



Society of Actuaries in Ireland

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## **Bulk Annuity Buy Out & Buy In, for DB Schemes**

**John Lynch, Partner, LCP and Conor Daly, Partner, LCP**

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24<sup>th</sup> May 2022

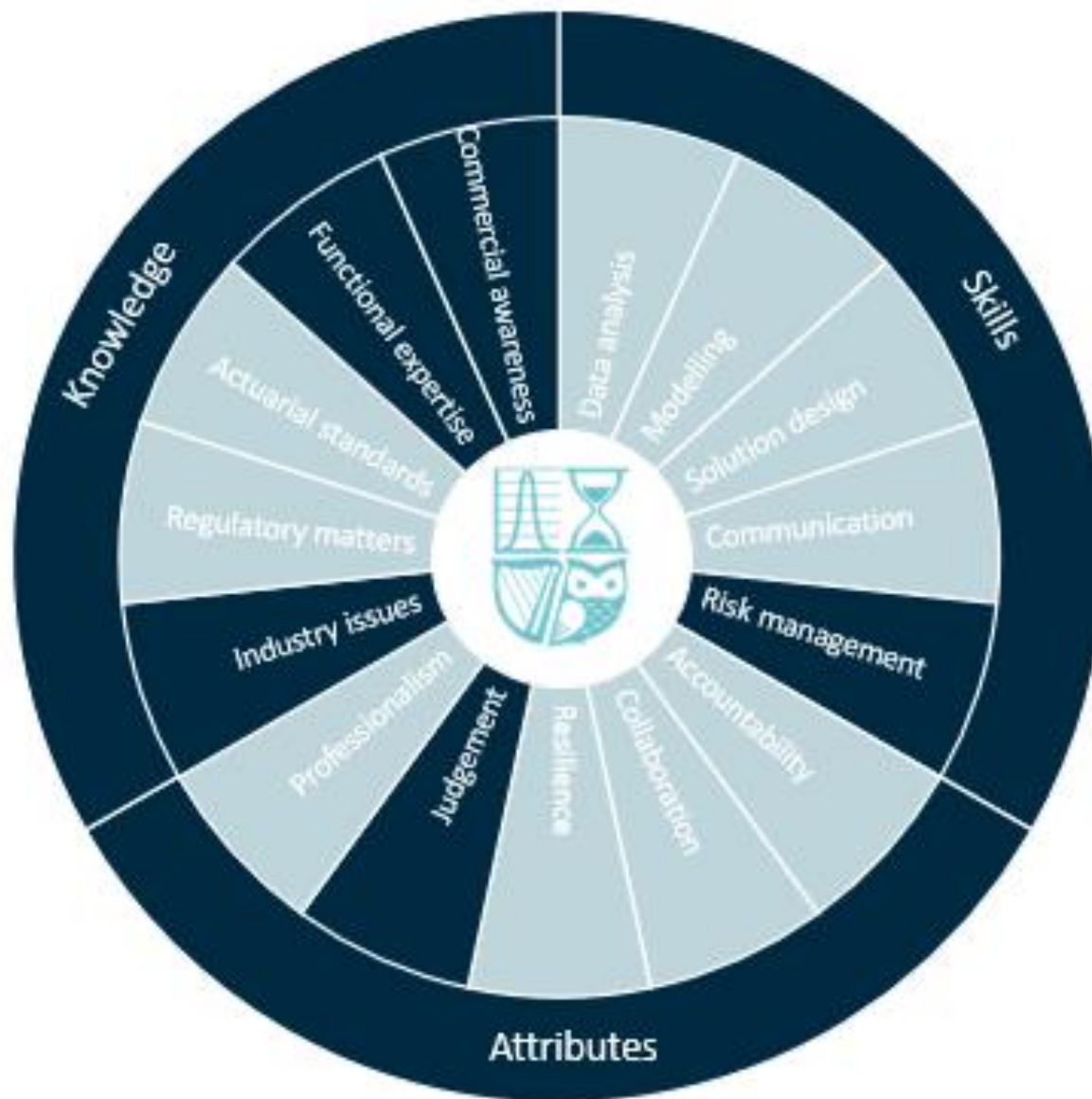
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## Disclaimer

