

FUTURE-PROOF YOUR SCHEME FOR DE-RISKING OPPORTUNITIES

HOW TO PREPARE FOR A BULK ANNUITY TRANSACTION

The Bulk Annuity market in Ireland has grown significantly over the last 6 years with over €2.2bn in transactions. The initial market transactions arose out of scheme wind-ups. More recently we've seen a trend towards active de-risking – where the annuity contract is considered another asset class of the scheme. As more schemes mature we anticipate that these types of transactions will continue to grow.

Irish Life has been the leading insurance provider through this transition. This document outlines some useful transaction tips for both Trustees and Sponsors as well as the key data requirements to move to a transaction. While the data requirements are primarily directed at pensioner transactions, this may also be a good opportunity to review data in respect of active and deferred members.



TRUSTEE/SPONSOR CHECKLIST

Bulk annuity transactions are complex involving many stakeholders and can take several months to conclude from initial feasibility to final transaction. It is important that all stakeholders are fully committed and have a clear plan about the nature of the transaction required.

The checklist below outlines some of the key criteria that should be considered:

- Knowing data and benefit requirements
- Shared objective between Trustees and Sponsor
- Clear policy on pension increases, in particular discretionary increases
- Equity considerations across member cohorts
- Buy-In or Buy-Out
- Accounting impact of transaction
- Additional balance sheet impacts for financial institutions
- Impact on Funding Level and Minimum Funding Standard position
- Investment matching pre/post transaction
- Consideration of 'in-specie' asset transfer and resulting saving
- Advice: legal/actuarial/professional Trustee
- Feasibility study
- Tender process and price tracking
- Insurer selection criteria: Price, Service, Financial Strength, Sustainability

WHY SHOULD YOUR SCHEME BE DATA READY?



Transaction Timing Flexibility

It takes time to carry out data cleansing. Ensuring data is up to date gives the Trustees more flexibility to transact when conditions are appropriate.



Attract Most Competitive Terms

Insurers will typically include margins where data is incomplete.



Quantifying Scheme Liabilities

Facilitating best view of obligations and financial impact.

WHAT ARE THE TYPICAL DATA REQUIREMENTS FOR PENSIONER TRANSACTIONS?

The table below gives an overview of the key data items required for a quote. The highlighted items are essential even for an indicative quote. Trustees should also supply details of any unique features of the industry/employer/occupation that might affect mortality rates. Larger schemes (with over 1,000 members) should supply scheme specific mortality details if available.

| | |
|---|---------------------------------|
| Date of birth | Annual Pension |
| Gender | Pension Increase Rate |
| Dependents Reversion % | Minimum Payment Period |
| Dependents Date of birth | Pension Increase Date |
| Dependents Gender | Temporary Pension |
| Overlap Applies | Temporary Pension Payment Term |
| Children's Reversion % | Temporary Pension Increase Rate |
| Children's Date of birth | Temporary Pension Increase Date |
| Payable on Death of first or both lives | Occupation |
| Children's Pension Payable for Life (Y/N) | Address/Postcode |

SCHEME RULES

It's important that Trustees understand their scheme rules and apply them correctly. The benefits included under the insurance contract need to be objectively defined. Trustees should engage with the scheme administrator and their advisers in order to agree these rules.

- The Trustees are responsible for setting out the benefits they want insured.
- What do the Trust Deed and Rules say – does it need to be updated to allow buy-in/buy-out?
- Are the Trustees administering scheme benefits in line with Trust Deed and Rules, are there areas open to interpretation, do the Trustees need to seek advice in relation to this?
- Are there any discretionary benefits and how will these be treated? The insurance contract needs to be specific in relation to these areas of discretion:
 - Discretionary pension increases.
 - Discretionary allowances or payments such as contingent benefits.
- The insurer covers benefits outlined in the insurance contract only i.e. the insurer does not assume responsibility for paying benefits in line with the scheme Trust Deed and Rules.

DEPENDENTS BENEFITS

The most common reason for data uncertainty relates to dependents details. Ensuring dependents details are up to date can significantly reduce the lead in time to a transaction.

- Is there a dependents benefit and is this based on dependent at date of retirement, date of death or some other definition?
- Are dependents details recorded, name of dependent, their date of birth and gender. Are the records up to date?
- Does the scheme cover a children's benefit, are children's details recorded and are there any children's benefits which may be payable for life?

CERTIFICATE OF EXISTENCE (COE)

Has a recent certificate of existence exercise been completed and did this cover:

1. Member in payment
2. Contingent spouse/dependent
3. Contingent children's benefit

PAYROLL

It takes up to 6 weeks lead in time for a smooth payroll transition and early engagement is key to ensure a seamless process for pensioners.

Under a buy-in transaction the payroll could transfer to the insurer or remain with the existing provider depending on the Trustees preference. The payroll always transfers to the insurer under a buy-out transaction.

Additional payroll data includes: names, PPS number, full address, taxation information and bank account details. Other important considerations are:

- What date are pensioners paid?
- What period is this in respect of?
- Are all pensioners subject to Irish tax?
- Are there any payroll deductions?

Trustees and sponsors should consider all these issues well in advance of entering into a bulk annuity transaction. Feel free to contact your Irish Life account manager to find out more.



FURTHER CONTACT

To find out more or request a quotation please contact:

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