

EXPERT PANEL

Paul Thornton (PT),
Gazelle

“ Systemic failure across the whole insurance industry cannot be ruled out and this might need some governmental intervention ”



Margaret Snowden (MS)
Lucida

“ It is important for trustees and sponsors to consider all of the de-risking options available to them ”



Ian Aley (IA)
Paternoster

“ As solutions develop, so will best practice for the way transactions are carried out ”



Andy Reed (AR)
Prudential

“ Trustees must consider the quality of the provider they choose, assessing financial security, track record and service excellence ”



Janet Brown (JB),
Sacker and Partners

“ The likelihood of good service and guaranteed pensions increases when trustees do their homework in selecting a provider ”



Hugo James (HJ)
Legal and General

“ Trustees need to have confidence that an insurer will pay benefits promptly and will communicate with the scheme members ”



How does a buyout or buy-in work in practice?

PT A buyout is best viewed as full and final settlement of the scheme's liability to the members involved, which discharges the Trustees' responsibilities and which removes pension risk for the sponsoring employer.

A buy-in can be seen as an investment of the scheme, which provides hedging of interest rate, inflation and longevity risks in relation to the members involved. Regardless of the administrative arrangements made for paying pensions, communications and so on, the scheme retains full responsibility for the liabilities, and the employer retains the contingent pensions risk should the buy-in provider fail.

MS There are a variety of options available to trustees, from full buyout to buy-in of a pension scheme. For a full buyout, all the risks are transferred to the insurance company in exchange for a single premium. Ultimately the scheme is wound up and all the benefits are converted into individual annuities. This is the most complete shift of risk for the employer and trustees, and offers scheme members the security of individual benefits being guaranteed by a regulated insurance company.

For a buy-in, an insurance company such as Lucida would insure the risks that the trustees and sponsoring employer do not want to retain. The insurance policy becomes a new asset class within the pension scheme, overseen by the trustees alongside the existing scheme assets. This approach offers a complete solution to the risks targeted, without the need for any wider or more fundamental changes to rest of the scheme.

The key difference between a buy-in and a buyout is that a buy-in does not involve the closure of the scheme or the trustees and employer transferring their responsibilities to the insurer. A buy-in involves an insurance policy being set up to cover the risks presented by either all the scheme members or by certain subsets of members where a partial buy-in is used.

It is important for trustees and sponsors to consider all of the de-



“ Trustees should carry out due diligence on providers Paul Thornton

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risking options available to them as some solutions may be more attractive than others given the scheme's funding and desired outcomes.

IA Full buyout is a transfer of all liabilities and assets within a pension scheme trust to an insurance company. Many trustees initiate scheme wind-up at the same time. At the end of this process, the trust is dissolved, the trustees discharged and the relationship between the members and the sponsoring employer is severed. The scheme members become direct policyholders of the insurance company and the nature of the pension changes from a promise to pay income in retirement, based on the assets within a pension scheme being sufficient to fund this promise, to an insurance company which is contracted to make these payments and supports that promise with solvency capital.

In a buy-in not all the liabilities in the scheme are insured and the trust remains operational, not least to continue to manage the uninsured liabilities as before. The trust continues to have recourse to the corporate sponsor. The trustees continue to be responsible for the payment of the pensions and the bulk insurance policy remains an asset of the trust. Through the buy-in insurance policy, the pension

scheme receives a regular payment from the insurer that exactly matches the sum of the payments the scheme owes to its members.

AR While both options are bulk annuity arrangements for defined benefit pension schemes, there are key differences between a buyout and a buy-in and how they work in practice.

■ A buyout enables trustees to secure member benefits in a full scheme wind-up via a transfer of all scheme assets and liabilities to a regulated insurer. On completion of a buyout, trustees and sponsoring employers will be fully discharged of any pension scheme liabilities and policies will be written by the insurer, in the names of individual scheme members. In some instances a partial buyout of some of the members may be possible.

