



Broadstone Academy

Overview of the Buy-out process

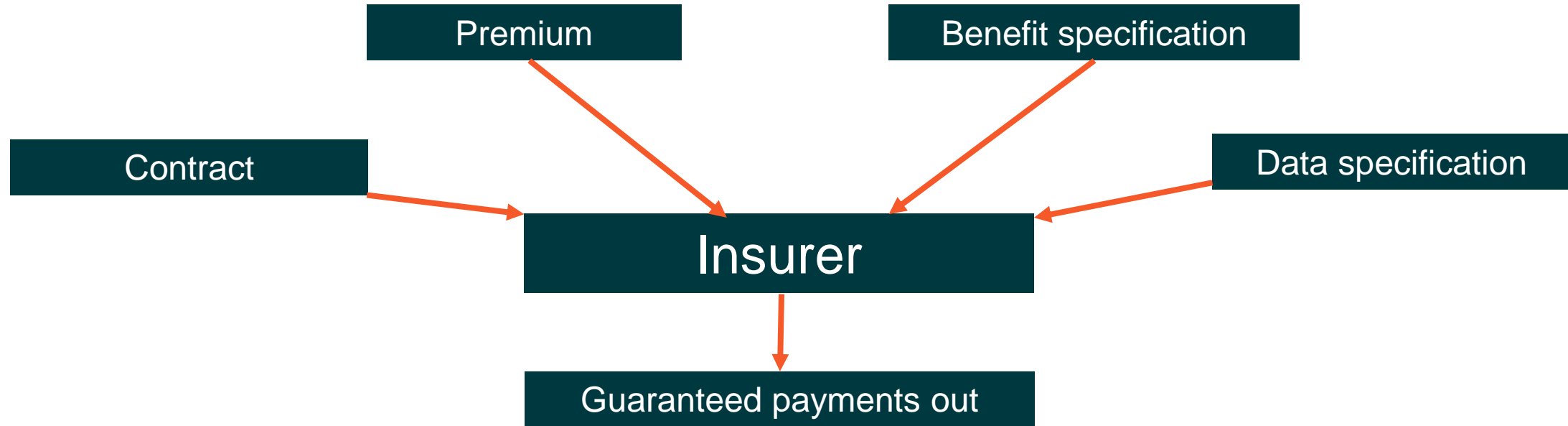


Agenda

- What is a buy-in (or buy-out)?
- Process overview
- SM&RT Insure process detail

What is a buy-in (or buy-out)?

