Building on a solid foundation

Capital Cranfield professional trustee, Hugh Creasy, sits down with Jack Gray to discuss his role as a sole trustee in the buyout process of the Unomedical Pension Plan

In March 2020, the Unomedical Pension Plan completed a £10 million buyout with Aviva, covering all 65 members of the scheme. The sponsoring employer of the scheme, ConvaTec, merged with Unomedical in 2008 and took on the responsibility for managing the scheme. Working with Aon and Eversheds Sutherland's streamlining solution for smaller pension schemes, Pathways, the sole trustee and sponsor got the deal over the line.

Capital Cranfield was appointed as the sole trustee of the scheme to handle the wind-up process, with its professional trustee, Hugh Creasy, leading the team.

How prepared was the scheme for buyout?

The lay trustees had done a terrific job in tidying up the pension scheme and getting it very well placed, with an eye to moving it on to buyout. They had reached a point where they had built up enough of a fund and with a low enough risk profile to give comfort that they would be in a nice stable position. At that point, the estimates were that the scheme was about 90 per cent funded of the buyout target.

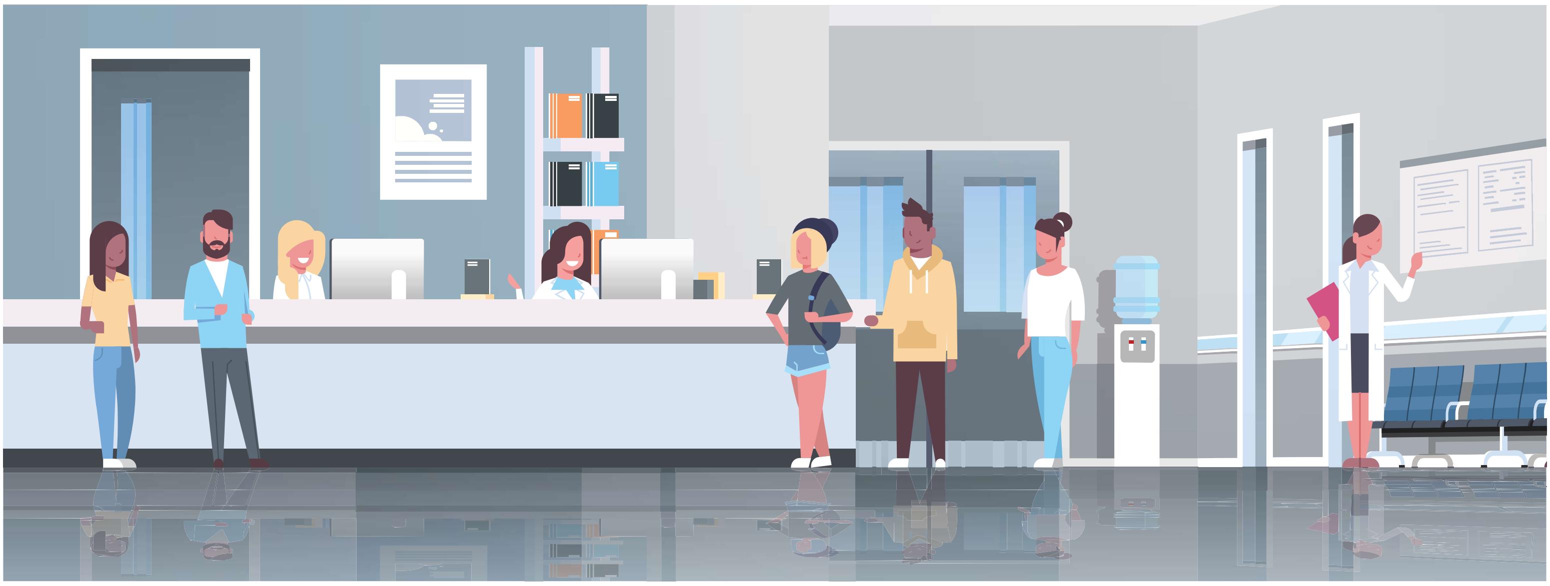
They felt that they had been very comfortable in running it as a board of lay trustees and were happy with where they had reached, but they had a choice of either learning how to do a wind-up or hand across the scheme in a good shape to a sole professional trustee and ask them to now hold the reins.

It came to me with the agreed target being to get to buyout, and a great deal of this was having the foresight to anticipate that we need to get to a place where the investments have been de-risked in a way that is good for buyout and to plan ahead on those finances to allow a gradual progression into the place where it is fully funded. I think there was good foresight on that score from the former trustees. My life was made considerably easier by good planning from the lay trustee board.

Was the data ready and in place for full buyout?

Not entirely but it was not in a bad position. When I came in we started looking at how to get ourselves into a position where we felt we had absolute confidence that we properly understood the benefits, the members shared our understanding of their benefit terms, and we were at a point where we could go to an insurance company and say: "We have already gone through all these steps so you can have absolute confidence that it is worth talking to us about terms because we will be able to move straight on."

