

## *Pensioner buy-in for smaller transactions*

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*LCP's new fixed-fee service is designed to maximise your chances of executing a pensioner buy-in at a highly competitive price.*

Nearly 90% of buy-in and buy-out transactions are under £50m in size<sup>1</sup>. Despite this, smaller schemes often find it hard to balance the competing objectives of achieving a competitive price and favourable terms from insurers, whilst having cost certainty on the professional advice needed.

LCP's unique new service is designed to satisfy these key objectives for the first time, from the strategic decisions at the start of a process through to implementing the contract after execution.

The service includes the following key parts:

- **Pre-negotiated contracts with insurers** - this provides immediate access to an enhanced contract compared to insurers' standard terms and avoids the lengthy legal negotiations needed to secure similar terms in the open market.
- **Certainty on our professional fees** - as well as advice from LCP, the fixed fee for professional advice also includes legal advice on the contract from leading law firm Wragge & Co.
- **Streamlined process** - by reducing the number of moving parts, insurers are more willing to quote on smaller transactions and offer more competitive prices. This maximises chances of transacting at a highly competitive price.

*Graham Jones*

**Chairman of Trustee Board**

*LCP brought us huge practical experience of the buy-in market and the convenience of pre-negotiated contracts. Their fixed fee was truly fixed with no "out-of-scope" extras.*

*Göran Hammarberg*

**Swedish Match AB**

*LCP's streamlined process helped us to transact efficiently and take advantage of very competitive terms offered by insurers. As a result, no additional Company contributions were needed to support the transaction.*

<sup>1</sup> Source: Insurer disclosures

The key attraction of a pensioner buy-in is its simplicity as a de-risking tool.

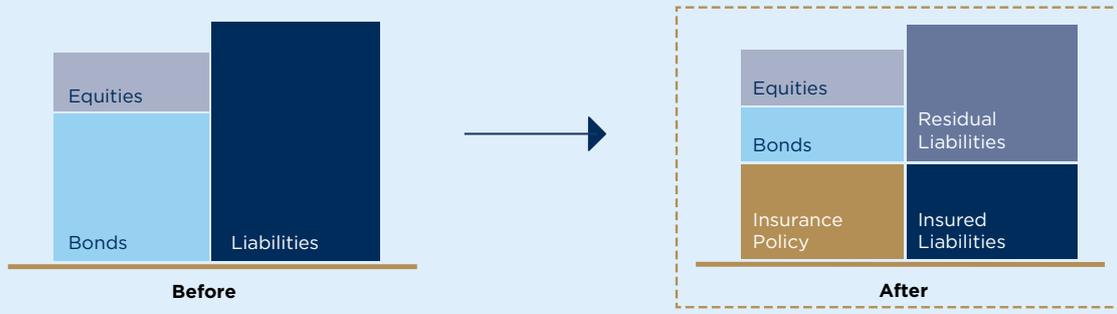
**Why consider a pensioner buy-in?**

A pensioner buy-in is an insurance contract held by the trustees of a pension plan as an investment. It fully hedges longevity, inflation and investment risk for the pensioners covered and contains provisions to ensure equitable treatment of all the pension plan’s members. The pensioner liabilities remain in the pension plan until such time that the trustees ask the insurance company to transfer the policy into the names of individual members.

Buy-ins can typically cater for transactions as small as £5m.

**Key features of a pensioner buy-in**

- A pensioner buy-in is a stepping stone on the way to full buy-out.
- A pensioner buy-in fully hedges longevity, inflation and investment risk for the liabilities covered.
- The insurance framework in the UK provides a high level of certainty that pensions will be paid.
- Back-up from the sponsoring company remains as an additional protection whilst the contract is a buy-in.
- All members are treated equitably, both on an ongoing approach and on wind-up - for example, the payments under a buy-in can be restructured to comply with the statutory priority order if required - a key trustee concern.
- Administration can be retained, so members see no change in the way their pensions are paid.
- A pensioner buy-in has no material P&L impact for the sponsoring company under international accounting standards.
- A pensioner buy-in currently costs 0% to 5% above the typical funding reserve for pensioners.



