



# Bulk Annuity Services

Working with Willis Towers Watson

It's a busy market and Willis Towers Watson has been at the forefront, driving innovation for large and small transactions.



- Experienced adviser to transactions ranging in size from £2m to £3.6bn
- Advised on bulk annuity transactions covering over 50% of the liabilities insured over the last three years
- Leading adviser to insurers on transactions to sell their annuity portfolios



- First collateralised buy-in
- First 'all risks' buy-in
- First tail risk buy-in solution



- Stream-lined approach for efficient and quick transactions
- Advised on over half the partial buyout cases to date, helping to reduce scheme size
- Strong relationships with the provider market leading to the best solutions for our clients





## Bulk annuity services

If you are reading this document, it is because you have an interest in a bulk annuity transaction: a buy-in or a buyout.

It is also possible that you have not yet decided which actuarial, investment and settlement advisers you are going to appoint to help guide you in your journey to self-sufficiency, and perhaps, ultimately, a buyout of all your liabilities.

In the pages that follow, we will look at the current position of the bulk annuity market and explain how we have been involved with the development of the solutions being offered today and share details of some of the deals we have been involved with, including some case studies.

We will also tell you about our team of transaction experts, who have unrivalled experience and innovation in delivering buy-ins and buyouts for clients. Today we have more than 15 dedicated transaction specialists, who are supported by a further 30 individuals with transaction experience. This team brings together a wide range of backgrounds in insurance, investment, administration and pension consulting, as well as in-house experience from a number of insurers and investment banks.

This wealth of experience and depth of expertise means we can support both the very largest and most complex transactions, as well as the smallest deals that need a more streamlined approach, calling on our tried and tested processes, project management strength and efficient implementation.

Whether you are looking for a long-term strategic partnership, or support to deliver a rapid, tactical transaction project, we have the resources and skills to help your transaction succeed.

We look forward to working with you.



**Ian Aley**  
**Head of Transactions**  
+44 20 7170 2692  
[ian.aley@willistowerswatson.com](mailto:ian.aley@willistowerswatson.com)

# Bulk annuities

In recent years, the buy-in and buyout market has grown significantly, despite at times challenging economic conditions.

In fact, since the beginning of 2012, we have advised on over 50 bulk annuity deals, ranging in size from £2m to £3.6bn. Some of these transactions have been completed in a handful of weeks, whilst others have taken a few months.

The bulk annuity market is ever evolving and we continually invest in our intellectual capital, relationships with providers and price-tracking systems to ensure we fully understand the market and the opportunities it offers for our clients.

## An ever-evolving market

The bulk annuity market is an increasingly attractive way of managing both investment and longevity risk. With many insurers looking to fill the gap in their new business after the 2014 Budget changed the individual annuity market overnight, deals are currently being transacted at very competitive pricing. The process to transact is now tried and tested and many schemes are able to turn around projects and achieve their aims in a matter of weeks, by taking the right actions now to ensure they attract the best pricing. We have seen the market develop in a number of ways:

- Many schemes have accessed the buy-in market to help manage a concentration of risk within their membership profiles, by 'top-slicing' or removing the risk relating to the highest earners.
- Since the first whole-of-market medically underwritten deal in 2013, medical underwriting, where a members' medical history is examined to understand their life expectancy, has become a standard tool to achieve competitive pricing.
- With gilt yields at historic lows making full buyout unaffordable for some schemes, partial buyout is increasingly an attractive option for sponsors looking to shrink the size of the scheme on their balance sheet.
- The market has been increasingly able to cover deferred members as part of transactions, with the EMI deal being a good example of competitive pricing in this space. After the introduction of Solvency II from the end of 2015, we expect to continue to see competitive pricing for pensioners, but we expect some price increases for deferred pensioners.

