

TRANSITION GUIDE

**Bulk-annuity transitions –
a guide for trustees and administrators**

For professional advisers, pension scheme
trustees and employers only

JUST.

It's surprising how often administrators don't find out that they'll need to supply accurate information for a final bulk-annuity premium to be calculated until after the contract has been entered into. Often this vital stage is either overlooked or the trustees and administrator are not fully aware of what's involved.

This can lead to the process of completing a bulk-annuity (the transition process) being unnecessarily complex or delayed, which can be frustrating for everyone involved, especially if the aim is to move to a buy-out policy and pass on all pension liabilities quickly.

We've managed over 200 sales of bulk-annuity policies, so we know that trustees who are well prepared, and have accurate and complete information readily available, are most likely to complete their bulk-annuity contract smoothly, quickly and efficiently.

In this guide we explain the main stages that follow a bulk-annuity sale so you, your administrator and the adviser you appoint to manage the bulk-annuity process can familiarise yourselves with the requirements of the data-cleanse process (the process of your administrator

confirming and, if necessary, correcting information you provided to get a quotation so it accurately reflects the membership to be covered by the bulk annuity on the day the contract was signed).

We will be your main point of contact, making sure you're kept up to speed with the status of the data cleanse and working closely with your administrator to guide them through the process.

If you're planning to take out a bulk-annuity policy or have signed a contract for one with us, please share this guide with your administrator and adviser so they know about and plan for the data-cleanse process, rather than it coming out of the blue.

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Client Relationship Team



Why is a data cleanse needed?

Bulk-annuity policies are priced using information that was gathered weeks or months before the contract is completed. As a result, it's unlikely this information will be totally accurate on the day the bulk-annuity contract is signed. For example, members may have died and beneficiaries may have changed.

Once a contract is agreed, the data-cleansing process is needed to produce a schedule (the final data schedule) of accurate information.

Once the final data schedule is agreed by everyone involved, the information is used to calculate a final premium which reflects the membership and beneficiaries on the day the contract was signed.

The bulk-annuity process – an overview

The tender

- You decide to buy a bulk-annuity policy and work with the adviser you appoint to manage the bulk-annuity process (your appointed adviser) to specify the members and benefits to be insured. The appointed adviser is often the scheme actuary.
- You instruct your administrator to gather information on the members to be insured. The information gathered is called the 'data extract'.
- You instruct your appointed adviser to prepare details of the benefits to be insured.
- Your appointed adviser will then send insurers an invitation to tender. This invitation includes details of the members and scheme benefits to be insured.
- Insurers provide quotations. You then work with your appointed adviser to decide which bulk-annuity supplier to choose.
- Insurers who have been invited to tender provide a quotation, if they choose to.

After the sale

- If you choose our bulk-annuity policy, we set up a 'kick-off' meeting with you and your administrator to discuss the data cleanse.
- After the kick-off meeting, to start the data-cleansing process, we'll confirm the members and benefits insured under the contract and show your administrator what extra information we need them to provide.
- We work with your administrator to help them confirm accurate details of the members and benefits on the date the contract was signed. They provide these details to us in a final data schedule approved by you.
- We use the information in the final data schedule, along with the final benefit specification (a template of which we supplied in our quotation document), to calculate a final and accurate premium and any balancing payment (the difference that we must refund or you must pay). We call this process of calculating the final premium and any balancing payment a 'true-up'.
- We need to work out any balancing payment to reflect any changes in the members or benefits since our original quote. For example, if members have died, we will return some of the premium to you. But if benefit changes have increased the payments we must make under the contract, you would need to pay us the increase.

The sooner your administrator completes a data cleanse and you provide the final data schedule and benefit specification, the sooner we can carry out the true-up to work out the final pricing. It's good practice to involve your administrator as early as possible.

STAGES OF THE DATA CLEANSE AND TRUE-UP

When planning the data cleanse with your administrator, bear in mind the purpose is for them to supply us with complete and accurate information about the members, dependants and benefits that were to be insured on the date the bulk-annuity contract was signed and cover started.

1 Kick-off meeting

We arrange this meeting shortly after the contract is signed. We explain the data-cleanse process so you and your administrator understand why it's necessary and what tasks need to be carried out. We agree how we'll work with your administrator to support them, and how we'll keep you up to date with progress.

The kick-off meeting provides an opportunity for:

- you to meet our team
- you and us to come to a shared understanding of the members and benefits to be insured
- you and us to agree the requirements for the data cleanse and the final benefit specification
- us to give you our standard data schedule, filled in with the details our quotation was based on
- you and us to discuss the need for you to give us monthly updates on any member movements (changes to details), and for us to give you a movement-capture spreadsheet for you to use, and
- you and us to discuss and agree a plan for the transition.

