

# Preparing Pension Schemes for a Bulk Annuity Quotation

A best practice guide

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# Foreword

**Thank you  
for taking the time  
to read this guide**

The bulk annuity market continues to grow and its resilience during the pandemic has been remarkable. Everyone in this market is pleased to see increasing volumes, but for this to be sustainable, efficiency will be key. Insurers want to be able to provide schemes with quotes and meet all de-risking needs. This has prompted the production of this best practice guide, which all UK bulk annuity providers have contributed to.

It's designed to help the whole market and ensure that everyone has the information and tools to get the quotation and transaction they desire.

It's been a pleasure working with all of the insurers to bring this guide to life and we look forward to supporting further updates in the future.

Here's to greater efficiency and volumes for the future!



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# Introduction



# Introduction



## Who is this guide for?

This guide is primarily aimed at trustees of Defined Benefit pension schemes and their risk settlement advisers who are approaching the bulk annuity market for a quotation. The principles apply to any size of transaction, regardless of what stage the scheme is at in its de-risking journey.

Trustees are not the only ones who can benefit from this guide. It will also be of interest to and useful for a wide range of stakeholders including:

- Scheme sponsors;
- Legal advisers;
- Actuarial advisers;
- Scheme administrators; and
- Investment advisers.

The guide aims to be comprehensive enough to help someone coming to the market for the first time to understand all aspects of the process. We've split the guide into three main sections to reflect the fact that readers may have different levels of familiarity with the bulk annuity market or a need to use the guide at various stages in their journey to transaction.

- **Key Considerations:**  
The key principles that trustees and their advisers should bear in mind when approaching the market.
- **Anatomy of a Transaction:**  
This section is primarily aimed at those less familiar with the buy-in/buy-out process, although it may act as a useful sense check for more experienced participants. We step through the key elements of the process and include some useful hints and tips.
- **Detailed Recommendations:**  
Aimed at those preparing the detailed submissions to market, this section takes a deep dive into the stages of the buy-in/buy-out process that can make a real difference when it comes to insurer engagement. Our recommendations are designed to help trustees put themselves in the best possible position and ensure a smoother process for all involved.

## What is the purpose of this guide?

The last decade has seen the bulk annuity market go from strength to strength, with an unprecedented increase in the value of premiums written from 2010 to 2021. As the number of schemes coming to market continues to increase, it's more important than ever that processes are run in a smooth and efficient way.

In general, standards across the industry are very high and there will always be a degree of variation between processes to allow for scheme-specific circumstances.

However, in our experience there are areas where trustees and their advisers could benefit from more guidance to increase the level of engagement from the market.

This guide sets out best practice principles in a range of areas based on our collective experience of the market.

To the extent that these principles are followed, this should ultimately lead to more transaction certainty for trustees and greater quote capacity within the industry.

Compliance with this guide is not mandatory to obtain quotations from insurers.

If trustees are struggling to follow any principle of this guide, it may be useful to discuss this directly with the insurers involved in the buy-in/buy-out process, who will independently confirm what (if any) impact this is likely to have on their ability to support a quotation.