- Typically funding strains are very modest and can often be met from recent investment gains - this means no additional company contributions may be needed, even where there is a deficit.

## Why LCP's fixed-fee package?

LCP's fixed-fee service includes three elements to maximise your chances of executing a pensioner buy-in

1

### Pre-negotiated contracts with insurers

- Trustees get immediate access to better contractual terms and prices than insurers' standard contracts.
- Legal advice on the contract is provided at the start of the process. This gives trustees and sponsors full visibility of final contractual terms up-front, enabling you to transact quickly without protracted contract negotiations.
- Insurers provide competitive quotes to reflect the streamlined process - for example, insurers do not need to load legal costs into their premiums.
- Trustee confidentiality is protected through LCP's non-disclosure agreements with insurers. These are included in the fixed-fee package.

2

### Certainty of professional fees

LCP's approach includes a complete package of advice for clients within the fixed fee, including:

- A streamlined process from the strategic decisions at the start of a process through to implementing the contract after execution.
- Access to pre-negotiated contracts with four leading insurers who are active in writing transactions of these sizes.
- Legal advice on the insurance contract from leading law firm **Wragge&Co**

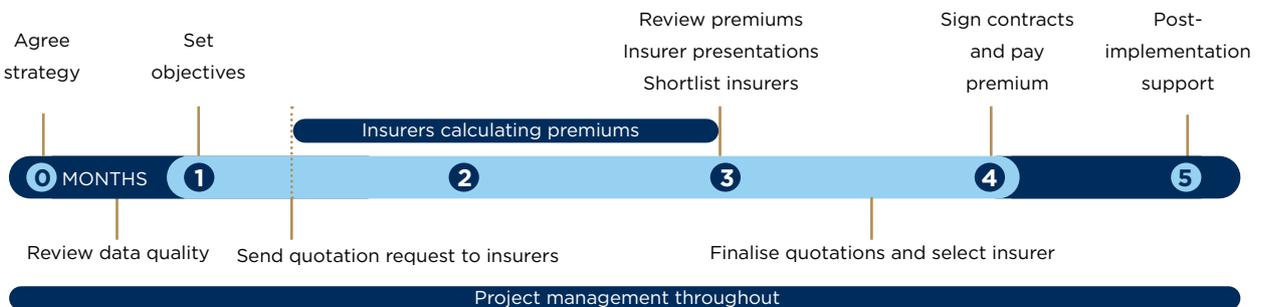
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### Streamlined process

In the market as a whole, fewer than 20% of buy-in quotes lead to a completed transaction. LCP's streamlined approach maximises the chances of transacting by removing the issues that frequently prevent deals completing. Key benefits of our approach are:

- The number of "moving parts" in the process is greatly reduced.
- Pre-negotiated contracts and legal advice are provided at the outset.
- Trustee and company time is used efficiently: expected completion time from appointment to execution is up to three months faster than a traditional buy-in process, significantly reducing the risk of price drift during the process.

#### LCP's streamlined process: typical timeline



MAXIMISES CHANCES OF EXECUTING AT A HIGHLY COMPETITIVE PRICE

LCP is a market leader in the field of buy-ins, buy-outs and longevity swaps, with considerable depth of experience across the spectrum of transaction sizes. We worked with Hunting plc to design and implement the first new-style pensioner buy-in in early 2007. More recently, we have advised on transactions for pension schemes sponsored by GlaxoSmithKline, Aggregate Industries and Home Retail Group amongst others. Our market leading de-risking advice has been widely recognised by a range of leading industry awards.



### Contact us

To find out more about LCP's streamlined approach to pensioner buy-ins and our fixed-fee service, please contact your usual LCP advisor or one of the team below.



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