

## Agenda - The Current Buyout Market

Background

Activity in 2007

Bespoke solutions and pricing

Liability management

Impact of Insurance environment and issues

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*"I advise you to go on living solely to enrage those who are paying you annuities"*

*Voltaire (1694 – 1778: died age 83)*

*"People always live for ever when there is an annuity to be paid them. An annuity is a very serious business; it comes over and over every year, and there is no getting rid of it."*

*Jane Austen (Sense and Sensibility - 1795)*

## The Old Bulk Purchase Annuity Market

*“For many years, there were only two UK insurers who would quote, and not always as many as two, and then it was a slow and cumbersome process”*

### **“Reactive strategy”**

- Small schemes
- Insolvent wind-ups
- Compulsory purchase



### **“A product of last resort”**

- Inflexible products
- Limited capacity
- Difficult / lengthy quotation process
- Perceived duopoly price

## A New Emerging Market

### **A changing world**

- Significant deficits and volatility
- Pensions liabilities recognised as unsecured debt
- Growing recognition of longevity issue
- Regulatory pressure & PPF
- Increasing attention from investors/analysts on pension issues
- Growing visibility



### **A solution to high profile liabilities**

- Increased debate as to how pensions liabilities should be managed
- Larger / solvent schemes looking for alternative solutions
- Active / voluntary pension risk management
- New market attracting range of specialist players bringing new approaches

A new developing market

**“A last resort  
product”**



**Recognised risk  
management tool**

- Better appreciation of pension liabilities and volatility
- Better perception of pricing
- Better understanding of security
- Efficient business model
- Increased capacity
- Wider / innovative product range
- Fair market price

