

# Delivering a bespoke risk transfer solution for a large DB scheme

In the UK, a small group of large schemes holds a significant proportion of defined benefit (DB) assets. These schemes have unique needs and face different challenges compared with smaller schemes. As advisers to over half of the 20 largest schemes in the UK, and one in five with assets above £1bn, we understand these different needs and want to share our insights through a series of case studies.

## Bespoke solutions in risk transfer

In this case study, we share how we helped a large DB scheme to overcome complexity and delivered a tailored risk transfer solution.

### The client's scenario

Our trustee client and their sponsor wanted to move forward with a full scheme buy-in, in spite of liquidity and affordability constraints. In addition, their paternalistic nature meant being able to deliver high-quality member experience in both the buy-in and buy-out phases was a key criterion for insurer selection.

### Illiquid assets

The sponsoring employer was keen to complete the transaction quickly, but the scheme held a large proportion of illiquid assets. With large schemes, illiquidity can be a barrier to transacting quickly and cost effectively, and there is no 'one size fits all' solution to this challenge. For this scheme, approximately 20% of its assets were expected to be illiquid at the time of the transaction. The scheme's liquid assets wouldn't be sufficient to pay the insurer premium while also retaining reserves for future costs, such as any additional premium following post-transaction data cleansing.

### Finding the right solution

We explored different options for funding the initial premium and subsequent costs. These included selling the illiquid assets on the secondary market or to the sponsor, transferring the illiquid assets to the insurer, obtaining a loan or contribution from the sponsor and agreeing a deferred premium arrangement with the insurer. Ultimately, we had to design an affordable solution that addressed both the funding shortfall and the liquidity constraints.

Transferring or selling the scheme's illiquid assets would have required significant 'haircuts' to their net asset value, further straining affordability and increasing the required sponsor contribution. Instead, we were able to negotiate a deferred premium arrangement with the insurer and a loan facility with the sponsor, both on favourable terms. This ensured the trustee would have sufficient liquidity to meet the initial premium, the deferred premium and future costs as they fell due, while remaining within the sponsor's appetite to provide additional monies to the scheme.

## Member experience

We see many large schemes providing enhanced member experience, having spent significant time and focus developing their administrative capabilities, particularly online. Maintaining this service sets a high bar for insurers, but this was a top priority for the trustee throughout the project.

To secure a positive member experience as part of the transaction, we put this at the heart of the broking process and:

- Worked closely with the administrator to understand the current level of member service and the processes behind that.
- Negotiated a 'path of least disruption' with the shortlisted insurers, tailoring their member quotation processes to fit the scheme's existing

arrangements, not vice versa, and agreed a clear plan and timeline for implementation.

- Secured an insurer commitment to provide members with the same access to online services as they currently enjoy, should the scheme ever move to buy-out.
- Supported the trustee in assessing the insurers' administration and member experience credentials, sharing our detailed insights from insurer due diligence and live cases as well as supporting insurer site visits.

As a result, the trustee was able to make an informed insurer-selection decision, entering into the buy-in with confidence and clear expectations on what the future looked like for their members.

The Trustee Board is delighted to see a successful outcome after a rigorous selection process across market insurers and months of dedicated preparation.

*Chair of Trustees*

To discuss anything further, please contact one of our experts below or get in touch [here](#).



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