped to avoid significant trading costs (of at least £50m) that may otherwise have made the transaction unaffordable.

Lucy Barron
Investment Partner
lucy.barron@aon.com



Choosing who to insure

- When you can't secure the full scheme – how do you choose which members to insure?
- Case study - Rolls-Royce UK Pension Fund

When you can't secure the full scheme – how do you choose which members to insure?

If you have decided that insurance is right for your scheme, but you are not yet in a position to secure all of the benefits payable to all scheme members, you will need to make a decision on which members to insure. The case studies on the following two pages provide a flavour of the factors that input into your decision.

Case study

Section A of the National Grid UK Pension Scheme

End result:
Pensioners aged under 70 at 31 December 2018 secured.

How did National Grid and the Trustee of the Scheme choose to insure the 'under 70s'?

Preparation
The approach to market for the National Grid transactions in 2019 followed a significant amount of planning and preparation. During the latter half of 2018, we worked with National Grid and the Trustee to develop a Longevity Risk Evaluation Framework to establish:

- Whether longevity risk was a risk that they would like to remove
- The viable sizes and structures of the risk settlement options available to the Sections
- The timing of the approach to market

For Section A, the framework concluded that a pensioner buy-in transaction covering a significant portion of the Section pensioners could be viable.

Alongside developing the framework a meticulous 'market readiness' programme was implemented to ensure a high level of insurer engagement and that the Trustee and National Grid would minimise the risk of missed opportunities in the market.

Quotations sought
Before requesting quotations from insurers, we helped the scheme narrow down the transaction scenarios to explore in detail and target subsets of liability that:

- Represented the best value for money risk reduction;
- Did not introduce undue selection bias that might deter insurers and reinsurers.

To do this we used our proprietary Demographic Horizons Segmentation Analysis model. This model enables schemes to understand the risk characteristics of different subsets of liability to make objective decisions on which liabilities to insure.

"The Longevity Risk Evaluation Framework we developed with Aon along with the detailed segmentation analysis, provided everything we needed to quickly evaluate the insurer pricing received and decide on the best risk reduction option for the Section."

Greg Barton, Head of Pension Strategy, National Grid

Karen Gainsford
Principal Consultant
karen.gainsford@aon.com

Case study

Rolls-Royce UK Pension Fund – partial buyout covering 33,000 members.

End result:

Partial buy-out of the c £13bn Fund, and included the novation of the £3bn longevity swap from Deutsche Bank, which we advised on in 2011, demonstrating how longevity only insurance is compatible with a subsequent buyout.

The £13bn Rolls-Royce UK Pension Fund has 76,000 members. The 2019 buyout covers around 33,000 members and included transferring to Legal & General the Fund's existing £3bn longevity swap, on which Aon advised in 2011.

Aon advised the Trustee throughout the transaction, both as its scheme actuary, and insurance & longevity adviser.

Trustee perspective:

"The Trustee is delighted to have achieved this outcome for our members. The transaction will provide greater security and certainty around the retirement benefits our members have been promised. This has been made possible by careful risk management over many years and a strong collaboration between the Trustee, Rolls-Royce and our advisers."

Liz Airey, Chairman of the Trustee

Scheme Actuary perspective:

"Securing a buyout like this requires very careful consideration for the security of benefits for both members included in the buyout and for those who remain in the Fund."

Alastair McIntosh, Aon

John Baines
Partner
john.baines@aon.com

Increasing Insurer Engagement

How best to increase insurer engagement

If you have decided that insurance is right for your scheme, it is important to get as much engagement from providers as possible when you go to market to seek quotations. You will then have a better chance of insuring what you want, at a price that is acceptable to you.

Mike Edwards and Stephen Purves have set out some top tips based on experiences in their previous roles at insurers.

Q: It is useful to understand the big picture – how do insurers work?

Mike Edwards: "It is easy to focus on your scheme and your project, but if you try to look at things from an insurer perspective your project will likely be one of a long list of projects that the insurer is deciding whether or not to quote on and then deciding which to prioritise in order to achieve their total volume target."

Stephen Purves: "Insurers need to manage these decisions against a number of constraints including capital, assets, reinsurance and people. Therefore, you need to present your scheme in the best possible light to ensure insurers choose your scheme over others."

