Drawing on experience

Kingfisher Pension Scheme chair of trustees and BESTrustees trustee executive, Clive Gilchrist, talks to Jack Gray about the scheme's recent £900 million buy-in with Aviva, how previous deals helped with the process, and how those involved adapted amid the Covid-19 pandemic

This deal follows two previous buy-ins for the Kingfisher Pension Scheme. Could you briefly describe them?
About seven or eight years ago we did the top 150 pensioners by value, just to take out the biggest risks. Then, three years after that, we did a similar thing again with the top tier of pensioners. This one is a lot bigger but again we've taken out most of the existing pensioners. As the scheme's maturing, we're getting more pensioners.

Did the previous deals have any impact on the most recent transaction?
They were different in scale, both in the £200-£250 million bracket, while this one was close to £1 billion. It was a different approach to the insurers. Although you try, with a £200 million deal the insurance company basically says: 'here's the contract, sign here'. You get a bit of toing and froing with the lawyers and some small movement, but nothing of any great significance. Whereas with a £1 billion deal, you take your contract to them and say: 'this is what we'd like you to sign please'. When you get to the £1 billion or more then there is much more you can discuss with the insurer in terms of whether you want collateral or whether you want additional security, and that sort of thing.

The previous deals definitely helped, both with the insurers and the company. With the company it was helpful because you can go to the management, and there has been big changes at the top of Kingfisher, and say: 'we've done this before, it's part of an agreed programme of risk reduction with your predecessors'. It's helpful with the insurers to get their attention because there are so many people seeking quotes that they want to be convinced there is a real deal to be had. When you've done them before, they know you are serious.

The other thing that was helpful to us was that we had dealt with two different insurers previously. There was a concern, unsurprisingly, amongst insurers that people are just market testing and would go back to the insurers they dealt with last time. I think you've either got to stick with the same one, in which case you rely heavily on your advisers as to whether the price is right, or, as we did with Kingfisher, you have to shop around. Purely by chance we ended up with different insurers on each transaction because on the day they were able to give the best deal.

One of the questions they ask is: 'You did a deal with L&G, are you going to favour them?' and you can say: 'We've already dealt with two different players, we will deal with the person who gives us the best terms, and we've already demonstrated that'.

Why did you choose Aviva?
Competitive terms, both financial and the terms of the contract. We had got in mind a list of the insurers that we were prepared to deal with, and they had already passed the threshold in terms of acceptability.

How was the adviser selection process?
We used the same advisers as last time because we were satisfied with them, in terms of the financial advice it was the same team. In terms of the legal advice, it wasn't our usual lawyer. As we did last time, we decided, as it was a one-off project, we would go a firm that is particularly good at this. Our pensions lawyer is a particularly good pensions lawyer, but not a buy-in expert.

How much data preparation did you have to do?
It was a new exercise, although as we had done it before the administrators knew what to expect. Having said that, since the previous buy-ins we have outsourced the administration, so we needed to make sure Hymans Robertson knew what to expect. As a firm, they had done buy-ins before and some of the Kingfisher staff had moved to Hymans. So, although we outsourced the administration, to some extent it was the same people doing it.

How much of the scheme's membership is covered now?
Around 30 per cent, somewhere between a quarter and a third. The scheme's about £4 billion in total but there is a money purchase section in there too.

Did you have many discussions with the sponsor during the process?
We started a working group that effectively started as a defined benefit investment committee, which the company already had representatives on, so we just invited them to add another representative. The company was with

us all the way through at an operational level. I have a good relationship with the chief financial officer at Kingfisher, so we were dealing with them both at board level and a day-to-day basis. We have an annual meeting with the PLC board once a year, and during the course of the negotiations the board came up, so we able to ensure that the full board knew where we were and who we were talking to, which was very helpful.

I deal with a lot of companies, as an independent trustee, and Kingfisher is a really good one from that point of view. Firstly, we were able to afford to do something like this, but they've also had a plan for de-risking for 15 years now. Although we obviously finesse it as we go along, they are able to look back and see what the scheme has done over the years.

How did the Covid-19 pandemic impact the process?

The whole project was probably four months long and had no physical meetings at all, everything was done via video calls. I think a project like that, where we know what we want to do, does work virtually. I'm not convinced that, long term, virtual meetings will work for everything because you need physical interaction. I feel sorry the junior staff because training is much more difficult on something like that. We are not going to get rid of physical meetings but some of them will continue online.

I don't think it had any impact on the availability of insurers. They have all got used to working this way, as have we.

What is the long-term strategy of the scheme?

The long-term strategy we've had and continue to have is, by around 2030, to be funded to a level where we can afford buyout. Whether that buyout is in 2030 or 2031 or 2032 will depend on market conditions at the time. We'd had our target in addition to the usual actuarial measures for a long time. What we've done in terms of the buy-ins is taking a few small chunks out as we go along. So, whether the rest is done in one go or we do another buy-in in three- or four-years' time will remain to be seen. The plan is, in about a decade's time we will in a position to secure the benefits for the members, which is obviously what I'm interested in and get it off Kingfisher's balance sheet, which is something they are interested in.

Written by Jack Gray