## Strong relationships

Our consistent market presence has allowed us to build strong relationships with the bulk annuity provider market, recognising that good outcomes require a balance of strong negotiation and collaborative implementation. We maintain these relationships through regular strategy meetings with each provider, so that we know who has appetite when, and for what, and who has some new ideas which might meet our clients' developing needs.

## Monitoring

Willis Towers Watson's Settlement Watch data uses information received each month from a panel of providers, as well as the data we gather from live cases, to help our clients monitor the buy-in market. Our Asset Liability Suite software also allows clients to monitor their buy-in funding level against market pricing on a daily basis and set trigger points for action.

## Some definitions

**Buy-in** – A bulk annuity policy that is owned by the trustees, and which remains a scheme asset. The insurance company pays pension payments to the trustees. The trustees still have legal responsibility for paying member benefits.

**Buyout** – Each individual member holds their own policy with the insurer. Legal responsibility for paying members' pensions passes to the insurance company.



## Keeping it simple

As buy-ins have become more commonplace, we recognise that trustees and sponsors are increasingly looking for a streamlined transaction process.

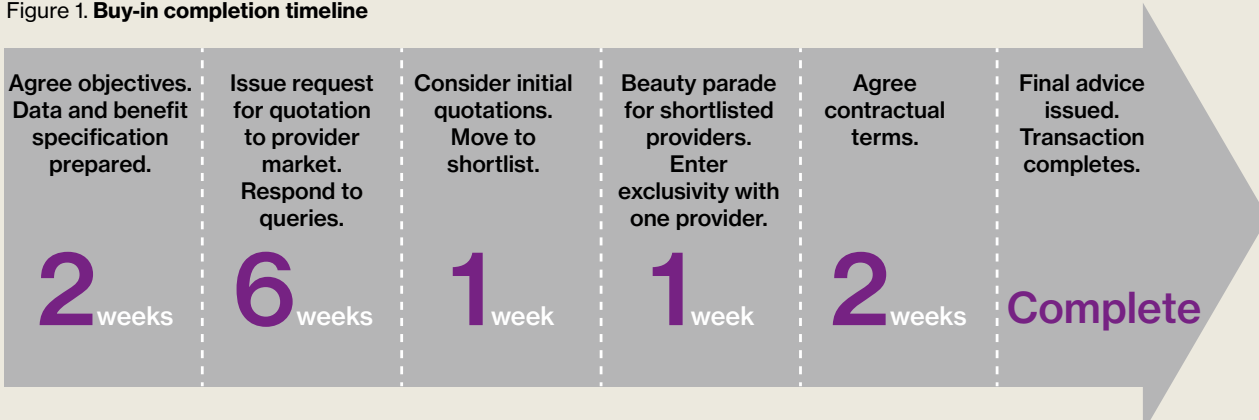
Since the start of 2012 we have advised on over 30 deals of less than £100m and we have used this experience to develop a framework that allows us to meet each client's requirements – including:

- A **fixed fee** for legal and transaction areas of the project.
- A **streamlined legal process** using pre-agreed term sheets with the major insurers. The contracts can then be efficiently customised to the specifics of the scheme.
- An upfront discussion on **objectives** to understand the scheme's strategy.
- A well-managed **provider selection process** that ensures the best premium is achieved.
- **Clear, simple and strategic advice** at all stages of the project.

- **Strong project management** throughout, with regular updates to all key stakeholders. The project management includes management of the provider, legal advisers and administrators.

Willis Towers Watson's streamlined buy-in service eliminates the hurdles that previously faced smaller schemes looking to insure all or part of their liabilities. This service provides access to improved insurer pricing and terms that would otherwise be unavailable for deals of this size, making a buy-in a more affordable solution. Willis Towers Watson has partnered with leading UK law firm Burges Salmon LLP to pre-negotiate terms with the major insurers and we were able to leverage the scale of our client base in agreeing the terms of the offering. On top of this, competitive tension is maintained, with our streamlined service incorporating all market participants within a competitive pricing process to ensure that the best possible price is achieved. *Figure 1* shows a typical timeline for a streamlined buy-in.

