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The range of DB pension risk transfer solutions

This summary note provides a high-level overview of the increasing range of solutions that enable pension scheme trustees and sponsors transfer risk to third parties. These range from well-established solutions like buy-ins with insurance companies to some of the newer options like superfunds and capital-backed journey plans. There is also a wider spectrum of consolidation approaches such as use of professional trustees, fiduciary management or DB master trusts which can be useful stepping stones to risk transfer or valid long-term strategies in their own right. These should be considered as part of journey planning but are not covered further in this note.

The increasing choice of options means that scheme trustee and sponsors are better able to select and tailor options that meet their own circumstances and objectives, improving outcomes for not only sponsors and trustees, but also members. With more routes to follow and alternative destinations to head for, the traditional path to buy-out may no longer be the one which best meets your objectives. Speak to your Mercer consultant to understand how these options might work for your scheme.

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<tr><th rowspan="2"></th><th rowspan="2">Capital Backed Investment Products</th><th rowspan="2">Longevity Swap</th><th colspan="2">L&G Structured Products</th><th colspan="2">“Superfunds”</th><th rowspan="2">(Partial) Buy-In</th><th rowspan="2">Captive Buy-In</th><th rowspan="2">Buy-Out</th></tr>
<tr><th>Insured Self-Sufficiency (ISS)</th><th>Assured Payment Policy (APP)</th><th>Clara-Pensions</th><th>The Pension Superfund</th></tr>
<tr><td rowspan="2">What is it?</td><td rowspan="2">Additional capital provided by third party to support investment risk during journey to full buy-out

Capital can be provided directly, or in alternative form e.g. surety bond</td><td rowspan="2">Asset owned by the pension scheme which insures longevity risk for a proportion of liabilities (typically pensioners)

Longevity risk is typically transferred to reinsurance market</td><td rowspan="2">L&G provide investment management and additional security to support long term run-off (or potentially ultimate buy-out), but without full protection against extreme downside outcomes</td><td rowspan="2">A buy-in style insurance policy based on expected, not actual, cashflows which insures investment-related risk, but not longevity risk
Includes the potential to convert the policy to a buy-in in the future</td><td colspan="2">Full risk transfer for sponsor and trustee, covering all scheme liabilities but with lower capital protection than buy-out</td><td rowspan="2">Bulk annuity held as a scheme asset which matches a subset of liabilities (often pensioners)</td><td rowspan="2">As per buy-in, Trustee receives bulk annuity from regulated insurer but insurer reinsures policy to sponsor-owned captive insurance vehicle
Insured risk transfer for trustee while sponsor retains upside (and risks)</td><td rowspan="2">Fully insured solution for liabilities of all scheme members
Full risk transfer for sponsor and trustee
Often considered “gold standard”</td></tr>
<tr><td>“Bridge to buy-out” model – scheme held as segregated section within ‘superfund’ until later buy-out</td><td>“Run-off” model – scheme added to consolidated ‘superfund’ targeting long-term run-off
One-way profit sharing model could enable uplifts to member benefits</td></tr>
</table>

Which schemes should consider this?	Schemes looking to accelerate and/or access more security on the path to buy-out and are prepared to take (capital backed) investment risk in the interim	Schemes looking to reduce longevity risk but wanting to retain assets to maintain flexibility of investment strategy	Schemes looking to significantly reduce investment (and longevity) risk at a lower cost than buy-in	Schemes targeting buy-out in the medium term potentially via committed contributions and a low-risk investment strategy	Trustees with sponsor covenant concerns looking to improve member outcomes Sponsor looking to achieve clean break at cost below buy-out Schemes in PPF assessment		Schemes targeting full buy-out who are keen to reduce risk in smaller steps	Schemes targeting risk transfer, but with sponsor looking to unlock value from pension scheme assets and investment strategy	Schemes looking to secure members' benefits in full and sponsor seeking to completely remove pension risk from balance sheet
What size of scheme could consider this?	Liabilities of £50m plus (depends on provider)	Minimum pensioner liabilities of £50m	Liabilities above £250m	Potentially any size; ideally deferred pensioner heavy	Potentially any size Deferred-heavy liability profile or any scheme close to PPF assessment		Any size	Liabilities above £500m likely to be required to justify set-up and operating costs	Any size
Buyout funding level required + any future contributions	75%-90% (depending on provider)	Not limited by funding level	>85%	No limit but consider impact on journey plan	At least 85%, and higher if less deferred pensioner heavy		No limit but consider impact on journey plan	No limit but likely to require additional sponsor funding/capital to set up	100%
Sponsor covenant retained?	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No
Providers	Aspinall Capital Partners, Pension Safeguard Solution (Carlyle/Punter Southall), and potential other new entrants Surety insurers	Zurich; potentially L&G or captive structure to front transaction Around 10 reinsurers to take longevity risk	Legal & General	Legal & General	Clara	The Pension SuperFund	Bulk annuity insurers	2 -3 insurers willing to front captive structure	Bulk annuity insurers