

# *How to maximise insurer engagement to access better pricing and terms*

A guide to LCP's streamlined service  
for buy-ins and buy-outs



## Introduction

*A key challenge for buy-ins and buy-outs under £200m is being crowded out of an increasingly busy market. LCP's streamlined service can help you maximise insurer engagement to overcome this challenge. It also helps you achieve better pricing and commercial terms with certainty on fees and timescales.*



*David Stewart  
Partner*

## The threat of being crowded out

*Pension schemes, large and small, are heading to the same end-game at the same time. However with resource constraints on the insurers we are already starting to see evidence of smaller schemes getting crowded out with insurers focusing on the larger transactions.*

*At LCP we think schemes looking to do transactions under £200m should focus on:*

**1.** *Engage effectively with insurers to get the best price and terms.*

Our research shows that schemes who fail to get “engaged pricing” from insurers can pay up to 5% more. Over-paying aside, this can also lead to otherwise feasible transactions not completing as they are deemed unaffordable or poor value.

**2.** *Be in a position to act quickly if opportunities arise.*

The advantage smaller schemes have is that they can be nimble and move far more quickly than larger schemes when these pricing opportunities arise. However, without a strong process in place, problems can arise. This is why we have designed a fixed-fee streamlined service to help our clients execute quickly at a highly competitive price.

Over recent years the **number of transactions under £100m have fallen** as they have been crowded out by larger transactions



## Benefits of a fixed-fee streamlined service



**Insurers are more likely to quote** - by reducing the number of moving parts, insurers are more willing to quote and offer more competitive prices. This maximises your chances of transacting at a highly competitive price



**An “engaged” price** - at every stage the streamlined service is designed to help you be attractive to insurers (ie by ensuring your data and governance is working for you) so that you benefit from better pricing



**Better terms** - using pre-negotiated contracts with insurers provides immediate access to an improved contract compared to insurers’ standard terms for schemes looking to do smaller transactions and avoids the lengthy legal negotiations needed to secure similar terms in the open market.



**Certainty on fees** - as well as advice from LCP, the fixed fee for professional advice also includes legal advice on the contract from leading law firm Gowling WLG.



**Shorter timescales and reduced costs** - our streamlined service is just that, streamlined. In fact, typically transactions take just three months from the decision to go to market. This, combined with fixed fees, means the streamlined service is an excellent value de-risking route for pension schemes.

*LCP’s fixed fee streamlined service is suitable for pension plans considering buy-in or buy-out transactions of up to broadly £200 million.*

LCP also offers a streamlined service where the scheme lawyers advise on the legal contracts. A list of Requested Contractual Terms are agreed with the lawyers upfront and issued to ensure the legal process remains swift and efficient.

*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.*

*Swedish Match AB*

# What are the options for smaller schemes?

## *Pensioner buy-in*

- A concrete de-risking step that offers attractive value.
- Facilitates any future full buy-out when affordable.
- Fully hedges longevity, inflation and investment risk for the liabilities covered.
- Pricing is typically in line with a gilts-based funding reserve for pensioners. Therefore no material funding impact if premium is paid for in gilts.

## *Full buy-out*

- Passes responsibility of paying benefits to members to an insurance company.
- Removes pension liabilities from the plan and the company balance sheet in full.
- Discharges trustees from any liability to meet future pension benefits for all insured members.



*LCP have delivered excellent advice, guiding us from a position of considerable deficit to a successful buyout, eventually securing all the liabilities of the scheme at a much lower cost than expected.*

*TH White Pension and Life Assurance Scheme*

# Streamlined service explained

LCP's fixed-fee streamlined service works to maximise your chances of executing a buy-in or a buy-out.

## Pre-negotiated contracts with insurers



- Trustees get immediate access to better contractual terms than insurers' standard contracts.
- Legal advice on the contract is provided early in the process. This gives trustees and sponsors full visibility of final contractual terms prior to selecting their insurer, 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.

