

Pensions – The End Game

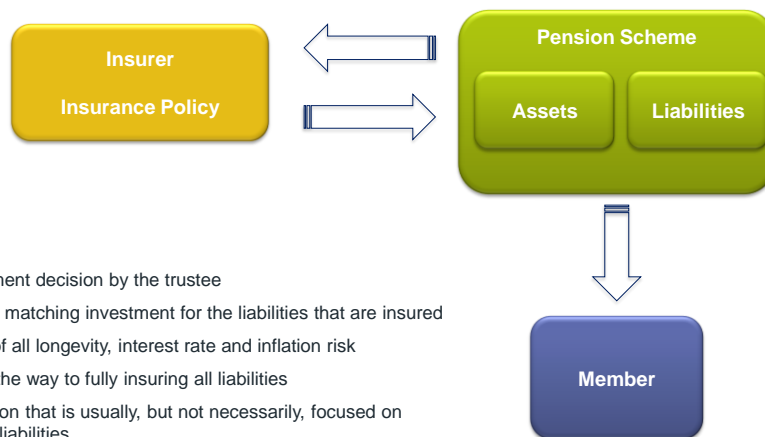
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Buyouts

6 March 2013

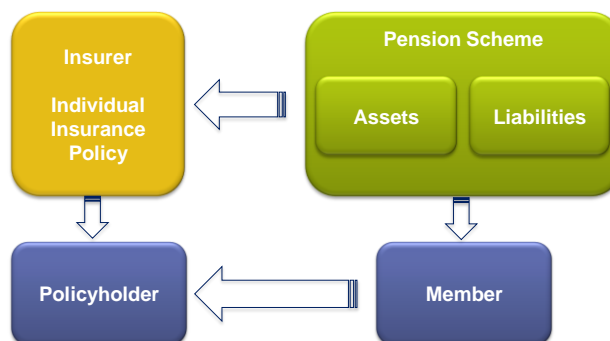
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What is a pension insurance buy-in?



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What is a pension insurance buyout?



In summary:

- A full and definitive settlement of the liabilities insured
- A transfer of the scheme member's promise from the pension scheme to the insurer
- The removal of the pension liabilities from the scheme and the employer's financial reports
- Allows the pension scheme to be wound up

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Why insure through a buy-in or buyout?

Sponsor perspective

■ Buyout and buy-in

- Risk relating to asset and liability volatility removed
- Demographic and longevity risks passed to insurer
- Removal of one sided option risk for employer
- Risks of future changes to insurance pricing methods removed
- Frees up management time to focus on core business
- Pension Protection Fund (PPF) levies reduced or removed

■ Buyout

- The expenses of running a pension scheme are removed
- Risk of increased and unknown costs removed
- Accounting changes & increasing disclosure obligations no longer a burden on the company
- Risk of changes in pensions legislation removed
- No restrictions on corporate activity due to pension liabilities

Trustee perspective

■ Buyout and buy-in

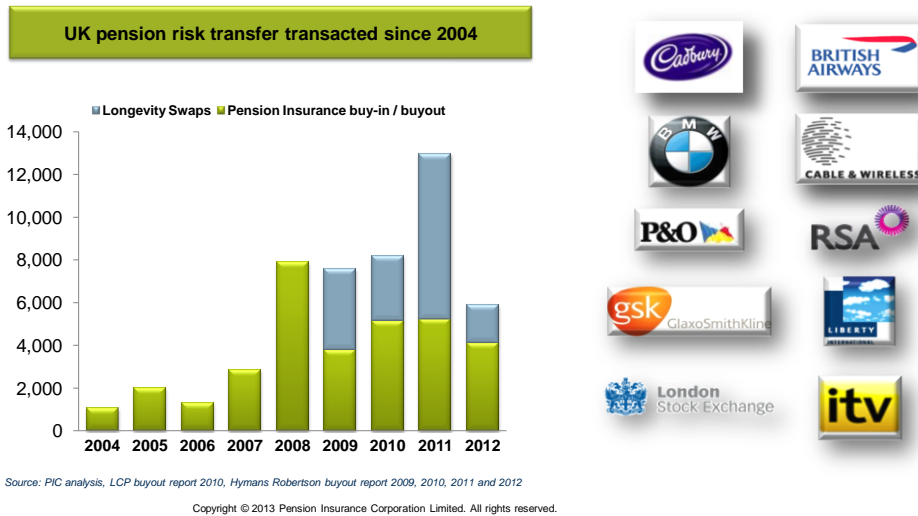
- Asset and liability risks all passed to the insurer which has stringent reserving and capital requirements to allow it to manage these risks
- Remove reliance on the corporate covenant
- Deals now with the issue of increasing scheme maturity causing liability outgo to surpass investment returns
- Increased security of members benefits
- Provides members with the protection of an insurer supported by the Financial Services Compensation Scheme (FSCS) as opposed to the PPF
- Access to the economies of scale available to an insurer

■ Buyout

- A full and definitive settlement of their duties as trustees to scheme members

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The pension insurance market



I want to do a buyout/buy-in but....

- I don't have enough money
- I don't have enough cash
- I only want to buyout some of the benefits
- I have unusual benefit features that will take time to sort out
- I don't know what benefits I ultimately want to insure (PPF cases)
- I want to remove all uncertainty on the final cost
- I have active members
- There is too big a gap to technical provisions

Case studies

Benefits to be insured are uncertain and asset position is also uncertain.



Alitalia Italian Airline £53m full buyout

- Buyout from PPF assessment
- Flexibility to alter benefit structure post-transaction
- Pensions insured: significantly in excess of PPF minimum in each case
- Flexibility to allocate future recoveries from parent to uplift benefits

The sponsor will only make the money available for an insurance if a part of the scheme is bought out.



Delta Pension Scheme £451m partial buyout (pensioners)

- First large partial buyout
- Insured liabilities removed from the sponsor's balance sheet
- Improved security position for non-insured members

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Case studies

We need the pension fund risks and liabilities off balance sheet immediately on signing and want to allow future accrual.



5 Schemes of Denso Manufacturing pension schemes £336m full buyout

- Japanese parent company
- All risks, costs and liabilities covered: Data, GMP, legislative, regulatory, trust deed & rules, wind up costs, etc.
- Unique structure whereby sponsoring employer exits within days of transaction
- Maintaining on-going benefit accrual for active members rather than transferring them to a DC arrangement

We would like to lock in to insurance pricing for the next 5 years of retirees.



London Stock Exchange £158M pensioner buy-in

- Future retirees
- £45m on pre-agreed terms

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Case studies

The scheme is underfunded and the sponsor would rather stick to the existing contribution schedule than accelerate it.

The insurance needs to be priced at close to the Technical Provisions liabilities.



Arnold Laver Scheme £43m full buyout

- Full buy-out whilst scheme in deficit
- Premium payments tied into company contribution schedule
- RPI / CPI flexibility
- Accommodate ETV exercise



Cadbury Pension Fund £500m pensioner buy-in

- Worked with Trustees to determine optimal risk profile to transfer

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Buy-in vs technical provisions

- TPs on Gilts + basis, but Gilts are being used to fund the transaction?
- Spot discount rate vs yield curve?
- Off market inflation assumption?
- Caps and Floors?
- Saved investment management expenses?

Contact



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David is a qualified actuary and is responsible for business development, pricing and management of insurance transactions. David has over 20 years of experience in pensions and insurance and has lead a significant number of successful insurance transactions, including the £1.1bn Thorn buyout and the ground breaking £450m Delta pensioner buyout. Prior to joining PIC David was Global Head of M&A services at Watson Wyatt.

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