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news

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# Buy-ins – the name of the 'legal' game

The fashion this year seems to be for pension schemes to consider entering into buy-in insurance policies. The lure of removing volatility from funding, and "locking the safe" with part of a scheme's liabilities being matched by an annuity policy, has many employers and trustees asking whether the price and the time is right. But money is not the only issue.

## Buy-in

Why the popularity?

- Recent pricing of corporate bonds, and more providers in the market, has meant that providers are offering competitive prices for buy-in policies.
- Increasingly popular, buy-ins provide an interim de-risking solution without the potentially hefty funding cost of a buy-out.
- They are therefore often employer driven.

## Investment

- As an annuity held in the trustees' name, the buy-in is simply another scheme investment.
- As such, it requires similar considerations to any other investment, for instance:
  - Do the scheme rules allow investment in a buy-in policy?
  - Have the trustees obtained written investment advice in support of the decision?
  - Has the employer been consulted?

## Some issues for schemes

Knowing me, knowing you

- Benefits – which scheme liabilities will be covered? A detailed benefit specification needs preparing so that the correct benefits are priced and secured.
- Data – is the scheme's data "clean" (i.e. complete)? Are there any areas where data assumptions will need to be discussed?
- Confidentiality – trustees / employers may not wish to go public when obtaining quotations (agreeing terms for non-disclosure / confidentiality are common).
- Timing – planning ahead is important so that a quote remains valid whilst contract terms are being negotiated.

## The policy

Some key questions

- Future retirees – is the investment a one-off or will new pensioners be added on the same terms?
- Administration – will the policy simply provide a stream of income to the scheme or will it involve direct administration of the secured benefits? If so, how good is that administration?
- Flexibility – can additional benefits (for example, discretionary increases) be added to the policy on similar terms?
- Conversion terms – can the policy ultimately be switched to a buy-out policy if the scheme winds-up (and, if necessary, be re-shaped if the scheme is insolvent)?

## The buy-in provider

The winner takes it all?

- As buy-in policies do not usually have a surrender value they should be thought of as a "one-way ticket" in investment terms.
- So both the trustees and employer (whose own covenant remains very much in play when the buy-in route is used) are taking a chance on the provider's covenant.

## Communication

Do your members know?

- Members may have read about large buy-ins and buy-outs and be concerned.
- So if trustees and employers decide to go ahead, they will need to think through whether and what to communicate to members.
- The message may be different for different groups (such as deferred members or pensioners).

## Mamma Mia!

Here we go again …

- While buy-outs may be too expensive for many employers, the possibility of taking some of a scheme's risk off the table by means of a buy-in may look attractive.
- But trustees and employers must look beyond price and ensure the policy fits the scheme both now and for the foreseeable future.

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