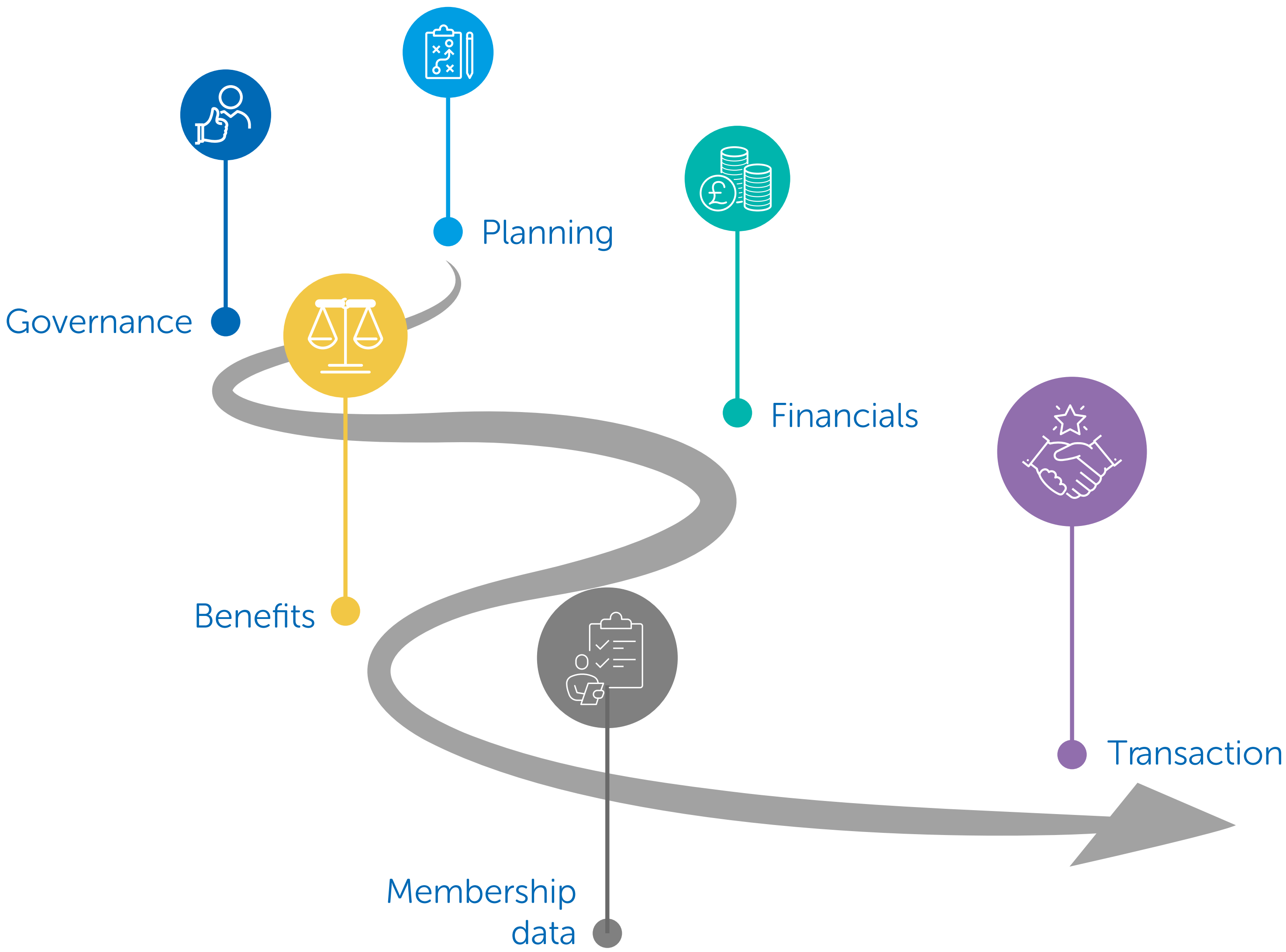
BARNETT WADDINGHAM
beyond the expected

Risk Transfer Checklist

RISK | **PENSIONS** | INVESTMENT | INSURANCE

Background

Even where a potential transaction may realistically be some way into the future, trustees and sponsoring employers of pension schemes can carry out valuable steps in preparation. These preparatory actions not only ensure the scheme is better positioned when the relevant time comes, but can also help demonstrate the necessary commitment to a transaction, helping to achieve the desired level of engagement from insurers.



Preparation checklist

The checklist below sets out the key issues for trustees and sponsors of DB pension schemes to consider. Before making any decisions, please consult your advisers to understand the position your scheme is in.

Planning and governance

1. Initial stakeholder engagement and training ☐

Bespoke training at the outset of the project, involving all the relevant stakeholders can provide a number of benefits. In particular, this can help with:

- managing stakeholder expectations on process and timescales;
- ensuring all stakeholders understand the requirements of the process and are fully engaged; and
- considering merits of alternative transaction structures.

2. Identify key issues, process steps and potential transaction objectives ☐

Having a clear purpose and strategy will aid decision making.

