Swan Hill marks first PIC buyout - 28 May 2008 13:30

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UK – Pension Insurance Corporation (PIC) has completed its first full buyout of a pension scheme in a £72m (€91m) deal with Raven Mount, to buyout the Swan Hill pension scheme.

Raven Mount, an AIM-listed property fund management and property development firm, acquired housebuilder Swan Hill Group in December 2003 and has since contributed around £10.3m into the defined benefits (DB) scheme to address funding issues.

The Swan Hill Pension Scheme, which closed to future accrual for existing members in December 31 2005, most recently received £1.8m of contributions in the first quarter of 2008, however the directors of the trustee board for the scheme and Raven Mount have agreed a buyout deal with PIC which will remove all exposure to the pension liabilities once the wind-up process is completed.

Under the terms of the deal, the scheme – which was £5m in surplus at end of December 2007 – will transfer its £65m of assets to PIC, while Raven Mount will pay an additional £7.25m, of which £2m is payable immediately and the remaining £5.25m, plus interest, will be paid in January 2009.

In addition, the company will also pay the costs and fees on the transaction and any further costs in the course of winding up the scheme, which is estimated to take around a year to complete.

Raven Mount claimed it had made "concerted efforts" to meet the various funding, legal and regulatory issues relating to the DB scheme, but said these "have been more than offset by the increasingly restrictive regulatory environment within which the scheme operates".

In particular, it highlighted four key areas that had helped influence its decision to buy out the scheme:

- Changes in accounting standards leading to increased volatility in reported earnings;
- The difficulty in identifying and reporting on a fair value measure for the reported liabilities of the scheme to shareholders;
- The increasing restructuring restrictions placed on companies that operate such schemes, and
- Increasing concerns about longevity trends and their impact on the scheme liabilities over the long term.

Raven Mount revealed it had been "monitoring developments in the buyout market for some time and believes that the market is sufficiently developed and the economic conditions - relevant to pension fund buyouts - are sufficiently beneficial for it to have obtained a competitive price for the transaction".

Bim Sandhu, chief executive of Raven Mount, said: "Whilst the transaction in the short-term comes at a significant financial cost to the company we believe it brings considerable benefits which more than offset the cost being paid."

Sir Brian Hill, on behalf of the independent directors of the trustee of the Swan Hill pension scheme, added: "The decision now taken meets the interests of all parties - the scheme, all its members and the company. It is a significant achievement."

PIC's official entry into the market as a buyout provider – having previously engaged in pension fund sponsorship and the recently-launched longevity insurance – follows research from Watson Wyatt suggesting the number of buyouts completed in 2008 is just the "tip of the iceberg".

Despite the recent high-profile buyouts of the first FTSE 100 companies Friends Provident and Lonmin – as well as an expected move by Tate & Lyle and Cable & Wireless – Watson Wyatt claimed UK companies' appetite for transferring pension risks remains "largely unsatisfied". *(See earlier IPE story: Tate & Lyle considers "de-risk" to DB scheme)*

The firm revealed it is currently advising corporate and trustee pension fund clients with combined pension fund liabilities of more than £100bn on both buyouts and related issues.

This is significantly higher than the total value of the bulk annuity market in 2007, less than £4bn, with many consultants such as Aon and Lane Clark & Peacock (LCP) predicting the sector will hit £10bn before the end of the 2008. *(See earlier IPE story: Credit crunch boosts buyout market)*

John Ball, head of UK DB consulting at Watson Wyatt, said: "The transfer of pension liabilities completed so far is just the tip of the iceberg when you look at the level of interest in these solutions. Many companies see buyout as the ultimate destination for their pension fund and are now thinking seriously about how to get there."

However, he pointed out there are a "number of routes to settling pension liabilities" and predicted some schemes "will take the fast lane and transfer their liabilities in a single transaction" but highlighted for many pension funds this is "not affordable in the short-term".

"Nevertheless, approaching the same destination more slowly is increasingly on the agenda. This might involve buying annuities in stages as resources allow," Ball added.

A combination of increased competition, improved mortality factors and increased bond yields have brought buyout prices much lower, and Ball warned companies and trustees they should have a strategy to make sure they are "ready to act quickly when they can afford to".

He pointed out this means "keeping an eye not only on the price but also on how investment returns affect the amount of money they have to spend", which is likely to mean monitoring changes in the financial position of the pension fund "much more frequently than has historically been the case".

If you have any comments you would like to add to this or any other story, contact Nyree Stewart on + 44 (0)20 7261 4618 or email nyree.stewart@ipe.com

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