



# The 2021 Pension Risk Transfer Market: A Record Year

## INTRODUCTION

The year 2021 was truly the year of the Pension Risk Transfer (PRT). While the global economy continued to recuperate from its pandemic-induced slump, the PRT market's three major segments (US, UK, and Canada) all experienced blockbuster years by virtue of several jumbo transactions (those above \$1 billion in premium), plan sponsors eager to jumpstart their de-risking strategies, and significant retiree lift-out activity.<sup>1</sup> Although the PRT market has experienced its share of highs and lows since the 1980s, its 2021 success was particularly exceptional; during this time, plan sponsors still had to contend with low-interest rates, the aftereffects of 2020's sluggish market, and overall market conditions. This Insight will focus on the reasons underlying the 2021 PRT market's strong year, as well as the specific market movements that led to success in the US, UK, and Canada segments.

## THE PRT MARKET'S CURRENT MOMENTUM

As noted, the convergence of several factors helped buoy the 2021 PRT market, whose momentum has continued into first-quarter 2022. The significant jumbo transactions of last year provided a welcome boost throughout the market, while plan sponsors, eager to jump-start transactions after roughly two years of muted activity, resumed their pension de-risking efforts as soon as the markets showed some improvement. At present, they are continuing to refine and transform how they manage pension liabilities, by improving expense, risk, and data security management, with an eye toward long-term full buyout with all the appropriate steps. Market capacity continues to increase through the entrance of new insurers and reinsurers to support market demand, with newer entrants competing for smaller deals (\$25 million to \$100 million) before attempting larger and more complicated transactions. Investment gains helped many pensions approach fully funded status, although inflation has become a genuine concern, especially for plans sensitive to inflation-linked assumptions.<sup>2</sup>

## 2021: THE YEAR THAT WAS

Last year's PRT activity was the metaphorical tide that lifted all boats, namely the industry's three major segments. Below are some of the highlights from the US, UK, and Canada markets that accounted for 2021's overwhelming success.

## US

The PRT's biggest market led the way in last year's record-breaking volume, with an estimated total of \$38.1 billion.<sup>3</sup> Several jumbo transactions were responsible for this sizable total, including JCPenney (\$2.8 billion), Lockheed Martin Corp. (\$4.9 billion), and HP Inc. (\$5.2 billion), the fourth-largest deal in PRT history.<sup>4</sup> US pension buy-ins also had significant activity, with seven transactions totaling a combined \$4 billion – an almost 120% increase over 2020's total buy-in premium.<sup>5</sup> The additional trend of large buyouts suggests that plan sponsors were less focused on expense management and more on risk management and transformation.

## UK

The UK market continued its trend of steady expansion, which has been ongoing for roughly a decade.<sup>6</sup> It also experienced monumental growth last year, with a total volume approaching £30 billion<sup>7</sup> that tied the record for the second-strongest year in the segment's history. A large portion was due to the market's most notable jumbo transaction, the Metal Box Pension Scheme's £2.2 billion buy-in.<sup>8</sup> Improved funding and insurers' increased appetite for new business also resulted in the segment's outstanding performance, with continued growth expected due to asset availability, market movements, and the number of large pension plans coming to market.<sup>9</sup>

## Canada

Canada's PRT market set records in its own right last year, with a whopping \$7.7 billion of transactions, up roughly 50% above 2020 sales.<sup>10</sup> A blockbuster CA\$1.8 billion transaction involving General Motors of Canada Company was a milestone in the evolution of the segment,<sup>11</sup> while its buy-in volume (\$4.6 billion) was greater than buy-outs (\$3.1 billion).<sup>12</sup> Throughout 2021, PRT supply kept pace with demand, while insurers remained selective due to staffing levels and resulted in lower participation rates on some transactions.<sup>13</sup>

## CONCLUSION

The resurgence of the PRT market in 2021 was a most welcome contrast to the previous year's doldrums. As we embark on second-quarter 2022 and the market's momentum continues, it is still important to remember that the market can be fickle, with inevitable headwinds and bumps in the road. But as small and midsize deals are beginning to gain traction, along with jumbo transactions becoming more commonplace, the PRT market is setting the stage for a period of continued long-term growth.

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- 1 Group Annuity Risk Transfer Summary Report, Fourth-Quarter 2021, Mark Paracer, Secure Retirement Institute, LIMRA
- 2 Group Annuity Market Pulse 2021 Annual Review – Canada, WTW, 2020
- 3 Op. Cit, Paracer, Secure Retirement Institute, LIMRA
- 4 "Thriving Pension Risk Transfer Market Is Poised for Continued Growth," Prudential Risk Transfer Outlook 2022
- 5 Ibid.
- 6 Legal and General Pension Risk Transfer Monitor, February 2022
- 7 Ibid.
- 8 Ibid.
- 9 Ibid.
- 10 Op. Cit., WTW
- 11 Willis Towers Watson advises on CA\$1.8 billion annuity transaction involving Sun Life, iA Financial Group and Brookfield Annuity," April 2021
- 12 Op. Cit., WTW
- 13 Ibid.