- What are the transaction objectives for the sponsor and trustees? Are these aligned?
- Is there a clear timeframe for approaching the risk transfer market?
- How will the expenses relating to the transaction be funded?
- Has the potential for trapped surplus been considered, along with any options to avoid this?
- Are there any barriers to progressing with the transaction?

3. Project governance ☐

The project will be time-intensive and require advice from several different advisers. Having a clear project plan in place from the outset can help to manage expectations and requirements at key moments.

- Does the scheme have sufficiently experienced advisers (legal, investment, actuarial, risk transfer specialists) in place to carry out the project?
- Will a subcommittee or working group be established for the transaction and have appropriate terms of reference been set?
- Has a target date been set for approaching the market and carrying out a transaction?
- Has a strategy been set for communicating with members and other stakeholders?

4. Considering transaction fit with wider investment strategy ☐

The scheme's investment strategy will need to be considered in advance of a transaction to ensure that the liquidity and risk profile is consistent with the objectives of the trustees and the sponsor.

- Have the trustees taken advice on investment strategy in light of a possible near-term transaction and considered exposure relative to market movements in pricing?

- Do any changes need to be made to the investment strategy to ensure there are suitable assets to pay any transaction premium? This includes identifying what illiquid asset holdings the scheme has and setting a plan to address these.
- What timescales have been agreed for implementing any changes to the scheme's investment strategy?

Financials

1. Affordability / risk reduction analysis

Carrying out a feasibility analysis on the affordability of a transaction can help to understand the level of shortfall remaining, as well as frame discussion on how to approach the market.

- Has a solvency estimate been carried out, either at a valuation date or more recently?
- Has the sponsor been engaged on what may be considered "cheque-writing distance"?
- What considerations have been made to monitor the shortfall over time?

2. Funding and accounting impacts

- Has the impact on the sponsor and parent company accounts been considered?

3. Liability management

It may be preferable for liability management exercises to be undertaken before a transaction takes place. As well as potentially reducing the ultimate cost of the transaction, these exercises can provide members with options that may not be available to them once the transaction completes.

- Have the potential benefits of a liability management exercise been considered (e.g. bulk transfer value, early retirement, PIE)?
- If a liability management exercise is beneficial, has this been built into the transaction timeline?
- Has a trivial commutation exercise or winding-up lump sum exercise been considered to reduce the number of members with small benefits in the scheme?

Benefits

An accurate and complete benefit specification will need to be prepared by the scheme's legal advisers to support the approach to the risk transfer market.

1. Identify historical issues or uncertainties

- Are there any previous annuity policies in the scheme that will need to be dealt with - either individual or via a previous buy-in?
- Are there any known benefit uncertainties that may need to be resolved?

2. Scheme-specific benefit consideration

- Has the consistency of the scheme's membership data with the benefit specification been considered? Is there a plan for correcting any discrepancies?
- Are there any complicated benefit structures (for example, underpins, fixed factors, non-standard pension increases) that will need to be considered in advance of the transaction?
- Is there a plan for dealing with any sponsor-specific terms (e.g. continuing benefit accrual, salary linkage, etc.)?
- Is the scheme formally sectionalised, and does the governance plan address this?
- Are there any AVC or DC benefits in the scheme? Is there any interaction between these benefits and the main DB benefits? How will these benefits be dealt with as part of the transaction?

3. Consider any discretionary practices

- Are there any trustee discretions that need to be codified in the benefit specification to give the insurer precise terms on how to treat these (for example, financial dependants, favourable retirement terms, etc.)?

4. Member option terms

- Have the various benefit options available to members been considered (e.g. early/late retirement, cash commutation, transfer values)?
- How will the terms of these options change post-transaction?

5. Legal review

- Undertake a legal review of the benefit specification in advance of provision to the insurers can avoid any subsequent delays or issues arising.

Membership data

The membership data should be of good quality when approaching the market and will need to be fully complete and accurate if the scheme subsequently transfers all of its liabilities to the risk transfer provider. Demonstrating to the risk transfer provider that your scheme's membership data is of high quality will help your scheme stand out in a crowded market.

1. Data assessment and gap analysis

A data gap analysis is a good way of evaluating the data held for the scheme, and can be useful for both approaching a risk transfer project as well as for the purposes of GMP equalisation.

- Do you have a good understanding of the quality of your scheme's membership data?
- Are there missing or incomplete data items that could be important for transaction pricing? For example, postcodes, dates of service, etc.

2. Member and spouse information

- Is mortality experience data easily available to feed into transaction pricing?
- Do you have up to date marital status information?
- Can a membership write-out be completed to obtain this information?
- Has a member tracing exercise been completed recently?

3. GMP projects

- Is the reconciliation and rectification of GMP benefits complete?
- Has the method for equalising the scheme's GMP benefits been considered? Will this be undertaken before or after the buy-in phase for a bulk annuity transaction?

Need to know more? For further information, or to discuss any of the issues raised in this checklist, please speak with your usual Barnett Waddingham consultant. Alternatively get in touch via the following:

risktransferteam@barnett-waddingham.co.uk

0333 11 11 222

www.barnett-waddingham.co.uk