Navigating a pension scheme wind-up

How to balance member, sponsor, and trustee interests when implementing a scheme wind-up

Insurance buy-in transactions are a large and growing part of the pensions industry. Yet, while there is often a strong emphasis on executing the transactions efficiently, there can be less focus on the subsequent process of completing the buyout process and winding up the pension scheme. In some cases, a lack of resources and inexperienced teams can lead to direct impacts for your scheme members, the sponsor and pension scheme trustees alike. So, how can you ensure all parties have a positive experience?

Placing members at the heart of the process

Winding-up a pension scheme can be an unsettling time for members if the process isn't handled with care. With their benefits transitioning to be paid by a different party, the loss of the familiarity of regular newsletters and potential changes to terms for options such as transfer values, it's easy to see how members might feel uneasy.

The wind-up is also the last chance for the trustee to interact with its members so effective communication is essential to ensure a positive member experience. At worst, a complaint from a member about their benefits or the process followed could delay the whole wind-up so it's crucial to ensure members have confidence in the action taken.

Steps to help:

- Craft a clear member communication strategy
- Implement a well-managed project plan – to ensure you deliver on what you've told members you'll do; and
- Manage a smooth payroll transfer with the insurer – so members have confidence in the insurer from day one.

What sponsors need to know

From a sponsor perspective, winding up a closed defined benefit pension scheme removes balance sheet risk and helps control costs.

However, the complexities and costs associated with the buyout and wind-up phases can lead to frustration, especially if timelines aren't clearly communicated and progress is slower than expected.

There can also be difficult conversations over topics such as return of surplus, who carries the risk for any historical errors or future claims, and the tricky task of managing budgets.

Steps to help:

- Clearly outline the key tasks, timelines and budgets up front, ideally before the buy-in is signed so all parties understand the process
- Maintain regular communication between the sponsor, trustees and advisers to monitor progress
- Work collaboratively to address any challenges, with all parties understanding and acknowledging their respective interests.

Supporting trustees on the journey

Trustees can often feel a sense of relief when a buy-in transaction is completed. Securing all benefits in full with a regulated insurance company is a milestone for any pension scheme.

However, it's crucial to keep momentum as there are priority tasks at this point, including communicating with members, potentially implementing new member option terms and ensuring there is no risk that the trustee bank account will run dry.

Moving forwards, trustees will also need to keep a close eye on progress of the data cleanse process, as well as grappling with technical areas such as surplus refunds, GMP equalisation and legal uncertainties like the recent Virgin Media case. Not forgetting there are often other member benefits to secure outside the scheme such as AVCs or DC funds and historical annuity policies.

Trustees will also need to ensure they have adequate protection in place through trustee indemnity insurance and/or a sponsor indemnity in case a claim were to arise at the end of the wind-up process.

Steps to help:

- Set clear project plans, budgets and regular reporting so all parties hit the ground running post transaction
- Obtain practical advice from experienced specialists on technical areas and common issues; and
- Initiate discussions early to ensure robust trustee protections at the end of the wind-up process.

Ensuring a seamless transition

Transitioning from a buy-in to buyout and full wind-up is one of the most involved projects trustees and sponsors will face. Success hinges on a thorough understanding of the process, an actively managed plan and robust reporting – all overseen by experienced specialists. By doing so, you can achieve a smooth process with better outcomes for your members.

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