Figure 1. Buy-in completion timeline





# Case studies

## Buyout covering all members – NCR Pension Plan

In June 2015, the NCR Pension Plan granted benefit augmentations of 10% to 15% to members after a successful wind-up process. This followed the November 2013 buyout of the benefits for all members of the Plan in November 2013 with Pension Insurance Corporation (PIC) at a cost of £670m. This was one of the largest non-pensioner populations to be bought out with approximately 65% of the liabilities in respect of deferred pensioners.

The sponsor and the Trustee were able to reach their objective very efficiently. The Trustee identified market opportunities by proactively monitoring funding and agreeing triggers for action, then moving from competitive provider selection to transacting in approximately five weeks. The key reasons for this success were:

- The dedication and commitment of the Trustees to make decisions quickly and engage in the project.
- Project management, enabling all parties to focus on what they needed to do without any distraction.
- Prioritising data cleansing of the items which would have the most impact, to minimise both the risk premium paid to the insurer and the period to completion.
- Working collaboratively with the insurance market to lock out market risk during the transaction period.
- Regular communication with members throughout the process to allay any concerns and uncertainty about the change.

Following completion of the buyout and final data cleansing, there was a surplus of £90m which was used to enhance members' benefits by between 10% and 15% over and above those guaranteed by the Plan.

*We appointed Willis Towers Watson to lead us through the buy-in opportunity, things moved very quickly supported by Willis Towers Watson's Project Management Team.*

*The Trustee Board was particularly impressed by the whole Willis Towers Watson team, they guided us through every step which was in the interest of our members and the Corporation.*

– Stephen Swinbank, Chairman of Trustees, NCR Pension Plan



### Project Strata – using top-slicing to remove risk and improve funding

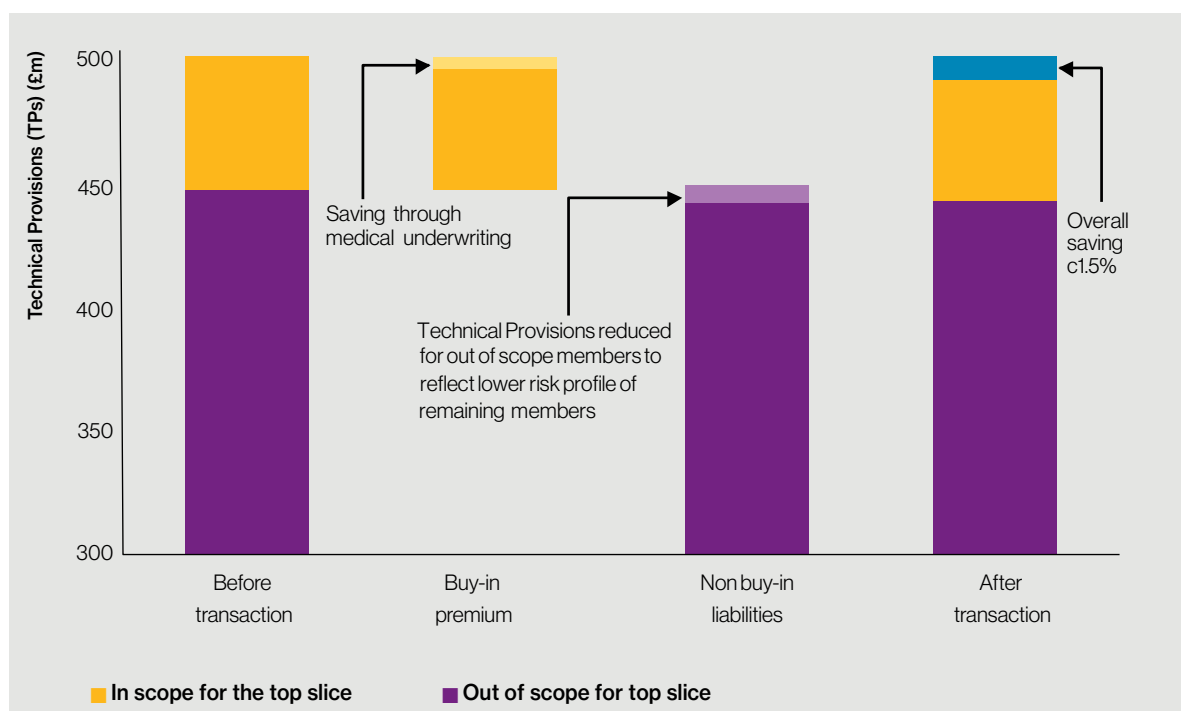
After setting an objective to de-risk the Plan if sufficiently attractive pricing was achievable, we helped the Trustee and Company of the Strata Pension Plan to identify that around 10% of the Plan’s liabilities were in respect of 1% of the membership, representing a significant concentration of risk.