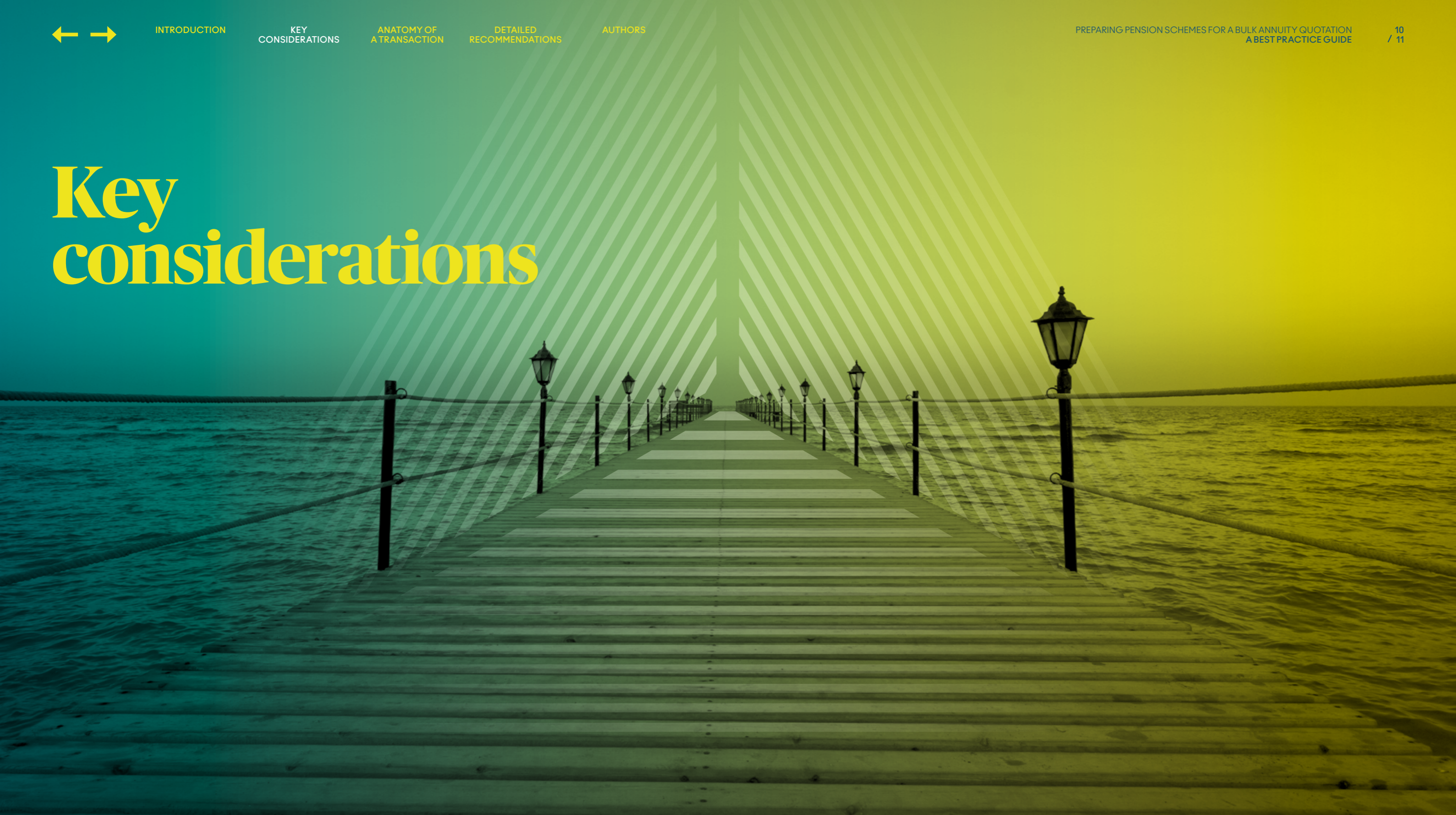
## Who has produced this guide?

All eight insurers currently in the bulk annuity market have contributed to this guide, which has been coordinated and rationalised by DLA Piper.

Further details are provided at the end of the report.



# Key considerations



# Key considerations

These are the key considerations which all participants should take into account when bringing a Defined Benefit pension scheme to the bulk annuity market.

Please click on the hyperlinks to be taken to the section of the guide that provides more detail.

## Communication is key



Supply as much information as possible upfront and give insurers plenty of notification around the expected timescales and trustee plans for the project. Provide a good level of background to the case and include notes on the work done in preparing the scheme for the transaction.

## Data – key points



- **Be pragmatic.** Data needs to be clear, presentable and correct. This doesn't mean perfect – don't hold off coming to market and let opportunities pass you by due to correcting immaterial data issues.
- **Take a holistic approach.** Member data should be clearly linked to the benefit specification using consistent language. For example, clear links between the pension increase and normal retirement age of each tranche of data will allow for the more efficient production of quotes.
- **Aim for clarity without manipulation.** Data manipulation should generally be avoided (and any necessary manipulation should be clearly documented and shared); however this shouldn't be at the expense of providing clear and easy to understand data. Data should be formatted and labelled clearly and thoroughly checked before sharing with the insurers.
- **Avoid changes during the quotation stages of the process.** Once a quote process has commenced there should ideally be no or very minimal changes to data. Where changes are required, care is needed in how these are communicated and when they are introduced.

- **Queries** – ensure queries are answered quickly, factually and accurately. However, avoid making changes to data (and, if absolutely necessary, do so with care). Query responses should specify clearly what is to be priced so all insurers can easily take a consistent approach – this may mean making a decision for pricing with a view to checking/correcting post inception.

## Marital status information – there are options



Some insurers consider write-out exercises for marital status information as the gold standard. However, care is needed in what and how questions are asked and in ensuring accurate and complete recording of responses. There are other methods to collect marital status information, with varying degrees of reliability.