Standard data schedule

At the kick-off meeting we'll give you our standard data schedule. The schedule will include the membership and benefit details our quotation was based on. Your administrator should carefully check this schedule as it shows the members and benefits we started to insure on the day the contract was signed.

Once your administrator has checked the schedule and made any necessary corrections, we need you to approve it. It then becomes the final data schedule.

If you'd like a copy of the standard data schedule before the kick-off meeting, please call us or ask your appointed adviser for one.

2 Existence checking

Your administrator will need to carry out 'existence checks' to find out whether everyone insured by the bulk-annuity policy was alive on the date the contract was signed (the inception date).

We carry out existence checks (also called mortality screening), but your administrator should still be carrying out regular existence checks. We compare your administrator's checks against our own to help confirm the information is accurate.

You'll need to confirm that, to the best of your knowledge, the details gathered during the existence checks accurately represent the members to be insured by the bulk-annuity policy.

You should consider the following.

- Does your administrator carry out existence checks and, if so, how are the checks carried out?
- Is a report produced?
- How often are the checks repeated?
 - When was the last one?
 - When is the next one?
- Can you provide a report on the members on the inception date?
- Is the current admin system or payroll system updated to reflect the most recent results of the checks?

If any members or dependants have died, you'll need to let us know by updating the standard data schedule.

3 Checking personal details

Your administrator will need to check that each insured member's full name (title, first name, any middle names and surname), date of birth and gender shown in the standard data schedule are correct.

You should consider the following.

- Does your administrator have this information available?
- Where does the information come from? For example, did they collect ID documents when members retired?
- What steps can you take to check information? For example, will you need to carry out a verification exercise?
- If the necessary information is held on a current admin or payroll system, when was it last updated, and does it match the information provided for the quotation? If there are separate payroll and admin systems, does the information on them match?

4 Checking dependants' details

Depending on what's been agreed as part of the quotation process, you may need to tell us the marital status of each member, together with details of their husband, wife or civil partner (if they are known).

You should provide this information in the standard data schedule. We'll need each dependant's:

- full name (title, first name, any middle names and surname)
- date of birth, and
- gender.

You should consider the following.

- For members already receiving their pension, are these details on record?
- Are these details up to date because they've been recently confirmed?
- Have any divorces or deaths been accounted for in the information supplied?
- Do you need to run an exercise to ask members to confirm details of their husband, wife or partner? If so, can this be combined with any other planned mailings to members?

5 Tracing addresses

Your administrator will need to provide the current addresses of all members to be insured, and trace missing members. We will also use a tracing agent to check the addresses you've supplied are accurate and to help fill any gaps.

You should consider the following.

- Even with a buy-in policy, when we'll have no direct contact with the members, we still need addresses for regular existence checks.
- If you're considering, or close to taking out, a buy-out policy, we'll need address details to set up our admin and payroll records ahead of distributing policy documents.

If you've recently written to all members to be insured, we can accept your confirmation that you've not received any returned letters ('not known at this address' and so on) as evidence that addresses are up to date. If you have recently used tracing agents to carry out any checks, we can also accept their reports that show address changes since the inception date.

6 Checking details of the insured benefits

As mentioned above, before we gave you our standard data schedule we'll have inserted details of the members and benefits we based our quotation on. You need to check and confirm these details are complete and accurately reflect the members and benefits you want to insure.

Your administrator will already have common information (for example, National Insurance numbers and surnames) and will hold some conditional information (for example, employment records and contribution histories), but are these complete? Your data score in your scheme return rates the completeness of the information you hold. For detailed guidance on record keeping, see the TPR website: www.thepensionsregulator.gov.uk/en/trustees/managing-db-benefits/governance-and-administration/record-keeping

It's good practice for you to thoroughly review all the information you hold and to provide as much detail as possible in the standard data schedule during the early stages of the data-cleanse process. By doing this, it's likely to be easier to get bulk-annuity quotes in the future as you'll have shown how you're making sure the information you have is accurate and complete, making it more attractive for insurers to provide quotations.

You should consider the following.

- Do the splits or tranches (portions) of benefit reflect what is currently being managed and match the benefit specification we supplied in our quotation document?
- Do the benefits to be insured reflect the information that's held on your admin system?
- If the benefits to be insured and the actual benefits of the scheme do not match, are you happy with the difference?

