

Assured Payment Policies

Every defined benefit pension scheme faces unique challenges along its de-risking journey. At Legal & General we offer a range of pension scheme insurance solutions to meet our clients' needs.

In exchange for an upfront premium, an Assured Payment Policy (APP) provides a pre-agreed series of cashflows – fixed or inflation-linked – which do not vary with longevity or other demographic experience.

In a nutshell, APPs:

- are contracts of long-term insurance which are held as a pension scheme asset
- allow a pension scheme to lock down investment risk and provide protection against changes in asset yields, interest rates and inflation
- can reference any subset of the pension scheme's liabilities, allowing partial or full de-risking

Assured Payment Policies in action

De-risking deferreds

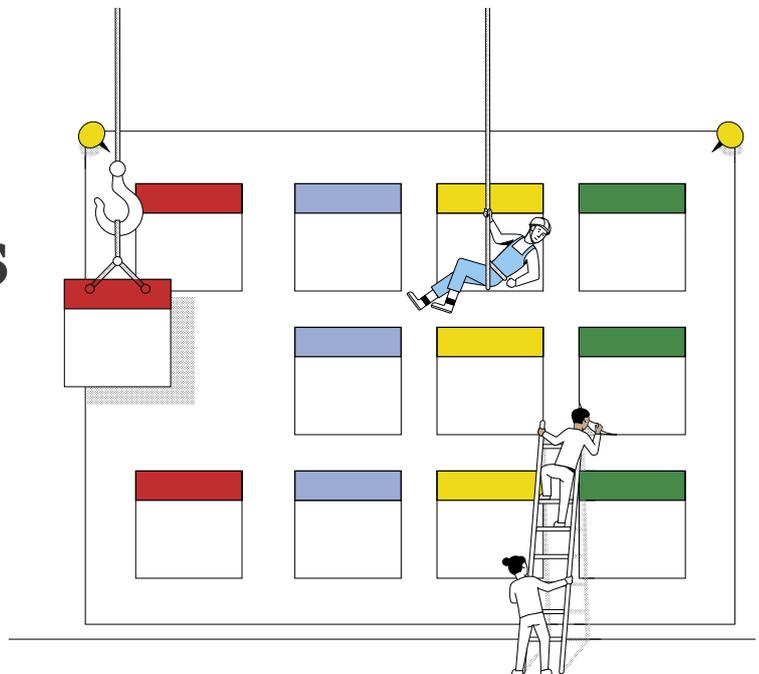
A pension scheme already has a pensioner buy-in in place (or is considering one) and is looking for a partial de-risking solution for its deferred members.

Matching bulk annuity pricing

A pension scheme wants to minimise volatility between its assets and buy-in pricing. An APP locks down investment risk now, with a clear structure for adding the remaining pension-related risks in the future to "complete the bulk annuity". We have completed our first APP to buy-in conversion.

APPs as an investment

An APP allows a pension scheme to "build its own bond", with tailored inflation coverage and no exposure to market and reinvestment risk, while achieving a yield in excess of gilts.



APPs are much like buy-ins, with one key difference: they do not cover longevity risk. This means that we expect our APP pricing to be around 15-20% more affordable than a bulk annuity for deferred pensioner members. An APP can also be used to good effect on pensioner members, but the saving will be reduced.

APPs are flexible and can fit around existing de-risking solutions and arrangements. This enables a pension scheme to define its optimal, safer and more certain path through to full scheme buyout. This is true regardless of a pension scheme's size, but particularly for smaller pension schemes.

APPs as an evolution of LDI:

- provide bespoke and accurate cashflow matching at the outset, which should further reduce interest rate and inflation risk compared to typical duration based hedging
- pass market and reinvestment risk to Legal & General
- can provide inflation linkage for pension increases that may be difficult to otherwise accurately hedge
- reduce investment governance and running costs
- are provided by a regulated insurer and FSCS protection is expected to apply
- enable pension schemes to partner with a trusted insurer to reach the end goal of buyout

Like LDI, APPs can be restructured to accommodate actual member experience.

APPs in action: a closer look at two transactions

1. Our £400m transaction with the Legal & General Group UK Senior Pension Scheme.

This transaction involved:

Investment risk protection for 385 pensioners, and 200 deferred members

The APP complementing existing buy-in arrangements

The APP structured to facilitate a smooth future conversion to a buy-in

The transaction demonstrated:

- **An APP's "made-to-measure" nature**, which meant it could be structured around existing buy-in agreements to provide a bespoke outcome
- **How an APP can cover pensioners** as well as deferred members, depending on a pension scheme's requirements
- How an APP allows the pension scheme to **benefit from Legal & General's annuity portfolio scale and asset sourcing capabilities**

2. Our £1.1bn transaction with the AIB Group UK Pension Scheme and subsequent partial conversion to a buy-in.

This transaction involved:

£850 million pensioner buy-in in December 2019, converting an existing longevity insurance contract

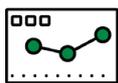
£250 million initial APP, covering deferred members

£61 million transaction in April 2021 to convert around 20% of the original APP transaction into a buy-in

The transaction demonstrated:

- **The flexibility of an APP**, which enables its use in combination with other de-risking solutions – in this case, a pensioner buy-in
- **How the APP can be tailored to a pension scheme's specific needs:** here, it locked down investment risk specifically for the deferred members
- **A straightforward conversion process**, enabling further de-risking at the trustees' discretion

In both cases, benefits of the APP to the pension scheme and sponsor included:



Reduced volatility between pension scheme assets and bulk annuity pricing



Selective, tailored insurance against investment risks



Increased certainty of reaching buyout within planned timeframe

Please email us for further information, or contact your de-risking advisor

 derisking@landg.com

 [legalandgeneral.com/prt](https://www.legalandgeneral.com/prt)

If you're contacting us by email please remember not to send any personal, financial or banking information because email is not a secure method of communication.

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