■ A buy-in is an insurance policy for solvent schemes looking to de-risk pension liabilities. With a buy-in, trustees are effectively purchasing a scheme asset to help add certainty and security to the cost of ongoing pension provision. The trustees remain in control and are still responsible for pension scheme management. The policy remains in name of trustees. So far, most Buy-ins have focused on securing pensioner benefits only.

From a pension scheme accounting perspective, a main driver for the Corporate sponsor, a buy-in is likely to have a favourable impact on the P&L charge for the year over buy-outs which are instantly charged as settlements.

JB Either option begins as a trustee investment decision but then the roads in the wood diverge.

The question is whether it is intended to obtain an insurance policy along the way - a buy in (policy held in trustees' name as a scheme asset matching the liabilities), or, instead, a buy out (insurance policies written in beneficiaries' own names with the trustees discharged of those liabilities) which is effectively the end of the road for those scheme liabilities involved.

Both roads - in or out - in practice start with the scheme's investment power, consulting with the employer, the selection of an appropriate provider involving issues such as the provider's capacity, the security of members' benefits as well, of course, as the price on offer

and the appropriate scheme reserve of assets to be used and whether the scheme can afford it.

The devil is in the detail. The practical issues of administration, benefits covered and the scheme's data need to be checked and planned for as the process moves from the trustees deciding to dip a toe in the buy-in and buyout market, to a full transfer of liabilities.

HJ Issues surrounding the funding of full pension buyouts have led to alternative solutions emerging to enable companies to manage their pension liabilities.

A full pension buyout is the traditional method of transferring all of a scheme's liabilities to an insurance provider who specialises in these arrangements. This results in the members' benefits being owned, paid and guaranteed by the insurance provider chosen by the trustees and the company. Existing scheme arrangements may then be wound up and the sponsoring employer is then able to remove the liability from their balance sheet and the trustees receive a statutory discharge of their responsibilities.

Not all schemes, however, are able to afford a full buyout so trustees and sponsoring employers are increasingly looking at alternative options to de-risk their pension scheme liabilities. These options encompass many new,



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innovative forms of de-risking including the now popular option of a buy-in.

A buy-in involves the transfer of liabilities for only a section of pension scheme members to an insurance provider with an insurance policy in respect of that liability held as an asset of the scheme. The responsibilities for the pension scheme management continuing to be with the trustees and sponsoring company including paying the members benefits. This option lets trustees and companies gradually reduce the risk and their responsibilities rather than doing so in one go as would happen if a full buyout is chosen. This is particularly beneficial to trustees and the company where the cost of realising underperforming assets might be prohibitive or where the scheme or sponsoring employer does not have the resources required to complete a full buyout.

Can I be sure members will be guaranteed their pensions and the same level of service?

PT Trustees should carry out due diligence on the providers. They can rely to a considerable extent on the insurance solvency regime, and on the Financial Services Compensation Scheme which backs it and, in the case of a buy-in, on the covenant of the sponsoring employer. However, the ready availability of further capital for the provider to maintain solvency margins in deteriorating financial conditions is an important issue, as is the robustness of the actuarial assumptions underlying the reserving calculations. The regulatory regime did not prevent Northern Rock or Royal Bank of Scotland getting into difficulty. Unfortunately, systemic failure across the whole insurance industry cannot be ruled out, and this might need governmental intervention.

Trustees should also satisfy themselves about the administration capability of the provider, for example by making enquiries of trustees involved in previous transactions with it.

MS Insurance through a buyout or



“ Trustees do not have the excuse of the dog eating their policy document Janet Brown ”

buy-in helps to guarantee that member benefits will be paid. Payment of benefits by a defined benefit scheme is dependent upon the scheme's funding and on the strength of the employer covenant. Contrary to popular belief, final salary scheme benefits are not guaranteed.

With a policy provided by a UK regulated insurance company, members have the security of knowing that their benefits are being provided by an FSA regulated organisation. The FSA ensures that insurance companies hold adequate capital against the benefits they are providing. In the unlikely scenario where an insurer becomes insolvent, members have the security of the Financial Services Compensation Scheme, which covers 90% of all benefits insured (without a ceiling and including all increases).