## Benefit specifications – use plain English



Benefit specifications should be written in plain English. Complex interactions between excess and GMP benefits should be clearly explained – consider whether examples would help. Jargon, such as references to anti-franking or directing insurers to areas of pensions legislation, should be avoided without additional explanation. The document should be reviewed by the scheme's legal advisers, the scheme's actuary and administrator so as to help ensure that it clearly reflects the benefits to be secured and is clearly linked to the data as far as possible.

## Asset data – sooner rather than later



If you wish your quotation to move in line with a portfolio of assets (an "asset-lock") or wish to understand if you can pay the premium through an in-specie transfer of assets, provide full asset data early in the process.

## Timescales – stick to them



Be realistic with your timescales. If you tell the insurers you intend to bring a case to market at a particular time, make sure that you can meet this and if necessary err on the side of caution. If timelines do slip, let insurers know as soon as possible so they can manage their workflow.

## Residual risks – start early!



For residual risks transactions consider your options for risk allocation after buy-out and your approach to due diligence at an early stage. Ensure you have a populated data room ready for use. Alternative approaches to residual risks cover, such as run-off cover, may also be available.



# Anatomy of a transaction





# Anatomy of a transaction

This section is primarily aimed at those less familiar with the buy-in/buy-out process, although it may act as a useful sense check for more experienced participants.

So, what does a bulk annuity process look like? Although each transaction will have its own unique features, most will follow a similar basic structure. We have outlined the key stages below in (more or less) chronological order.

**Selecting advisers is outside the scope of this guide but we note that this is an important step in the process**

## Preliminaries – choosing your advisers

Some schemes will choose to work with their existing advisers whilst others may decide to commission a different consultancy after running a tender exercise. Selecting advisers is outside the scope of this guide but we note that this is an important step in the process.

## Preliminaries – initial data cleansing, records maintenance and review of benefits

The basic principle trustees should bear in mind is that, whilst you don't need perfect data to obtain a quotation, **it is important that the data is reliable enough to obtain a meaningful quote**, and trustees should spend some time evaluating their data, records and benefits in order to prepare the scheme for coming to market.

Having good quality data will also benefit the ongoing administration of the scheme.

We expand on this in the later sections of the guide.

## Step 1: Feasibility analysis

There are a range of solutions for schemes considering a buy-in or buy-out. Before approaching the bulk annuity market for a quotation, we recommend that trustees undertake a feasibility analysis to understand what you hope to achieve from a transaction and whether a transaction is likely to meet your goals at the current time. **Working with experienced advisers** will help you fully understand your options before embarking on a project.

The feasibility analysis may also include consideration of whether the scheme should collect additional information to aid the quotation process. One particular area of consideration is collecting information on members' marital statuses and their dependants – this is considered further in [Section 1 of the Detailed Recommendations](#).



## Anatomy of a transaction continued...



### Step 2: Approaching the market – initial enquiries

Once the trustees have decided a transaction is right for them, it's time to have some initial discussions with insurers. This is to **help understand which insurers are likely to quote on the transaction and to help insurers manage their pipeline.**

At this stage, trustees should let the insurers know, as a minimum:

- ✓ The type(s) of transaction being considered (e.g. buy-in, buy-out, subset of members/full-scheme);
- ✓ How large the transaction is likely to be;
- ✓ Whether there are any unusual features of the scheme's benefits;
- ✓ The preparatory work already undertaken;
- ✓ Confirmation of the pensioner/deferred profile of the scheme/the section coming to market; and
- ✓ Likely timings for the transaction.

These discussions should take place at the point you are fairly confident a bulk annuity project will proceed. The ideal timing for these discussions will vary depending on the nature and complexity of the project – typically we might expect these discussions to take place 3-4 months before the targeted transaction date/month, with longer periods being appropriate for more complex transactions. Early engagement is recommended – most insurers are more than happy to discuss potential transactions with trustees, so do not hesitate to start the conversation once you have a grasp of the initial information above.

If in doubt, please get in touch.

**It is important that the data is reliable enough to obtain a meaningful quote**

### Step 3: Approaching the market – request for quotation (RFQ)

Once the trustees have decided to proceed and have selected the insurers they would like to receive a quotation from, a formal RFQ should be issued.

