Summary

- All stakeholders involved in a buyout deal must meet to delegate authority and clearly communicate everyone's role throughout the process.
- Parties should ensure the buyout deal process is designed with flexibility to allow time to address any unexpected issues that may arise.
- If stakeholders create efficiencies when working together, they can complete the buyout transaction more quickly and lock into market conditions that are attractive for members.

Creating efficiencies in buyout projects

The success of buyout deals hinges on a team effort between administrators, actuaries, lawyers and insurers, but how can these parties enhance their collaborative efficiency?

Buyout and buy-in deals are on the rise, with the total number of transactions in the first half of 2023 reaching 96 and £21.2 billion in value, according to a recent Hymans Robertson report.

This represented the highest number of transactions for the first half of a calendar year and the second highest ever recorded for a six-month period.

With unprecedented demand from pension schemes, Hymans Robertson expects the buy-in/buyout market to continue to grow and exceed all previous records over the next year and beyond.

The buyout process involves lots of different stakeholders, including trustees and the sponsor of the pension scheme (possibly schemes) as well as resettlement advisers, actuaries, lawyers and the insurers.

Therefore, these stakeholders must embrace an efficient and collaborative approach that meets the demands of the buyout deal and addresses the unique challenges of these transactions.

Collaboration and communication is key

The process of a buyout deal can present challenges because it involves the collaboration of different parties that don't usually work together, notes WTW managing director, Shelly Beard.

Therefore, it is important to convene all involved parties at the outset, in the form of a group meeting or individual sessions to enhance the efficiency of collaborative efforts, she says.

This can also be achieved with joint working groups, adds Pinsent Masons partner, Amie Baird.

"A joint working group that includes representatives from the trustee board that come from the sponsoring company and the key relevant advisers can be really helpful," she says.

Beard says these meetings should be used to delegate authority to each stakeholder and clearly communicate their role in the process, which allows decisions to be made more quickly.

"*[The group should]* open up lines of communication with everyone, so there's a really collaborative relationship and everyone knows their role and what they are expected to do," she says.

Trafalgar House client director, Dan Taylor, agrees that all parties can significantly enhance efficiency when working together on projects by prioritising collaboration.

He adds this is particularly important during the pricing phase, when administrators are required to work closely with the scheme lawyer, actuary and the adviser leading the transaction.

"Collaboration is essential to agreeing the data, identifying and addressing any gaps that become apparent at pricing, and to create and agree on a benefit specification," he says.

Gateley Legal pensions partner, Phil Jelley, recommends delegating authority to just one person, as this is the most efficient way to control costs and ensure the project is completed on schedule.

"The most efficiently run exercises are those where one adviser – typically someone close to the scheme, such as the actuary or administrator – assumes overall oversight and responsibility for bringing the project in on time and on budget," he says.

This process helps to manage and forecast expenses, which is often a key concern, while also providing a form of accountability to prevent timescales and costs from slipping, he adds.

The role of preparation

The average time to complete a buyout deal process ranges from one to three years, according to Legal & General Investment Management head of endgame solutions, Matthew Webb.

Therefore, it is important for stakeholders to understand that this is not a quick process and requires lots of planning and preparation before heading to market, he says.

"There's a lot to do, which is why

it takes so long. The earlier people can educate themselves and get on the journey the better. This effort will not be wasted – the one lesson that everyone's learned from this process is that *[problems emerge if]* they aren't ready," he says.

Legal & General Retirement Institutional new business origination lead, Aysha Patel, adds ensuring schemes are well prepared also makes the process is as efficient as possible.

"This means ensuring that before a scheme comes to the insurance market, they have really thought about their data, their benefits, their assets and how they're invested," she says.

To better prepare schemes for buyout, Legal & General recommends schemes follow the 'A BADGE' checklist, which stands for affordability, benefits, assets, data, governance and engagement.

For example, schemes must ensure they are engaging with not only the insurer, but all the parties involved in the buyout process, such as the sponsoring company and trustees, says Patel.

"Good engagement among all the stakeholders, having a good relationship and understanding their objectives, is how we'd expect to create the best success for a transaction," she says.

Factoring in different timescales

Buyout deals are driven by external insurer deadlines, such as guarantee periods, which determine how and when the various workstreams of the project must be completed, says Jelley.

He says it is important for stakeholders to use project plans to ensure these deadlines are met and also to communicate to the stakeholders the progress being made towards meeting these deadlines.

"The key to any buyout project is the advisers' ability to work together and share information with each other – both in relation to their progress and any potential delays – so that all parties involved know what work has been completed and what is outstanding on the path to meeting their objectives," he says.

However, stakeholders must consider that each party has different circumstances and timescales that may affect their ability to meet deadlines, notes Baird.

"We have seen it happen where two schemes intend to transact together, then for one reason or another, the placing changes and it impacts one more than the other. Therefore, they don't have sufficient money to transact," she says.

"Good engagement among all the stakeholders, having a good relationship and understanding their objectives, is how we'd expect to create the best success for a transaction"

As a result, Baird recommends designing the process to ensure that either one scheme can split off from another or all issues can be addressed upfront in an efficient manner.

"*[The schemes should]* agree timescales upfront and build some flexibility into the programme, so if something unexpected comes up for one pension scheme there's space in the timescale for that to be addressed," she says.

She adds it is usually easier to factor in these considerations when the two schemes are in the same corporate group.

"There tends to be more alignment between the advisers and the trustee boards and there's only one sponsoring company to deal with," she says.

Benefits of improved efficiencies

Baird says a collaborative and efficient process that allows schemes to go to market together enables them to do more with the same amount of resources, in terms of cash and time.

"Therefore, members can benefit from a better outcome in terms of the benefits or the options that they have under the buy-in or buyout contract," she says.

Beard agrees that when stakeholders work together efficiently, they can complete the transaction more quickly and potentially lock into market conditions that are attractive to get better terms for members.

Improved efficiency when working together also ensures trustees' time can be used to concentrate on decision-making and the strategic elements of the deal, such as selecting the most appropriate insurance company partner, she says.

"They can rest assured that their advisers are presenting them with really good holistic advice and nothing is falling between the cracks, which gives them the headspace to make the right higher-level decisions," she says.

Taylor agrees this holistic approach is effective as it enables trustees to assess how well the insurer can integrate with the existing service framework and address the needs of scheme members.

It also forces trustees to start looking beyond the immediate financial benefits of the insurance contract and consider the longer-term implications for members and their retirement journey, he adds.

"Ultimately, by focusing on these broader service elements, trustees can ensure a more successful and positive outcome for both the scheme and its members," he says.

Written by Niamh Smith, a freelance journalist