Quality of service will differ from provider to provider. Lucida's offering is focused on service excellence and positive member experience. We have partnered with the award winning administrator MNPA to ensure that members continue to receive the same quality or better service, when their scheme is transferred to Lucida. If quality of service is important to trustees, it should be a key element of the buyout selection process, looking not just at service for the year of transfer, but for the longer term.

IA Responsibility for scheme members' benefits transfer to Paternoster on the terms agreed with the trustees. The amount of pension that the scheme member would receive depends on the funding level of the scheme at the time of buyout. To ensure that the pensions promise to scheme members is fulfilled, sponsoring companies often make a "top-up" payment to under-funded schemes before they transfer to the insurer. For example in the case of Emap, an extra £40 million was paid into the scheme before it transferred to Paternoster to ensure that the pensions would be paid in full.

Insurers who take over a pension scheme are regulated by the Financial Services Authority, who prescribe a strict set of guidelines that insurers need to adhere to.

Pensions that transfer to Paternoster continue to be paid in the same way and on the same day as they have always been. Scheme members do not have to do anything as all personal details transfer to us automatically as agreed during the transaction. If we also manage the administration our knowledgeable and experienced UK-based team are on hand to answer any questions scheme members have once the transfer has taken place.

AR De-risking solutions involving trusted insurers such as Prudential can greatly enhance the security and service provided to members, as insurers are governed by more stringent regulation relating to capital requirements than pension schemes. Also, we are pension specialists, with expertise in providing services to trustees and scheme members alike – whereas in practice pensions are not a core function of many businesses offering a company pension scheme to employees. As well as having to demonstrate a higher level of capital backing and long-term financial security, regulated insurers such as Prudential also follow FSA guidelines on sales and service, including 'Treating Customers Fairly' principles.

In some cases, larger schemes may be able to assess additional security structures - although options such as ring-fencing are not always in the best interests of individuals. Also, the PPF has confirmed that schemes in buy-in are still covered by PPF funding, so

members will still be supported in the unlikely event of an insurer going into liquidation. Most importantly, it is vital that trustees carefully consider the quality of the provider they choose, assessing the financial security, track record, strength of brand and service excellence offered.

JB It is not a case of "you pays your money and takes your chance" – the likelihood of good service and guaranteed pensions is increased where trustees do their homework in selecting an appropriate provider.

Trustees do not have the excuse of the dog eating their policy document. The whole due diligence process needs planning and documenting. Key issues include:

- Policy detail – which liabilities/benefits are covered? Are there any conditions imposed by the provider? Is the scheme's data clean and easy for the provider to cover?

- Security – a well structured buyout (or in) can provide members with greater security than the scheme's ultimate paymaster, the sponsoring employer, can offer. The differing protections where there are insolvent insurers and employers need weighing up.

Where there is an insolvent employer, and the scheme is below Pension Protection Fund compensation levels, then PPF compensation may be paid.

By comparison UK authorised insurers must hold capital reserves so that over a 12 month period there is at least a 99.5 per cent probability that they can meet their liabilities. In addition, the longevity assumptions of UK insurers tend to be more prudent than DB schemes. Finally, the insurer may build in a further margin of prudence if it is a multi-line insurer (i.e. it ensures a wide range of types of insurance business) than if it is a mono-line insurer providing only one area of insurance. Trustees will have comfort that an insurance company is building in far higher margins of prudence than the employer might do. Trustees may also seek ring fencing and/or collateral assets from the provider to mitigate the risk of the provider becoming insolvent (particularly if the provider is a new market player outside the UK authorised insurer market).

On a buyin or a buy-out there is also potential protection from the Financial Services Compensation Scheme (FSCS). Where a long term



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Hugo James

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insurance contract is held, there is currently, 100 per cent coverage for the first £2,000 plus at least 90 per cent of the remaining value of the policy. The FSCS is however untested and the FSA is currently undertaking consultation on its terms. Whether the FSCS would be able to compensate policyholders to this extent or whether it would instead, (the terms of the policy would have to be scrutinised), substitute an alternative insurance company where the first insurer goes bust has yet to be seen.

- Administration capacity and record – trustees should be comfortable with the provider’s administration ability. (On buy-in there may be no movement of the administration to the provider).

