

Insured Self-Sufficiency

A further de-risking option

► In brief

- We look at a new solution from Legal & General which involves handing over control of the scheme's investment strategy, with the insurer taking the losses
- Legal & General's target market is schemes of £250m or greater. In our experience they will look at schemes just below this limit, but that may impact pricing
- For well-funded schemes that are large compared to their employer, it can provide a welcome safety net on the last part of the journey to buyout

► Next steps

- Consider how Insured Self Sufficiency compares to other options: whether it improves member security; what it can add that Trustees cannot do themselves; and whether it impacts on flexibility for the scheme
- Review the increasingly broad range of solutions to manage pension risk towards the end game
- It will be important to review pricing and the ultimate cost to the scheme of the protection provided

All schemes must now have a long term funding target and a plan to get there. While we wait for the Pensions Regulator to further develop its new funding code and while views are consolidating on secondary targets, the de-risking market is already responding. There has been a lot of talk in the market about superfunds, but large insurers are also finding ways to meet pension schemes earlier in their journey to the end game.

The solution receiving the most press is Legal & General's Insured Self-Sufficiency or ISS.

Under ISS, Legal & General runs your pension scheme like an insurance company, primarily doing two things:

1. Manages the scheme's assets on a cashflow matched basis to target delivery of a return that steps the scheme to full buyout over time.
2. Provides a capital buffer that insures the scheme against adverse demographic and investment risk. This insurance provides protection equivalent to a 1 in 200 year event (equivalent to around a 10-15% buffer).

In parallel to ISS, Legal & General have also developed an optional solution which establishes a special purpose vehicle to provide continuity to the scheme if the employer becomes insolvent. This allows the ISS structure to remain effective through insolvency.

What is the cost?

ISS is expected to be cheaper than superfund entry costs and cheaper than a full buyout. But the employer ultimately remains responsible for the liabilities.

Relative cost of de-risking approach



Source: XPS analysis.

Notes:

1. Scheme is a majority of deferred members. For a pensioner in payment scheme, all three bars would be of a much more similar height.
2. ISS cost assumed to be broadly equivalent to gilts+0.6%.

About us

XPS Pensions Group is the largest pure pensions consultancy in the UK, specialising in actuarial, covenant, investment consulting and administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs of over 1,000 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 870,000 members and provide advisory services to schemes of all sizes including 25 with over £1bn of assets.

XPS' specialist Risk Transfer team has advised on buyouts, buy-ins, PPF cases with over £12bn in bulk annuity transactions across more than 100 schemes. XPS maintains close links with insurers and expertise on the range of options available in the market.

For further information, please get in touch with Ash Williams.



Ash Williams
Senior Consultant

 01483 330 114

 ash.williams@xpsgroup.com

 @xpsgroup

 company/xpsgroup

Alternatively, please speak to your usual XPS contact.

Award winning



WINNER
Actuarial/Pensions
Consultancy of the Year



WINNER
Third Party Administrator
of the Year



RATED TOP
for the fifth time in six years

© XPS Pensions Group 2019. XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 03842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. Trigon Professional Services Limited, Registered No. 12085392. All registered at: Phoenix House, 1 Station Hill, Reading RG1 1NB.

This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.