Mike joined Aon in March 2018 having previously worked in the Bulk Annuities teams at Scottish Widows and Legal & General

Mike Edwards
Partner
mike.edwards@aon.com

Stephen joined Aon in September 2019, having previously worked in the Bulk Annuities team at Aviva.

Stephen Purves
Partner
stephen.purves@aon.com

Q: How do you present your scheme in the best possible light, and how do insurers assess these opportunities?

Stephen Purves: "Insurers assess projects against a range of criteria, and the weightings given to each criteria differ by provider. Examples include:

a) Quality of data (clean and complete, including experience data and marital data)
b) Benefit structure
c) Project timescales
d) Settlement adviser bringing the project to market
e) Additional security requirements
f) Contractual terms requirements
g) Size and type of transaction (buy-in vs buyout)
h) Governance arrangements for decision making
i) Both Trustee and Company being involved in the process
j) Liability profile (e.g. duration and index-linkage)"

Mike Edwards: "Our 2019 Insurer Survey requested up to date views on the importance of these criteria. The insurers agreed that all of these criteria affected their willingness to provide a quotation, but four in particular were highlighted as key:

1) Quality of data is a key criteria for insurers – seven of the eight active insurers in the market highlighted data quality as a key consideration affecting their willingness to quote. As such, ensuring a high quality of data when preparing to go to market is crucial.

Aon's Top Tip: *Identify which data items are most relevant to insurers for underwriting the risk in your scheme and prioritise these.*

2) The size of your transaction will impact which insurers are willing to quote – as set out on page 15, providers have differing appetite depending upon the size of a transaction. Having fewer quotations does not necessarily impact upon the competitiveness of the price you will receive as the providers quoting are more likely to be the ones who have appetite for your business.

Aon's Top Tip: *Ensure that the complexity of the process you operate for the prospective transaction is proportionate to the size of the policy to maximise insurer engagement.*

3) Both the trustee and company being involved in the process is important - half of the active insurers in the market highlighted this as a key consideration affecting their willingness to quote. There are market anecdotes of past projects failing to complete due to one side or the other being brought in at a late stage. As such, insurers are now wary of committing resource to provide a quotation without reassurance that both trustee and company are supportive and will be throughout.

Aon's Top Tip: *Where possible, a joint working group including trustee and company representatives can be an effective approach of ensuring all stakeholders are involved end-to-end.*

4) Non-standard transaction features can exclude some insurers – some are less able to offer non-standard contractual terms or additional security requirements than others. For example, this can be either due to commercial appetite or regulatory constraints."

Aon's Top Tip: *"Identify what is important to you before approaching the market to ensure that your request to insurers reflects your needs and priorities."*

Q: How do we get the best offer from an insurer?

Stephen Purves: "It can be tempting to think the hard work is over once the preparation work is complete and a good number of insurers have agreed to quote on your scheme. However, the ongoing interaction and negotiation with insurers is where your risk settlement adviser really makes a difference to a project outcome – during the course of a transaction, the dynamics can and do often change."

Mike Edwards: "The insurers will be preparing quotations for other schemes at the same time as preparing your quotation. Your risk settlement adviser needs to make sure that the insurer uses the highest yielding asset they have available, the most competitive reinsurance quotation, and the lowest profit margin on your scheme rather than one of the other schemes they are competing for. Continuous dialogue, technical understanding and a market insight are key to keep your scheme at the top of the pile, along with sticking to agreed timescales."

Technical Focus

- GMP Equalisation
- Behind the scenes of the UK insurance market

Technical focus: GMP equalisation

Common questions from trustees considering settlement are "do I have to address GMP equalisation before insuring my liabilities?" and "what methods of GMP equalisation will insurers accommodate?". Here we explore the background to these questions and the latest views.

On 26 October 2018, Justice Morgan ruled on GMP Equalisation in the Lloyds Case. The Lloyds Case considered what method should be used to deliver equal benefits as a result of GMP inequalities and what the equalisation amount should be.

The methods considered in the Lloyds Case are summarised on the right.

Historically, Method D1 had been used by schemes to deliver equal benefits as a result of GMP inequalities at the point of buyout. Based on the Lloyds' judgement, that method may no longer be favourable.

Methods C2 and D2 have been highlighted on the right, as these are likely to be the least expensive and are likely to be the favoured options for most schemes.

