



Get buyout ready with XPS

Planning ahead and taking action early
can reduce costs significantly

Six steps to get ready for buyout

There are **six key steps** to prepare for buyout to ensure a smooth process that is **cost effective and delivers the best outcomes** for members, schemes and their corporate sponsors.

Task	What's involved
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1.

Investments

You need to make sure the investment strategy is appropriate for the expected time frame to a bulk annuity transaction. Generally speaking, **the shorter the time period, the less risk a scheme will want to take** with its investments (for those liabilities that are to be insured):

- ▶▶ Do your assets provide a good interest and inflation hedge?
- ▶▶ Are large amounts of volatile equities being held that could cause problems?
- ▶▶ Can the assets be liquidated quickly to meet the premium?
- ▶▶ Are any assets likely to be transferred in-specie to an insurer?

2.

Benefit specification

You need a **detailed specification of the benefits that you want to insure**, signed off by the trustees' legal adviser and taking account of administration practice:

- ▶▶ If the Rules and administration practice are not in line with each other, then remedial action to amend one or the other may be needed.
- ▶▶ Whether to insure benefits that are of little or no value to the members will need looking at from a practical point of view. Considerations to adjust or 'convert' benefits will need legal/actuarial advice.
- ▶▶ Discretions will require hard coding in the benefit specification so that the insurer will know what to pay, who to pay and when.

When deciding whether a scheme is serious about buyout, an insurer will look to establish whether investments have been de-risked, data is complete and if benefits have been clearly defined and legally reviewed.

Task

What's involved

3. Member options

Providing options to members together with good support (advice) can reduce the cost of eventually insuring the benefits, whilst giving members more choice over the benefits they receive:

- ▶▶ Transfer values and trivial commutation exercises are examples of common member options that if done correctly will be a **win-win for member flexibility and scheme cost**.
- ▶▶ A pension-increase-exchange exercise can help by offering members a higher initial pension with lower future increases that are **more cost-efficient to insure**.

If members are to be offered options then it will be more efficient if these can be completed in advance of approaching insurers.

4. Data preparation & cleansing

You will need to provide a detailed data file to the insurers, so they know what to insure:

- ▶▶ Where key data is missing (such as pre/post 1997 splits, Barber splits or postcodes) it will need fixing.
- ▶▶ Some items, such as marital status and spouses' dates of birth will need to be refreshed close to the time of requesting a quotation and so may be gathered later than other data items.

Beware, **filling in gaps in the data held by the administrator can be time-consuming**, in some cases requiring a need to refer to previously scanned paper files. Always insist on evidence and signed approval, that the underlying administration system has been updated for any corrections made.

5. Member spot checks

You may wish to **spot check a sample of members** to check that benefits have been calculated and administered in line with the Rules. It makes sense to start this early as there needs to be sufficient time to investigate and correct any systematic issues.

6. GMP work

Members with Guaranteed Minimum Pensions (GMP) entitlements will need to be reconciled with HMRC and benefits rectified if needed.

It is possible to insure benefits without adjustment for GMP equalisation in the first instance, and then update the buyout policy later, therefore approaching insurers for **quotations can be done before completing GMP equalisation**.

Talk to us

For further information, please get in touch with **Ash Williams** or **Paula Houghton** or speak to your usual XPS Pensions contact.



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XPS' specialist Risk Transfer team has advised on buyouts, buy-ins and PPF cases with over £12bn in bulk annuity transactions across more than 100 schemes. XPS maintains close links with insurers and expertise on the range of options available in the market.

Award winning



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for the fifth time in six years

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