## Certainty of professional fees



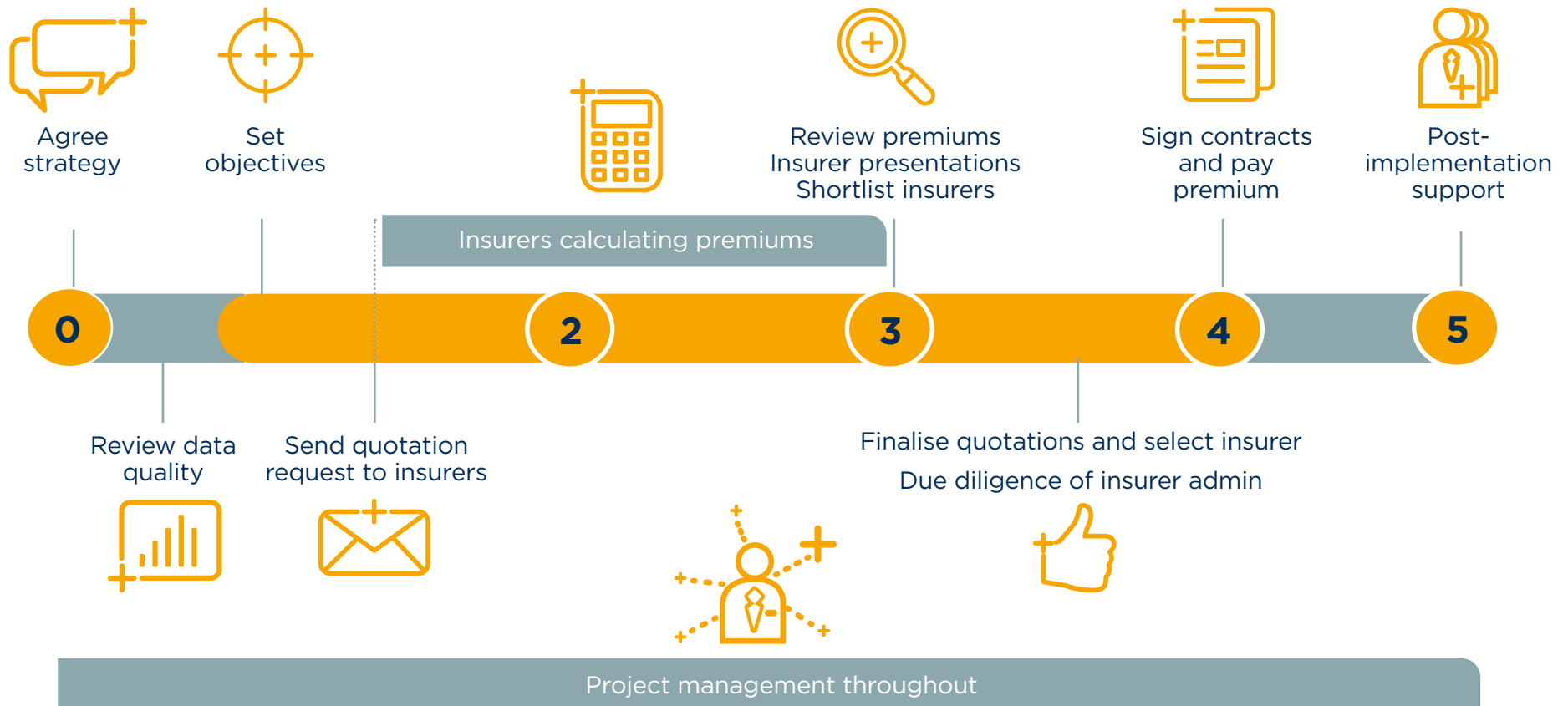
- LCP's approach includes a complete package of advice for clients within the fixed fee, including:
- A robust process from the strategic decisions at the start of a process through to implementing the contract after execution.
- Access to pre-negotiated contracts with the insurers who are active in writing transactions of these sizes.
- Legal advice on the insurance contract from leading law firm Gowling WLG.
- Due diligence on the administration capabilities of each of the insurers.
- Project management throughout.

## Streamlined process



- In the market as a whole, only about 60%-70% 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 remove the risk of the transaction failing due to protracted legal negotiations.
- Trustee and company time is used efficiently: expected completion time from appointment to execution is up to three months faster than a traditional process, significantly reducing the risk of price drift during the process.