## The safe harbour of the insurance covenant

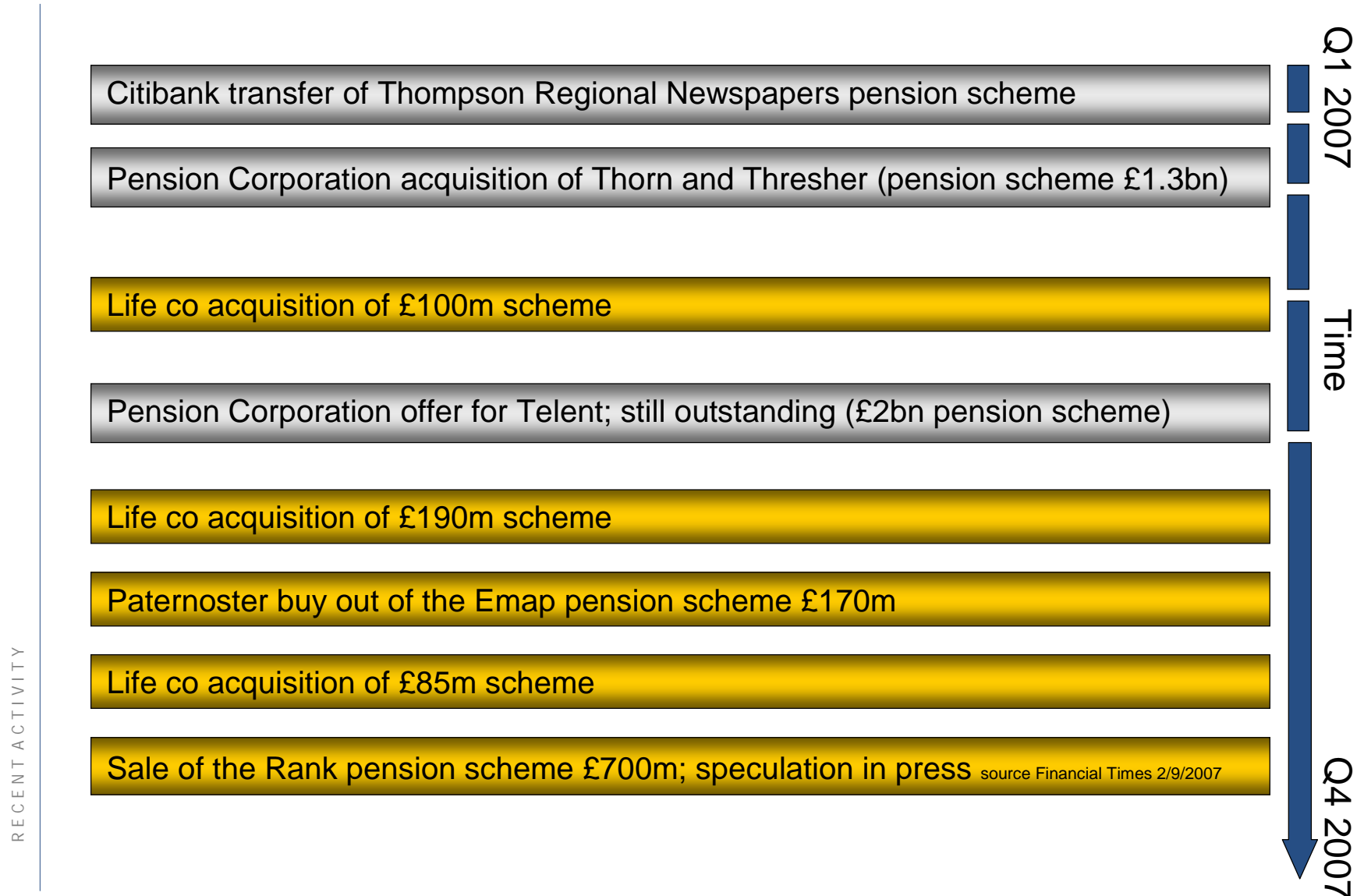
### Corporate pension scheme promise

- Deficits allowed
- Flexible scheme specific funding requirement. Prudence not defined.
- Investment flexibility
- TPR
- Sponsor's covenant
- Pension Protection Fund

