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CIPFA Pensions Network
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West Midlands Integrated
Transport Authority
Pensioner Buy In

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Agenda

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- Introduction and Background
- Why was the transaction done?
- How was it done?
- Lessons learned and the future?

Closed Fund and rapidly maturing profile

- Two employers and one with no active members
- 90% pensioner liabilities in 10 years

Broad de-risking framework in operation for many years

- Relatively simple investment strategy
- Changes in equity/bond split planned

Funding pressures

- Conditional funding plan agreed at 2010 valuation
- Gilt matched funding for existing pensioner liabilities
- Covenant and security of funding paramount

West Midlands Integrated Transport Authority Pension Fund

Main stakeholders

- West Midlands Integrated Transport Authority
- West Midlands Travel Limited / National Express
- West Midlands Pension Fund

Professional advisers

Other interested parties

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|  | <p style="text-align: center;">Pensioner Buy-In Key themes</p>  |
| <p style="text-align: center;">5</p> | <div style="display: flex; flex-direction: column; gap: 20px;"> <div style="display: flex; align-items: center;"> <div style="background-color: #f0e68c; padding: 10px; border: 1px solid #ccc; width: 150px; text-align: center;"> Risk Mitigation and Transfer </div> <div style="margin-left: 20px;"> <ul style="list-style-type: none"> • Secures a guaranteed income into the Fund to pay pensions for certain retired members • Transfer of responsibility to pay pensions to a strong 3rd party so less reliance on the employer covenant • Positive and major step in terms of long term risk management of the Fund </div> </div> <div style="display: flex; align-items: center;"> <div style="background-color: #f0e68c; padding: 10px; border: 1px solid #ccc; width: 150px; text-align: center;"> Buy-in Cost and Funding Impact </div> <div style="margin-left: 20px;"> <ul style="list-style-type: none"> • The price for the buy-in was c£272m • The pension fund valuation liabilities being secured are c£268m • Agreed at 2010 valuation that no increase / decrease in contributions needed if price was within +/-£15m of pension fund liabilities secured </div> </div> </div> |

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|  | <p style="text-align: center;">Pensioner Buy-In Key themes</p>  |
| <p style="text-align: center;">6</p> | <div style="display: flex; flex-direction: column; gap: 20px;"> <div style="display: flex; align-items: center;"> <div style="background-color: #c1e1e1; padding: 10px; border: 1px solid #ccc; width: 150px; text-align: center;"> Transaction Process and Outcome </div> <div style="margin-left: 20px;"> <ul style="list-style-type: none"> • Robust and competitive process to arrive at preferred bidder and contractual terms • Sponsoring employer and advisers fully involved • Clear recommendation of preferred bidder (incl financial strength) • Sponsoring employer support to transaction </div> </div> <div style="display: flex; align-items: center;"> <div style="background-color: #c1e1e1; padding: 10px; border: 1px solid #ccc; width: 150px; text-align: center;"> Post Transaction </div> <div style="margin-left: 20px;"> <ul style="list-style-type: none"> • Investment strategy changes and asset transfer • Data transition and verification of final premium payable • Consideration of further requirements from sponsoring employer • Consideration and protection of the interests of other stakeholders </div> </div> </div> |

Which of the Fund's assets could be used to purchase the buy-in annuity

- An annuity is effectively a bond-like asset, providing regular income
- Used the Fund's existing bond assets in the first instance where possible
- Remainder was funded from the Fund's equity allocation

Logistics of the transfer of assets

- Transfer of stock and / or cash
- Timing considerations and costs

The post buy-in investment strategy dictated which assets to disinvest from

- Longer term post buy-in strategy needed further consideration
- Diversification away from pure UK equity risk was a key theme

Pensioners only (including spouses' and children's pensions in payment)

No new retirements

No future pension increases

No transfer of pensioner payroll

No unnecessary indemnities to insurer

Policy in name of Authority

Sponsor

- Comfort over cash input to Fund
- Longevity / interest rate risk transfer
- At an acceptable price
- Accounting impact considerations