In addition to the information set out in step 2, it would be helpful for the RFQ to include the following:

- ✓ Background on the scheme's history, including any transactions or liability management exercises previously undertaken;
- ✓ Background on the scheme's sponsor(s), as well as their ultimate parent company for Know Your Customer (KYC) checks<sup>1</sup>. We would also recommend including some information about their engagement with the potential transaction to date. An engaged sponsor will generally be considered favourably by insurers as it provides more certainty that the transaction will end up going ahead;
- ✓ An outline of the preparatory work undertaken before approaching the market, including any affordability analysis, steps taken towards a marital write-out exercise and/or GMP reconciliation, among other aspects;
- ✓ An outline of the project timetable and key steps;
- ✓ The scheme governance and decision-making process;
- ✓ A checklist of the information required from the insurer(s) as part of their response;
- ✓ Full membership and experience data – for further details, please see [Section 1 of the Detailed Recommendations](#);

- ✓ A list of the scheme's advisers such as the scheme actuary, legal adviser, investment manager and administrator;
- ✓ A benefit specification – for further details, please see [Section 2 of the Detailed Recommendations](#);
- ✓ Information on the assets of the scheme – as a minimum this should include high level information on the assets the scheme is invested in, the investment manager and any draw down limits on any of the assets expected to be used to fund a transaction. If price locks or in-specie transfers are required, then further information will be required – more details on this can be found in [Section 4 of the Detailed Recommendations](#); and
- ✓ Any other relevant information.

During the quotation process, insurers will raise questions where necessary to ensure they have a full understanding of the data, the benefits, the scheme history, and the RFQ. Responding to these questions promptly can create additional work under time pressure for trustees and their administrators/advisers, as well as disrupting the smooth process for insurers. To ensure that the process runs within the proposed timelines and as smoothly as possible, we would encourage advisers to ensure that the data, benefit specification and RFQ are as comprehensive and unambiguous as possible. This will ensure that insurer queries can be kept to a minimum and save time and costs of the scheme administrator and other advisers.

<sup>1</sup> A KYC check is part of a wider due diligence process. It involves the insurer verifying the identity of and background information about the parties they transact with.

## Anatomy of a transaction continued...

### Step 4: Receive quotations and selecting an insurer

There are a range of ways in which trustees can run their quotation processes and select an insurer – ultimately it's for the trustees and their advisers to decide on the best approach. From an insurer perspective, it's important that the process is agreed and clearly set out so everyone understands how it will operate.

In the Detailed Recommendations we provide best practice guidelines for how data should be approached if multiple quote rounds are used.

### Step 5: Contracts agreed and initial premiums paid

After agreeing to work exclusively with an insurer, there will be a period in which the trustees and their chosen insurer will discuss contract terms and agree payment mechanisms.

The contract will then be signed and premiums paid. The scheme will normally start receiving payments from the insurer within a month or two following the payment of the initial premium, depending on what has been contractually agreed.

The premium (and, typically, any payments from the insurer) will initially be paid based on the data used to prepare the quotations.

Most contracts will then include a mechanism for a "true-up" payment to be made once the data has been formally agreed and signed off by the trustee. This period between contract signing and formally agreeing the final data is known as the data cleanse period.

### Step 6: Data cleanse and final payments made

The contract will set out what is expected during the data cleanse period, and requirements may vary depending on the type of transaction and the insurer the trustees have chosen to work with.

Typically, data cleanse periods will focus on known data issues, and the trustees will also have the opportunity to resolve any issues they come across in this period. Section 1B of the Detailed Recommendations contains further comments on the data cleanse.

Once the data cleanse is complete, a final payment will be made, which may be from the trustee to the insurer or vice versa depending on the results of the data cleanse.

Depending on the type of transaction, the insurer will either continue to make payments to the scheme based on the final insured population (i.e. a buy-in) or the insurer may start paying members directly so that the scheme can commence winding-up (a buy-out).

### Step 7: Post transaction considerations - moving to buy out

The contract will cover a number of other important post transaction steps as well as the data cleanse process.

For many schemes, one of the most important will be the process around moving to buy-out. Amongst other things, this will cover how and when individual policies will be issued to members. The establishing of individual policies marks the point at which the pension scheme members officially become the responsibility of the insurer rather than the trustee. It's therefore a step that requires careful communication and close collaboration between the trustee and the insurer.

**From an insurer perspective, it's important that the process is agreed and clearly set out so everyone understands how it will operate**



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# Member data

## Format of data

Given the varied nature of Defined Benefit liabilities in the UK, the data an insurer will need will differ from scheme to scheme; however, it's still possible to identify common principles that will apply to all schemes.

