Path to Buy-in

Issues for Trustees To Consider and Potential Pitfalls To Avoid

Even if your defined benefit pension scheme is not yet fully funded, trustees may be targeting a future opportunity to secure some or all of their scheme's liabilities with a bulk annuity provider (also known as a buy-in). A buy-in is a significant step in your scheme's journey plan, but there are some pitfalls that trustees should be aware of. With careful planning, trustees can help ensure a safe passage.

Project Planning

- What is the long-term objective?
- Are there any hard deadlines?
- Who will be the project lead?
- How involved will the sponsor be?

Funding/Liquidity Issues

- Are the scheme's assets sufficiently liquid to facilitate the transaction?
- Who will meet the transaction costs?
- Any liquidity issues should be factored into the project plan – and may affect overall costs.

Scheme Rules and Benefit Issues

- Do the trustees have the power under their scheme rules to do a buy-in?
- What actions still need to be taken to rectify/equalise guaranteed minimum pensions? How long will the project take? Which actions need to be completed before buy-in and which can wait until buy-out or wind-up?
- A benefit specification will be needed. It will need input from the scheme administrators, actuary and legal advisers. If issues with the rules come to light, rule amendments and/or rectification work may be required.
- Discretionary powers in the scheme rules should be identified so that these powers can be codified to reflect the buy-in terms.
- Are any other rule amendments necessary in preparation for a buy-in/future buyout?

Data

- Is a rectification exercise needed before buy-in?
- Is the scheme's data up to date, or would a data verification exercise be useful?
- Is regular tracing carried out for missing deferreds?
- Could an up to date spouse existence survey generate a better premium?
- Do the scheme's data protection policy documents need updating?
- If the intention is to move to buyout, who will be responsible for holding the scheme's data after buyout and is an appropriate data sharing agreement in place?

Choice of Insurer

- Potential insurer partners will depend on the size and complexity of the scheme, the type of liabilities and market conditions.
- What due diligence is needed on the prospective insurer(s)?
- Are the trustees able to submit a summary of requested contractual terms when seeking quotes?
- Will there be an exclusivity period after a preferred provider is chosen?

Investment Issues

- If assets need to be transferred *in specie*, are the terms acceptable?
- Are there any short-term volatility risks after a buy-in quotation has been accepted? Can a price lock be agreed with the chosen insurer?

Scheme Surplus

- If surplus assets are expected, do the scheme rules give the sponsor the right to a refund? What are the trustees' powers and duties?
- What can the trustees do to reduce the risk of trapped surplus arising?