- Investment advice – what is the trustees’ investment adviser’s view of the current financial standing of the provider and its long-term business model?

HJ Trustees need to consider two points. Firstly, how can they be sure that the insurance provider has the resources required to pay their pensions both today and in the future.

In simple terms, the contract that trustees establish with an insurance provider for a buyout or a buy-in leaves the insurance company with an absolute obligation to pay the agreed benefits. Insurers are

regulated by the Financial Services Authority, (FSA) and are required to hold capital to meet not only their expected liabilities but also reserves to provide certainty that they can meet their obligations. As well as financial strength, trustees need to consider the likely financial strength of their chosen insurer in the future. This means trustees need to weigh up a number of factors including, the risks held by the insurer, the ability to handle a shock event such as medical advances or a sharp financial downturn and the ability of the insurer to access additional capital in the future, if required.

The second element that trustees need to consider is the level of service that an insurer will provide. trustees need to have confidence that an insurer will pay benefits promptly and will interact and communicate with the scheme members efficiently.

To ensure that administrative services continue uninterrupted when a company transfers its pensions liabilities, it is essential that the insurer has well trained, experienced administrative team in place. An insurer’s service track record is key. The commitment to deliver a high level quality service is likely to be achieved by retaining the administration for the scheme with an in-house team within the insurer. This ensures there is hands-on support for all members and often continuity of the staff involved with the necessary scheme management.

What risks do trustees run in continuing to manage a scheme themselves?

PT The risks of managing a scheme fall under a number of headings:

- Investment risk takes various forms – interest rate risk, inflation risk, manager risk – all creating the risk that expected returns are not achieved.

- Funding risk stems from the need to make numerous actuarial assumptions to determine contribution rates, based on historical trends and current market conditions and the future outlook, not least about longevity which has recently proved notoriously difficult to forecast. Funding assumptions can be more or less cautious, i.e. more or

less likely to be fulfilled.

- Covenant risk stems from the reliance that has to be put on the sponsoring employer being able to meet the contribution requirements of the scheme over the lifetime of the liabilities.

All of these risks are manageable given the necessary resources and suitable professional advice. Where the sponsoring employer is sanguine about the level of pension risk to which it is exposed, the view could be taken that this is less costly than the purchase of an insurance contract which has to cover the insurer’s profit margin and cost of capital. However, as with most things in life you get what you pay for, and these provider costs are the price for removing risk.

MS Many pension schemes are now bigger than the sponsoring employer and so demand more attention and governance, which costs money. Pension scheme management costs have been rising fast. Managing investments becomes more and more complex, requiring greater focus and ever increasing expertise. Trustees also have to worry about the strength of the employer covenant. How long will the company be there to support the scheme? Will there be pressure to change the benefits basis? Will members get what they are entitled to when the time comes?

All of these issues are driving trustees and employers to take a serious look at reducing the risks involved in running their defined benefit pension scheme. Most have chosen to close their scheme to new members, but this does little to address the risks and liabilities already accrued.

IA Trustees and their sponsoring companies face the combined challenges of increasing life expectancy, changes in pension regulation, more demanding reporting requirements and as we have seen at the end of last year, increased market volatility.

Insured solutions give trustees more options for managing pension fund related risks, such as:

- removing mortality risk immediately, while retaining investment risk exposures to close deficits
- the opportunity to share in any beneficial future experience (e.g. life expectancy being shorter or the proportion of pensioners who are entitled to a spouse’s pension on

death being lower than the number we expected)

- phased payment of premiums.

AR 2009 will be a critical year for many trustees and the decisions they make to help safeguard pension benefits. In the current economic environment employer insolvency and the risk of continued trends in under-funding will be playing on the minds of just about every trustee. The strength of sponsoring employer covenants is under scrutiny and the ability (or indeed willingness) of many employers to contribute additional investments to make up any shortfall is questionable. It is more likely that employers will be prepared to make such an injection if directly associated to the cost of purchasing a de-risking solution, where they can see the long term cost of liabilities either reduced or removed as a result.