The most important principle is maintaining a clear connection between the data and the information provided in the benefit specification – further comments on this are provided in Section 2. There's a balance to be struck between clarity and manipulation when presenting data.

We recommend that the data does not include **unnecessary manipulation**, as this may introduce errors. Ideally, the data should be extracted from the administration system directly in a manner that is easy to understand. However, we understand that every system is different and some modest presentational changes may be necessary post-extraction if there is not sufficient flexibility in the administration system to do this, or if the direct extracts are spread across multiple spreadsheets. We would recommend that trustees discuss with their scheme advisers the best way to approach this.

Any changes to the data from that held on the administration system should be clearly documented and shared with insurers.

In addition, data should:

- ✓ be provided in Excel format unless agreed otherwise;
- ✓ be clear and reasonably accessible;
- ✓ be formatted and labelled clearly;
- ✓ be thoroughly checked before sharing with the insurers;
- ✓ be provided in a secure form – ideally via an encrypted data room; and
- ✓ be at a recent date, relative to the targeted transaction date.

### Confidentiality and Data Protection

Trustees should bear in mind data protection issues and information should be provided in a way that complies with the General Data Protection Regulation (GDPR). Among other requirements, this requires that only personal information required for “the purpose” (e.g. for a bulk annuity quotation) should be shared.

However, it's important that the trustees are not withholding any information that may be relevant to the insurer in providing the quotation. If in doubt, it is best to discuss with the insurer before excluding any information.

Generally, personal information such as NI numbers, bank details or full addresses (although postcodes are essential) are not required at the quotation stage. Most insurers and consultants will have pre-agreed Non-Disclosure Agreements (NDAs) in place that will set out the requirements of all parties in relation to sharing data for quotes.

**It's important that the trustees are not withholding any information that may be relevant to the insurer in providing the quotation**

**The most important principle is maintaining a clear connection between the data and the information provided in the benefit specification**

# Member data

## Quality of data

It is in all parties' interests that the data presented to insurers is as reliable as possible. This means that the true affordability of the insurance can be understood as early as possible.

We recommend that the trustees undertake some initial data cleansing before approaching the bulk annuity market so that material issues do not arise in the data cleanse period after contracts have been signed.

It is, however, worth noting that data does not need to be perfect from the outset. Typical insurance contracts will include flexibility to allow for reasonable errors to be corrected in the data cleanse period and during the life of the contract.

We set out below some typical data cleanse steps and the stage in the buy-in/buy-out process they might typically be completed.

### Prior to seeking quotations



Administration practices reconciled against the legally reviewed benefit specification for consistency of practice.



Basic data checks to ensure data is internally consistent (e.g. checking that members' data tranches are consistent with service dates).



Spot checks carried out against member data files/ screen prints for sample members to ensure pricing data is consistent with administrator systems. This should include experience data and contingent spouse data, as well as key member data fields. Trustees may want to consider providing evidence of these checks alongside the request for quotation, particularly if you are requesting items for exclusion from the data cleanse. Even where the Trustees have provided the insurer with evidence of spot checks having been carried out, the insurer may still wish to conduct their own checks.



Where known data inconsistencies exist, these should be highlighted in advance and clear instructions provided as to how these should be valued for the purpose of the quotation. We would recommend providing this as part of a pre-populated query log (see next section – **During the quotation process**).



Where data is missing that is required to value the benefits, a reasonable estimate is provided in the data with any assumptions made, and the approach which the administrators have taken for estimating the benefit is clearly set out (e.g. estimates are often provided in relation to Barber splits for deferred pensioners or for contingent spouse benefits for pensioner records where this is not held on the administration system).

### During the quotation process



A query log should be shared with all insurers on a regular basis with clear instructions on how to address any issues identified in the data. Ideally, where the data, benefit specification and RFQ are complete, comprehensive and unambiguous, insurers will raise fewer queries and the quotation process will flow smoothly.



Avoid changes to the data close to the due date of a quotation. If changes are requested, this may lead to delays in the quote being provided. If errors in the data have been identified, consideration should be given as to whether changes need to be allowed for at this stage or whether these can reasonably be dealt with during a later quote round, in exclusivity or in the data cleanse.



Data changes between quote rounds should also be kept to a minimum. Ideally there should be no changes to data between quote rounds, with any changes being dealt with either in exclusivity or post-transaction.

Where data corrections are required, this should be provided as a new data extract rather than, for example, simply being referred to in the query log. This will help to avoid confusion around what has been allowed for in the quotation.

