



Should size be a barrier to buyout?

By Craig Brown, Institutional Distribution Director, Mobius Life

Rising markets have improved the funding position for many pension schemes. In fact, Lane Clarke & Peacock's 2018 Accounting for Pension survey tells us that FTSE 100 pension schemes' deficits have fallen dramatically over the last year or so resulting in the best funding levels for a decade.

This has also meant that buy-out funding is at the highest levels, with many schemes actively pursuing buy-out.

That's great news for the big beasts of the pension world. But does it also mean that some smaller schemes could be in a position where buy-out is a possibility?

In practice it is difficult for small schemes with less than £20 million in assets to find an insurer willing to offer them bulk annuities.

That is a pity as of the 5,000+ schemes in the UK, a large proportion of these are smaller schemes which could benefit. Many will have excellent funding positions and it's also probable that some sponsors would make additional contributions just to get the pension liabilities off their balance sheets.

So, is there a way to prevent size being a barrier to buyout? Nowadays we hear a lot about the advantages of pension scheme consolidation to save cost and improve performance. But could it also be a means to get smaller schemes to buyout?

Grouping a handful of small well-funded schemes together could get the combined funds to a size where they are an attractive bulk annuity proposition for an insurer. There would be no need to consolidate liabilities; differences in pension entitlements would be maintained and each scheme will get their own buy-out policy.

And the vehicle to consolidate scheme assets is already available. Mobius Life provides asset transfer services to schemes every day. We have the resources and capabilities to consolidate the assets of multiple pension schemes into a range of blended pre-retirement funds, which are the ideal stepping stone to buyout.

Now could be the ideal time for smaller schemes to think about buyout. And size no longer needs to be a barrier.

Naturally, my comments should not be seen as a recommendation, and before proceeding, scheme trustees should seek financial advice.

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