

Aon helps land £850m buyout of PA Consulting's pension scheme

Russell Powles explains how Aon guided PA Consulting to a successful buyout two years ahead of the proposed schedule



When PA Consulting appointed Aon in 2016, its desire was to understand ways of reducing risk in its pension scheme and to move closer to the ultimate goal of securing all pension benefits with an insurance company. At the time, the scheme was considering a partial buy-in of the pensioner population as a way to help reduce risk.

Aon challenged the company to rethink the focus of their strategy and to instead target a full scheme buyout within a shorter timeframe. Aon was able to demonstrate that a full scheme buyout could be achieved by 2020 – a target that other firms believed to be unachievable at the time. What unfolded over the next two years was a carefully considered set of actions to help guide PA Consulting and the scheme to reach their goal – two years ahead of the proposed schedule.

Taking pro-active steps to achieve better outcomes

In 2016 the scheme was some way off – in the region of £110m – from being able to buy out the pension benefits with an insurance company. The strategy was put in place to target buyout by 2020 and it began with a data cleaning exercise that would eventually help to reduce the buyout deficit by some £10m.

The next key stage in bridging the gap to buyout was to introduce a Pension Increase Exchange exercise in 2017. Members were provided with the opportunity to exchange the part of their pension that

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received increases in retirement, for a higher flat rate pension. The outcome was that 41% of members accepted the offer, helping the scheme to reduce inflation risk and reducing the buyout deficit by c.£15m by making it simpler to insure. This was a considerable level of take-up for such an exercise and was a testament to Aon's clear and well-structured communications, which made sure that members could fully understand and engage with the offer.

The final key stage was to run an enhanced transfer value (ETV) exercise. Members were given the option to transfer out of the scheme at an enhanced rate and were provided with independent financial advice, paid for by the company, in order that they could make an informed decision. The intention was to complete the exercise before confirming whether the scheme was in a position to buy out. However, with Aon continuing to monitor attractive pricing in the buyout market, the focus switched to whether we could lock in the attractive pricing and still run the ETV exercise. After discussions with insurers, Aon was able to negotiate buyout terms with Pension Insurance Corporation plc (PIC) to integrate the ETV

exercise within the insurance transaction in a way that led to stabilised pricing before completion of the exercise. This was the first of its kind to be completed. In addition, Aon negotiated terms to secure all the scheme's non-standard benefits including:

- Pension benefits provided in its Irish section;
- Pension benefits that are linked to complex pension increases, which are typically difficult to buy out; and
- Preserving members' ability to aggregate their defined contribution accounts with their defined benefits for Pension Commencement Lump Sum purposes.

This innovative approach allowed PA Consulting to lock in attractive terms and buy out the scheme benefits much quicker and with a greater degree of certainty than is seen in normal transactions. It was ultimately Aon's innovative approach and the extensive collaboration between all parties that led to the success of the project.

Ben Roe, senior partner and the head of the member options team at Aon said: "This has been a fantastic example of getting results by working collaboratively, both to de-risk the scheme and to offer options to members along the way. It's a great demonstration of the importance of integrating member options into the journey to buyout. What makes it particularly notable is that the pricing of the enhanced transfer value exercise was captured in the buyout pricing to give PA the certainty they required."

The £850m buyout transaction with PIC was, at the time,

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Kully Janjua, PA Consulting

the largest buyout in 2018, and covered all 2,400 members of PA Consulting's pension scheme. Kully Janjua of PA Consulting commented that: "By a collaborative approach from all parties, we have been able to secure a deal that no-one imagined possible at the outset. The Aon team has been fully involved in all aspects of the process and we are very pleased at the support and advice that they have provided throughout."

Aon was able to demonstrate that by challenging the strategy to get to buyout at the start and taking certain pro-active steps along the way, it would help accelerate the journey to that destination. The challenge was then to find innovative ways to help bridge the gap to buyout and be in a position to take advantage of attractive insurer pricing. Aon was able to deliver exceptional outcomes for the members, the scheme and PA Consulting by fully utilising the expertise within its market leading risk settlement and member options teams. Ultimately, it may mean that for schemes that are around 90% funded on a solvency basis, a full buyout may be closer than they envisage – and that Aon can deliver the right solutions to help get them there. 

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