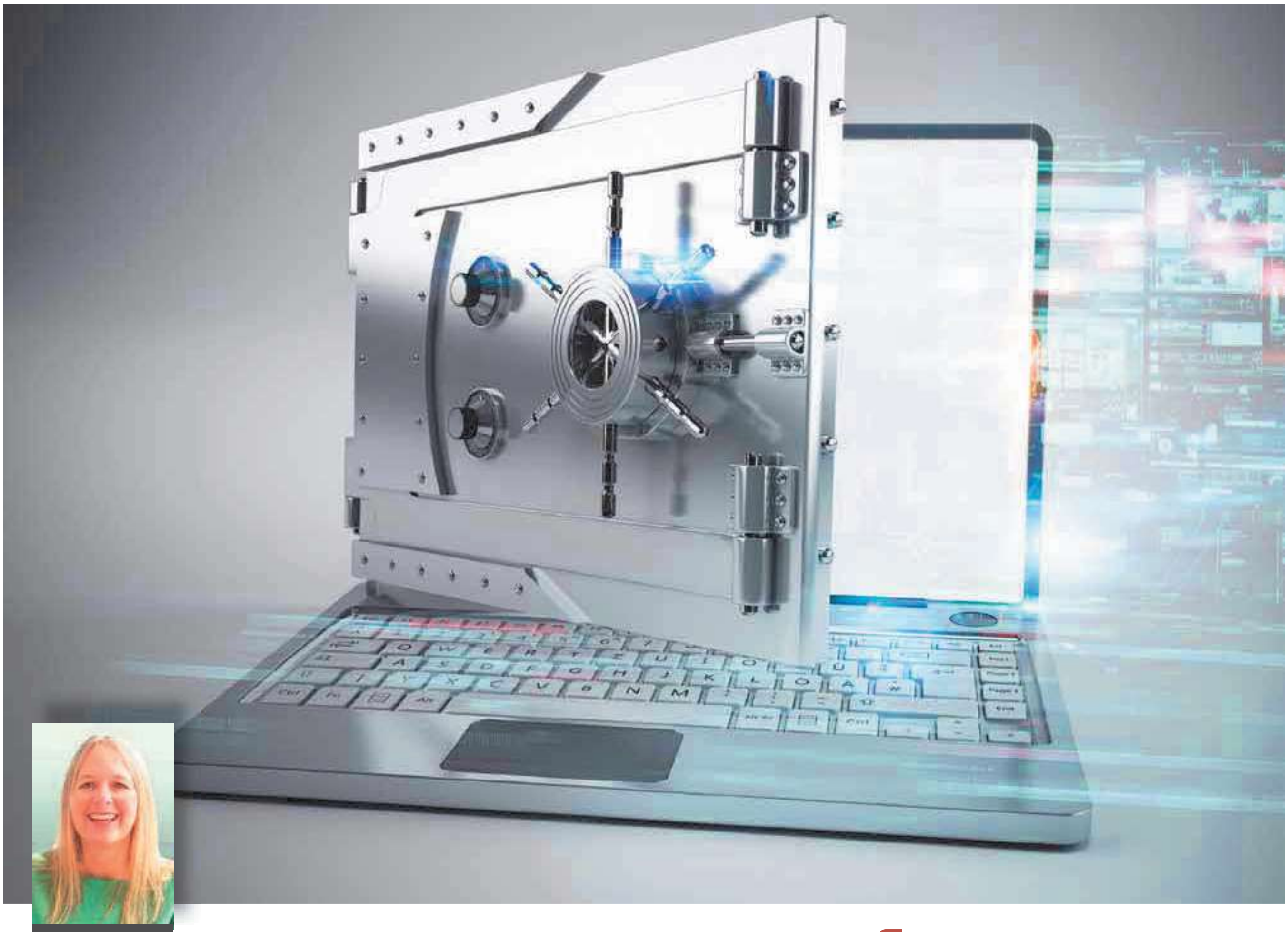

Buying into the virtual process

Jack Gray speaks to BESTrustees trustee executive, Lisa Mundy, about the Qinetiq Pension Scheme's £130 million buy-in with L&G Assurance Society and what it was like transacting during the Covid-19 pandemic

What does the scheme membership currently look like?
There are about 8,000 members in total, of which around 3,500 are pensioners. The rest are made up of either deferred members or active deferred members. There are plenty of people in the scheme who still work for Qinetiq, but this scheme has been closed for some time now and they've moved to a defined contribution scheme. The deal covered around 390 new retirees.