(If you're intending to keep the bulk annuity as a buy-in policy, the benefits not matching won't have much of an effect as we will simply cover the benefits you've asked us to insure. But over time, differences could arise between the payments we are funding and the benefits you're paying. If you're planning to move to a buy-out policy, any mismatch would need to be corrected before the buy-out contract starts.)

If the insured benefits and actual benefits do not match, this will create a funding shortfall that would need to be corrected before a buy-out can be completed. If this is the case, it's worth considering a more rigorous review, particularly if your long-term goal is to move to a buy-out policy, so that exercises to check and confirm information are up to date and not left to the last minute. This would include checking the benefits due to beneficiaries and making sure that GMP reconciliation (see point 9) and GMP equalisation (see point 10) are underway or planned.

7 Checking and agreeing our benefit specification

We need you to sign off the benefit specification we supplied with our quotation, so we have a final benefit specification.

Ask your appointed adviser to review the specification alongside the benefits set out in the standard data schedule, to confirm they're both accurate and complete, as they provide a framework for the benefits we'll insure.

You should consider the following.

- The specification must accurately reflect the benefits insured.
- The specification will provide the rules for how the scheme will be managed, covering elements such as the rates of annual increases, guarantee periods and pensions that will be paid to husbands, wives and civil partners after members die.
- Is the specification clear and does it reflect the way the scheme is managed at the moment? If not, do you understand, and are you happy with, the difference?
- Your administrator and appointed adviser should review and confirm all aspects of the specification to confirm that the benefits we've specified will be managed consistently before and after the bulk-annuity policy is in force.

8 Movements

After the contract is signed, your administrator will need to start giving us monthly updates either setting out any movements (changes) relating to members' details in the final data schedule or confirming that there have been no movements. Examples of movements include deaths, new dependants, amounts being paid from the scheme, deferred pensions, transfers out of the scheme and so on.

At the kick-off meeting we'll give you a movement-capture spreadsheet and explain how you can use it to make sure we receive everything we need during the data-cleanse process. Early reporting of any changes is important as it may affect the amount we fund and who for.

9 Reconciling GMP (Guaranteed Minimum Pension) benefits

You should decide whether your data-cleanse process will include a GMP reconciliation to confirm that the GMP data you have matches that held by HMRC. This must be carried out before we can issue individual buy-out policies.

You should consider the following:

- Is the GMP reconciliation exercise ongoing? If so, what stage is it at?
- Have GMP benefits for members been reconciled with HMRC?
- Will any benefits need adjusting?
- Have all male and female GMPs been represented correctly in the data extract?
- Administrators often use a separate team to carry out GMP-reconciliation exercises. Is this the case for your administrator? Are both teams joined up?

10 GMP equalisation

The current 'hot topic' among insurers, trustees and administrators!

If a GMP reconciliation is underway or has been completed, you'll be able to start a GMP equalisation to remove inequalities in retirement ages.

You should consider the following.

- What GMP-equalisation methodology has been agreed?
- Does the bulk-annuity contract specifically refer to this?
- Are there any plans to carry out an equalisation exercise during the data-cleanse process?

11 Final data schedule and benefit specification

Once you've given us the updated data schedule and benefit specification, and details of movements since you signed the bulk-annuity contract, we'll give you a letter of confirmation that you should sign and return to us.

This letter confirms that:

- you approve the information you have given us
- the details of the benefits and members you would like to insure are correct and complete, and
- the details of the verification checks carried out are confirmed and all the evidence gathered during the checks is held on file.

The updated data schedule then becomes the final data schedule.

Reporting deaths after the data cleanse

Your administrator continues to provide regular reporting of movements (as described above in section 8). It's important any changes are reported promptly as they could affect the monthly amount we fund, but we understand that deaths are not always reported right away. In this case we would adjust the funding in a future month, as agreed with your administrator.