Method	Approach	Permissible
A	Equalise each unequal term of the benefits separately (for example, pension increases) in each year	Yes – with employer consent
B	Provide higher of male or analogous female pension each year (i.e. total pension is equalised each year)	Yes – with employer consent
C1	As B, but allowing offsetting against past adjustments so that either the male or analogous female receives an uplift in each year	Yes – with employer consent
C2	As C1, but with interest at 1% in excess of bank base rates added to offsetting past adjustments (so uplifts are reduced)	Yes – employer can require this
D1	Compare actuarial value of benefits of each member with the value of the opposite sex. Provide an additional pension to make up any shortfall in value	Approach did not meet minimum interference from the member's perspective
D2	As D1, but converting the benefit into a new pension to remove GMPs	Yes – with employer consent

Current insurer views on GMP equalisation

Insurer views on GMP equalisation have evolved over 2019, and we have now negotiated the option of using a dual records approach (C2) into the contracts on a number of transactions, if needed in future. As at December 2019:

- It is a universally held view amongst insurers that trustees should seek legal and actuarial advice in advance of deciding upon a method to deliver equal benefits as a result of GMP inequalities, and that the equalisation would need to be completed prior to buyout.
- All insurers are able to administer method D2 (conversion) currently, and this method is the preferred approach of four of the eight active insurers in the UK annuity market. However, trustees should understand any potential risks from adopting method D2 (conversion), particularly in relation to tax charges for members.
- The other four active insurers in the UK annuity market did not express a strong preference on method, however, administration of a dual records approach (C2) may not be available immediately.
- Insurers who are able to offer a dual records approach (C2) will pass on the increased administration costs of this approach to the scheme through a higher premium, and there may be a delay between transaction and being able to practically implement the dual records approach.

"We do not have a preferred method, our only requirement is that the Trustee has received advice on the method they are selecting, and that if they choose C2 there is no requirement for Rothesay Life to implement within a certain timescale."
Rothesay Life

Should decisions on GMP equalisation delay annuity or longevity swap transactions?

No. Where a buy-in or longevity swap transaction is being considered and the timescales to buyout are more relaxed, provision can be made within the contractual documentation to allow for GMP equalisation in the future, when the scheme is ready to proceed.

Where there is a need to proceed to buyout swiftly, advice on GMP equalisation methods should be sought prior to approaching the market. This will ensure that the provider chosen for the buyout will be able to offer the trustee's chosen equalisation methodology. That said, at the time of writing, there are a couple of topical issues to be aware of that can impact buyout timescales:

- Initial Government guidance on the tax treatment of GMP equalisation has now been issued but only deals with a proportion of the uncertainty mainly in relation to the dual records approach.

  Questions remain unanswered on the impact of the main alternative approach - GMP conversion - on individuals' annual allowance and lifetime allowance.
- Schemes are mostly getting to the final stage of their GMP reconciliation but the final confirmed list of GMPs has still not been sent out to some schemes by HMRC. While some schemes will increasingly have to press on with buyout before receiving the final confirmed list, there is a risk that the final confirmed list includes newly added members that have been freshly allocated from another scheme. Where there is a need to press on with buyout, it is worth considering how Trustee Indemnity Insurance or insurer residual data risk cover will protect against this.

Michael Walker
Principal Consultant
michael.walker.3@aon.com

Technical focus: Behind the scenes of the UK insurance market

Pension schemes completing settlement transactions with any individual provider are protected by the wider insurance regulatory regime. Among other things, this governs the level of capital that insurers are required to hold and the extent to which annuity portfolios can be transferred between providers. The transfer process is governed by specific legislation and here we provide an overview of the protections afforded to policyholders.

Background: consolidation

The life insurance industry has seen significant consolidation over the years, with smaller entities and closed books of business being taken on by other insurers. Phoenix Life and ReAssure have established consolidation of closed books as a successful business model in itself, taking on many well-known brands from the history of the market through corporate acquisition, such as Phoenix's 2018 purchase of Standard Life Assurance.

In each case, the relevant books of life insurance business were ultimately combined by a 'Part VII' transfer.

Background: Part VII transfers

To combine books of life insurance, a set process must be followed under UK law. The 'Part VII process' is the regulatory process set out in Part VII of the Financial Services and Markets Act 2000 that governs the legal transfer of insurance policies from one company to another. There are essentially four layers of protection for policyholders through the Part VII process:

- The regulators (the PRA and the FCA)
- The independent expert
- Policyholder communications
- Approval of the court

The key principle is that the interests of policyholders are not worsened. So, if strong and stable financial backing applies to policies, well in excess of statutory requirements, pre- and post- transfer, and appropriate servicing of the any policy continues, the transfer is likely to be approved.