By continuing to self manage schemes, trustees will also be exposed to other risks, including:

- Investment – regardless of any further cash injections, the current global downturn demonstrates how exposed some schemes are, even with sophisticated investment strategies.

- Longevity – many actuarial assumptions are out-dated and use averages, whereas schemes may have specific influences on their longevity - such as socio-economic, geographic, concentration risk – and the cost of getting this wrong can be significant.

- Operational – including increasing costs for consultancy & advice fees, PPF levies, investment management fees, administration costs.

- Regulatory - legislative creep is leading to ever increasing responsibilities for trustees to keep their knowledge up to date. Indeed 2008 saw some trustees receiving significant personal fines and while these may have been exceptional circumstances, other trustees will be wondering whether it could happen to them.

JB This is a leading question. All schemes are different and taking calculated risks is very different from being rash.

The key risk is that the trustees ultimately do not have enough money to fund benefits. This depends on many factors including the way in which investments are managed, the

ability of the employer to contribute, longevity continuing to punch a hole in the funding assumptions and the annuity market becoming more expensive.

However, where there is a strong sponsoring employer able to fund the scheme in the long term and pay benefits as they fall due, trustees may have more confidence in the employer's covenant than in an insurance company providing an annuity contract.

HJ The legislation regarding pension schemes has increased considerably since many schemes were established. Today's trustees face many complex decisions for which they have personal liability. While trustees are not expected to be pension experts they are the custodians of their pension fund's assets and are obliged to act in the best interest of the members.

As trustees are responsible for ensuring that members receive their benefit entitlement in full, imprecise record keeping, computer system or data failure, fraud, incorrect or misleading communications and inaccurate calculations are all possibly risks for trustees who decide to manage the scheme themselves. An indicator of how these risks are growing is reflected in the increasing cost of trustee indemnity insurance.

Trustees are also exposed to potential risks that are partially or

completely outside of their control. These include exposure to sponsor credit covenant, investment volatility and increasing life expectancy.

The effective management of these risks is often generally unrewarded as trustee are only measured by the performance of the pension fund and that members expectations are met.

Trustees have a strong sense of duty towards their members but many are now realising that they can best meet their duties by de-risking the pension scheme. By taking advantage of the benefits a buy-in and or buyout can be bring by reducing risks trustees are able to focus on the elements that they are good at delivering e.g. pension investment strategy rather than pension administration or legislation.

What should I say to members who feel that buyout means we are getting rid of our responsibilities?

PT Trustees should only proceed with a buyout if they believe that the security for benefits provided by the insurance contract is at least as good as that provided by the sponsoring employer's current and prospective covenant. If it is, then they are discharging their responsibilities properly, and they should be confident in explaining the advantage to their members. If trustees are not 100 per cent confident about this, then they should not be proceeding with the buyout.

MS Many employers are considering moving schemes to an FSA regulated insurer because the risks and costs they face in running the existing schemes are becoming unacceptably high. This can be the result of a combination of factors including the fact that people are living longer (and therefore the scheme will have to pay out more), investment conditions have been difficult – resulting in scheme deficits – and regulation continues to change. All of this has added to the costs and administrative burden of running the scheme.

Through a buyout, trustees and employers can remove these problems whilst ensuring that the interests of the scheme members are

protected, if not improved.

In reality, a buyout supported by good due diligence and high quality service delivery will have very little impact on the scheme member. The member will enjoy the same or equivalent benefits and entitlements. It is just that these will be provided in future by an insurance company rather than the employer's scheme.

Given that the future of the scheme will no longer be tied into the success or otherwise of the employer, and because all the liabilities of the scheme are fully insured, the member could actually enjoy greater security than had the scheme stayed as it was.

IA Clear communication with pension scheme members throughout the buyout process is vital as scheme members often will not have a full understanding of how their existing benefits in the scheme have been derived and they may be nervous or suspicious about what is happening.

Typically they will not necessarily be aware that transferring to an insurance environment will ensure greater security than a corporate environment.