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**The views expressed in this presentation are those of the presenter(s) and not necessarily those of the Society of Actuaries in Ireland or their employers.**

# Competency Framework Wheel



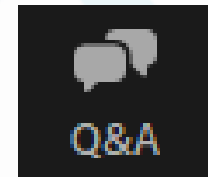
# Q&A

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Please click on the **'Raise Hand'** icon  
to ask a question aloud  
and  
wait to be unmuted

or

Use the **Q&A function** to ask a question



# *Bulk Annuity Buy Out*

*24 May 2022*

*John Lynch, partner*

*Conor Daly, partner*

Lane Clark & Peacock Ireland Limited Trustee Consulting Investment Consulting  
Corporate Consulting Insurance Consulting Business Analytics [www.lcpireland.com](http://www.lcpireland.com)

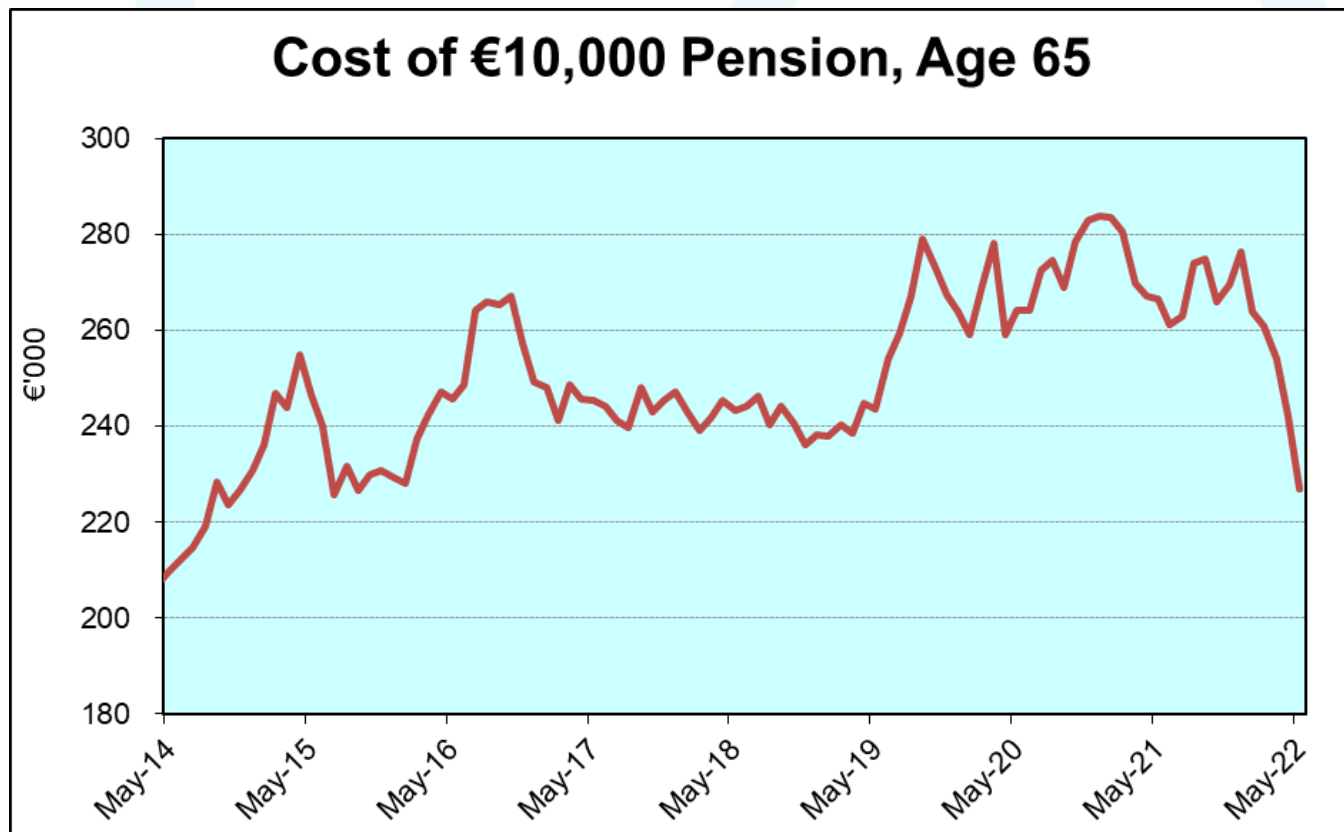
London | Winchester | Brussels | Dublin | Utrecht | Zürich | Basel | Abu Dhabi

