HYMANS ROBERTSON

Hymans Robertson Risk Transfer Team

# Summary of pension scheme **risk transfer solutions**

A number of new risk transfer options have become available to defined benefit pension schemes in recent years, adding to the traditional options of buy-ins, buy-outs and longevity swaps. The table below provides a high level summary and comparison of the current options. We expect more options/variations to become available in the near future.

| | BUY-IN | LONGEVITY SWAP | BUY-OUT | L&G ISS[1] | L&G APP[2] | CAPITAL-BACKED | SUPERFUND |
|---|---|---|---|---|---|---|---|
| Think of it a bit like… | …a special asset owned by pension scheme that fully matches and insures a portion of the liabilities within the scheme. | …a special asset owned by pension scheme that insures longevity risk for a portion of the liabilities within the scheme. | …full insurance of all members' benefits. | …a buy-in without 1-in-200 downside risk protection. | …a buy-in without longevity protection. | …an investment product with capital backing to underpin returns needed for agreed journey plan. | …a buy-out without insurance protection. |
| Most suitable for pension schemes… | …keen to fully insure all the risks for part of their scheme to start their journey to buy-out, or those wanting an efficient matching asset. | …keen to insure longevity risk but don't have free assets available for a buy-in. | …who expect to be able to afford buy-out in the future and are happy managing and accepting the risks in the meantime. | …keen to benefit from investing like an insurer, avoid loses and happy to take longer to get to buy-out. | …targeting buy-out, running a low-risk investment strategy and looking to reduce risk of buy-out prices rising in the future, or those wanting to remove basis risk from LDI. | …looking to reduce uncertainty around timescales to buy-out or reliance on sponsor to fund downside risks. | …with weaker sponsoring employers but who can afford a one-off contribution to fund around 90% of buy-out. |
| Required funding level (% of buy-out) | Not materially restricted by funding level. | Not restricted by funding level. | 100% | ›85% | Not materially restricted by funding level. | 80% to 90% | 90% to 95% |
| Insurance protection? | Yes. | Yes. | Yes. | Some (up to 1-in-200). | Yes. | No. | No. |
| Employer covenant retained? | Yes. | Yes. | No. | Yes. | Yes. | Yes. | No. |

1 Insured self-sufficiency

2 Assured payment policy

| | BUY-IN | LONGEVITY SWAP | BUY-OUT | L&G ISS[1] | L&G APP[2] | CAPITAL-BACKED | SUPERFUND |
|---|---|---|---|---|---|---|---|
| Can it be done for part of the scheme? | Yes. | Yes. | Possibly via partial buy-out. | Yes. | Yes. | No. | Possibly via partial transfer. |
| Risks not covered relative to full insurance | All risks for liabilities not covered by the buy-in. | Financial risks and longevity risk for liabilities not covered by swap. | None. | 1-in-200 tail risks, some buy-out pricing risk. | Demographic (longevity and spouse existence/ age). | Risks that de-rail journey beyond the capital buffer. | Same risks covered as insurance but with lower member security. |
| Ease of transition to buy-out | Essential first step before buy-out. | Helps buy-out as longevity risk already covered. | Done. | Some level of termination costs for other insurers, more straightforward with L&G. | Material level of termination cost for other insurers, more straightforward for L&G. | Buy-out pricing risk backed by capital, insurer chosen for trustee. | N/A |
| Accounting impact for employer [3] | BS and OCI, 2nd order P&L. | Neutral on day 1, gradual OCI impact. | BS and P&L impact. | Neutral. | Neutral. | Neutral. | BS and P&L impact. |
| Public transactions to date | 100s | 50+ | 100s | None | One: AIB, Feb 2020, £250m for deferreds. | One: April 2020. | None. |
| Member engagement | Optional. | Optional. | Member communication programme needed. | Optional. | Optional. | Optional. | Member communication programme needed. |

[3] Subject to auditor opinion

# Questions?

Contact our Risk Transfer team.


**James Mullins**
Head of Risk Transfer
james.mullins@hymans.co.uk

**Michael Abramson**
Partner
michael.abramson@hymans.co.uk

**Richard Wellard**
Partner
richard.wellard@hymans.co.uk



HYMANS ROBERTSON

CLUB VITA

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk