

A further buy-in on the road to buy-out

Hymans Robertson have been working with the College of Law Pension & Assurance Scheme for many years, providing investment and, more recently, actuarial advice. The Trustees' long-term objective is to secure all of the benefits with an insurance company. To minimise their exposure to the risk of uncertain future insurer pricing, the Trustees have adopted a practice of insuring their pensioners in groups over time as they retire, and when they can afford to do so. We've previously advised them on 3 completed pensioner buy-ins, covering all those pensioners who had retired up to and including 2012.

A review of their asset strategy, with the aim of rebalancing the portfolio to improve the risk/return profile, enabled the Trustees to consider a buy-in of sufficient size to cover all pensioners who had retired since 2012. This larger buy-in would maximise the degree of longevity protection available from carrying out a transaction at the present time.

Solution

During 2016 we discussed the possibility of a fourth buy-in with the Trustees. There had been sufficient retirements since the previous buy-in to make a transaction worthwhile, with the additional incentive of attractive pricing in the market. Pensioner buy-ins were receiving particularly favourable prices, as insurers sought to make up for a slow start to the year due to the introduction of the new Solvency II regulatory requirements and uncertainty ahead of the EU referendum.

We initially proposed a transaction of c£20m, based on the fixed income assets that the Scheme had available. These lower risk assets are the natural first choice to use to pay the buy-in premium (as the Scheme would be exchanging one low risk asset for another). However, as the trustees were looking to sell a portion of their growth assets, this provided a temporary additional source of funds allowing them to take maximum advantage of the favourable pricing on offer. A larger buy-in also results in a greater degree of risk reduction, improving the business case for the transaction (given that the costs of carrying out such a transaction are largely fixed).

Ultimately, we sought quotations for a transaction of around £25m, approaching the whole bulk annuity market to maximise the degree of competition in the market broking process. We had a great response given the size of the transaction and the fact that it covered a relatively young population who had only recently retired. The higher level of risk associated with such members can reduce the appetite of some insurers to provide cover for a population of this type.

Following promising initial quotes, which showed that the Trustees' price target was likely to be met, we requested a final round before selecting a winning insurer. Aviva, who had been the winning insurer in the last two buy-ins, narrowly provided the most competitive price in the second round. Based on this, and the existing relationship that the Trustees had with them, Aviva were selected to provide the cover under this fourth buy-in. By working closely with Aviva and the Trustees, we ensured that differences in movements of the premium value, compared to the assets that were to be used to pay the premium, didn't adversely affect the relative attractiveness of the final price paid, compared to the winning quotation. Careful project management throughout then resulted in the transaction being completed quickly and smoothly.

Outcome / benefits

The Scheme has now insured almost its entire pensioner population and pricing for the current transaction was so competitive that there was no impact on the overall funding level. This was important as the Trustees wished to maintain their strong funding position. In addition, by insuring the benefits of the youngest pensioners, the Trustees have materially reduced the amount of longevity risk facing the Scheme. By transferring the pensioner payroll for the affected members to Aviva, the Trustees will also reduce the ongoing costs of managing the Scheme.

James Mullins, Hymans Robertson LLP said: "We are delighted to have helped the Trustees complete their fourth buy-in, building on our longstanding relationship with them. We are particularly proud that we have been the lead adviser on all of the buy-ins that the Trustees have carried out to date. Working closely with the Trustees, we've made sure that each transaction has been structured to meet their specific requirements and aligns seamlessly with their overall funding and investment strategy.

The approach taken by the Trustees, of insuring their pensioners using a series of buy-ins, has become increasingly recognised as an optimal way of working to insure all benefits. They've also captured great value by taking advantage of favourable market opportunities. We expect to see more pension schemes adopt this approach in future, with an increasing number of schemes now targeting buy-out as their final destination."

Alan Humphreys, Scheme Trustee said:

“*The Trustees are delighted to have completed their fourth pensioner buy-in, taking another important step to materially reduce risk for the members of the Scheme. Hymans Robertson used their significant experience to expertly guide us through this latest buy-in, enabling us to insure the balance of our current pensioner liabilities at a particularly attractive price. What was again especially reassuring was that the Hymans Robertson team kept the Trustees fully informed and briefed at every step of the transaction.*”



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