After carrying out an indicative feasibility exercise which indicated that it could be possible to remove this risk through a medically underwritten buy-in transaction for a premium broadly equivalent to the funding liability for these members, we helped the Trustees through the transaction process.

Our relationships with key market providers and our experience in running an efficient and competitive tender process allowed the Trustees to select the right provider and achieve a transaction price significantly below the Plan’s Technical Provisions. The Trustee and Company are very pleased at the savings and risk reduction achieved and are already progressing with a similar further transaction.

Not only did this transaction allow the Trustee to remove risk from the Plan at a fantastic price, it will enable the Scheme Actuary to reassess the funding assumptions for the longevity of the remaining members in the Plan at the next valuation and make a further reduction to the Technical Provisions. *Figure 2* illustrates the savings achieved.

Figure 2. Illustrates the savings achieved





# Case studies

## MNOPF – Completing the journey towards full settlement

Following two substantial buy-in transactions in 2009 and 2010, the Trustee of the Old Section of the MNOPF took their **next step towards full buyout** in December 2012. The £680m pensioner and deferred pensioner buy-in contract with Rothesay Life covered the **remaining 40,000 members**.

A **target premium** was agreed with the selected provider while **due diligence** was carried out.

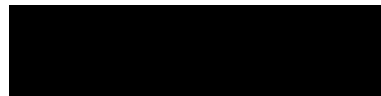
Assets were restructured to provide the **best chance of meeting the target**. Equities were sold in stages as the likelihood of a transaction increased. The target was met in early December and an **immediate in-specie transfer** of assets could then take place.

A **structured communications** plan ensured members were aware of the potential buy-in and understood the implications.

This was an **'all-risks' contract** covering areas such as data changes and overlooked beneficiaries to protect the Trustee against future unknown liabilities.

*Improving the funding position from a little over 80% in 2009 to full funding today, and completing this transaction, has been a tremendous achievement in these very difficult markets. Our actuarial, investment and settlement advisers, Willis Towers Watson, have been outstanding in helping the Trustee reach this position.*

– Andy Waring, CEO, Merchant Navy Officers Pension Fund





*Willis Towers Watson provided us with outstanding and consistent support throughout a UK benefits harmonization project that included the buyout of a defined benefit pension plan. From scenario planning, risk and opportunity analysis, communication, project management and implementation, the Willis Towers Watson team was incredibly valuable in the successful outcomes achieved.*

– Richard Thompson, Director, Finance and Planning,  
Walt Disney Company Limited

### Phased journey to wind-up – Hitachi Data Systems

The Trustees of the Hitachi Data Systems Retirement Benefits Plan worked jointly with the plan sponsor to establish a **journey plan to achieve wind-up** of the Plan by 2022 or earlier if conditions are favourable.

The **first stage of the journey plan was a buy-in** covering 77 current pensioners. Legal & General was chosen as the provider partner after a selection exercise led by Willis Towers Watson, and the transaction completed in November 2012 at a premium cost of £19m.