### Post-transaction data cleanse

Requirements will vary between insurers but can include actions such as:



Actual calculation of spouses' entitlements (as opposed to the actuary's estimate)



GMP equalisation/reconciliation where not already completed

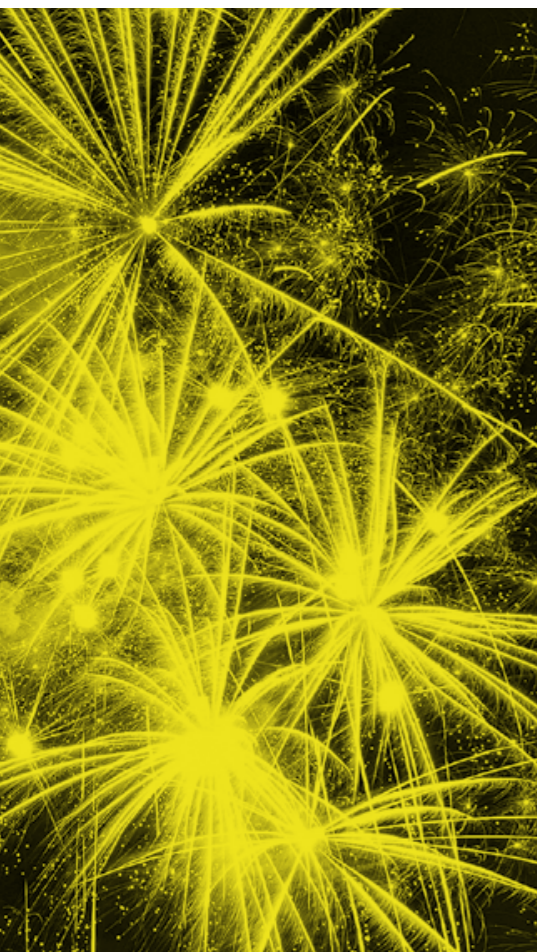


Deaths incurred but not reported

**Where data corrections are required, this should be provided as a new data extract rather than, for example, simply being referred to in the query log**

# Member data

## Information on members' marital statuses and dependants



There are a variety of ways in which trustees can collect information on members' marital statuses and their dependants. Insurers will have different requirements for the information that is required before they provide a quote, and these requirements may also vary depending on the size of a member's pension, with details being particularly important for members with large pensions.

Any data provided should clearly state how and when it was collated and if you provide data from more than one source it should be clear which data is from which source.

We have listed below a number of different options which trustees may consider. As a general principle, the more up to date and reliable the information an insurer has, the fewer assumptions they need to make and hence this might lead to less prudence in the pricing provided.

Regardless of the approach taken for each set of data provided, insurers should be informed of:

- ✓ The source of the data
- ✓ When the exercise was completed
- ✓ If relevant, when the cut-off for the exercise was and how late notifications will be shared
- ✓ How responses were collated and to what extent this relies on administrator data entry. Where it does, a cross-section of sample forms should be shared so that due diligence can be completed.

### Complete a write-out exercise

A well-run and up-to-date write-out exercise is considered the "gold-standard" by some insurers for collecting marital status and dependant data. Subject to the points below, all insurers would be happy to receive results of such an exercise, and insurers will typically take this information into account when providing their pricing.

The key features of a well-run write-out exercise would be:

- ✓ Clear communications that stress that all members should respond regardless of their current position – insurers will be keen to ensure that write-out exercises don't lead to a certain type of member being more likely to respond than another.
- ✓ The questions should clearly differentiate between different types of dependants. These should reflect the types of dependants that would receive benefits under the rules of the scheme. In particular, questions about eligible adult financial dependants should be worded carefully.
- ✓ Information provided to insurers should be up to date. Ideally a write-out exercise should take place within a year before a scheme transacting, and should be provided separately from any information that the scheme may hold from historic exercises.
- ✓ The cut-off date for responses should be agreed with the insurer in advance and insurers should be notified of non-respondents. When marital information is left blank, it should be made clear whether this is due to a non-response or whether the member was not written out to as part of the exercise.
- ✓ Responses should be recorded completely and accurately and records of responses should be retained for audit purposes.

### Complete a tracing exercise

Trustees may choose to employ a tracing company to provide estimates of the status of members and their dependants based on publicly available information.

Tracing exercises have grown in popularity in recent years and can be used to supplement a write-out exercise to improve the coverage of responses.

Some trustees may also elect to use a tracing exercise to replace a write-out exercise. These are generally accepted by insurers, although as noted above, write-out exercises are considered the gold standard by some in the industry and this may have an impact on pricing. Trustees need to be clear on the source of the marital data being provided (including whether they are providing both write-out and tracing information).

