

# Case study: Legal & General's £325 million buy-in with the BAA Pension Scheme

✓ **Dominic Moret explores Legal & General's ground-breaking £325 million buy-in with the BAA Pension scheme**



**L**egal & General's recent £325 million buy-in transaction with the BAA Pension Scheme was unique in that the scheme's corporate sponsor issued a bespoke corporate bond to Legal & General to facilitate the transaction.

As an insurer, Legal & General is required by our industry regulators to invest in such a way that the expected cashflows from the assets we invest in match closely with the pensions we expect to play out. We do this primarily by investing in government bonds, high quality corporate bonds (both of which provide regular, predictable income streams) and 'direct investments' with bond-like payment profiles, such as UK infrastructure projects.

Direct investments provide long-term secure income and often have other attractive features, such as inflation linkage, which make them a good match to pension scheme cashflows and therefore the pension liabilities that we have taken on. Investing in these assets typically allows us to deliver lower premiums for buy-ins and buyouts than might otherwise have been available.

This knowledge was vitally important earlier this year during our discussions with the BAA Pension Scheme and the scheme's corporate sponsor Heathrow Airport Limited. Knowing that Legal & General places value on particular asset structures, it was suggested that the sponsor might issue a bespoke bond to Legal & General to create value for all

three parties – the pension scheme, the sponsor and the insurer.

Collaboration is key to these solutions driven processes, including clear communication between all parties. Through these collaborative discussions, Heathrow Airport Limited were able to structure and issue a bespoke, long-dated £160 million bond to Legal & General, including innovative features such as inflation linkage, which switches from RPI to CPI. We understand this is the first time a bond with this structure has been issued in the public debt market, making the buy-in one of the most significant transactions in recent times.

## What does this transaction demonstrate?

By designing a bond with these bespoke features:

- The pension scheme could secure a buy-in transaction and provide greater security to the members' benefits at a more affordable premium.
- The sponsor could strengthen their long-term, global financing platform whilst supporting the de-risking of the pension scheme.
- Legal & General could access a valuable asset to support our £60 billion annuity book.

Whilst this structure may not be suitable for all pension schemes, or indeed all sponsors, it clearly demonstrates what can be achieved through collaboration and solutions driven approaches. Clear communication between all stakeholders, and an understanding of each party's requirements, can yield favourable results for all.



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