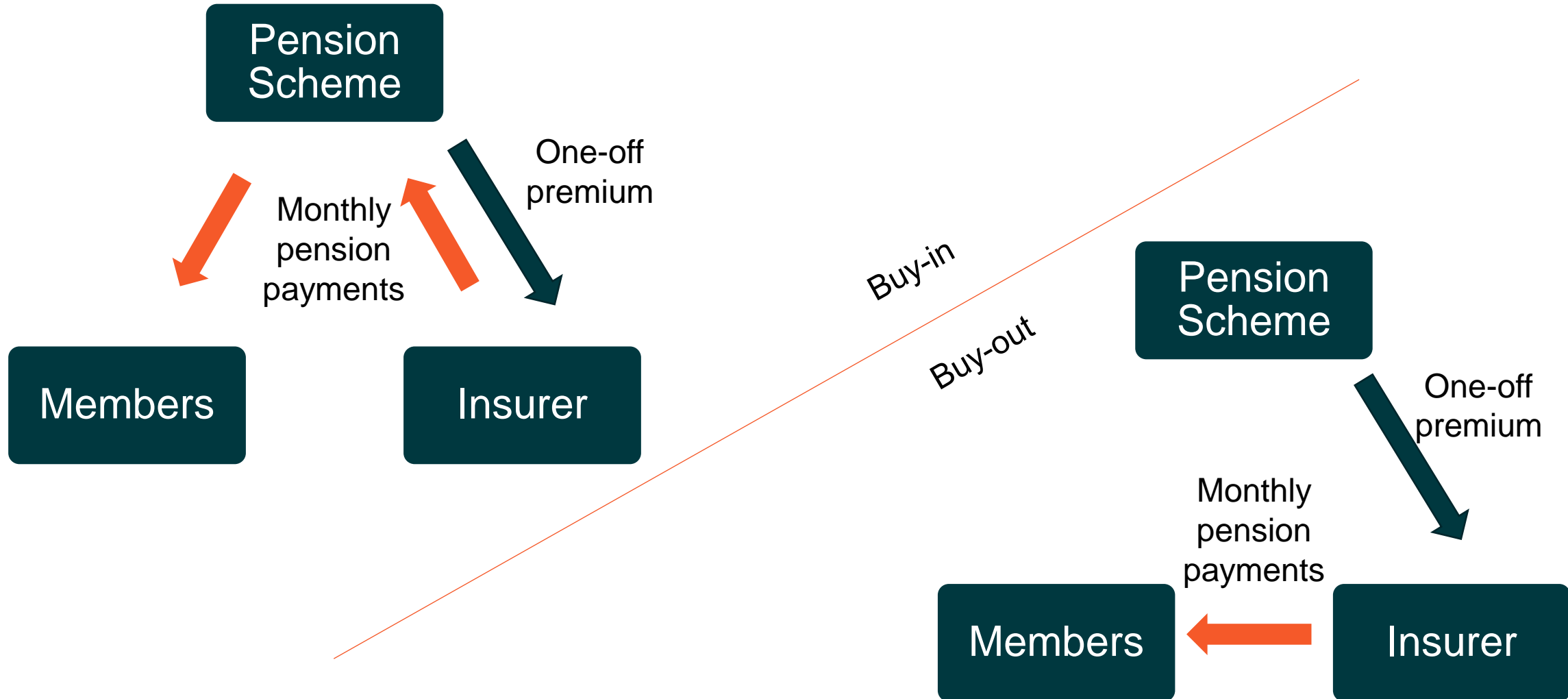
An insurance contract



On signing the insurance ***contract***, and delivering the ***premium***, the ***insurer*** guarantees to pay the benefits specified in the ***benefit specification*** to the members covered in the ***data specification***.

What is a buy-in (or buy-out)?

Main differences



What is a buy-in (or buy-out)?

Detailed differences

Buy-in	Buy-out
Single contract between insurer and the trustees	Individual contracts between insurer and each member
Members deal with administrator and paid pensions from the scheme	Members deal with the insurer and paid pensions by the insurer
Scheme retains liability to pay pensions, but has a matching asset	Scheme is no longer responsible for paying pensions to members covered
Investment decision	Discharge of liability to pay insured benefits
Trustees protected by scheme assets and/or employer indemnity	Trustees protected by trustee indemnity insurance and/or employer indemnity

Most schemes complete a buy-in initially and then transition to a buy-out

Security of member benefits

Scheme vs Insurer

- Scheme is reliant on support from the Employer
- Members' benefits exposed to the risk of Employer insolvency
- Could be eligible for entry into the PPF in the event of Employer insolvency – members' benefits would then be subject to PPF increases/caps etc

Pension
Protection
Fund

Scheme

- Members' benefits at risk if the insurer defaults
- Insurers are regulated by the Prudential Regulation Authority and are subject to strict reserving requirements
- The FSCS would typically provide 100% compensation if the insurer were to default

