

The sky's the limit

✓ Kai Hoffmann of Legal & General presents a case study of the partial buyout with the Rolls-Royce UK Pension Fund, the largest transaction in the history of the UK bulk annuity market



In June 2019, Rolls-Royce and Legal & General announced the largest transaction in the history of the UK bulk annuity market – a buyout for over £4.6 billion for the Rolls-Royce UK Pension Fund, covering 33,000 of the fund's 76,000 members.

A great take-off

We have a long-standing relationship with Rolls-Royce: LGIM has provided investment management services to the fund (or its predecessor schemes) since 1989 and more recently, has

supported de-risking activity as its liability-driven investment (LDI) manager. The trustees and their advisers have worked over a long period to manage the Rolls-Royce pension schemes' risks and to get to a position where they could begin securing members' benefits.

A smooth flight

Over many months we worked with the sponsor, trustees and their advisers to restructure and transfer two legacy assets held by the fund.

First, an LDI portfolio managed by LGIM. Despite the complexity of the legacy portfolio, we were able to work collaboratively with all parties to reach a solution. We agreed an in-specie portfolio to which we locked the premium, thereby providing price certainty.

Second, a longevity swap established with a European investment bank in 2011. Restructuring the existing longevity swap was one of the main challenges of the transaction. The longevity hedge market has made great strides over the past several years. However, some of the earlier transactions, like this one, were completed using a complex derivatives structure that had not contemplated future conversion to buy-in or buyout.

The bank hedged the longevity risk with six reinsurers – each an existing Legal & General partner. The strength of these insurer-reinsurer relationships helped to ensure a clean and easy transfer of the reinsurance arrangements to us.

A safe landing

The Rolls-Royce buyout is a shining example of what collaboration between trustees, sponsor and insurer can achieve. The outcome for each of the parties has been positive, further enhancing the trusted relationships amongst the parties. A large bulk annuity transaction involves complexity, not just because of its size, but because of each pension scheme's unique history. This transaction demonstrates that jointly arriving at solutions is what will enable this market to continue to thrive and bring positive outcomes for members, trustees and sponsors – as well as the wider UK economy.

£4.6+ billion buyout	33,000 members	LDI restructure	Longevity swap restructure
Benefits to the trustees High level of security for the members covered by the buyout Transfer of two legacy assets leaves a cleaner portfolio to support the remaining liabilities	Benefits to Rolls-Royce A leaner balance sheet following buyout Progress on its journey to simplify, de-risk and increase efficiency across its businesses	Benefits to Legal & General Take on responsibility for the pensions of 33,000 individuals Invest premium to support long-term sustainable growth of UK economy	

Written by Kai Hoffmann, director, pension risk transfer, Legal & General