Immediately following this, an **early retirement exercise** was launched offering enhanced terms to members which still resulted in savings for the company against a solvency measure. Financial guidance was provided to members by Willis Towers Watson to comply with the Code of Good Practice on Incentive Exercises. **A take-up rate of 55%** was achieved along with excellent member feedback on the guidance received.

A **second buy-in** of £11m was completed for the new tranche of 44 retirees in June 2013, which was transacted with L&G **within three weeks** of receiving an initial quotation using a **streamlined process**. The two buy-ins mean the Trustees have hedged investment and longevity risk for almost **60% of the Plan's liabilities**.

The Trustees and company continue to **monitor the solvency position** using Willis Towers Watson's **Asset Liability Suite software** to enable them to take advantage of an opportune moment to undertake further de-risking or buyout the remaining members and wind up the Plan.



# Willis Towers Watson's transactions team

Our team works in partnership with clients, providing you with the right strategic advice, and then implementing decisions effectively.

Every transaction is different and has its own specific requirements. Our team of over 15 experienced specialists are able to draw on a wide range of Willis Towers Watson's expertise in relevant areas including project management, data assessment and cleansing, investment advice, asset

transition management and insurance, enabling us to work with you to complete transactions efficiently and effectively.

To find out how you can benefit from working with Willis Towers Watson's transactions team, please contact your Willis Towers Watson consultant, or



**Ian Aley**  
**Head of Transactions**  
+44 20 7170 2692  
ian.aley@willistowerswatson.com



**Keith Ashton**  
**Head of Risk Solutions**  
+44 1737 274629  
keith.ashton@willistowerswatson.com





## Why work with Willis Towers Watson

Willis Towers Watson has considerable experience in providing complete solutions covering all aspects of buy-in and buyout exercises. We are uniquely placed to work with you in achieving your objectives for the scheme because of our:

### Unrivalled experience

Our team of specialists has more experience of transacting bulk annuities than any other firm in the market. Our expertise and knowledge of insurer pricing can help your scheme achieve the best value.

### Strategic advice

We take a holistic, integrated approach to advice and implementation, bringing together experts in transactions, investment, retirement, risk and project management.

### Market-leading track record

Willis Towers Watson has a long history of working with our clients and the market to develop the right solution for them, whether this is an innovative structure or an efficient and quick transaction. We have advised on a huge range of deals, from £2m to over £3.6bn and our strong relationships with the bulk annuity provider market enable us to identify the right opportunities and achieve the best prices for our clients.

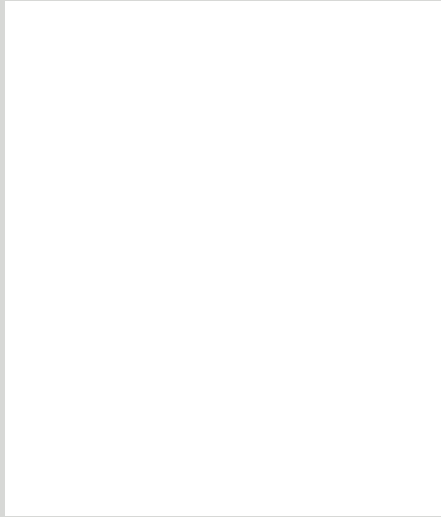
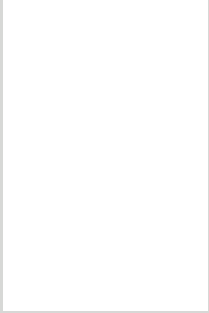
### Track record of transacting

We have a very high completion rate for transactions that we're involved in.

### Streamlined processes

We use our knowledge and experience to provide cost-effective, streamlined solutions for schemes of all sizes.





## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 39,000 employees in more than 120 countries. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at [willistowerswatson.com](http://willistowerswatson.com).

Willis Towers Watson  
71 High Holborn  
London  
WC1V 6TP

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