

Purchasing a Bulk Annuity Policy

Establishing a well thought out and organised process for obtaining bulk annuity quotations and making decisions quickly is essential if attractive opportunities for de-risking a pension scheme are to be identified and secured.

Some suggestions on how to run the process are set out below.

Stage 1: Indicative quotes

Generally a feasibility study to test whether it is worthwhile proceeding any further is desirable. Some insurers will provide indicative quotations. These will usually be provided more quickly than a formal quote although this part of the process can still take several weeks.

An insurer will not agree a deal based on the price shown but it should help decide whether purchasing a policy is potentially viable.

Barnett Waddingham has established an arrangement with MetLife Assurance that allows us to produce very accurate indicative quotations using MetLife's pricing methodology so the indicative quotation can be available quickly, typically in a matter of days rather than weeks.

Stage 2: Preparation for Formal Quotations

Clean data

A crucial first step in obtaining formal quotations is to make sure the scheme has clean data. Insurers will check the data for reasonableness and, whilst it does not need to be perfect, they will query any inconsistencies which will take up time. In any event, incorrect data will cause the quotations to be unreliable. Non-standard data, not normally used in actuarial valuations, including postcodes and details of spouses, may also be needed.

Cleaning data can take time and can be expensive. Pension records can go back decades and could have been handed on through a variety of administrators and pension scheme managers. There may have been no incentive to clean the data previously so errors could have lain undetected for years.



Decision Making

All relevant parties need to be prepared so that they can make decisions quickly once the formal quotations arrive to avoid quotations going out of date. This includes the trustees, the employer, the administrator and any advisers. An efficient way to proceed can be to create a sub-committee with trustee and employer representatives with the authority to make quick decisions within agreed parameters.

Any issues in relation to a deal should be considered at the outset. These include any conditions in the scheme's rules about bulk annuity policies or the effect of the bulk annuity on the employer's accounting figures.

Stage 3: Request Formal Quotations

Contact with insurers

Making sure the insurers commit to a quotation date, confirming what assets they will accept in-specie if the transaction proceeds and making sure there are clear communication channels are all vital issues. Once these are agreed, the data and benefit specification can be sent.

Consistent quote terms

It is important that competing quotations are consistent. They need to be checked carefully for accuracy and to ensure all the terms and conditions are acceptable. In addition, try to ensure that the quotes are "live".

The trustees or the sub-committee need to make a decision on whether to accept any of the quotes. Prices and asset values will change so a quick decision needs to be made. It can be tempting to delay to see if prices will fall. However, the danger is that prices will increase and that an opportunity to complete the deal is missed. This is why it is important to define transaction criteria at the outset.

Stage 4: Accepting a Quotation

If the price looks attractive exclusivity can be agreed with a particular insurer. This allows specific features of the contract to be agreed before the deal is completed.

Monitoring Process

If the price is not attractive, prices can continue to be monitored. Some insurers may provide a rough basis so the advisers can track how pricing moves.

Establishing triggers that will identify when the price will look attractive is an excellent way of ensuring opportunities are captured. There are a variety of possible triggers but as a minimum these should take into account movements in the scheme's assets, important liability measures and key indicators of movements in bulk annuity pricing.

When triggers have been met, updated quotations can be sought. As the insurers already have the data and the scheme's benefits programmed onto their systems, this should be a much quicker process than the first round of quotes.

Summary

Many schemes looking to transact will have missed opportunities to purchase a bulk annuity policy on attractive terms because they have not been able to react quickly when the price became affordable. Therefore, being prepared and anticipating potential problems is very important. This should help to ensure a smooth process with a maximum chance of success.

For more information

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail.

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