EVERSHEDS SUTHERLAND

Securing your transaction

Bulk annuities for smaller schemes

2019 was a record year for the bulk annuity market, with over £40 billion of transactions being written. However, whilst the volume of pension liabilities being insured increased, the number of transactions was half the previous annual average, and reports of up to 11 "mega deals" in excess of £1billion dominated the headlines.

Favourable pricing windows and improved scheme funding levels (mainly due to a slowdown in mortality improvements) have been two factors driving demand for bulk annuities. Unsurprisingly, the unprecedented level of demand has triggered capacity challenges and insurers' resources to consider cases have been stretched. This means that insurers will be highly selective when choosing which schemes to engage with.

The amount of insurer resource required to review a Request for Quotation document and calculate a price for a "smaller" transaction will often be similar to the amount required for a larger deal. For this reason, insurers have an incentive to prioritise their resources towards high value transactions rather than "smaller" ones.

That said, we have still seen an active market for smaller bulk annuity transactions. Smaller deals can be very attractive to insurers if executed well and there are steps that schemes can take to increase the amount of insurer engagement they receive. The key to this is for schemes to demonstrate transaction certainty and ease, showing the insurer that it makes commercial sense for them to invest resource in their case over others. In order to do this, schemes should be well prepared before going to market for quotations.

Here are our top tips for helping smaller schemes secure a deal:

1. **Prepare an accurate and complete benefit specification**

   Before seeking quotations, schemes should prepare an accurate benefit specification which has been prepared or at least reviewed by the scheme's lawyers. It is important that the benefit specification is clear, concise and comprehensive so that the insurer can easily understand which benefits have been specified for cover. If there are any differences between administrative practice and the scheme rules, they should be resolved before going to market and decisions on codifying any discretionary benefits should be made. This will reduce the number of queries from insurers during the process and make it easier for them to price the transaction (especially in a single pricing round).

2. **Ensure the scheme data is in good shape**

   Schemes should be able to show that they have taken steps to clean and complete their data such as by (i) carrying out or refreshing an existence check, (ii) collecting spouses' information and (iii) carrying out a data verification exercise. Not only is this likely to make the quotation price lower (as it provides more certainty for the insurer), it demonstrates that the scheme is prepared, well run and that the data provided is as accurate as possible.

3. **Use experienced advisers**

   In assessing how smooth a transaction is likely to run, insurers will consider who the scheme's advisers are. It will therefore stand a scheme in very good stead if its advisers have proven experience of bulk annuity transactions. Insurers will take comfort that the advice provided to the scheme will be pragmatic and that negotiations will be dealt with in an efficient and straightforward manner.

4. **Consider streamlining the process**

   Another key factor that can help maximise insurer interest is for the transaction to be carried out through the use of pre-negotiated bulk annuity contracts. In conjunction with leading benefit consultancy firm Aon Hewitt, Eversheds

Sutherland has developed a set of pre-negotiated contractual terms as part of a streamlined but comprehensive bulk purchase annuity offering. Not only does this offer fixed fees and a tightly defined process to control costs, it also has the advantage of demonstrating higher transaction conviction – all clients adopting this streamlined process have transacted quickly once a price was agreed.

5 **Establish an appropriate governance structure**

Insurers will take comfort in knowing that the scheme sponsor is aligned with the intention to transact and that all key stakeholders are on board. Schemes can demonstrate this by establishing a joint working group with the employer which will have the ability to make decisions quickly throughout the transaction.

6 **Price**

Schemes should consider different ways of achieving an acceptable quotation price. One option may be to set a target price for insurers to beat. Another may be to wait and react to opportune pricing, either by being ready to transact when the price is right or by having the flexibility to change the structure of the deal.

7 **GMP equalisation**

Schemes certainly don't need to have carried out GMP equalisation before going to market. However, those that have started planning and considered which methodology they are likely to use will appear better prepared. In addition, schemes should bear in mind that the methodology they choose will need to be one which is acceptable to, and capable of being administered by, their chosen insurer.

8 **Match your assets**

Schemes should also give consideration to their assets at an early stage and take advice on whether those assets are a reasonable match to insurer pricing, whether they are sufficiently liquid and whether transferring them will leave the portfolio acceptably balanced. Giving these matters careful and early thought will demonstrate to the insurer that the scheme is committed to transacting.

To summarise, there are a number of steps that smaller schemes can take to help secure a deal. The key is to prepare smartly before going to market to demonstrate that the scheme is well prepared and flexible. For those that do this, we believe that there will be some great opportunities in 2020.

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