PensionsWorld

Buyins need not restrict a scheme's flexibility

Rothesay life

As an insurer providing de-risking solutions, we are aware that many trustees are concerned that their decision to secure some of their liabilities with an annuity contract may prohibit their flexibility to manage their liabilities in other ways. Over the past few years, trustees have been keen to explore all options to manage their own risk and provide their membership with as much flexibility as possible. This might include:

1. Transfer exercises where members are offered the opportunity to transfer their present value of their future annuity to a defined contribution (DC) pension where they will have greater flexibility to manage their pension assets either through drawdown or through the purchase of an annuity which better matches their own position (non-increasing pension or a single life pension).
2. Trivial commutation exercises where members of the scheme with a pension of less than £1,500 a year are offered a one off cash lump sum in exchange for their future pension.
3. Pension increase exchanges (PIE) where members can forego future inflation increases in return for a higher starting pension.

Recently, one such pension scheme insured a portion of its pension liabilities with us, reducing the funding volatility for both the trustees and company. Its aim was to insure the greatest proportion of itsliabilities with a fixed contribution from the sponsor which would cover the strain between the technical provisions and the cost of the annuity.

Shortly afterwards, the scheme wanted to offer its pensioner members a PIE. Working with the trustees, we agreed a methodology to reshape the insurance we provided to reflect the change in liabilities. This reshape allowed us to offer the scheme a refund, as the new liabilities were cheaper to insure due to the lower associated hedging costs. The value created through the PIE was then used to cover the strain between technical provisions and the annuity cost on a further buyin contract.

Working together, we increased the total liabilities insured by 50% with no additional funding strain for either the scheme or the sponsoring employer. As such, many concerns trustees have with annuities curtailing their options can be mitigated by working closely together.

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