Boots Pension Scheme chair of trustees and Law Debenture Pension Trust Corporation director, Alan Baker

Boots Pension Scheme secretary to the trustees, Steve Jones

The secrets to buy-in success

Boots Pension Scheme chair of trustees, Alan Baker, and secretary to the trustees, Steve Jones, talk to Francesca Fabrizi about the challenges and successes of the recently transacted buy-in with Legal & General

Congratulations on your involvement with the recent Boots Pension Scheme buy-in with Legal & General. What were the main objectives of the transaction and what has been achieved?

Alan Baker: From the perspective of the trustees, the key objective of the transaction was to provide added long-term protection to our members' benefits by removing market uncertainty, longevity risk and reliance on the long-term covenant of Boots.

Boots agreed to support a £4.8 billion buy-in policy with Legal & General to insure all 53,000 members, making it the largest single transaction of its kind. The company is bringing forward approximately £170 million of already committed payments to the scheme and has committed to pay extra contributions, expected to be in the region of £500 million.

To state the obvious, the scheme did not have enough funds to purchase this insurance policy on its own.

The additional payment from Boots, in addition to the sum it has already committed, means that the scheme is no longer reliant on Boots to pay benefits to members; the variable risks are insured and pensions are protected for decades to come. This was the outcome we were seeking.

Were there any key features that made this transaction stand out?

Steve Jones: The company wanted to complete the transaction in 2023. This created a particular challenge, as the scheme had significant investments in illiquid assets, including property, private credit and infrastructure investments.

We challenged the insurers and our advisers to come up with innovative solutions to give us price certainty and certainty of execution within that timeframe. We landed on a combination of solutions that included:

- Selling some assets on the secondary market.
- Selling to existing illiquid asset investors with support of the relevant fund manager.
- Transferring some to the insurer in-specie; and
- Warehousing some on our balance sheet whilst Legal & General took on responsibility for the sale of these assets.

The flexibility of the insurer and the innovation of all parties involved meant that, even with over £1 billion of illiquid assets, we were able to transact quickly.

Baker: As with any insurance transaction, we needed to review the discretionary benefits provided by the scheme, including the ability of the trustees to pay a pension to a qualifying dependant on a member's death. As part of the announced package of measures, these death benefits will now be paid automatically where the eligibility criteria are satisfied rather than on a discretionary basis (and have been secured with Legal & General).

We also looked at the discretionary early retirement provision. While the trustees had in the past been able to offer enhanced early retirement terms, this had been with the company's support and on a discretionary basis. It was not something to which members were automatically entitled to under the rules of the scheme.

Continuing to pay unreduced pensions for those members who choose to retire early from age 60 would have made insuring the scheme unaffordable. We therefore had to focus on securing members' legal entitlements in the first instance. We acted in the collective interest of all members and with independent, professional advice to safeguard the long-term financial security of all members' benefits.

It was a decision that the trustees considered very carefully – we had to consider the impact of proceeding versus the regret risk and potential downside for all members if we'd not gone ahead.

How long did the process take from start to finish?

Jones: Walgreens Boots Alliance and the trustees had been considering a number of options for the scheme over the course of 2023. However, the decision to pursue a full buyout was only taken in August, so there was rapid progress made in the three to four months to signing the deal that was only possible with collaboration of all the parties involved.

Why did the trustees choose Legal & General and how was the selection process carried out?

Baker: Working closely with the appropriate independent, professional advisers and the company, we conducted a thorough review of the different options available to us. The final short-list of companies, which included Legal & General, was three and we then ran a competitive tender process.

Following a competitive process, we selected Legal & General as the best-placed partner, given its wealth of experience, its reputation in the insurance market and excellent financial strength. Indeed, its excellent AA- credit rating (Fitch and S&P Insurer Financial Strength Rating) is considerably stronger than that of Walgreens Boots Alliance.

As mentioned above, one of the key factors for the trustees was how to accommodate the illiquid assets. As well as providing competitive pricing for the liabilities, Legal & General was also the most compelling with its solution for these assets.

Jones: Legal & General had also completed a similar insurance transaction for another smaller Boots scheme (the Boots Supplementary Pension Plan).

What were the challenges along the way? How were they overcome?

Jones: Managing the number of moving parts and the sheer volume of the work was one of the biggest challenges. There were significant amounts of work – particularly on the legal side, which had to deal with the usual negotiations on bulk annuity contracts, but complicated by the unique aspects of the illiquid asset solution. The sale of assets on the secondary market were also much more labour intensive that we had expected at the outset.

Baker: The other challenge the trustees faced was the shifting size of the deficit. We needed a cash injection from Boots to make this deal work. With a scheme the size of ours, a small movement in the liabilities relative to the assets could have a big impact on the amount of cash required and the risk that the whole transaction became unaffordable. As soon as it became clear that a full buyout was within reach, the trustees, with the support of the company, began to reshape the assets to better align with the insurer's pricing to mitigate this risk – largely by selling down volatile liquid assets and aligning our rates and inflation hedging.

We overcame these challenges by excellent project management and a strong focus on collaborative working between company and trustees (that allowed a sharp focus on what the important aspects of the deal were). And thanks to the hard work and long hours put in by our advisers.

What would you say to trustees embarking on a similar transaction – any words of wisdom? What have you learnt from the process?

Baker: It's probably a cliché, but preparation is key. The trustees had already completed some preparation work earlier in the year around a benefit audit and member tracing that increased the confidence in our data.

Jones: I would also recommend working with people that you trust and enjoy spending time with – because you will be spending a lot of time with them!

Written by Francesca Fabrizi