



Bulk annuities – it's (n)ever the same again

✓ Duncan Ferris chats with M&S Pension Trust head and chief investment officer, Simon Lee, about recent buy-in transactions, the effects of the Covid-19 pandemic and the landscape of the bulk annuity market in 2020

In November, the Marks & Spencer (M&S) Pension Scheme secured two buy-in policies with Phoenix Life and Aviva, worth a total of around £750 million. These were the most recent in a series of bulk annuity deals carried out by the scheme under the previous umbrella contracts with insurers.

➤ How has the Covid-19 pandemic affected your plans to de-risk the scheme?

From an overall governance perspective, I don't think we have seen any particular issues or negatives as a consequence of the pandemic. The trustee executive team has been able to work remotely very effectively. We were fortunate that we had the technology in place to enable us to do that and we had already got some practice in working remotely. This stemmed from M&S's transformation project, which focused on initially on IT transformation, which was fortunate.

I think that the trustee board has also transitioned to working remotely and working with us remotely very well. We have had more frequent meetings and generally shorter meetings, but we have been able to find a good way to work together and have seen an even better level of engagement between the executive team and the trustee than

we had before. We always had a good relationship, but we have a tremendous one now and it does feel like a single team.

We have been very cognisant of the difficulties that people face in working remotely. Everyone is stuck at home virtually all the time and for some people that is easier than for others, so we have tried to manage that as well as we can and be careful to encourage everybody to think about how they themselves manage their wellbeing.

The de-risking itself is very much supported by a longer-term strategy and the impact of the pandemic probably has not made any real difference to that, because we were always planning to execute a transaction at some point during this year.

➤ Additionally, has the pandemic affected the completion of these latest transactions? Were they completed in a similar time frame to some of your other buy-ins?

The important thing to reflect about these particular transactions is that when we started the process of looking into hedging longevity risk in the scheme, one of the things we wanted to do was to build some structures that would enable us to execute follow-on transactions over a long period of time. It was for that reason that we established framework agreements with two insurers and then added a third insurer when we did

the second transactions in 2019, so initially in 2018 with Aviva and Phoenix Life, and then with Pension Insurance Corporation.

This time around, the third tranche of the transactions was the first time we were able to wholly use existing framework agreements and that made the execution part of the transactions much quicker and easier. Indeed, I think we had slightly less than two weeks from final board approval to actual execution, which was a much shorter period than for the initial transactions.

This really gives a clear indication of how normal these transactions can become once you have built the infrastructure to do that. Clearly there was a lot of work to get to the point where we decided the design of the transactions and we got approval to do those, but once we had received board approval we were able to execute remarkably quickly.

➤ Does the scheme, or its administrators, communicate with members about the buy-in process?

We ran the communication process internally. We think it is extremely important that we are able to communicate with members when material developments are made within the scheme and particularly when a de-risking transaction of this type is undertaken, which clearly is of benefit to all members in the scheme.

When we wanted to communicate with members we were keen to get the message across to them about the improvement in security that is provided as we manage to execute further longevity transactions and hence we reduce the overall longevity risk in the scheme. We do that using the scheme website and we will also write to members by including details of these transactions within the annual pensions update.

It just so happened that this year the pensions update went out shortly after the execution of the transaction, so we were able to write to members in early November with details, as well as putting some questions and answers on the website.

We also made sure that the administrator had a brief and a set of answers to frequently asked questions so that they could respond to any contact that they might receive from members. This plan was coordinated by my team and the external communications team within the company because we knew that the company would want to refer

to the transaction in its interim results announcement.

► **Are you putting together plans to pursue further buy-in policies?**

So far we have hedged around 30 per cent of the overall longevity risk in the scheme and, whilst we have made good progress, it's absolutely clear that there is a long way to go before all of the risk is hedged. It's very hard to look a long way into the future but that is something that trustees have to do and I think we were always planning to increase the amount of longevity hedging that we will do, because it is a significant risk remaining in the scheme.

Looking at the overall longer-term strategy, I think many schemes were interested by the series of materially large transactions that took place in the second half of 2019, when you saw action from the likes of Telent, Rolls-Royce and Asda. They were all schemes that still had a significant number of deferred pensioner members as well as members who were already receiving benefits.

I think that made everybody in the

defined benefit pensions industry wake up to the fact that it actually was possible to buyout schemes before you reach the point at which the scheme was so mature that all of its members had taken their benefits. Whilst the M&S scheme might reach that position in the early 2040s, it might be possible to reach a solution earlier than that.

► **What are your thoughts on the bulk annuity market in 2020?**

2020 has, to a degree, been dominated by smaller transactions than those seen last year. Schemes that perhaps had a few hundred million to do were able to get those done this year because they were not crowded out of the market by schemes coming along wanting to do £4-5 billion buyouts. We also saw some extremely large longevity swap transactions during 2019, which clearly used up quite a lot of the reinsurance capacity in the market. I think there will have been far more transactions this year, but they will have been smaller.

It may be that 2020 doesn't reach record highs of longevity transactions but I think it will still be one of the biggest years. It is also interesting how mainstream longevity transactions are beginning to become and the market has taken a little bit of time to get going but it really is working at a pace now.

I think many schemes are finding that they are in a position to be able to hedge out some longevity risk in a way that they perhaps did not think that they would have been. If a scheme is well funded, as we are fortunate enough to be, then it is relatively straightforward to be able to do this, but it does need the ability to build the structures that enable it. That means you need to be able to coordinate a series of advisers and bring the company and the trustee together at the same time. It has become remarkably normal now compared with even just five years ago.

► **Written by Duncan Ferris**



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