## Buy Out & Buy In

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- Secure pensions in payment with an insurance company
  - Buy Out; Members own the policies
  - Buy In; Trustees own the policies
- Trustees will generally only consider if scheme is relatively well funded (unless a wind up)
- Can make a lot of sense if scheme is matching pensioner liabilities with bond holdings

# Value for Money



Annuities have fallen by 20%+ since the start of the year

# Buy Out & Buy In - considerations

	Buy Out	Buy In
<b>Liability to meet relevant benefits</b>	Fully transferred to the insurance company	Remains with the Trustees
<b>Security</b>	Sponsor covenant lost	Sponsor covenant maintained
<b>Complexity</b>	Relatively straightforward	Can be added complexity around collateralisation, administration, etc.
<b>Priority Order and Equity between cohorts</b>	Ensure financial analysis addresses priority order	Fewer issues as asset and liability remain in the scheme
<b>Discretionary Pension Increases</b>	May be more difficult to grant discretionary increases	Allows Trustees to retain control over pension increases
<b>Accounting impact</b>	P&L Charge	No P&L Charge
<b>Communications / Link to pensioners</b>	Severing link to sponsor and Trustees	Easier to present. Can maintain link to pensioners



# Buy Out & Buy In – other considerations

Issue	Consideration
CPI Increases	It is very difficult to match Irish Inflation (CPI) due to the lack of inflation linked Irish Bonds. As a result, CPI increases have generally been expensive to secure.
Market Size	The buy out market quiet small and annuity prices may not be as competitive as for example in the UK. However, overseas providers are expanding into Irish Markets, so greater levels of discount are available now, which would not have been available a number of years ago.
Fixed rate substitution	There is a formulaic fixed rate substitution used for the purposes of calculating liabilities under the statutory minimum funding standard. However, this is unlikely to apply in the event of an actual buy out.