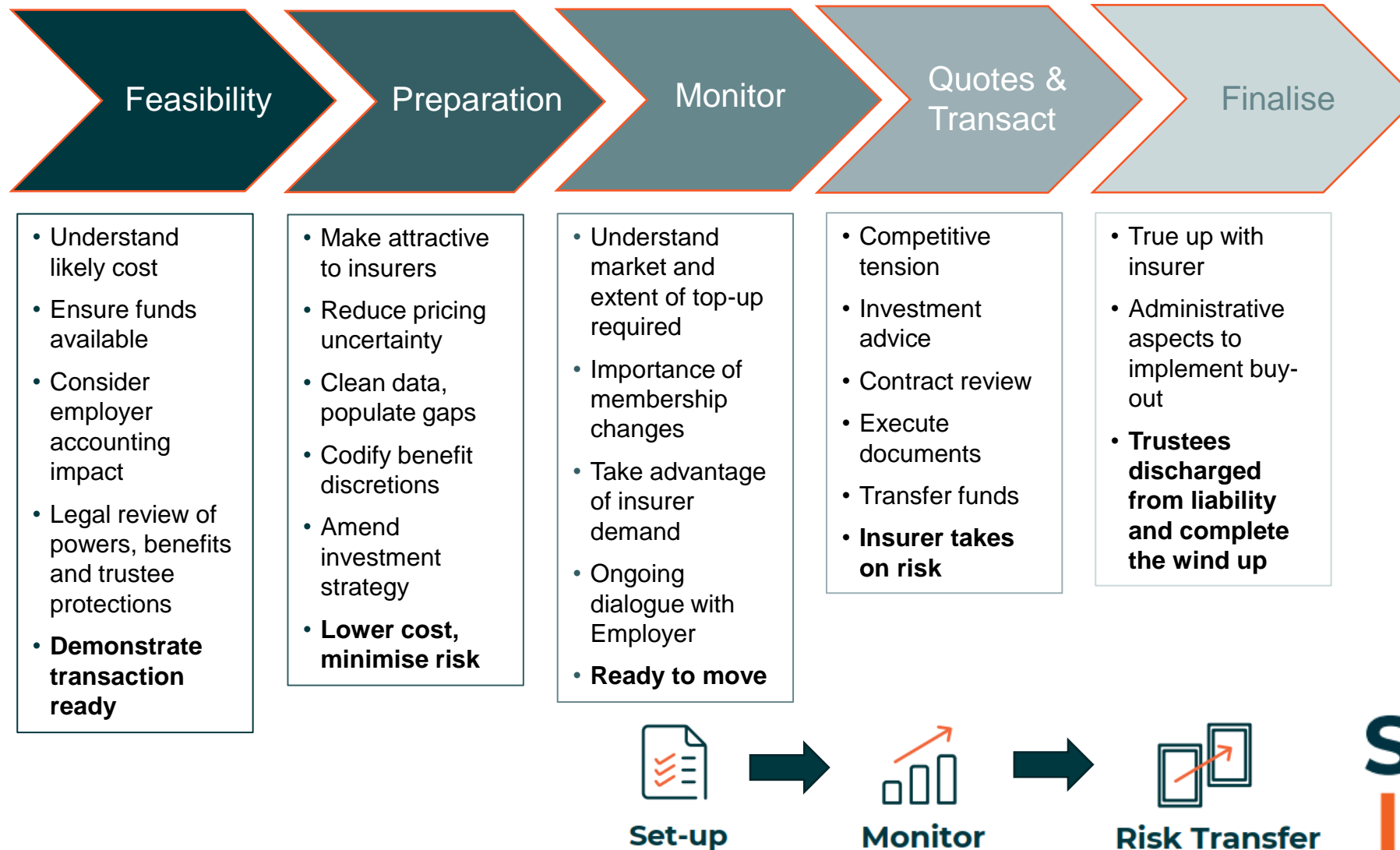
fscs Financial Services
Compensation Scheme

Buy-out

Buy-in

Process overview

The key steps



SM&RT
Insure

Process overview

Typical timeline following feasibility work



Preparation
3-6 months

Understanding funding, asset reorganisation, data and benefit preparation



Quotes & Transact
3 months

Depending on insurer capacity, agreeing contracts, price and executing transaction



Data cleanse & buy-out
12-18 months

Agree final data, pay balancing premium, transition administration, implement buy-out



Wind up
6-12 months

Prepare final accounts, statutory notices, arrange run off insurance



Set-up

Feasibility

Objective: Understand the insurer potential buy-out cost and any shortfall required from the employer to demonstrate commitment

- **Complete report estimating how buy-out cost compares against scheme assets and assess likely shortfall**
- **Discuss payment of any shortfall with the Employer and agree amount of additional funds available**
- **Outline impact of transaction on Employer accounts to ensure it is comfortable and understands implications – particularly under US GAAP**
- **Obtain legal feasibility report (e.g. trustee powers to implement buy-in / buy-out, trustee protections from liability and general governance considerations) – consider use of Broadstone's (optional) legal partner to ensure smooth process**
- **Sound out insurers based on capacity and target market**
- **Consider level of risk in current investment strategy**