WMITA's

- Ensure the buy-in was complementary with the agreed funding and existing de-risking plan
- Link with investment strategy for remaining assets
- A counter-party with strong financial standing and track record

Timing : market risk

- Changes in attractiveness of the transaction

LGPS Investment Regulations

- WMITA must have an explicit power to act
- S.111 LGA 1972

Procurement Regulations

- WMITA is subject to EU procurement rules
- Process driven – “Restricted Procedure”

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|------------------|---|
| 21 October 2011 | OJEU notice published with PQQ made available to potential Insurers. |
| 24 November 2011 | PQQ Return Date |
| 1 December 2011 | Evaluation of PQQs completed |
| 2 December 2011 | Invitation to tender (ITT) and eAuction process issued to qualified Insurers |
| 2 December 2011 | Clarification period opens |
| 13 January 2012 | Clarification period closes |
| 3 February 2012 | Tender Return Date |
| 10 February 2012 | Evaluation of ITT (non-price aspects of the proposal completed) |
| 14 February 2012 | Trial run of eAuction |
| 16 February 2012 | Electronic auction process |
| 16 February 2012 | Evaluation of tenders completed |
| 17 February 2012 | Commencement of contract review, Financial Strength review and Formal recommendation report |
| 14 March 2012 | Completion of contract review, Financial Strength review and Formal recommendation report |
| 26 March 2012 | ITA Board meeting for sign-off |
| 27 March 2012 | Alcatel letter and start of 10 day standstill period |
| 18 April 2012 | Contract signature |

FSA Authorisation

Main stakeholders

- Activity and staff numbers
- Experience

Financial security – simple pass / fail at this stage

Disputes

Insurance market interest?

ITT and E-Auction

Common data provided to each insurer

- Membership data
- Benefit specification

Asked to provide an indicative premium

- This is to be their opening bid for E-Auction
- Comparator figure on funding basis

The ITT specified basic legal and contractual requirements

- Sample contracts were requested

Award panel membership

- Many insurer queries and clarifications

Price was the sole criterion for the E-Auction

- Designed to get the best outcome within the procurement process

Contract Design

Actual details confidential

Payments on account

Data changes

Market adjustments

Collaboration / project management

Procurement process useful in setting boundaries for contract negotiations

Insurers' understanding of public sector pensions enhanced

Private sector knowledge vital but parties cannot expect same contractual freedom

Have a Press announcement ready!

A viable risk management option

- Closed employers or employer groups?
- Legacy liabilities
- Maturing Funds
- Existing risk management frameworks

Price important but not the only factor

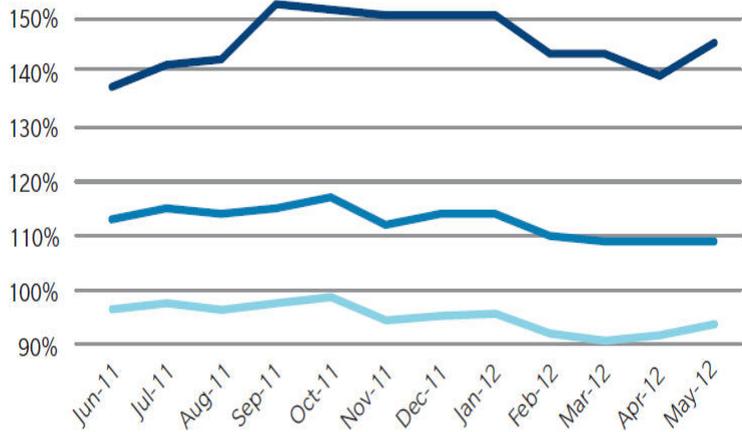
- Counter-party risk
- Market capacity
- Market risk

Framework approach?

- Speed of transaction
- Competition

Based on a pension plan with a mixture of pension increases

- Whole plan vs accounting liability
- Pensioners only vs funding liability
- Pensioners only vs cautious funding liability



Source : Mercer buyout index

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