# Who is in the market

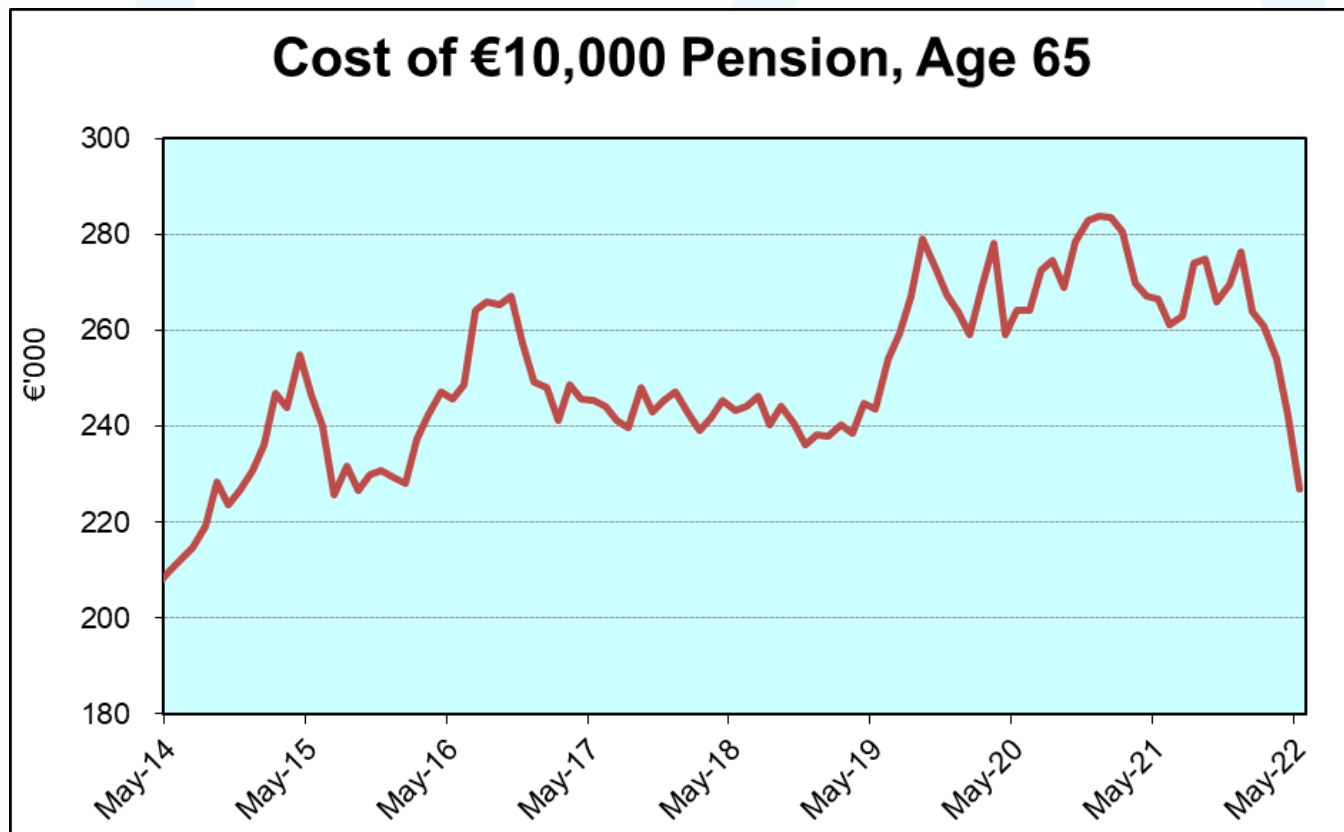


Different insurers step in at different times

- New Business pressures
- Assets available
- Capital available

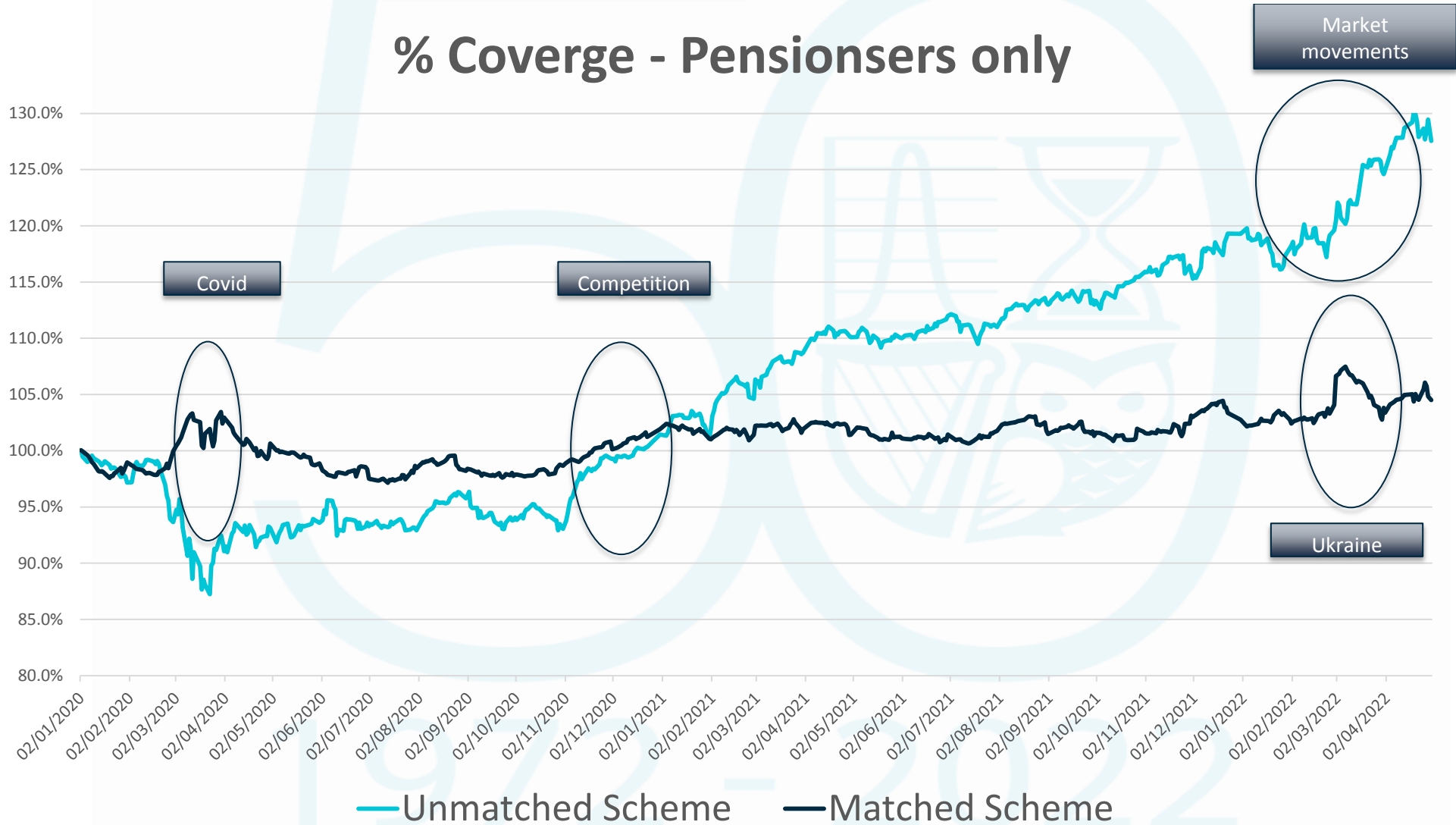
Brexit changed market somewhat

# Value for Money



Annuities have fallen by 20%+ since the start of the year

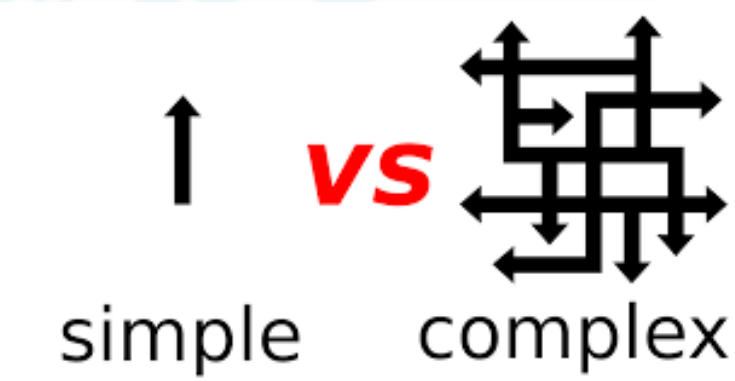
# Value available on market?



# Steps

- Trustee Agreement & Company Agreement
- Legal Advice
- Data prep
- Competitive Tender
- Transaction Date
- Member communications
- Data True Up
- Post transaction analysis

Complexity will vary by Scheme Size and other factors



# Trustee Agreement & Company Agreement

- Important to gain agreement, even as a matter of course to allow regular monitoring
- Both Company and Trustees will generally need to agree
  - Material impact on risks and investment returns
  - Material impact on remaining members
  - Ensure priority order addressed
- If agreement obtained in principle, then can react to any change in conditions to move to buy out / buy in

Possible to move very fast  
Charity Client. €8million pensioners  
Recommendation made to Buy Out: 6 April 2020  
Secure Pensioners: 27 April 2020

# Legal Advice

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- Trust Deed & Rules
  - Powers – buy out power, discretionary benefits - contingent/increases
  - Benefits - benefit specification document for the insurer
  - Amendments – what amendments are required to deed
- Contract with insurers
  - Vary considerably between providers
  - Start early in the process

Company and Trustee lawyers generally aligned

# Data Prep

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- Ensure details of benefits fully understood, especially contingent benefits. These need to be relayed to insurance company.
- Members in payment easiest to prepare/understand
- Marital Status may be out of date or may never have been collected
- May not have spouses dates of birth
- Information on incapacitated children
  - In payment
  - Not in payment

Uncertainty dealt with by way of a Post Transaction True Up.  
Poor data should not necessarily delay the transaction date.



