



Insuring the insurers

The Chartered Insurance Institute (CII) Pension Scheme, which has around 330 members and 150 current pensioners, completed a £55 million full scheme buy-in with Legal & General Assurance Society (L&G) in May, with Mercer advising the trustees and legal advice provided by Stephenson Harwood.

► Could you tell me about the scheme's de-risking strategy?

We have worked very closely with the sponsoring employer over the past couple of years. The CII is a public interest body that promotes professional standards through funding exams, training and more, and is basically funded by its members. The pension scheme has been in existence for some time and it is probably fair to say that the CII has been going through a period of modernisation.

✓ Duncan Ferris chats with Chartered Insurance Institute (CII) Pension Scheme chair of trustees, Robert Fletcher, about communicating with members, hunting for insurers and Covid concerns after the scheme's recent buy-in

One of the things they were looking at was the Aldermanbury, a large and beautiful office building they owned but no longer suited their purposes. Its on a prime piece of real estate and was worth a lot of money, so the scheme knew there was an asset there that could be available to meet any shortfall. As part of a review, the CII sensibly chose to move to other premises and we talked to the employer about what to do about this material change.

There was an agreement about continuing to run with a scheme that is closed to new members, but pensions legislation is only getting more onerous

and the cost of running the scheme was becoming disproportionate. This meant we thought looking at a buyout was the right thing to do.

When the building was sold, we held some cash in escrow and that enabled us to work with our adviser, Mercer, to look at the investment strategy we were using as we knew we were on the path to initially buy-in and then move to buyout. We changed the investment strategy, effectively de-risked, and moved the balance away from equities and into gilts and other less volatile securities. This was done in the knowledge that we had this money in the escrow account and that we

had the commitment from the employer to work with us to buy the liabilities out and transfer the risk away from the employer, and ensure we had the benefits secured for our members.

▶ Was there concern that the pandemic might derail these plans?

Definitely. We were pretty much lined up and ready to go when the pandemic began. One practical example of how it got in the way was everyone being moved to working from home. Our archive documents are held in storage by the CII and accessing them to make sure details were nailed down as Mercer were preparing to go out to the market was problematic. Normally, somebody would just head down to the archive and pull the files, skip through and find the document we want and there we go. Suddenly there was no one to do it.

That slowed us down, as did the uncertainty that then came into play for the CII, because they had to put money in above and beyond what was in the escrow account, and they were also quite worried about what the impact of the pandemic would be on their financial position. Their board were asking if they should push the process back and return to it later, but I think they recognised that kicking the can down the road wasn't going to make the problem go away. Rather, dealing with the pension situation was a good strategic move.

▶ How easy was it to maintain communication with the scheme sponsor and Mercer?

I have to say that Mercer were excellent. It is ironic that, in the fullness of time, their involvement with the scheme will finish. They have been nothing other than helpful and have bent over backwards to make sure that, if any of the trustees needed any additional information or background on the process that we were going through, they were always available and the quality of the materials that they put forward to the trustees has been of the highest level.

In terms of the employer, we have a very good relationship with the executive team and the board. They brought together a small group, so that rather than having the full board focused on this we could work with a small sub-group. They have a quite diverse board and so they picked people from the life and pensions sector, so they had experience in working on the running of a scheme. This enabled us to create and maintain the continuity of our messaging. At the end of the day, this group would go back to the full board and explain the position to them, which was further aided by Mercer's documentation.

The employer also took its own advice to ensure that everything was holding together. It's one of those things that works out if you keep talking and work with the right people.

▶ How did the trustees undertake a selection process to choose their insurer for the buy-in?

Mercer went out to the market and initially discussed the scheme and its details with insurers, which allowed them to draw up a long-list of interested companies for us. All the usual suspects were included. Interestingly, because this is a specialist area of the market, you also encounter some names that don't necessarily trip off the tongue. Mercer then gave us some background on each of the listed insurers who were being asked to quote.

When the quotes came back we were able to quickly narrow down to those which were pricing competitively and those which were out of the ballpark. We then got into discussing with the insurers whether the benefits they were offering matched what we needed, which led to an insurer dropping out because they didn't want to provide a particular benefit in the manner that we needed. It all boiled down to two providers who we were monitoring the pricing position of and the final stage we went through was paying a specialist firm to conduct

financial due diligence. We went to a reasonably forensic level to ensure there was nothing that could be sat in the background that we weren't aware of. We had a target budget that we had agreed with the employer and after waiting until the pricing hit the right point we hit the button very quickly with Legal & General.

Not to be disparaging about any of the other providers, but there was a bit of a sigh of relief when it was Legal & General because we felt that it would be easier to explain to the scheme's members than if we had gone with one of the less-known names. It's just better if, when you explain the situation to the members, they can say 'I've heard of them.'

▶ How did you communicate the news of the buy-in to the scheme's members?

It's something we have done over time. We have been clear in our communications that this was something that was being looked at. I attended a pensioners' lunch before the pandemic and took questions from members about what it meant, and then we sent a specific communication to members recently, which told them we have completed the buy-in and offered them assurance that this is a good move that nothing has changed for them and that their pension is secure with one of the UK's largest life insurers. Additionally, we assured members that we would keep them informed.

My aim, and the rest of the trustees' aim on this, is that we almost want it to be something that just happens, where members don't feel the need to ask a question. If they're receiving their payments today and they continue to receive them going forward, but from Legal & General, that is what we want the members to feel. But they also need to know that the liabilities are backed by Legal & General, so they can sleep easy at night – not that the CII was ever going to be reckless with their pension!

▶ Written by Duncan Ferris