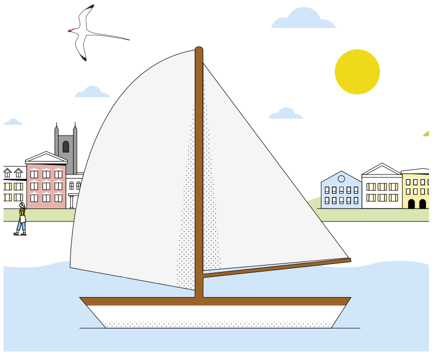


De-risking redefined: Legal & General's ISS

Many pension schemes still have a way to go to achieve their long term goal, whether this is buyout or self-sufficiency. Legal & General's Insured Self-Sufficiency® (ISS) solution allows these pension schemes to accelerate their de-risking plans. It does this by covering the same types of risk as a bulk annuity, but using a modified approach which provides a different level of protection.

For a typical pension scheme the price difference of ISS compared to a bulk annuity could be 10-15%.[1]

ISS takes a fresh look at de-risking: we bring together the expertise of both Legal & General's investment management and insurance businesses to give your pension scheme access to our asset sourcing capabilities and risk management framework.

In building up our £87 billion[2] annuity portfolio over the last 30 plus years, we've developed a specialised approach to delivering precise cashflow matching whilst maximising yield (through the use of both liquid and more illiquid assets). Through ISS we apply this expertise and access to your pension scheme.

However, cashflow matching in itself is not enough, as credit defaults tend to occur in clusters rather than spread out over time. An additional reserve is important to remain cashflow matched throughout the credit cycle.

ISS provides significant downside protection in the form of a capital buffer. For example, if investments don't deliver as expected or people live longer, then this reserve is available to keep the pension scheme fully funded. At outset this buffer is significant enough to cover what is known as a 1 in 200 year event. This might typically be equivalent to a capital buffer of 12-14% above the best estimate of what we expect the pension promises will cost to provide. We run our insurance company using a similar approach, so ISS allows you to run your pension scheme like an insurer.

ISS is especially suited for pension schemes with a desire to…

- Holistically remove risk
- Cashflow match their assets and liabilities whilst generating a strong risk-adjusted yield
- Enhance the sponsor's covenant
- De-risk both pensioners and deferred pensioners

ISS can deliver…

- ✔ Legal & General's asset sourcing capabilities to deliver high risk-adjusted returns
- ✔ The security of a 1 in 200 year capital buffer
- ✔ Legal & General's risk and asset management oversight
- ✔ An *enhancement* rather than a *replacement* of the sponsor's covenant
- ✔ A tried and tested counterparty with market leading de-risking experience
- ✔ Reduced governance and pension scheme running costs
- ✔ A clear path and straightforward conversion to buyout at a later date (that doesn't have to be with Legal & General)

For most pension schemes, buyout with a UK insurer is seen as the best way to secure members' benefits. But for those pension schemes that either cannot yet afford buyout or choose not to, ISS can offer covenant enhancement and downside protection.

1. Based on an example pension scheme with a 50% / 50% split between deferreds and pensioners and a transaction size of £500 million (although ISS can deliver value for transactions of around £250 million or greater)
2. As of 31 December 2020.

Legal & General

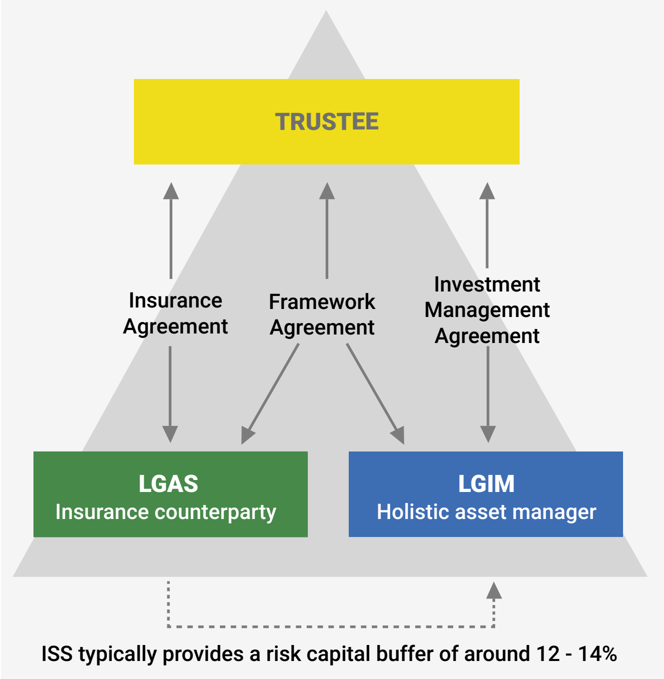
How is the solution implemented?

