Affordable Buy-out Solutions

A buy-out represents the ultimate goal for many sponsors and trustees, with the transfer of risks to an insurance company and the eventual wind-up of the pension scheme. However, risk transfer comes at a price and for many the additional funding will not be readily available. New solutions now exist to allow the cost to be spread over a number of years, but allowing the risk to be removed from the start.

How can they be made more affordable?
Historically, buy-outs have been expensive relative to ongoing funding levels, and the process usually required a large one-off additional payment to be made by the sponsor. Now, well-known insurers, such as Legal & General and Aviva are able to offer a facility to all sizes of schemes to spread the additional cost over a number of years.

This means that schemes are able to fully insure their benefits now, with additional funding flexibility to suit their expected cashflow or built into deficit recovery plan payments.

What is a buy-out?
A buy-out is typically instigated by the company as part of the process to wind-up the pension plan, thereby removing any further responsibility for both sponsor and trustees.

Both assets and liabilities are transferred to the insurance company, together with any additional contributions required to fund the balance of the buy-out premium.

The insurance company will then pay members’ benefits as they fall due and for as long as they live.

This solution would be suited to those schemes that are reasonably well funded, do not have a high-risk investment strategy and are looking to de-risk.

Example buy-out funding

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Pension De-risking

How does it work?
- An initial premium is paid to secure buy-out terms (at least 70% up-front)
- Risks (investment, inflation and longevity) are immediately transferred to the insurer
- The insurer charges interest on the outstanding balance
- The insurance contract represents an asset of the scheme
- The plan continues as usual, until the full premium has been paid
- The insurance contract is assigned to individual members and the plan wound-up

If the sponsor is subsequently unable to pay the full balance, the insured benefits can be adjusted to reflect the payments made, with the scheme retaining responsibility for the non-insured benefits.

What is the buy-out process?
The steps of the buy-out process are illustrated in the figure below.

Preparation
Objectives
Affordability
Data
Investment
Legal advice

Quotation
Approach
Data schedule
Benefit specification
Quote request
Insurer selection

Implementation
Contracts
Asset transfer
Data cleanse
Member options
Communication

How We Can Help
We can help you throughout each stage of the process from feasibility to completion. We will conduct a detailed review of insurers, the solutions available and terms on offer in order to secure the best possible deal.

Contact Us
For more information, please contact your usual consultant, call 0800 066 5433 or email:

hrconsultinguk@xerox.com