The scheme completed a £690 million buy-in with Scottish Widows in 2019. How did the previous deal help with the second buy-in in 2021?
I wasn't involved in the previous deal, but it was around 33 per cent of the scheme's liabilities and was much bigger. For the second one we looked back at the members to see who had become a pensioner since the last deal, so the second deal was basically for people that had retired since the first transaction.

The trustee board is made up of quite a few trustees who went on that first journey with the first deal, do doing the second one from the trustee point of view was easier because of everybody's knowledge.

We also formed a joint working group, and obviously people that tend to join those groups are those who have an interest and the time to drive it forward, so that helped significantly. They did a joint working group for the first transaction and it worked well, so we repeated that for the second one. We used the same advisers – LCP – as specialist de-risking advisers. Another thing that helped was that we had the same administrator for both deals.

Why did you choose Legal & General (L&G) as the insurer?

Pricing. We approached eight insurers to begin with. Of those eight, three declined to quote. One knew they wouldn't be competitive and the other two due to capacity. Bear in mind – this was right in the middle of the pandemic, so people had a lot on their plate. That left us with five that came through with their pricings after they saw the data and, from those five, we whittled it down to three, including L&G. We saw all three of those, then the insurers updated their pricing after seeing a second set of data. When we got down to the last three, it was not just the pricing that was important but also the contractual terms of that deal and whether they could provide the benefits to the members. We worked through that with all three of them, all three could pretty much meet what we were looking for and there wasn't much to choose between them on the terms of the contract. Therefore, it comes down to what was the best value and that was L&G in that particular instance.

What was interesting was that their pricing changed. Generally, it went down when they got more detail. Some of that was down to them receiving even better data or coming back with some queries on data. They are always particularly interested in spousal data. In this case it was all pensioner members, so you are clear what you are going to be paying that pensioner but what you don't know is when they are going to die. If they have a spouse, then that pension will continue – not at the same level – but it will continue. Therefore, the insurers wanted to know if they had a spouse and, if they did, what the date of birth of that spouse was. That was really important to all the insurers because it gives them an idea, if the member dies, how long that dependent pension is likely to continue for.

One thing I have learnt is how important it is for schemes to collect details of the spouse, because in times gone by you only really collected that data of the spouse when the member died. So, a lot administration systems don't have that data, but when you come to a buy-in like this, it's what the insurers want and need. The most difficult part of it comes down to data and trying to make sure that the administrators can access the data in a timely manner, making sure it is accurate, and finding out whether they hold the data the insurers need.

How did Covid-19 affect the transaction process?

Covid has made things easier from a point of view of getting things done. When it comes to organising meetings, the fact that we can do it remotely now means that we can get people together much quicker. There is no commute and everyone's availability is better, so we have become a lot more efficient due to the pandemic. In this instance, we had quite a lot of parties involved to bring together and it is much easier to do it virtually. We were able to get things done quicker than if we were to meet in person. Docusign, when you are signing contracts, has been pushed forward by the pandemic. Most legal advisers are now using it, so being able to sign contract electronically has made things much easier.

What preparations did you have to make for the deal?

Most of the preparation is around advisers and which one you are going to use. Using LCP as a de-risking adviser, we really rate them and therefore there wasn't an awful lot of debate around that. However, there was when we came to look at other advisers, in particular our legal adviser. We used a different legal adviser for the second transaction than the first. Our legal advisers for the scheme are Burges Salmon. When we came to do the first deal, we used Gowling WLG. They are quite specialist and we used them because of their specialism. This time we decided to go with Burges Salmon because they also have the capability but also they look after the scheme, and they dealt with quite a lot of the day-to-day running of the previous transaction.

Right at the start we had a project plan that said 'these are the steps we need to go through and this is the timetable'. The joint working group also helped, we knew the timescales we were working to, it was all very organised and we put meetings in the diary well in advance.

Was there much input from the sponsor?

Yes, and it's really important that you have a good relationship with the sponsor. The person who represented the sponsor came along to all the joint working groups; we have a very good relationship with him. He came along that journey with us, which was really helpful so that, six months down the line, you don't get to where you want to be, and you turn to the sponsor and they say 'I don't like the look of that'. So, bringing that representative along really helped.

This was signed as an umbrella contract, what does this entail?

The first deal with Scottish Widows was under an umbrella, and so was the second one with L&G. All it means is that, as we go down the de-risking journey for the scheme, if we decide to do future buy-ins, that contract is already there and in place, which makes things much easier and quicker.

What is the endgame for the scheme?

The ultimate long-term objective for this scheme in buyout. The scheme is well in surplus but not sufficiently to do a buyout yet. We are still some way away from being able to do that.

Written by Jack Gray