

ALLEN & OVERY

PENSION RISK – PROVIDING SOLUTIONS

Buy-ins and buyouts

Our Pension Risk group has completed a number of high-profile buy-outs and buy-ins, and has acted on all sides of these transactions: for trustees, employers and providers. We have the experience and capability to deliver deals efficiently and quickly along with the technical expertise to ensure any product delivers the proper protection for trustees.

What are buy-ins and buyouts?

A buy-out or buy-in transfers some or all of the inflation, longevity and investment risk of a pension scheme to an insurance company.

A buy-in involves the purchase of a bulk insurance policy which is held as an investment of the scheme. The policy secures payment of the benefits that are covered – for example, a particular segment of the pensioner population. It is common for a buy-in to be converted to a buy-out when the scheme is wound up.

In the case of buy-outs, the trustees and sponsoring employer no longer have any responsibility for paying the benefits that have been bought out – this is transferred to the insurer, and members have the security that an insurance policy offers.

There are a number of structures from full buy-outs to partial and phased buy-outs, including:

- Partial buyout: the trustees secure liabilities for a particular segment of the membership via an insurer.
- Traditional, full buyout: the trustees purchase annuities directly from an insurer. This usually takes place in connection with the winding up of the scheme.

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- Replacement of principal employer: a company in the insurer's group takes the place of the sponsor and the trustees purchase annuities from that insurer. The responsibility of the existing sponsor for the scheme comes to an end, including any liability to contribute to the scheme.
- Bulk transfer to a new scheme: the trustees make a bulk transfer of all assets and liabilities to a new scheme set up by an associate of the insurer. The old scheme is wound up and benefits are provided under the new scheme through annuities from the insurer.

Our specialist experience

Having advised on a wide variety of structures, Allen & Overy's Pension Risk group is uniquely placed to deliver a seamless service covering all aspects of the deal, from structuring to completion. We regularly advise trustees, employers and providers on a range of full and partial buy-ins and buy-outs – so we understand the issues from all parties' perspectives and can develop solutions to meet all the objectives and manage the transaction efficiently. When advising trustees, we have the technical knowledge to ensure the deal is structured in a way that will give the trustees the comfort they need that they will be discharged from liability.

Long experience plus attention to detail

Our Pension Risk group has advised on multiple landmark deals over nearly 20 years. Recent examples include:

- A groundbreaking series of fifteen buy-in deals over four years with three insurers covering more than £9bn of liabilities, for the ICI Pension Fund. Our innovative 'umbrella' framework documentation allows new tranches of liability to be secured in as little as a week from final pricing to risk transfer, enabling the Trustee to take advantage of market conditions in record time.

- The largest pensioner buy-in ever completed, for the Trustees of the British Airways Pension Scheme – a ground-breaking £4.4bn deal covering around 60% of all pensioner liabilities.

However, we realise that buy-ins will often be a trustee's first 'big' deal so our clients need reassurance and expertise, and support through the technical complexity, whatever the size of deal.

We recently guided the trustees of a longstanding client scheme through a £200m buy-in which required us to develop a complex benefit specification covering three legacy schemes with very old documentation. The scheme includes defined benefits, DC pots and various underpins; our input ensured the right benefits were covered and the pricing was competitive given the benefit complexity.

We ensured the trustees understood the investment decision and got the best possible terms. In negotiations, the trustees had the benefit of our pensions specialists who know the scheme well, working closely with our pensions insurance experts who know the derisking insurance market better than anyone.

“Allen & Overy LLP ‘expertly combines technical expertise and commercial acumen’ to provide ‘an excellent service that is pragmatic, responsive and client-oriented’.”

Legal 500 UK 2018 (Pensions)

Pensions Law Firm of the Year

FT PIPA Awards 2017

European Pensions Law Firm of the Year

European Pensions Awards 2017 and 2018