The journey to endgame

CSM Limited (UK) Pension Scheme trustee and 20-20 Trustees trustee director, Becky Wood, discusses the scheme's recent buy-in with Just Group, its plan to eventually secure a buyout, and the key factors in successfully completing a (relatively) small scheme de-risking deal

Can you describe the makeup of the scheme and what it was about that makeup that led to the decision to de-risk?

The scheme is approximately 80 per cent deferred and 20 per cent pensioners. What made this buy-in notable is the fact that it was such a deferred heavy population. It was an around £86 million-sized deal.

As part of the valuation in 2019, we agreed with the company a long-term target to buyout the scheme with an insurer. As part of this, we negotiated material company contributions to be paid to the scheme. This also included a bullet payment to be paid once the scheme came within a certain proximity of buyout.

What work did you do with your advisers/sponsor and how did this help progress the deal?

We set up a joint working group with the aim to accelerate the journey to buyout. This gave the company and the trustees the ability to make decisions quickly and to take advantage of market opportunities. The joint working group consisted of myself on behalf of the trustees, the joint working group advisers, and a representative from the

company.

I feel the joint working group was particularly important given the company was based overseas – it kept all parties focused and ensured a collaborative approach, and so it was really key in driving forwards the strategy and ultimately enabling us to transact.

One of the first things we did once the joint working group had been set up was to carry out a feasibility study at end of 2019. We did this by providing insurers with cashflows which they could apply their pricing to. At the time buyout wasn't possible, but the feasibility study enabled us to set out the strategy.

What did you do to prepare the scheme?

Over the course of the next 12 to 18 months we did several things.

We carried out a member options exercise in September 2020. This entailed writing to all deferred members in the scheme, both under and over 55s, detailing their benefit options, and providing them with the opportunity to take paid financial advice. This was a company-led exercise, with the ultimate aim to bring buyout pricing closer to address the funding gap. However, as it meant that members would receive education about their benefits and be able to make informed decisions, the trustees were supportive.

We received a very high engagement rate from members with the member options exercise, and I believe the key in this was our early, quality communications with the members.

Before we carried out the member options exercise, we wrote to the whole membership with an ambition letter, setting out the aim of the company and trustees to target buyout, and also the intention of the company to carry out the member options exercise.

While the member options exercise did bring buyout pricing closer, the funding gap was still too large to be bridged by the bullet payment I mentioned earlier – and so at this point we continued to monitor pricing monthly.

In May 2021, the monthly monitoring showed that buyout pricing had moved within the required range and in June 2021, we agreed to formally approach the market which we did in August 2021.

The full scheme buy-in was completed with Just in December 2021.

In addition to the member options and monitoring of the pricing, we also ensured the scheme was fully prepared to approach the market over this 12 to 18 month period.

We reviewed the requirements of the scheme's rules and produced a clear and concise benefit specification. The scheme's legal advisers also produced a codified discretions summary.

Once we had completed the member options exercise, we also carried out a marital status write out to members – asking the members to update their marital status and personal details. In respect of those members that did not respond, we carried out an electronic trace.

What are the key factors in concluding a pension de-risking deal of this size?

It is really important to make sure the scheme data is as clean as possible before approaching the market. Post buy-in, if a data issue is found during the data cleansing period, this could result in additional premium being due from the company, and this is a risk that it is important to mitigate as much as possible.

In my view, and based on my experience, the three themes that were key to the successful transaction were a collaborative plan – working in collaboration with the company to agree and execute the strategy as part of the joint working group; effective communications – both with the insurers and the members; and solid foundations – so ensuring that the scheme was fully prepared to approach the market, enabling us to take advantage of market opportunities. Preparing a scheme for buyout does take a lot of work – there are no shortcuts.

I don't feel there is anything wrong with approaching insurers for estimates of the cost to buyout, if it's an approach that is light touch and light on insurer resource. Trustees need to be mindful that insurers are very busy and so careful thought should be given as to when to approach insurers, for example – has an agreement been reached with the company regards the amount it will pay to cover any funding gap?

We are now in the process of transitioning the buy-in to a buyout, and our aim is to do this within the next six to 12 months. We are in the process of finalising guaranteed minimum pension equalisation. Prior to the buy-in, we didn't make a decision regarding the equalisation method, as we realised that different insurers have different views on this. We therefore felt it was important to choose the insurer, and then make the decision on the method. We are also completing any required data cleansing.

A number of my other schemes are on a two to five year path to buy-in. The key is preparation. Buyout pricing can move towards you very quickly, and it is important to make sure that the scheme is prepared, attractive to insurers and you are in a position to take advantage of market opportunities – this is probably even more important for small schemes.

Written by Jack Gray