We weren't the biggest transaction in the world, so we needed to be able to get the insurers' attention, and making sure that everyone understands their benefits



in sufficient detail that the insurance company is going to be happy was a crucial part of it. That was something we did largely during 2018. I came on board towards the end of 2017 and one of the first steps for us was getting the data and legals bottomed out. That involved writing to members and making sure that we knew where everybody was, making sure that GMP reconciliation was all closed off and ensuring that everyone had the opportunity to come back to us.

What were the advantages and disadvantages of being a relatively small scheme?
A fundamental part to it is that the life events of individuals can have a meaningful effect on the finances themselves. We started out with a reported deficit against an insurance premium that was sufficiently high that the sponsor was not able to put in cash and close it off. But if you take a few cases where the individual feels they are coming up to retirement age and want to take a transfer value, you can pay out a fair transfer value without necessarily having to go to the margins that the insurance company would require. That accelerated the speed at which we moved towards full buyout.

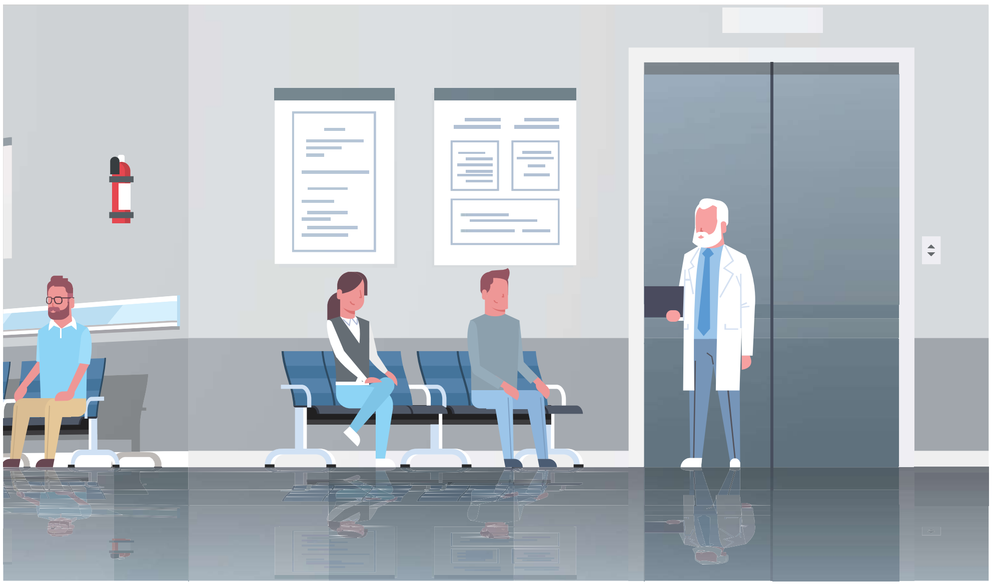
An advantage of it being a small scheme was being able to get on top of all the meticulous data and being able to say we had replies from every member of the scheme was very achievable.

A disadvantage is around insurer appetite, in that we know that the market is challenging because there is a relatively limited supply both of insurers who are interested in taking on the business and also of people with the expertise in those insurers who can then focus on your case.

We first went to the market in August 2019, after conducting a detailed assessment, to say that a transaction was entirely viable for us.

We were in a good place on the legals and the data, and we thought that the finances were there. The reality was that there were only a few interested in that market at that particular time and, even then, there was still a wait of around three months before getting a quotation back because the insurers had sufficient volumes in their pipelines which meant we were having to join a queue.

Even once we had our quotations back and were ready to go, it still took time. We were in that position by early January 2020 and completed the trade by the end of March.



Why did you decide to use Pathways?
There were a couple of things in its favour. Our existing legal advisers were Eversheds, who developed Pathways with Aon. We appointed Aon to carry out this task, the buy-in, buyout and to lead us through to wind-up using their expertise. Having Pathways, which uses pre-negotiated legal contracts, when you are going to be setting up a contract with an insurer means that the lawyer has a clear brief, the fee is straightforward and we did not have any of the circus you get with some non-pre-negotiated contracts.

What role did the sponsor play?
It has been a really positive relationship with the sponsor throughout. When I first came in, I think the assessment was about £1.5 million short of full buyout. We had a conversation as to whether that was too much to be writing off at this stage and taking a cheque, and it was. So, we had a conversation as to how close we needed to get. The sponsor was very happy and wanted to remain informed but had looked to appoint a sole trustee to manage the process.

As we got to the middle of 2019, we could see that the terms available in the market were looking a lot more attractive to us and we had member activity, which helped bring us in closer. At that point we started to engage more consciously and set up a working party of myself and key representatives from the sponsor so we could make decisions rapidly and from a well-informed base.

All the decision making, although it formally lands with the sole trustee, had been taken with soft agreement from the sponsor. We had been on the same page throughout.

If you get the basics right, make sure that the trustee and the sponsor are on the same page, and you have the right team around you that really understand the market, it will work.

Written by Jack Gray