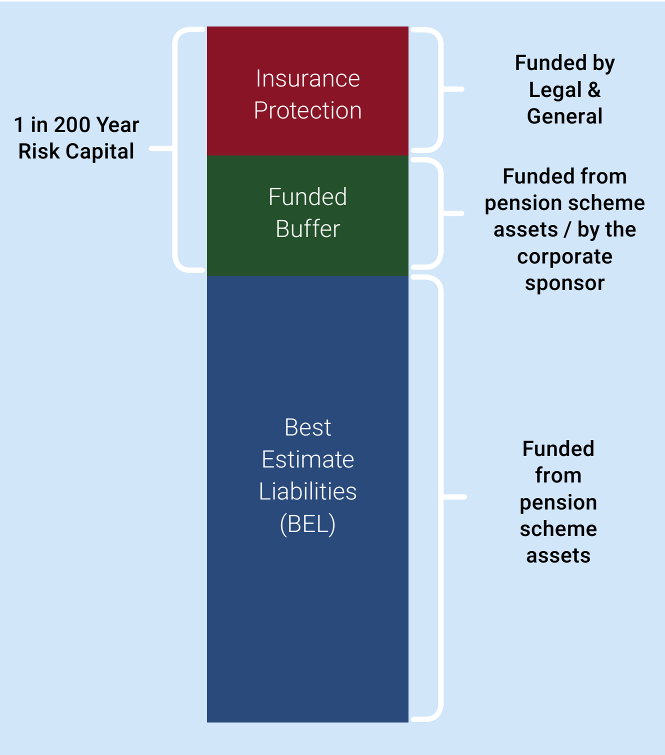
The trustees enter into:

- An insurance agreement with Legal & General Assurance Society (LGAS), which protects the pension scheme's funding position
- An Investment Management Agreement (IMA) with Legal & General Investment Management (LGIM), to deliver a cashflow matched investment strategy with strong risk-adjusted returns
- An overarching framework agreement, ensuring that the interests of the parties are aligned and protected

All assets are retained by the pension scheme, so the process is fully transparent to the trustees and their corporate sponsor.

The downside protection covers the scheme's pension related risks (including longevity) and is large enough to withstand a repeat of the 1930's Great Depression plus a two year increase in life expectancy.





ISS in action

A pension scheme's initial funding requirement for ISS is likely to be around 10 – 15% lower than for a bulk annuity. Once the pension scheme has implemented ISS, let's imagine a credit crisis scenario or an improvement in life expectancy. When the pension scheme's assets fall below the level that is required to cashflow match its liabilities, Legal & General's insurance protection starts paying out to restore the assets backing the BEL back to full strength.

Legal & General expects to receive an annual, capped premium in exchange for the Insurance Protection offered. However, importantly, this premium is only paid when the overall ISS structure is fully funded. If the funding level is lower, then our contingent premiums are reduced.

Should the funding level of the pension scheme improve over time, then an additional reserve is accumulated above our capped contingent premiums. This additional buffer protects against future shocks and / or helps the pension scheme accelerate its path through to buyout. ISS provides flexibility to buyout with any bulk annuity provider, not just Legal & General. Should the trustees secure a buyout with another provider then the cost to terminate the ISS contract will typically be less than 0.5% of the buyout premium.

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

derisking@landg.com   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.