## LCP's streamlined process: typical timeline



*Typically transactions through the streamlined service take just three months from the decision to go to market.*

# Why LCP?

LCP was the first consultancy to launch a streamlined buy-in and buy-out service for schemes looking to do smaller transactions in 2010. By 2020 we had completed over 50 transactions with total premium of over £1.5bn and a conversion rate of 95%. It is this strong track record that maximises insurer engagement, meaning more insurers quote which leads to more competition and better pricing.

## Case study

One example of a smaller pension scheme that has benefited from our streamlined service was the Visiocorp UK Limited Pension Scheme. We advised them on a £20m full buy-in that obtained competitive pricing from four insurers and took less than 3 months from start to finish.

+ [Read the full case study here](#)



Learn about LCP's pensions  
de-risking services  
[www.lcp.uk.com/riskreduction](http://www.lcp.uk.com/riskreduction)

*LCP's streamlined fixed-fee service provided a robust process in tight timescales, helping us to maximise insurer engagement and achieve competitive pricing.*

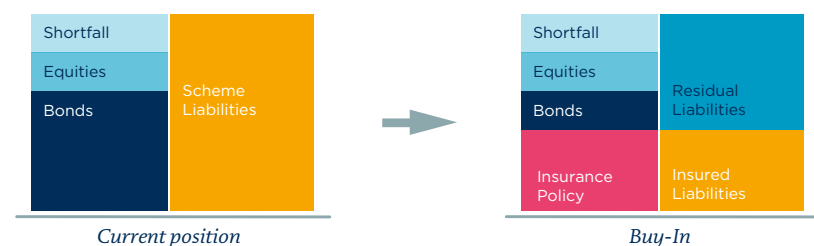
*Visiocorp UK Limited Pension Scheme*



# What are the options for smaller schemes?

## How does a pensioner buy-in work?

A pensioner buy-in is an insurance contract held by the trustees of a pension plan as an investment.



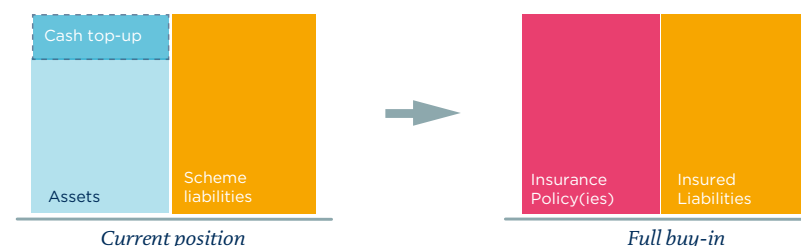
- All members are treated equitably, both on an ongoing approach and on wind-up – for example, the payments under a buy-in can be restructured to comply with the statutory priority order if required - a key trustee concern.
- Administration can be retained, so members see no change in the way their pensions are paid.
- 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.
- The insurance framework in the UK provides a high level of certainty that pensions will be paid.
- Support from the sponsoring company remains as an additional protection whilst the contract is a buy-in.

## How does a buy-out work?

A buy-out is a two stage process.

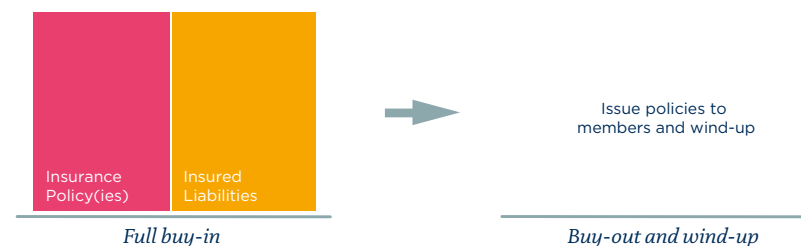
### Stage 1: The initial buy-in

A buy-in policy is secured to cover all of the liabilities in the pension plan.



### Stage 2: The full buy-out

Once the trustees are happy with the benefits secured under the buy-in, individual policies are issued to each member in the pension plan. This signals completion of the buy-out of the pension plan and the plan can wind up.



On buy-out members become insurance company policyholders, allowing them to benefit directly from the strong insurance framework in the UK, including the Financial Services Compensation Scheme.

## Contact us

If you would like more information please contact your usual LCP adviser or one of our specialists below.



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