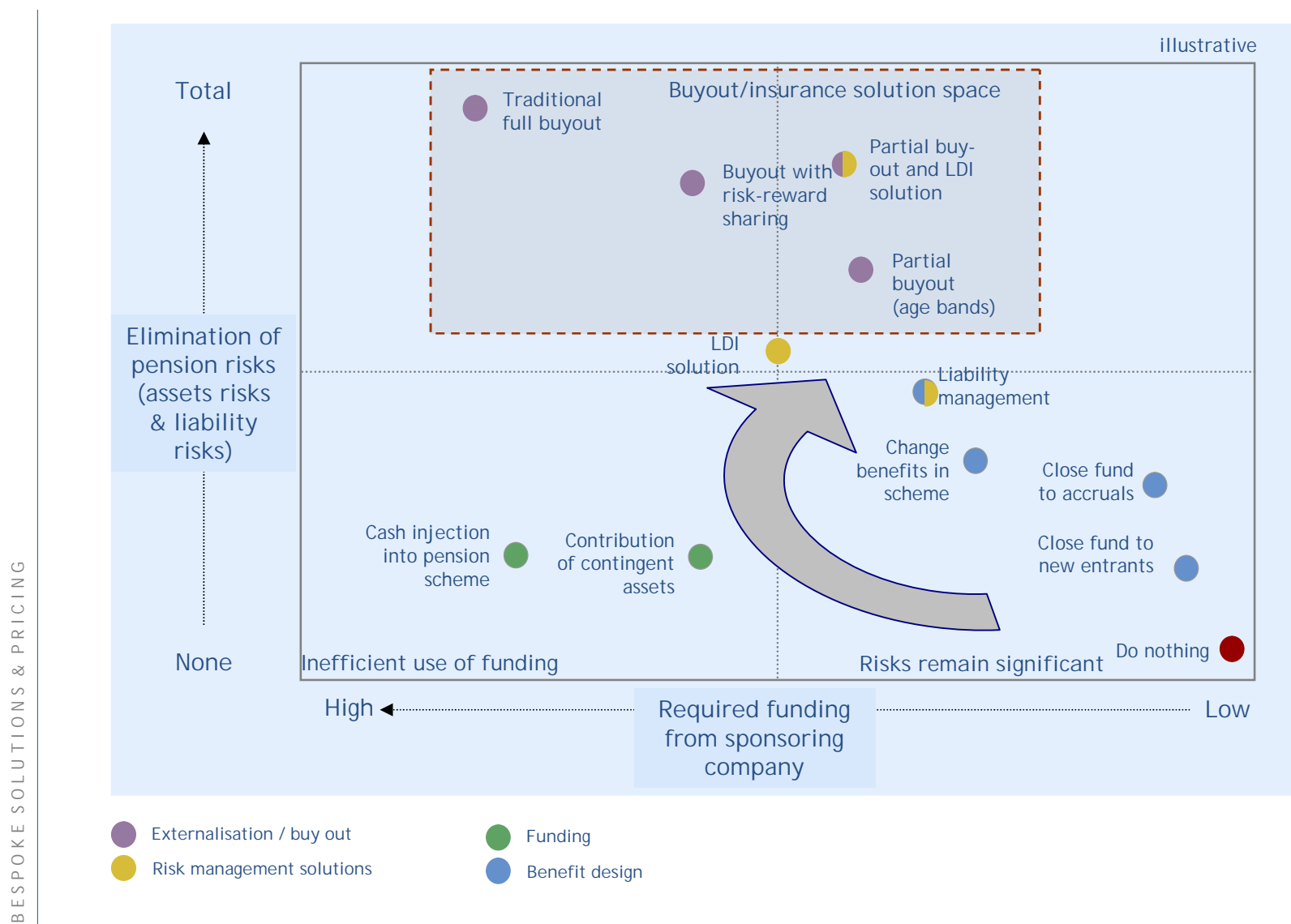
### Insurer guarantee

- No deficit
- Capital to cover best estimate + "1 in 200 years event" stress tests
- Investment restrictions
- FSA
- Insurer's (+ sponsor's ?) covenant
- Financial Services Compensation Scheme

## Recent activity - Transactions involving solvent sellers

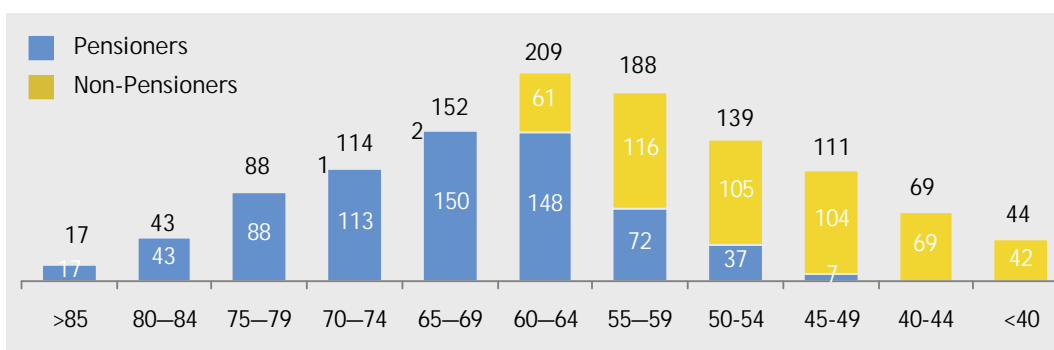


## The potential solution space to address pension fund risks



# Insuring segments of the pensioner and non-pensioner liabilities

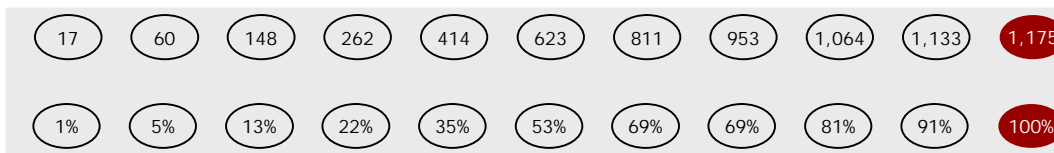
Buyout estimates of members per age bands (£mm)



## Buyout valuation

n Cumulative liabilities (£mm)

n As % of total liabilities



## Cash outlay to maintain funding level at 110% of IAS19

n Cumulative cash outlay (£mm)



The segmentation could be applied to the whole scheme

## Liability management options

- Many companies currently looking at liability management options
- Help reduce level and volatility of liabilities as deferred members are more expensive to insure
- Can help bridge the gap to buy-out

Transfer values

Early retirement

Trivial commutation

Scheme provisions

Data cleaning

- Can form a key component of a cost effective process to discharge pension liabilities
- Can provide flexibility and valuable options for the members.

