

The decisive factor in a buyout: satisfied retirees

By Hanne Borst and Johannes Heiniz

A pension buyout is sustainably successful for companies especially when retirees experience the transition as secure, professional and trustworthy. This article shows that an integrated service approach, clear and transparent communication, and reliable governance can ensure retiree satisfaction and thus minimise reputational risks for companies.

For companies considering a pension buyout, the focus is not only on balance sheet and legal relief from liability. Equally critical is the satisfaction of retirees, as it shapes both the external and internal perception of the company. If a company ensures its former employees are well looked after in retirement, it avoids reputational risks and demonstrates responsibility beyond the active employment relationship.

Legal stability as the basis of trust

Consent from retiree or an employee representative body is not required for a pension buyout. This is primarily because the transfer of pension obligations to a pensioner company is subject to dedicated statutory safeguards under applicable labour, corporate transformation and corporate law, which comprehensively protect the interest of retirees (see page 2). The legal situation of beneficiaries remains unchanged. The promised benefits and the underlying pension commitment remain fully in place, as do the wage tax and social security treatment of pension payments. In many cases, retirees even benefit from the transaction because full funding of the promised benefits is achieved for the first time. Statutory insolvency protection through the PSV also remains unchanged. In addition, trust structures protect the transferred capital from access by third parties and, in the event of insolvency, offset possible security gaps (see page 2).

Operational excellence: administration that creates trust

A seamless and professional administration is crucial to ensure that retirees experience the transition as stable and reliable. A prerequisite is a complete data transfer, covering all legal bases, historical adjustments and individual specifics. Often, a prior data-clearing project is recommended to eliminate inconsistencies and avoid future queries. Equally important is the professionalism of the new administrator. Retirees expect clear communication,

reliable point of contacts and a service quality that meets or exceeds previous standards. For employees with vested claims, it is important to know whom they can later assert their benefit entitlement against.

Integrated buyout solutions: less friction, more stability

It can be particularly advantageous if companies work with a provider for the pensioner company who is capable delivering all relevant services from a single source. An integrated solution avoids media discontinuities and frictional losses, accelerates processes, and ensures that retirees receive consistent information and uniformly high service quality. For companies, this means less coordination effort and significantly higher process reliability.



The four central components of effective governance in a pension buyout. Source: WTW

Governance and investments: the basis of long-term performance

Another key success factor is the providers governance structure. It 's overarching objective is to ensure the full and uninterrupted fulfilment of all pension obligations over the entire term. For this, forward-looking and robust management of investments is indispensable. The optimal strategic asset allocation will change over time—it depends on the pensioner company's financial situation, the development of capital markets and other external factors. Therefore, systematic asset-liability management processes must be conducted on a regular basis to identify changes in the liability profile and market environment at an early stage and to reflect these appropriately in the investment strategy. Both the chosen funding approach and the initially defined investment guidelines play an essential role.

Ultimately, it is essential that the investment strategy is designed to avoid risks that are not aligned with the long-term ability to fully meet the assumed pension obligations.

Safeguarding mechanisms from the transferring company's perspective

The full delivery of promised benefits is as critical to success for the transferring company as it is for retirees. A pension buyout is intended to ensure final legal and economic release from liability for pension obligations. It is therefore recommended to explicitly evaluate the use of hedging strategies, both initially and as part of the ongoing reviews of the investment strategies. The same applies to embedding external guarantors or insurance solutions.

Conclusion: security for retirees, reputation for companies

If implemented correctly, a pension buyout offers retirees long-term security and companies the opportunity to transfer responsibility in an orderly manner. Those who take the perspective of affected beneficiaries seriously and rely on professional structures and integrated services create trust while strengthen their own reputation at the same time.

**For reasons of better readability, the simultaneous use of male, female and diverse forms of language (m/f/d) is omitted.*

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