



Changing tide

✓ **February saw the Merchant Navy Officers Pension Fund (MNOPF) complete its conversion of a pensioner longevity swap to a £1.6 billion buy-in with the Pension Insurance Corporation (PIC). Duncan Ferris speaks to MNOPF chair, Rory Murphy, about how the deal went down**

Longevity swaps were once perceived as disruptive towards securing a bulk annuity deal, due to the complexity associated with such a conversion. Since their inception in 2009, 27 longevity swaps over £1 billion have been publicly announced, along with dozens more smaller deals. Only six of all swaps have been converted to a buy-in, with Phoenix Life's PGL Pension Scheme being the first to make the leap in 2016.

They may be rare, but the beginning of the year saw another such conversion occur. In February, MNOPF's move from an existing pensioner longevity swap with Pacific Life Re to a £1.6 billion buy-in with PIC secured the pensions of around 14,000 scheme members.

Speaking at the time of the deal, PIC said it was the third conversion of a longevity swap to a buy-in that the company had been involved in, "signifying a growing appetite in the

market for these types of deals". MNOPF chair, Rory Murphy, explains to *Pensions Age* its own reasons for why the scheme decided to undertake such a rare type of deal now.

What were the motivations behind converting the longevity swap into a buy-in?

What we, along with a lot of other pension schemes, try to do is to de-risk. You don't just de-risk at a moment's notice or because you have a whim. We have five- and 10-year horizons here as to what we want to do, so something we did three or four years ago will have been done as part of a building block for something we want to do later.

We had the idea of converting because we were in the position where we could do the buy-in as we approached the end of our journey plan, so one thing led to another. It was all part of our

strategic thinking and planning in order to completely de-risk this scheme and safeguard the pensions of the scheme members, but also to ensure that we were able not to have to go back to the employers for more money.

It wasn't just a question of deciding "we'll get rid of this cell and do a buy-in", it was all part of a structured plan. This was always envisaged as something that we would do, which is why when we set up the cell and the longevity hedge, we put in a clause that would allow us to novate that particular hedge.

Why were you ready to make this step?

Because keeping an eye on the market we knew the pricing was very good. We go out to market to see 'is that price as good as it seems'? If the price hadn't been good enough, we wouldn't have transacted. It had to give us what we wanted. I think a lot of trustee boards think that they're at the beck and call of the market and it's not that way at all.

It's completely the other way around, so if we hadn't been able to get the price that we thought was right for what we wanted to do, we wouldn't have transacted. You can rest assured that we've looked at the market before this, but the pricing was right this time, so we've taken the plunge.

Do you think PIC's comments that there is increasing demand for this type of deal are accurate?

Yes I do, from other trustee chairs and boards that I speak to. The one thing you might be a bit worried about is that these things tend to be a bit sheep-like sometimes. People see something happen and they think "ooh, we ought to do that". It's not right for every fund but it's right for us and every fund needs to check that it's right for them. There's a bigger appetite for it now because it does help, and market conditions are good for a pension scheme to do this.

I don't think it's only PIC saying that, I think all the providers are saying

that. From a pension fund perspective, I suspect one of the bigger issues is whether there is enough capacity in the market for all the funds that might want to transact. That was another thinking of us getting in early and being decisive as well. We're a well-oiled machine in that respect. We're able to get in, have a look and see what needs to be done, analyse whether it's the right conditions for us and decide very quickly.

How long did the process take?

That's a really difficult question because when we did the longevity hedge, we had this in mind, so you could say we started all the way back then. I think probably last summer, realistically, we started thinking about the way the market was and forthcoming capacity in the market and thought maybe the time was right to start thinking about it. We've then got to go through issues with the board, such as training issues.

I'd say it was all done within six months. But there was a lot of lead up to that. We didn't just wake up one morning and think we had done it. It had been in our minds and a part of our strategy for several years. But it crystallised to completion in about six months.

What impact do you expect the move to have on scheme members?

It's too soon to tell yet. In the initial phase it gives them more certainty. There is less recourse for the fund maybe to have to go back to employers for more funding, so we reduce risk out of the scheme. Whether there are any other benefits going forward, that's something that the trustee board will have to consider when it sees what the actual impact of the transaction is, rather than what the expected impact is. You kind of model what you think is going to happen and then maybe decisions can flow from that, but until it's happened you cannot implement any further decisions.

I think a lot of funds think that if

they do a transaction like this, that's the end of the matter. We see it quite differently. You do a transaction like this and it's the beginning of another journey, the beginning of another set of circumstances because there's now a different risk profile within the scheme and that has got to be addressed as well.

What are the next steps?

The next options are, maybe a buyout, a windup, a runoff. All the options are still there for us. We have a journey planned that takes us through to full funding by 2025. If we achieve that by 2025 or earlier that opens other options for us as to what to do. Which options we take will depend very much on the environment of the market at the time.

Our job is very simple as trustees. We must make sure that we pay the pensions that the employer has promised. We don't take any undue risk, we act very prudently, but we act within the atmosphere and the environment that we find ourselves in at a time when we've got a decision to make. Those ingredients change on an annual basis, if not within a year, so at any one time when opportunities present themselves, we'll take the right decision to make sure that we ensure the payment of the pensions when they're due.

The point I'm trying to make is that there are several options open to us, but it'll depend on what's occurring at the time as to which of those options we take. But we've proved over the past 10 or 15 years to be a very innovative scheme that will take innovative action to reduce risk and ensure that we pay the pensions.

The important thing to remember in all of this is that pensions is a people business, not a money business. All we're doing is trying to make sure that we guarantee and safeguard the pensions of tens of thousands of seafarers.

 Written by Duncan Ferris