12 Calculating the final premium (true-up)

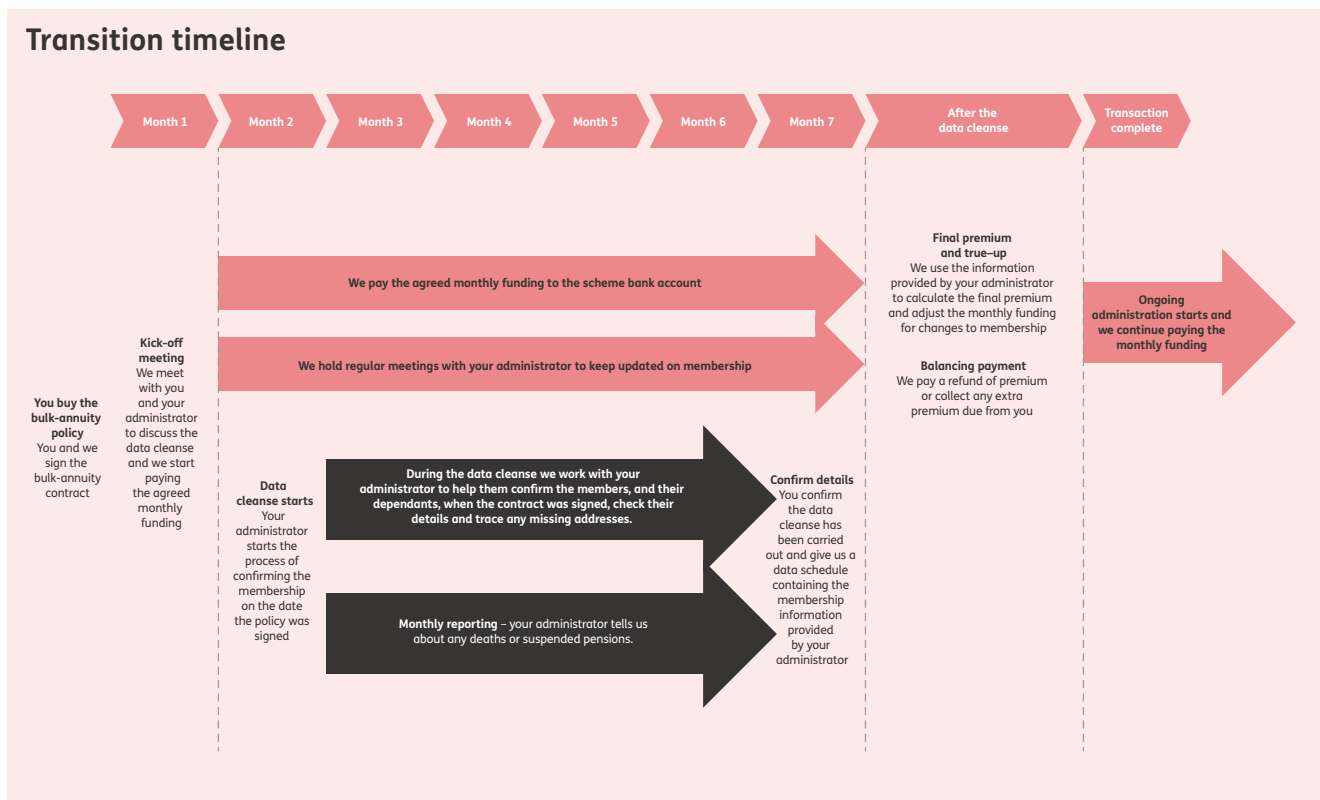
Once we have the final data schedule, we use it to calculate the final and accurate premium and any balancing payment. This calculation is known as the true-up calculation.

We need to do this calculation in case the insured benefits or members have changed since we provided our original quotation. Depending on what the changes are, we may need to make a refund to you or you may need to pay us some additional premium.

After the true-up calculation, we will send your appointed adviser an email explaining any adjustment and setting out the details of the calculation so they can agree to the adjustment. Once any adjustment is agreed, we let you know if we are making a balancing payment to the scheme bank account or you owe us a balancing payment.

Timescales for the true-up calculation are explained in the bulk-annuity contract. One of our transition managers will discuss the likely schedule with you when the data cleanse is almost finished.

The diagram below shows the usual timeline.



WHAT TO EXPECT AFTER THE TRUE-UP

Buy-in policies

Your administrator will continue to provide a monthly update of movements, as described in point 8, so we can change our funding accordingly. We will tell your administrator about any change in payments, and give a breakdown of how this was calculated so they can check it against their own records.

We will pay the agreed funding to the scheme bank account, normally once a month, until the last insured member dies, at which point payments end.

Buy-out policies

We issue individual pension policies to the pensioners and deferred pensioners who are covered. Then the scheme's payroll and administration transfers to us. Our own administrator will become responsible for managing and paying pensions.

You will need to write to members before these buy-out policies are issued to explain the change in responsibility for the future management and payment of pensions. We have a leaflet you can include to tell members about us.

After we have issued the individual policies, you will no longer be responsible for those members who are now covered by the buy-out policies.

FOR MORE INFORMATION

Call: **01737 308 992**

Lines are open Monday to Friday, 8.30am to 5.30pm, calls may be monitored for training and audit purposes and call charges may apply.

Visit our website for further information: wearejust.co.uk/definedbenefit

Please contact us if you would like this document in an alternative format.