# Competitive Tender

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- Invite all, as insurance companies step in and out
- Ensure contracts agreed prior to choosing preferred provider
- Use judgement on process to ensure best price obtained
- Respect the integrity of the process

Generally end with a single preferred provider

## Price Tracker

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- Important to monitor prices through the latter stages of process
- Some insurers willing to provide a price tracker
- More important if there is a delay between choosing preferred provider and transaction date to ensure no change in pricing basis
- Tracker agreed with insurer, driven by (Bloomberg) tickers
- Likely only to be agreed for a short specified period and if no material changes in market conditions

No change in pricing basis after choosing preferred provider

# Price Tracker

	A	B	C	D	E	F	G	H	I	J
1										
2				<b>Quote Date</b>		27/11/2020				
3										
4	<b>Date</b>	<b>Bond/Index</b>	<b>Description</b>		<b>Maturity / W/ Asset Swap Spre</b>	<b>Yield</b>				
5	05/11/2020	E								
6	05/11/2020	E								
7	05/11/2020	E								
8	05/11/2020	E								
9	05/11/2020	E								
10	05/11/2020	E								
11	05/11/2020	G								
12	05/11/2020	G								
13	05/11/2020	G								
14	05/11/2020	G								
15	05/11/2020	G								
16	05/11/2020	G								
17	05/11/2020	X								
18	05/11/2020	X								
19	05/11/2020	F								
20	05/11/2020	D								
21	05/11/2020	X			4 EUR					
22	05/11/2020	X			DU 07-24-203					
23	05/11/2020	X								
24	05/11/2020	X								
25	05/11/2020	X								
26	05/11/2020	X								
27	05/11/2020	X								
28	05/11/2020	X								
29	05/11/2020	F								
30	05/11/2020	X								
31	05/11/2020	X								
32	05/11/2020	F								
33	05/11/2020	X								
34	05/11/2020	X								
35	05/11/2020	X								
36	05/11/2020	X								
37	05/11/2020	IE								

Commercially sensitive information – blanked out

Commercially sensitive information – blanked out

Tenor	Date:	#####
1	eusa1	-0.5280
2	eusa2	-0.5397
3	eusa3	-0.5350
4	eusa4	-0.5148
5	eusa5	-0.4860
6	eusa6	-0.4506
7	eusa7	-0.4106
8	eusa8	-0.3700
9	eusa9	-0.3250
10	eusa10	-0.2751
11	eusa11	-0.2313
12	eusa12	-0.1888
13	eusa13	-0.1498
14	eusa14	-0.1153
15	eusa15	-0.0858
16	eusa16	-0.0618
17	eusa17	-0.0424
18	eusa18	-0.0275
19	eusa19	-0.0165
20	eusa20	-0.0089
30	eusa30	-0.0368
40	eusa40	-0.0938
50	eusa50	-0.1433

Input yields from corporate and government bonds

Price tracked each day and validates transaction price

## Transaction Date

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- 10AM – final price received
- 11AM – meeting with Trustees to confirm all in order
  - Legal & Actuarial & Tracker verification
- 1PM – contracts signed
- 2PM – evidence of instruction to transfer assets
- T+x days – assets transferred

Important that all work done in advance  
Important no issues with authorisation / signatures

## Member comms

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- Often no communication until after the buy out
- Prep communications well in advance
  - Pensioners being bought out
  - Pensioners not being bought out
  - Active members (not being bought out)
  - Deferred members (not being bought out)

Judgement required on timing of communications

## Data True Up

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- Important aspect of project
- Completed after the buy out
- Added risk to the project
- Updated Spouses information may reduce cost
- Incapacitated children, one to watch out for
- Could retain any surprises as a liability in the scheme
- Verify price change as a result of true up