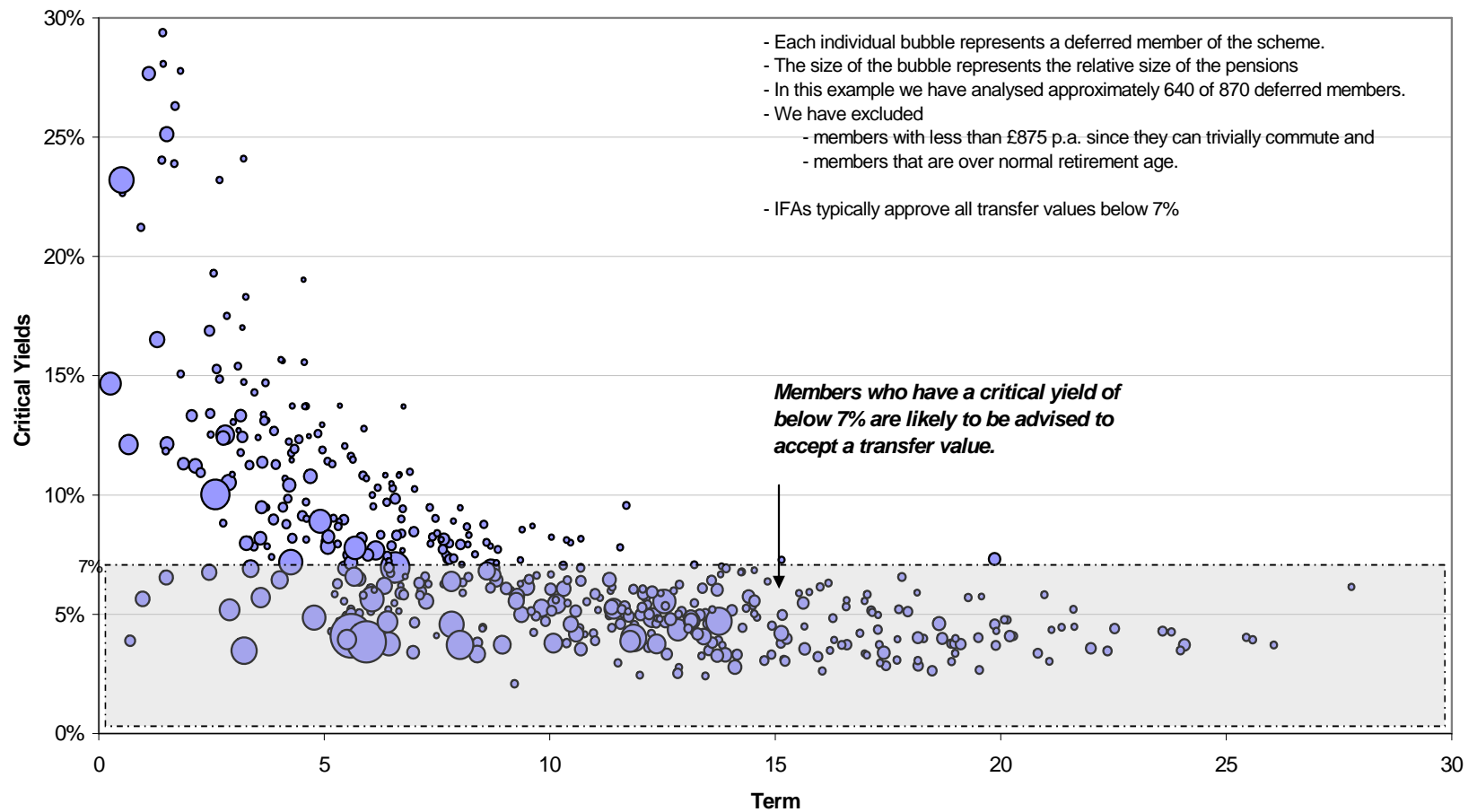
BUT

- These processes to be carefully managed to ensure that the communication and advice provided to members is robust and of high quality.

## Case study

Sample figures from  
previous case study

### Deferred member transfer values



## Treating customers fairly - a principles based system

The FSA have defined 6 consumer outcomes which explain what they would like "treating customers fairly" to achieve for consumers.

- Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture;
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances;
- Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect;
- Outcome 6: consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

## Issues with moving from a pensions environment to an insurance environment

- Ensure consistency of terms
  - Terms for commutation to tax free cash
  - Early and late retirement factors
  - The level of transfer values promised
  - Other options
- Liability management options
  - Enhanced transfer values
  - Trivial commutation
  - Enhanced communication of early retirement
  - Amendment to existing scheme provisions
- Administration
  - With a group contract the administration can remain with scheme but can be outsourced to insurer
  - Issuance of individual contracts administration outsourced to insurance provider

## Conclusions

- Trustees and companies are considering buyout as a real option and investigating the costs / benefits
- Solvent Pension funds are moving to buyout in increasing volume
- The insurance environment sets high standards in terms of security and fairness to customers. Pension scheme regulation is moving in the same direction and is likely to converge.
- Trustees need to ensure they understand clearly all the options available to them under buyout and seek quotations on a like for like basis
- There are a number of actions that can be taken before and or during buyout with the assistance of an insurer

## Questions