One of the greatest advantages to members of pension schemes bought out by a regulated insurance company such as Paternoster is that the promise to pay their pensions is supported by prudent reserving, solvency capital, a conservative investment strategy and a regulatory framework overseen by the Financial Services Authority. A pension scheme with a corporate sponsor has no such protections or oversights.

By transferring pension scheme liabilities to a regulated insurer, the sponsoring organisation should be seen to be acting responsibly: it has protected the ability to pay pensions with solvency capital. The promise made to employees is therefore protected and retained.

AR Members need to be reassured that trustees who take positive action to de-risk their pension liabilities are not 'getting rid' of their responsibilities, but actually 'taking' responsibility to provide additional security for their members.

Where a buyout occurs due to scheme wind-up, insurers offer greater protection over the long-term provision of full pension payments, not just the thresholds covered by PPF funding.

For solvent schemes using de-

risking solutions (such as buy-ins, annuity vestings, or enhanced transfer values), trustees are either adding security, fixing long term costs, or providing members with greater choice for their own future. Either way, this should be viewed by members as a positive step.

Again, the key will be the level of quality and trust. If members recognise and trust the provider as an established and powerful pensions brand then they are more likely to perceive that the trustees are doing the right thing. Some members will have pension benefits with a former employer that is either no longer a "long term" company, or does not view the pension fund as a top business priority. However, established providers such as Prudential are pensions specialist and value pension provision as a long-term commitment.

JB Conducting appropriate due diligence as part of the buy-out process allows trustees to re-assure members that trustees and the company did not just "dump and run".

The trustees need to communicate to members that they looked at all aspects of the buy out and not just the price.

Depending on the structure used and the employer involved, members' benefits can be more secure afterwards.

Key messages to convey, when the transaction is underway, include:

- that the same benefits have been secured as promised under the scheme;
- reassuring pensioners that their pensions will be unchanged;
- that the provider has been selected after stringent due diligence;
- explaining:
 - pensions secured in full outside the scheme is a way of de-risking for both the members and the employer and add in any special protective features of the transaction;
 - if there is a particular option attaching to benefits how that will work in the future; and
 - what the intentions were and why, if applicable, a class of members have been bought out rather than the whole scheme.
- emphasise the fact that the trustees took appropriate professional advice along the way.

HJ The important point to emphasise is that the members' benefits are guaranteed once a buyout insurance



“ Insured solutions give trustees more options for managing risk ”

Ian Aley



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Managing
investments becomes
more complex

Margaret Snowdon

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contract has been entered into. In the vast majority of cases, the company and the trustees are providing far more security by buying out, than they would be by leaving the liability with the company. The trustees and company's responsibility remains to ensure members receive their full benefit entitlement and a buyout emphatically achieves this.

In addition, completing a buyout transaction often results in the pension scheme receiving additional investment from the sponsoring employer as part of the transaction. Again this helps to demonstrate the commitment of the trustees and the company to ensure their members' benefits are secure.

So, far from ridding themselves of their accountability they are in fact crystallising the responsibility up front, in a clear demonstration of their commitment to their members.

What will the buyout market look like by the end of 2009?

PT The buyout market has been much hyped-up over 2007 and 2008. A more realistic mood now prevails regarding the capacity of the capital markets to absorb huge volumes of buyout business. Solvency levels of insurers have been

tested in the latter part of 2008, and the potential pitfalls of complex derivative transactions have been exposed by the failure of Lehman Brothers and parts of AIG. In 2009 there will continue to be an active market, but there may well be a “flight to quality”, with more emphasis on long-standing market players, and more attention paid to the overall risk management of their businesses. Such providers may well in turn be increasingly selective about the deals they are interested in transacting, with an emphasis on larger deals where the costs of quoting and negotiating are more proportionate.

There will continue to be serious potential interest from employers, particularly those with schemes that have legacy liabilities disproportionate to the size of the current business. However, the price of topping-up scheme funding to enable deals to be done will be highly dependent on market conditions and will have to be justified to shareholders, which may well inhibit activity for the foreseeable future.

MS The credit crunch has certainly impacted the buy out market in the short term, with some schemes finding to their cost that they missed an opportunity to transact before funding levels dropped. That said, 2008 new business volumes significantly exceeded those of 2007 and we anticipate that, after a temporary hiatus as the market stabilises, the market will continue to grow in 2009.