It is important that you agree with insurers in advance which tracing firm you will be using for the exercise.

### Rely on existing data

Some trustees may collect marital status data as standard when they engage with members, such as on retirement. This data can and should be provided to insurers, but we would recommend that the trustees consider whether it complies with the principles set out above for write-out exercises. If not, the trustees may wish that, or insurers may require that, this data is supplemented with a further exercise.

If the trustees have no marital status data but are seeking to proceed with a transaction urgently, we recommend you speak to individual insurers to understand what might be possible.

**A well-run and up-to-date write-out exercise is considered the "gold-standard" by some insurers**

# Member data

## Experience data

(i.e. data on historic deaths and other member movements)

Experience data is a catch-all term that refers to the historic membership experience of the scheme. Whilst insurers may be primarily interested in the mortality experience of the scheme, depending on the scheme benefits and nature of the request, there may be circumstances where it is helpful (or even essential) to provide additional experience information, such as:

- Ill-health retirement history – particularly where unreduced ill-health benefits are requested
- Commutation history – particularly if looking to secure non-standard insurer factors
- Transfer value history

It is recommended that:

- ✓ Trustees should provide as much experience data as possible, with a minimum requirement of five years of past experience. For very small schemes, such data may not be required, but it is generally better to provide more data. If you run a very small scheme and the data is not readily available, we would recommend discussing this with the insurers.
- ✓ For larger schemes or schemes with multiple sections, data should be provided for the whole scheme and not just the membership under consideration for the transaction (albeit with clear indications as to which section any data relates).
- ✓ It's important that the experience data is consistent with the pricing data. If this is not the case, it should be brought clearly to the insurer's attention.
- ✓ Experience data should be of good quality. The principles in [Quality of data section on p26-27](#) also apply here and may be useful for assessing this.





# Member data

## Data relating to liability management exercises



If the scheme has completed historic liability management exercise(s) it's important the insurer is notified of when this took place and what the exercise entailed. The insurer will usually require:

- Copies of communications provided to members
- Eligibility criteria for the offer
- Details of the method and/or basis of calculation underlying the offer provided to eligible members
- Details of benefits before the member took any options (for example pre-Pension Increase Exchange (PIE) pensions)
- Confirmation of whether Independent Financial Advice was provided as part of the exercise and whether the member had to pay for that advice
- Details of take-up rates from any exercise. It is also helpful to identify members that were part of the exercise, but ultimately decided not to take up the offer either before or after IFA advice was provided.

**It is also helpful to identify members that were part of the exercise, but ultimately decided not to take up the offer either before or after IFA advice was provided**

# Benefit Specifications



## Quality

- **The benefit specification** should be a complete record of the benefits to be insured.
- **It should be produced before quotes are requested** and have legal sign-off and preferably sign-off from the administrators and scheme actuary.
- **Any discretions should be codified**, so it's clear which benefits are to be insured.



## Format

The variety and complexity of UK occupational pension schemes mean it is not possible to take a prescriptive approach with the format. However, we would recommend adhering to the following principles as best practice:

- ✓ It's crucial to maintain a clear link between the benefit specifications and the data provided to avoid any ambiguity.
- ✓ Terms which require specialist legal knowledge such as "anti-franking" or "in line with legislation" may be open to misunderstanding and should be avoided.

The benefit specification should have the flexibility to capture a scheme's unique features, but it's helpful to follow a consistent approach to recording common benefit types.

**If you are unsure about the format to use, please speak directly to insurers.**



## Common issues

- Although the benefit specification should receive legal sign-off, **try to avoid drafting it as a legal document** – it should also be accessible to non-lawyers.
- **The benefit specification should record the benefits to be insured** rather than simply replicating the scheme's rules. Having the document reviewed not only by the scheme's legal advisers, but also the scheme's actuary, administrator and trustees, will help to ensure that it clearly reflects the benefits to be secured and is linked to the data as far as possible.
- **Clarity is key** – bear in mind that the document will be used as the basis for how the insurer will administer the benefits for many years to come. For complex benefits, consider providing worked examples



# Asset data

## It's best practice for investment consultants to be involved with the transaction at an early stage.

If asset locks/price locks and in-specie asset transfers are required, we would recommend that the following information should be provided:

- For each asset held (i.e. line by line):
  - ✓ Asset type
  - ✓ ISIN and SEDOL/Reference
  - ✓ Nominal value
  - ✓ Market value

For more complex portfolios the following additional information may be required:

- Details of risk ladders and inflation exposures
- Terms of swaps and collateral requirements

Ideally, this should be provided at the start of any best and final pricing round but ideally information should be provided earlier and as soon as possible for more complex asset portfolios.