Set-up

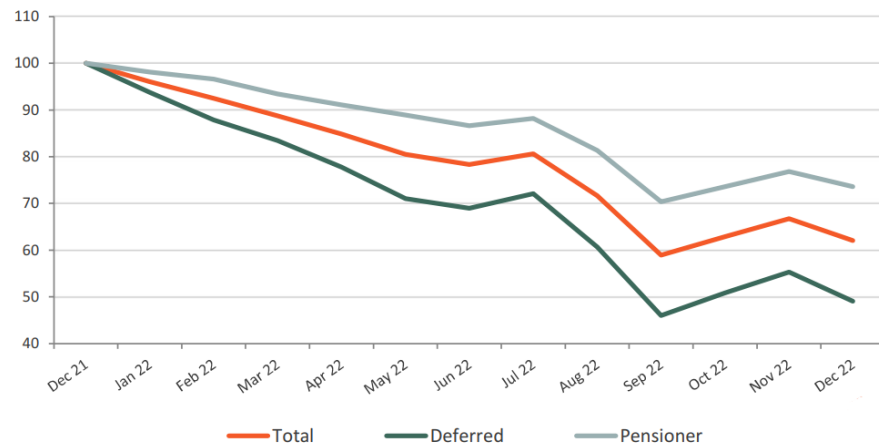
Preparation

Objective: Reduce potential buy-out cost by reducing uncertainty and demonstrating a commitment to the transaction

- **Full project plan of likely actions and costs**
- **Complete data audit and obtain missing data e.g. marital status and spouse dates of birth**
- **Prepare detailed benefit specification and undertake benefit audit as appropriate**
- **Prepare insurer-friendly benefit specification and codify discretions**
- **Implement a 'buy-out aware' investment strategy to broadly match buy-out market pricing movements**
- **Agree structure of transaction e.g. general timing, top-up payment from Employer and approach to trustee protections from liability**
- **Revisit feasibility if required**

Objective: Track relative movements on Scheme assets and buyout pricing to determine a time to go to market

- Consider the impact of any significant membership changes which can affect pricing e.g. deaths, retirements, transfers out
- Monitor pricing changes
- Ongoing dialogue with insurers to understand capacity
- Ensure investment strategy is performing as expected
- Ongoing dialogue with Employer



Development, over the past 12 months, of the estimated cost of securing the liabilities of a 'typical' scheme through the purchase of a bulk annuity contract

Objective: Sign contract with selected insurer and pass across agreed funds for initial premium so that insurer assumes risk

- **Submit data and benefit specification, deal with queries and agree delivery of quotes**
- **Review draft contracts including terms for initial premium and price lock**
- **Receive quotations and regulated investment advice on suitable insurer considering price, service, financial strength, contractual terms etc.**
- **Select preferred insurer and review final contract terms**
- **Advice to change scheme factors to insurer factors**
- **Optional advice provided from specialist provider on strength of insurer (noting different regulatory regime / safety net when moving to an insurer)**
- **Agree contracts and execute**
- **Obtain investment advice and transition assets to insurer**
- **Provide data cut and manage receipt of benefits from insurer**
- **Advise members**

Choosing the insurer



Suitability

- Size of scheme
- Capacity of insurer
- Existing relationship
- ESG
- Reputation

