Reducing risk via buy-in

Earlier this year, Standard Life concluded an £80 million bulk purchase annuity transaction with the MGM Assurance Staff Pension Plan, with XPS Pensions Group acting as the lead adviser to the trustee. Francesca Fabrizi speaks to Standard Life senior business development manager, Rhian Littlewood, and XPS Pensions Group partner, Ash Williams, about the different stages of the transaction

Please give a short introduction to the MGM Assurance Staff Pension Plan.
Ash Williams: The MGM Assurance Staff Pension Plan provides final salary pensions to around 700 former members of MGM Assurance. MGM Assurance was transferred to Scottish Friendly Society in 2015, which is the current sponsoring employer of the plan.

What were the main objectives of the bulk purchase annuity (BPA) transaction and what has it achieved?
Williams: The trustees and sponsor of the plan had a joint objective to secure the pensions of the members via a buy-in policy to significantly reduce the risks that the plan is exposed to, including the investment and demographic risks. This would benefit the members through higher security of their pensions and help reduce the management time from the sponsor. The buy-in would also help the sponsor manage its own capital requirements, given it is a mutual insurer.

The plan had been well supported by the sponsor through contributions and its strong covenant, and had been targeting achieving a funding position to enable buy-in for a number of years.

Ensuring that members would have a positive experience as policyholders in future was also a key objective. Standard Life was able to demonstrate this through a huge investment into a very high quality customer proposition.

Rhian Littlewood: Throughout the process, the trustees and their advisers were clear on what they wanted to achieve. This helped us structure a proposal that met their objectives, de-risking the plan and executing quickly and smoothly.

Why did the trustees choose Standard Life for the policy?
Williams: XPS led the approach to the insurance market in Q3 2022. The plan received strong engagement and initial pricing from a number of insurers. We ran a detailed selection process on behalf of the trustees and sponsor, focusing on a range of factors including pricing, terms, ESG credentials, counterparty strength and administration capabilities.

The trustees and sponsor ran a detailed selection process and met with the bidding insurers to review their proposals and Standard Life was felt to have met its criteria with excellent financial strength, and a robust administration platform, as well as a competitive pricing proposal.

Following their selection, Standard Life continued to work collaboratively with all parties throughout the process. The trustees are pleased with their selection and what they've achieved.

Now that the buy-in has been concluded, please outline the different stages of the process from start to finish.
Williams: The main stages of the process were preparing the plan for a transaction, which involved focusing on accurately detailing the benefits of the scheme, thoroughly collecting and cleansing member data, and structuring the plan's assets to match movements in insurer pricing as well as possible.

Then engaging with the insurance market to understand likely interest in the transaction and obtain initial indicative pricing.

Obtaining best and final pricing proposals and running a detailed selection process for the preferred insurance provider was next.

After that was entering into exclusivity with Standard Life and contract negotiations, then finalisation of the contract and making the premium payment.

In total, the above process took around 12 months, with the trustees and their advisers at XPS and Hogan Lovells starting preparatory work early to ensure the plan was well placed to engage with the market when the funding position looked favourable.

Littlewood: We started working on the plan in October 2022. The trustee ran a two-stage process and selected us in January 2023, after meeting with the trustee and sponsor.

Once selected, the transaction completed very quickly, as the plan was well prepared and both parties worked collaboratively to ensure the smooth completion of the project. However this is an ongoing partnership, and we continue to work with the trustees to support the management of the plan.

What were the challenges along the way?

Williams: Purchasing a buy-in policy is a complex process involving many workstreams and advisers. It is key to make sure that objectives are clearly agreed between trustees and sponsor at the outset and a detailed project plan is set out in advance. It is vital that sufficient time is given to ensure that the benefits and data are rigorously checked before engaging with the insurers, in order to make the scheme attractive to insurers and to give everyone confidence in the pricing received.

As with many pension schemes, a small number of areas were identified that needed further attention and it is key to understand whether these areas will affect the ability of the trustees to purchase a buy-in or will impact insurer engagement. Nothing material was found for the plan.

Another key area for all transactions, but in particular for those that were approaching the market around the end of 2022, is to ensure that assets are well aligned to insurer pricing and available for payment in the envisaged timescales. During the preparation phase for this project, we helped the scheme navigate the volatility caused by the LDI crisis and advised on how to build engagement with insurers in light of the step-change in demand and the shift in supply and demand dynamics.

The trustees and XPS (as investment adviser) had been strategically aligning assets with insurer pricing over a number of years and crucially had ensured that the portfolio was fully liquid for the plan. This ensured that the funding position remained relatively stable throughout the process and ensured insurers had confidence in the plan's ability to transact.

What advice would Standard Life give to schemes looking to do something similar?

Littlewood: The plan was well prepared and this is vital for a successful transaction. In addition, our top piece of advice would be to ensure that decision makers have gone through training and education in advance, and that the governance is organised so that decisions can be made quickly and confidently. This enables the trustee to capture opportunities, and to allow all parties to focus on what really matters – achieving the right outcome for the members.

Written by Francesca Fabrizi