# Cashflow checks

The trustee or insurer may require that sample cashflow checks are completed in order to check that the insurer has interpreted the benefit specification correctly. Such checks provide confirmation that all insurers have understood the benefits consistently and allow for the investigation of any differences, resulting in certainty when comparing insurers' pricing.

This may include checks at an aggregate level as well as at an individual level.

It is recommended that:

- ✓ The adviser provides sample cashflows to all insurers on a specified basis for the insurer to verify against their own calculations. This is generally a more efficient process than all insurers providing cashflows to the advisers to check.
- ✓ Individual cashflows are kept to a minimum and are used to illustrate particularly unusual or non-standard features. Each individual case should be accompanied by an explanation of the benefit feature it is seeking to illustrate.
- ✓ Assumptions used are clearly specified. Different pension increase types should use separate straightforward and static annual assumptions (e.g.  $LPI(0,5) = 3\%$  pa applying to all increases from the data date regardless of known inflation, not year 1: 2%, year 2: 5%, year 3: 3%, etc).
- ✓ If a scheme has a particularly complex increase structure this is best captured in examples rather than through cashflow checks.
- ✓ Individual cashflow checks should exclude mortality.
- ✓ For aggregate cashflows simple, readily available assumptions should be used. For example, mortality assumptions should exclude future improvements to avoid misinterpretation of models and reduce complexity, and proportion married assumptions should be as at the on risk date for the transaction (although some insurers may have different views on this point).

Such checks provide confirmation that all insurers have understood the benefits consistently and allow for the investigation of any differences, resulting in certainty when comparing insurers' pricing

# Residual risks transactions

**Where the Trustee requires, some insurers (although not all) may be willing to provide additional cover in respect of data risk, missing beneficiary risk and legal risk for certain transactions.**

Such processes require detailed due diligence and more extensive data requirements than those set out in this guide. We would recommend contacting insurers directly for further details on their residual risk requirements well in advance of requesting formal quotations.

Typically, the scheme will be required to allow the insurer access to all the scheme documents and data that they request in order to carry out due diligence. The requests will vary from insurer to insurer but are likely to include all of the scheme's governing documents, booklets, minutes, member communications, merger documentation and significant legal advice, among other documents. If trustees are considering residual risks cover, we would recommend that they work towards collating this documentation in advance of requesting a quotation, so that the insurer can carry out its due diligence within the necessary timescale.

Failure to provide all of the documents requested may lead to certain risks being excluded from the cover being sought.

Insurers can often take a different view from the trustees on the significance of issues that are identified as part of the due diligence exercise, and risks that the trustees of an ongoing scheme may have been happy to live with are not necessarily risks that an insurer will wish to take on. Where such risks are identified, there are usually three broad options available, depending on what the insurer is prepared to offer:

- the risk will be excluded from the cover; or
- the trustees may be able to pay an additional premium to have the risk covered; or
- the trustees may be able to rectify it before entering into the contract (depending on the issue).

We would encourage trustees to carry out their own legal due diligence prior to approaching the market for a quotation, regardless of whether they wish to obtain residual risks cover or not. This will help ensure that the trustees are securing the correct benefits and that no surprises emerge at a late stage. However, when undertaking a residual risks transaction, the insurers will also want to have due diligence that is specific to their own requirements.

There are various options that the trustees have if they wish to carry out legal due diligence ahead of engagement with insurers, such as conducting an internal review or commissioning a seller's or buyer's report. Which solution is appropriate for the scheme will depend on their specific circumstances. Schemes should be aware that the approach taken may have an impact on the amount of additional due diligence the insurers will also have to complete before finalising their proposal.

**We would encourage trustees to carry out their own legal due diligence prior to approaching the market for a quotation, regardless of whether they wish to obtain residual risks cover or not**





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# Thank you for taking the time to read this guide





INTRODUCTION

KEY  
CONSIDERATIONS

ANATOMY OF  
A TRANSACTION

DETAILED  
RECOMMENDATIONS

AUTHORS

This guide is a starting point.  
It sets out principles, which when  
followed have, historically, resulted in a more  
straightforward quote gathering process.  
The participating insurers are able to depart  
from this guidance as and when they see fit.