Buy-in will continue to be popular as a first step towards future buyout and we will see more structured and tailored solutions coming through as trustees and employers work together in response to the current financial climate. This will include a continuing movement of investments away from equities to improve asset liability matching and a focus on long term funding strategy.

Trustees and their advisers' confidence in buyout insurers will increase as they become more familiar with the solutions and players and observe how the best insurers respond to the economic climate. This, and the need to avoid market exposure will mean faster decision making among trustees and corporates. The norm will be for up-front planning following by very rapid transactions, compared to the many months the process

takes today. We will also see increased interest in other market innovations such as longevity only solutions and phased buyout as trustees look for affordable ways to transfer risk.

IA Credit market volatility has naturally led many trustee boards to defer the decision to buyout until market outlook, particularly for defaults, becomes more predictable. In our view, the market will reopen early in the summer with rapid growth through to £10 billion for the full year. Our current pipeline is over £40 billion.

Innovative solutions continue to develop. While 2008 was probably the year of the buy-in we could see 2009 be the year for mortality only transactions. As solutions develop, so will best practice for the way transactions are carried out.

Last year was another year of firsts for the defined benefit risk transfer market, with the first buyout of over £1 billion and the first full buyout of a FTSE100 scheme. As the P&O transaction in 2007 paved the way for large and solvent organisations to consider buyout, the Cable & Wireless transaction will open the gate for schemes of over £1 billion. Two transactions in excess of £1 billion occurred last year: for schemes of this size, some have said we will also see the first syndicated deal in 2009. We are not so sure.

AR Much will depend on the extent of recovery of overall financial markets. However, views from all around the DB pensions industry indicate that the desire for de-risking solutions is continuing to grow rapidly and we expect 2009 to be an exciting year for the pension buyout market.

Even though the number of completed transactions has slowed recently, we are still seeing a very healthy pipeline of enquiries and we expect to see more large deals transacting. While 2008 provided the first £1 billion + insured deal (between Prudential and Cable & Wireless), we are confident that 2009 will present the first £2bn+ deal, or even a £3bn+ deal.

We also envisage further innovation and a wider range of risk management solutions being developed, with particular focus on security structures. There may be greater use of syndication to help spread risks and provide additional market capital. It is questionable whether we will see an increase in

the number of providers, or whether there will be further consolidation and market exits, as some new entrants struggle to gain market share and credibility in a complex market.

Either way, the underlying risks won't simply disappear and still have to be managed, so schemes will need to be positioning themselves to de-risk as and when circumstances allow.

JB Gazing into the buy out crystal ball, the lack of liquidity caused by the financial crisis, along with concern over corporate bonds defaulting (assets favoured by providers to back the business) means the market is likely to slow down in the first half of the year.

The opportunity for schemes to buyout will diminish in the tough funding climate of this year with few employers wishing to inject cash now. Many schemes are also not invested in assets insurers are interested in taking over directly (index-linked gilts tend to be preferred for a pensioner population). Insurance companies themselves have to face EU Solvency II Directive in 2012 and this might also drive up the cost of buyouts in the medium term.

There is likely to be a slow down in market for big buy outs but continued scheme “window shopping” with a steady stream of smaller buy outs and, we would anticipate, more buy-ins throughout 2009.

HJ In 2008 the buyout market saw considerable growth and development. In particular, we saw significant growth in the buy-in market with schemes seeking to de-risk by buying policies to match their retired members.

Pension schemes saw considerable investment volatility and an increasing number of corporate failures leading to schemes entering the PPF (Pension Protection Fund).

Given these factors, 2009 promises to be another interesting year. Trustees are increasingly aware of the de-risking options open to them and will continue to implement these. For the insurance industry this is likely to see a continued trend towards most transactions being buy-ins. Buyouts are likely to be mainly related to corporate activity.

We are also likely to see an increase in the number of phased buy-in and buyout transactions with trustees working with their advisers and fund managers to implement a path towards a full buyout. ■