This has been the experience of the market, with the transfer carefully planned in advance, and a positive judgment resulting.

Developments in 2019, and the outlook for 2020

At the start of 2019, the process for the planned Part VII transfer of £12bn annuity business from the Prudential (PAC) to Rothesay Life (Rothesay) was well underway.

On 21 January, the independent expert gave a positive report supporting the Part VII transfer and the PRA and the FCA both stated that they did not object to the proposed business transfer.

However, on 16 August, the High Court surprised the insurance industry by issuing a judgment – contrary to past market experience – that did not support the transfer.

This judgment largely reflected the views of a number of policy-holders: Of the 258,000 information packs that had been sent out on the transfer, the Court judgment said that around 1,000 responses that could be considered as objections were received.

The reasoning for the judgment can be summarised as:

- The views of policyholders - the presiding Judge placed significant weight on the views of policyholders who stated that they made a choice to place their business with PAC over other annuity providers on the basis (among other things) of PAC's age and established reputation.
- Access to funds - while both Prudential and Rothesay had demonstrated strong solvency coverage within their annuity companies, the ruling put material emphasis on the perceived ease of capital access from outside the relevant company, if needed in the long-term.
- Historic Prudential communications which referred to things like "a lifetime annuity with Prudential" and did not refer to any potential for PAC to transfer the business elsewhere.

Outlook for 2020

PAC and Rothesay Life are appealing against the High Court's decision, with the appeal judgment expected in 2020. The industry will be awaiting the outcome of the appeal with interest.

In the meantime, the August 2019 judgement will likely mean:

- The larger 'heritage' insurer groups are more hesitant to consider annuity book sales for risk management, which their policy-holders may see as a positive.
- Acquiring insurers will reconsider the terms offered for future annuity book transfers (or focus on pension scheme bulk annuity transactions), to see if they can mitigate the possibility of being left as the reinsurer but not direct owner of a book of policies.
- But otherwise, consolidation will continue. Indeed Phoenix Life agreed terms to buy ReAssure as its main consolidator rival later in 2019, adding several former insurance brands to its already significant roster. On more advanced transactions, Part VII transfers have concluded satisfactorily since the Prudential judgement, for example the conclusion of Canada Life's take-on of the former Retirement Advantage business.

Dominic Grimley
Principal Consultant
dominic.grimley@aon.com

Consolidation – new and old solutions for pension schemes

Consolidation – new and old solutions for pension schemes

For schemes that still have some way to go on their path to buyout, there is an increasing focus on what options are affordable, and how these interact with the ability of employers to support schemes now and in the future. Over the last two years, some new consolidation options have emerged to meet the need of these schemes and here we provide an overview of the consolidation options and how these can be evaluated by schemes at a high level.

Insurance buyout offers a form of consolidation which brings with it the capital backing and risk management of an insurer and the protection of the insurance regime. As a result buyout is often considered the 'gold standard'. For schemes not able to buyout, or not interested in doing so, streamlining costs and governance by appointing sole trustees or fiduciary managers may be attractive.

Over the last two years other forms of consolidation have emerged and started to gain wider attention. The most high profile of these are the commercial consolidators or 'superfunds' (e.g. Clara-Pensions or The Pension SuperFund) – the subject of the PLSA's DB taskforce report and the 2018/19 DWP consultation. Other options also exist – DB master trusts are entering the market, following their DC counterparts, and insurers are innovating to try to bridge the gap to buyout, with one example being Legal & General's 'Insured self-sufficiency' offering.

Overview of consolidation options

Consolidation options all involve some form of pooling. This can be assets, liabilities or simply governance and management.

	Pooling			Transfer of asset/liability risk	
	Assets	Liabilities	Governance	To a third party	Off balance sheet
Sole trusteeship	X	X	✓	X	X
Pooled investment funds/fiduciary management	✓	X	X	X	X
Buy-in	✓	✓	X	✓	X
Master trust	✓	X	✓	X	X
Commercial consolidators	Varies	Varies	✓	✓	✓
Buy-out	✓	✓	✓	✓	✓

"We keep a watchful eye on the developments in the consolidator space, whilst we await legislation." **Just**

Evaluating your options

Trustees and employers should consider three basic questions when evaluating the options available:

- Does the action being considered address the problem that you are trying to solve?
- Does the action help you achieve your ultimate objective for the scheme?
- What impact will the proposed action have on outcomes for your scheme's beneficiaries?