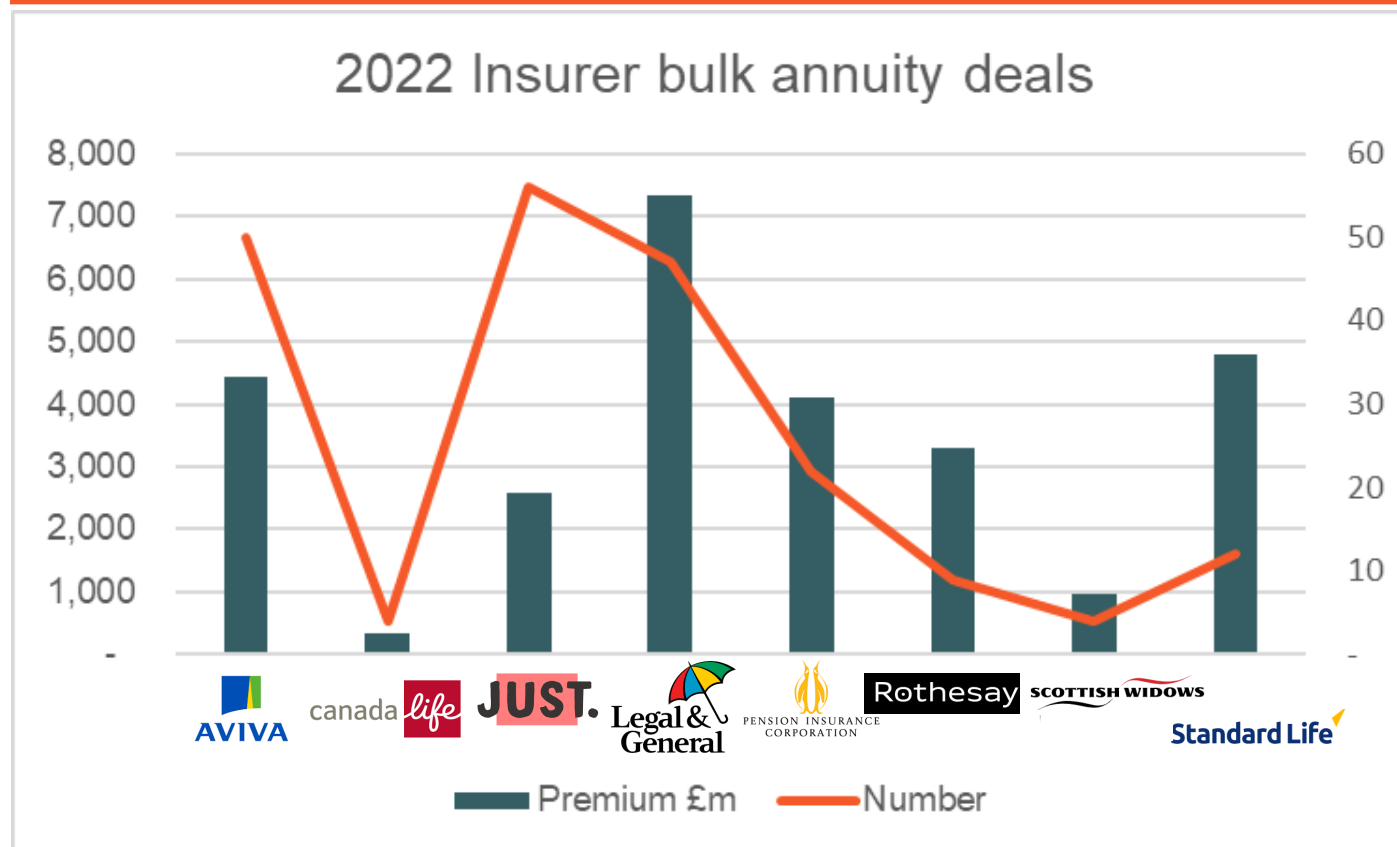


Quality of member service



Price and commercial terms

Choosing the insurer



Most insurers will quote on larger deals (over £100m)

Some insurers will quote on deals between £50m and £100m

Less appetite for deals below £30m

- Aviva – 14 deals below £10m
- Just – 28 transactions on small scheme service
- L&G – 39 transactions below £100m

Objective: Implement buy-out with the insurer and then complete the legal and administrative aspects to wind up the scheme

- **Arrange for pensioner payroll to be transferred to insurer**
- **Finalise insurance policy and pay/receive final premium adjustment**
- **Formally trigger wind up of scheme**
- **Advise members**
- **Implement buy-out (assign individual insurance policies to the members)**
- **Arrange trustee run-off insurance**
- **Legal and administrative aspects to complete wind up of scheme**
- **Execute deed of termination and final regulatory notifications**

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