

Insurers ready to invest almost £200bn pension money in UK infrastructure over the next 10 years

- The infrastructure investment gap over the next ten years is likely to be £1 trillion
- The Chancellor's Spring Budget recognised the importance of small and medium sized infrastructure investments across the UK, but priorities and funding have shifted in light of the COVID-19 pandemic
- Insurers offering Pension Risk Transfer (PRT) services are looking to invest in assets that will deliver long-term returns, such as infrastructure, so they can pay people's pensions
- Legal & General predicts that the PRT sector could plug approximately a fifth of the infrastructure investment gap over the next decade
- Between £150 billion and £190 billion could be invested in infrastructure by insurers and other PRT providers to back current DB scheme pension promises over the next decade

Legal & General Retirement Institutional ("Legal & General") has determined a way to plug approximately a fifth of the UK's infrastructure funding gap over the next decade, by tackling one of the "mega-gaps" the UK faces over the next ten years: infrastructure.

Today, Legal & General launches a report entitled "*The power of pensions: How pension savings can help to build the UK's infrastructure and drive growth in all regions*", which focuses on how Legal & General and other insurers can tackle the UK's infrastructure gap and encourage "inclusive capitalism" that improves everyone's lives.

Investment in infrastructure is key to maintaining the long-term competitiveness of the UK economy and is vital to delivering the Government's modern "Industrial Strategy".

The infrastructure investment gap over the next ten years is likely to be £1 trillion.¹ Regions across the UK are calling out for investment in transport, homes and energy in order to bring infrastructure up to where it needs to be to support our society's needs.

This regional activity will also bring the economic stimulation and employment opportunities that the UK desperately needs as it looks to recover and rebuild following the impact of COVID-19.

Legal & General's report looks at how insurers, through Pension Risk Transfer (PRT), can help to fill this infrastructure investment gap.

Nigel Wilson, CEO of Legal & General Group, said:

"In order to have a strong and competitive economy on the world stage, the UK needs to invest a significant sum into improving its infrastructure and levelling up all regions.

"Long term investors like Legal & General have an important role in delivering regeneration, housing, transport and renewable energy investment by harnessing the 'power of pensions'.

"We believe this is an important way to make inclusive capitalism a reality, investing for good whilst securing pension payments for millions of people."

¹ Internal estimates based on Legal & General data and the contents of the National Infrastructure Plan.

PRT is where an insurer takes on a company's Defined Benefit or final salary (DB) pension scheme, including its associated assets and liabilities – and its associated risks – from the trustees and commits to paying members' pensions as agreed, through bulk annuities. The insurer will invest the pension scheme's funds into assets that will deliver returns in the long-term, ensuring it is able to pay policyholders all they have been promised in retirement.

Legal & General is the longest-standing UK provider of bulk annuities, having been one of the first entrants to the PRT market more than 30 years ago and a constant presence ever since. Across the business, its teams have so far invested £26 billion pension savings in urban regeneration, clean and low cost energy, housing and transport links. Legal & General is highly experienced in identifying the most appropriate projects to invest in to secure the pensions of Legal & General customers, while ensuring that these investments are as economically and socially useful as possible.

In recent years, the PRT market has been growing due to a combination of low interest rates, increased life expectancy and regulatory change – and this trend is set to continue. £24.2 billion was transacted in 2018², £40 billion in 2019³ and a further £770 billion⁴ could be transferred over the next ten years.

Laura Mason, CEO, Legal & General Retirement Institutional, said:

“By working with other insurers, we can use pensions savings to help plug part of the UK's £1 trillion infrastructure gap, secure customers' pensions and encourage the economic recovery.

“As an insurer, we have an important role to play by deploying pension funds to create a virtuous circle where older UK savers are funding infrastructure investments – creating jobs, homes and roads for other generations.”

Legal & General's experts have considered the current state of the pensions market and the average proportion of PRT money being invested into infrastructure, together with wider economic factors, capital requirements and investor sector limits.

They estimate that between £150 billion and £190 billion could be invested in infrastructure by insurers and other PRT providers to back current DB scheme pension promises over the next decade – but suggest that a number of changes need to be made in order for the power of pension investment to be realised.

With this report, Legal & General is today calling for a renewed government commitment to collaborate with the private sector in delivering what Legal & General calls 'midi-projects' across the UK. These are worth between £100m and £1bn and, while smaller in value than headline projects such as HS2, can have a huge societal and economic impact around the country.

The Chancellor's Spring Budget recognised the importance of small and medium sized infrastructure investments across the UK, but government alone cannot support the hundreds of projects that need attention and funding across the UK – especially in a period where COVID-19 has dramatically increased state spending and shifted priorities.

This report notes that the insurance sector is perfectly placed to provide the funding to help close the infrastructure gap.

² Buy-outs, buy-ins and longevity hedging - H2 2018, Hymans Robertson.

³ Risk Transfer Report 2020, Hymans Robertson.

⁴ Approaching the endgame: The future of Defined Benefit pension schemes in the UK, Pension Policy Institute.

It also calls for a focus on investment opportunities in the regions outside of London, levelling-up the opportunities for all people across the UK.

Notes to editors

About Legal & General Group Plc

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with international businesses in the US, Europe, Middle East and Asia. With over £1.1 trillion in total assets under management at 30 June 2019, we are the UK's largest investment manager for corporate pension schemes and a UK market leader in pensions de-risking, life insurance, workplace pensions and retirement income. We have also invested over £22 billion in direct investments such as homes, urban regeneration, clean energy and small business finance.

Legal & General Retirement works with trustees and sponsoring companies of Defined Benefit (DB) Pension Schemes to settle their pension obligations and secure scheme members' benefits, through a full range of de-risking solutions to pension schemes of all sizes.

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