The last question is more nuanced than it may first appear:

- The employer may well also be a beneficiary of the trust, in which case the trustees must also consider the interests of the employer. In any event it is generally in the long-term interests of the trustees to work collaboratively with the employer and consider their interests as well.
- Different boards (and individuals) will have a different view on what is meant by a better outcome for members. Many trustees will define this simply as a higher probability of receiving guaranteed benefits, but some would see securing discretionary benefits as a priority. Others may also see allowing members choice, flexibility and support in how they access their benefits as a key facet of an improved member outcome.

What impact will commercial consolidators have?

The industry generally agrees that commercial consolidators are addressing a section of the market which cannot realistically expect to attain the 'gold standard' buyout. In that regard, our view is that providing a wider range of options for these schemes can only be a positive. Innovation tends to drive innovation – we have already seen insurers react to the development in commercial consolidation, and rumours abound of new entrants to the market, offering still different models to Clara and the Pensions Superfund.

The evolving regulatory framework will have a real impact on how quickly this market develops, and how wide it spreads. The market (and the capital backers providing funding to consolidators) will watch with interest for news from both TPR and DWP.

Rhian Littlewood
Senior Consultant
rhian.littlewood@aon.com

Biographies

Click on a bio >>

We hope you find the articles interesting and relevant to your own thinking.

Do get in touch if you would like to discuss your scheme in more detail – we would love to discuss the settlement market with you!

Martin Bird
Senior Partner and Head of Risk Settlement
martin.bird@aon.com

Biographies

Click on a bio >>

Dominic Grimley
Principal consultant

Dominic is a principal consultant in Aon's Risk Settlement team. He has a wealth of experience of bulk annuity transactions and created several parts of our service, including our due diligence offering.

Biographies

Click on a bio >>

Mike Edwards
Partner

Mike is a partner in Aon's Risk Settlement team. He has over 16 years of pensions and insurance industry experience and previously led the transaction structuring team at Scottish Widows, where he was responsible for the negotiation and completion of over £2.5bn of deals since its market entry in 2015. Since joining Aon in early 2018 Mike has led the advice on over £10bn of bulk annuity transactions of a variety of structures and sizes, including complex multi-billion pound transactions for National Grid and Asda.

Biographies

Click on a bio >>

Karen Gainsford
Principal consultant

Karen has worked in Aon's pensions practice since 2000. Karen works with clients on de-risking projects and is authorised to provide advice on insurance transactions.

Karen has advised on risk settlement projects from £10m to £2.8bn, and in the past two years has advised on transactions totalling around £7.5bn. Her clients include National Grid, Siemens and the CAA, and her experience covers both medically underwritten and traditional annuities.

Karen worked closely with Behave London in 2019 to develop Aon's Behavioural Insights to Risk Settlement guide.

Biographies

Click on a bio >>

Rhian Littlewood
Senior consultant

Rhian is a bulk annuity specialist in Aon's risk settlement team, advising clients on buy-ins and buyouts since 2013.

Rhian has advised on transactions from a £30M pensioner buy-in to the £4.7bn full scheme buyout for telent's pension scheme in 2019. In addition to telent, Rhian has advised on transactions for high profile companies such as Cadbury Mondelez and Smiths Group.

Rhian is also part of the core team exploring commercial consolidators and the resulting impact on and opportunities for our clients, and represents Aon on the Institute and Faculty of Actuaries' working party which is looking at pension scheme end games.

Biographies

Click on a bio >>

Hannah Cook
Principal consultant

Hannah has extensive experience and is authorised to advise on all types of settlement transactions. Since 2014, Hannah has advised on over £15bn of successful risk transfer activity across many high-profile longevity swap and bulk annuity transactions. Hannah has advised on bulk annuity transactions for Thomson Reuters, the Automobile Association and Bank of America Merrill Lynch.

Biographies

Click on a bio >>

Matthew Fletcher
Senior consultant

Matt is Aon's expert on drivers of mortality change, including international mortality trends and causes of death.

