

# An essential checklist for smooth settlement journeys

John Baines and Michael Walker of Aon lay out the key elements of settlement planning for trustees to ensure a smooth transfer of assets

**A**S SCHEMES GET closer to being fully funded and longevity risk transfer options continue to evolve, the number of schemes and the volume of assets transferring to insurers through buyouts and buy-ins continues to soar.

In 2019 over £43bn of assets were transferred, and even in 2020, against a backdrop of market turbulence and COVID-19, the market was worth more than £32bn.

The size of the market shows both that insurance settlement as an end goal is now mainstream, and that schemes are increasingly able to transact. Full funding no longer feels like an unachievable goal for many schemes. Where full funding is further away, consolidation into a superfund is also now an option, giving trustees and companies even more opportunities to reach settlement in a five to 10-year timeframe.

Effective preparation for settlement involves substantial planning; trustees and companies need a comprehensive checklist of actions to ensure a smooth journey and to avoid a last-minute crunch. Scheduling activities over five or more years makes this more manageable and helps to ensure schemes are ready to transact as soon as an opportunity occurs, avoiding missed opportunities.

All the key elements of settlement planning can be addressed by using Aon's Journey to Settlement framework, which breaks preparation down into five simultaneous workstreams:



## STRATEGY

- What is the scheme's settlement target? Understanding the scheme's goal – whether buyout, consolidation, or self-sufficiency – and the timescales are crucial starting points.
- How will the scheme achieve its target? If it is buyout, will this be a single transaction, or a series of buy-ins, culminating in a buyout? Will it use other vehicles such as longevity swaps along the way?
- When do trustees think they will reach their end goal? The schedule should allow for transacting earlier or later than planned.

## MEMBER EXPERIENCE

- Is there a plan to run a Pension Increase Exchange or Transfer Value exercise before buyout? The timing of this activity should be built into the plan to ensure members are offered the desired flexibilities. Would the board decide to bypass some activities in the plan – or pause to make sure everything is covered?
- Does the scheme offer additional member support that will not be available after buyout?

Will trustees build in steps to allow members to have final access to any services, such as free financial advice, which may cease on buyout?

- How will member options be affected by transfer to an insurer? Member options, such as transfer values or cash lump sums at retirement, pre- and post-buyout, could change following a buyout. Trustees must think carefully about whether, when and how to highlight this to members.

## INVESTMENT STRATEGY

- Will the assets that the scheme holds broadly hedge changes in buyout pricing on the run-up to a transaction and will they be attractive to an insurer? In specie transfer of assets to an insurer is possible, saving transaction costs, but typically only for limited liquid assets.
- What is the exit strategy for illiquid assets, such as property, that can tie schemes in for many years? Holding illiquids can deliver attractive investment returns on the journey to settlement but can also make it more difficult to act on early buyout opportunities. If

trustees carry out a forced sale, they could lose value and so early planning is crucial.

## DATA AND BENEFITS (TWO WORKSTREAMS)

- When should trustees carry out a data cleansing exercise? Carrying out data cleansing early avoids the risk of any provider capacity crunches and could also benefit other scheme activities, such as GMP equalisation.
- Do trustees have clarity over their settlement target? Inaccurate data and poorly documented benefits can have an impact on liability targets. Resolving issues early gives greater clarity over funding targets.

Planning your endgame strategy and managing the workstreams using tools such as Aon's Journey to Settlement framework, ensures a smoother and more cost-effective path – and avoids the risk of missed opportunities.



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