Legal & General enters the longevity insurance market for smaller schemes

- Completes c.£300m longevity insurance contract under its new streamlined proposition

Legal & General Assurance Society Limited ("Legal & General") today announced that it has completed its first streamlined longevity insurance contract with an unnamed mid-tier pension scheme, covering around £300m of liabilities.

The transaction marks Legal & General's entry into the longevity insurance market for these relatively smaller schemes. To date, competition for longevity insurance contracts has been limited for smaller schemes, with the majority typically transacted in conjunction with much larger schemes.

The streamlined structure ensures that ongoing requirements for trustees are straightforward and easy to manage; it also keeps fixed costs to a minimum, thus ensuring competitive pricing for schemes of this size. The transaction is fully intermediated, with Legal & General reinsuring 100% of the transaction to global reinsurer SCOR.

The Trustee was advised by the scheme's trustee advisors Willis Towers Watson and Eversheds.

Chris DeMarco, Managing Director UK Pension Risk Transfer, for Legal & General Retirement Institutional, said:

"This innovative transaction has allowed the scheme to use insurance to remove the risk to the scheme's liabilities of its pensioner members living longer than expected, whilst still benefiting from any returns that it receives on the assets it retains.

Smaller pension schemes often feel that the only insurance options they have are traditional buy-in or buyout structures. This transaction demonstrates that longevity insurance is a realistic option for most pension schemes, including for trustees whose schemes are not quite at the point they can enter into buy-in or buyout but want to manage their longevity risk.

We were delighted to work with the Trustee, their advisers and the reinsurer on this case, providing not only a solution that works for this scheme, but which can also be easily replicated for other schemes in a similar position."

Matt Wiberg, Director at Willis Towers Watson and lead adviser on the longevity insurance transaction, said:

"Willis Towers Watson, working with the Trustee and Company, identified that longevity was the key unhedged risk for the scheme.
We were pleased to work alongside Legal & General to shape this new de-risking solution, which brings helpful competition to the smaller size longevity swap market, and allowed the Trustee to hedge longevity risk at a very attractive cost."

NOTES TO EDITORS

Longevity insurance provides protection to the pension scheme through an insurance policy that removes the longevity risk from the scheme, giving certainty over the length of time that the scheme will be required to make these payments. It allows Trustees to remove longevity risk by paying to the insurer a known stream of payments based on a fixed view of members' life expectancy in exchange for a "floating" payment that reflects the scheme's actual longevity experience.

A buy-in is an insurance policy that covers a proportion of a defined benefit pension scheme's liabilities and is held as a scheme asset. Trustees and sponsoring companies use buy-ins to secure the pensions of their scheme members. A buy-in removes the risk of investment performance, longevity, interest rate changes and inflation for the members covered by the policy.

A buyout is an insurance policy issued to each pension scheme member individually which enables the scheme to wind up. It typically covers all members of the scheme, both deferred and current pensioners. The members are issued with an annuity policy and Legal & General pays the member directly. A buyout removes the risk of investment performance, longevity, interest rate changes and inflation for the members covered by the policy.

FURTHER INFORMATION (JOURNALISTS ONLY)

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ABOUT LEGAL & GENERAL

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Registered in England and Wales No. 00166055.

Registered office: One Coleman Street, London EC2R 5AA.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.