Little bricks

In May 2019, the Brick Development Association (BDA) completed a buy-in for its legacy defined benefit (DB) pension scheme with Legal & General (L&G), insuring the £1.7 million of benefits for its 13 members. Jack Gray speaks to the scheme trustee and employer about the challenges faced as a small scheme, the process preceding the deal completion, and why it was close to never happening at all

The Brick Development Association Pension Scheme (BDAPS) is made up of just 13 members, who are all ex-employees, and was closed to new members in 2001. It closed to future accrual in 2006 and appointed Punter Southall Governance Services (PSGS) as sole independent trustee in 2011 to succeed the trustee directors who were retiring.

Trustee minutes in the years preceding the appointment of PSGS showed a desire to eventually wind-up the scheme to allow the company to focus on its business, rather than supporting a legacy pension scheme.

In 2011, the scheme had assets totalling £1.29 million and a technical provisions funding level of 86 per cent. BDA and PSGS worked together on an investment strategy, improving the funding level to 101 per cent by May 2018. The scheme board agreed that a buy-in was the next step for the scheme on the road to wind-up, which can be difficult for such a small scheme to complete.

Preparation

"We were concerned that there might be little interest from the market, especially when you only hear about the multi-billion-pound deals," begins PSGS director of business development and BDAPS trustee, Kevin Clark.

"We considered who we might appoint as our adviser to find the market. We held a beauty parade and decided on appointing LCP, who obviously are placing multi-billion-pound deals, but they convinced us they could find a place for our sub-£2 million deal."

In order to make the scheme attractive to the de-risking market, Clark explains that they had some preparation to do before they could put themselves in the shop window.

"Before we got to that stage, we'd done a lot of work on the data and the benefits specification so it was all tidied up already for the market so that they could see that we were serious.

"We worked quite hard with them from the end of August 2018 through to the end of the year, getting that benefits specification to go out to L&G, who they suggested meeting ahead in November 2018 to appoint it on an exclusive basis."

Although this may suggest that there was a lack of "competitive tension", as Clark describes it, he explains that L&G put forward a premium they were happy with.

"They convinced us that they would nominate a price that we could deal and that would be the process, and they did hit the price, so that was all good and agreed in February 2019," he continues. "Terms and conditions took a little while to agree but they were signed off in May and the transaction was then completed. We were delighted with the way it went."

BDA, the scheme sponsoring employer, CEO, Keith Aldis, adds: "We were delighted to work with our trustee in securing a quality buyer for our scheme through LCP.

"Not only did PSGS continue to help us throughout the process, but they were able to articulate to both LCP and the buyer, L&G, the importance to us of properly securing and potentially enhancing our member's benefits.

"We are left therefore with the certain knowledge that we have discharged our duties appropriately and are absolutely delighted now to move to the next stage of winding up our scheme."

Easy rider

Although the trustee and employer had to prepare the scheme to attract potential suitors, Clark says that the process of completing a buy-in for a small scheme was not as challenging as some may expect.

"No there weren't many challenges once we'd got the right advisers in. It's not the only one we've done as a firm; we've had problems with smaller ones before, but I think it was the advice that we took that was helpful from that point of view.

"It wasn't a very complicated benefits structure, although we needed to make some changes to the benefits so that it fitted in with L&G's administration. That was only to the members' benefit, in terms of open-ended RPI and increases to their pensions, so there was no problem at all. In fact, it was to the members' benefit, everything that we did.

"The premium was mostly asset-driven and there was a small top up from the BDA. The total premium was around £1.86 million, and 21 May was the transaction day.

"An announcement went out to members shortly thereafter from the BDA and the members are absolutely thrilled, because the covenant of L&G is essentially higher than the BDA, which is funded by the brick companies."

Expressing the company's satisfaction with the frictionless process, L&G director, pension risk transfer, Julian Hobday, says: "We are delighted to have worked with the BDA and LCP to successfully complete this transaction through our small scheme proposition framework.

"A collaborative approach involves engagement, pragmatism and flexibility from all parties – and the efficiency of this process shows what can be achieved even in a very busy market."

Next steps

Now that the scheme has completed the buy-in with L&G, the employer and trustee can look towards the future. However, during the process another hurdle appeared that must be dealt with before proceeding.

"The next stage is GMP equalisation, which cropped up in the middle of all of this," explains Clark. "It affects some of the members, I think three.

"Once we've agreed the final premium on that, which the BDA has budgeted for, then we can get that paid to L&G. They've taken over payment of the pensions from 1 November, so once that's paid and there's the amendment to those three members then we'll trigger wind-up and proceed with the wind-up.

"We're hoping that the premium can be paid this year and we can trigger wind-up in January. I've already got the Section 27 advertisement in the *London Gazette* around the wind-up.

"We could proceed once I've signed the account for the final transactions, which will need to be audited and signed off say April time, and then we can dissolve the trust."

Close call

Despite the apparent smooth sailing of the buy-in completion, Clark notes that if the timing or length of the process had been different than it may never have happened.

"The timing was quite interesting on this. We had the fund investing in the LGIM buyout-aware funds. The movements of that fund totally immunise you or the investor against the annuity movements, because it is buyout aware, and it did.

"But evidently, later deals have been told that it hasn't *[immunised them]*, so our timing on this was absolutely perfect.

"If it was later in the year, it might have scuppered the whole deal, but the way it moved at the speed it did, transacting in May, it went ahead.

"If it had gone a few more months, with the uncertainty around markets, it could have come to a grinding hold. But we managed to get it over the line."

Written by Jack Gray