His recent work has included:

- Advising a major insurer on best estimate mortality assumptions for a significant longevity reinsurance deal
- Advising large UK pension funds on longevity risk, including medical scenarios, and benchmarking against longevity risk model outputs

Matt chairs the CMI Self-Administered Pension Schemes (SAPS) Committee, producing mortality tables that are used extensively in the pensions and insurance industries.

Biographies

Click on a bio >>

Tom Scott
Principal consultant

Tom is a principal consultant and has wide-ranging settlement experience. During 2019 his projects included the Co-op scheme's £2bn buy-in project, and advising HSBC Bermuda on the implementation of the HSBC UK scheme's longevity swap.

Biographies

Click on a bio >>

Stephen Purves

Partner, Aon

Stephen is a partner in Aon's Risk Settlement Group. He has 20 years' experience advising both trustee and corporate clients on buy-ins, buyouts and pension scheme wind-ups. He also brings insurer-side experience from his time at Aviva, where he was head of new business for bulk annuities, and was key to doubling its market share and increasing volumes of new business by more than 300%. Stephen has led and advised on more than £10bn of bulk annuity transactions including several large, high-profile and complex transactions for a number of FTSE 100 clients. He has also been involved in developing several innovations and transaction features which are now prominent in the wider market today and is a regular speaker at industry events and seminars.

Biographies

Click on a bio >>

John Baines
Partner

John is a partner and head of Aon's Bulk Annuity team. John led the development of Aon's Bulk Annuity Compass platform, which was built using his experience of delivering exceptional annuity pricing for his clients.

He has advised on bulk annuity projects between £5m and £5bn, including high-profile transactions for Rolls-Royce, telent, Morrisons and Rentokil Initial.

Biographies

Click on a bio >>

Martin Bird

Senior partner and head of risk settlement

Martin leads Aon's Risk Settlement team, is a qualified actuary and authorised to provide advice on insurance and capital markets transactions. Martin has led many of the industry's high profile risk transfer transactions and his extensive range of experience allows him to bring insight from both a pension scheme and investor mindset. Martin is frequently sought out by trustees, sponsors and the media and is widely recognised as one of the UK's leading settlement advisers.

Biographies

Click on a bio >>

Michael Walker
Principal consultant

Michael is a principal consultant and senior risk settlement adviser. His extensive annuity experience comes from both sides of transactions having led one of Legal & General's bulk annuity pricing teams prior to joining Aon's Risk Settlement Group in 2016.

Michael has advised on a wide range of transactions, both in the UK and overseas, covering longevity swaps, buy-ins and buyouts. Recent projects include Electricity North West's pensioner buy-in and Xylem's complex full scheme buyout.

Biographies

Click on a bio >>

Tiziana Perrella
Principal consultant

Tiziana is a principal consultant and brings extensive experience in bulk annuity transactions and scheme wind-ups, both solvent and insolvent.

Since 2008, she has been working exclusively in the risk settlement area and has been the lead adviser on over 100 buy-ins and buyouts with different insurers. Tiziana has been instrumental in the development of Aon's small scheme proposition.

Biographies

Click on a bio >>

Lucy Barron
Investment Partner

Lucy is an investment partner and qualified actuary who joined Aon in 2017. She advises trustees and sponsors on DB investment and funding strategies. Lucy has 20 years experience working with a wide range of schemes, combining her investment management and consulting experience to provide pragmatic, effective and practical solutions for clients.

Lucy also leads Aon's advice on the investment aspects of risk settlement transactions. Lucy recently provided specialist investment advice on the largest buyout transaction in the UK, the £4.7bn transfer to Rothesay Life of the GEC 1972 (telent) Pension Plan.

Prior to joining Aon in 2017, Lucy spent nine years in front office LDI management including five years at AXA IM where she was Head of Solutions and part of the management team that set-up their UK LDI business.

About Aon

Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we can not research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to comple-ment such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

Aon Hewitt Limited Registered in England No. 4396810 Registered office: The Aon Centre,122 Leadenhall Street, London, EC3V 4AN. Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority. Aon Hewitt's Delegated Consulting Services (DCS) in the UK are managed by Hewitt Risk Management Services Ltd (HRMSL), a wholly owned subsidiary, which is authorised and regulated by the Financial Conduct Authority.

Compliance code: A75-310920

aon.com/risksettlementuk

Adworks Design 03.20 adworksdesign.co.uk

Empower Results®