Delayed Pension Payment Bulk Purchase Annuity

For employee benefit consultants, pension professionals and financial advisers only.
Not approved for use with pension scheme members.

AVIVA

Contents

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We've added a glossary at the end of the document to help with some of the terms which you might not be familiar with. The terms explained in the glossary are highlighted in green.

What is it?

It's a simple alternative to a traditional **bulk purchase annuity** policy.

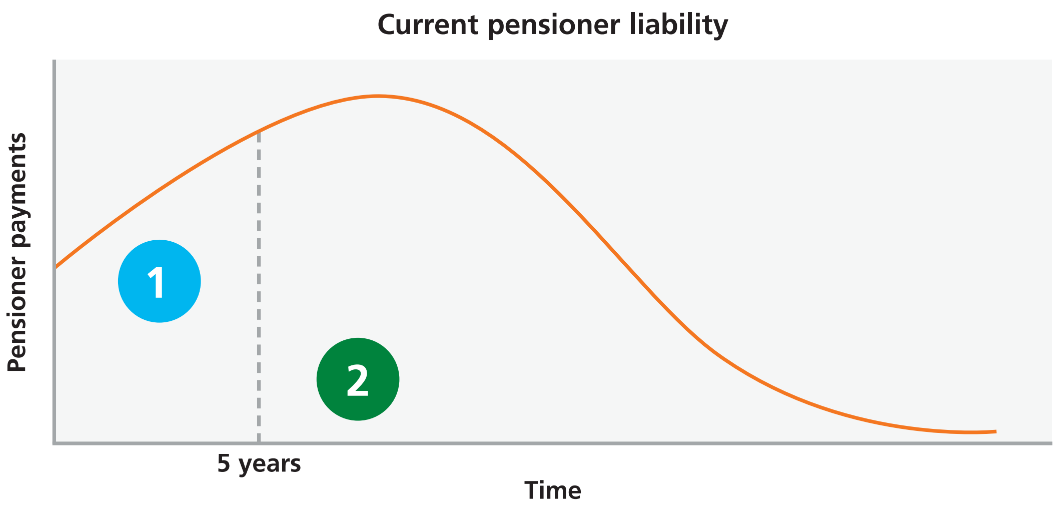
Who is it aimed at?

It's aimed at **trustees** of **under-funded schemes**, who are interested in **de-risking** their scheme through a **bulk purchase annuity**.

How does it work?

This reduces the cost of the **bulk purchase annuity** with Aviva at day one, with the trustees continuing to pay pensions at the start of the policy.

The graph below shows a typical shape of pensions for a **defined benefit scheme**:



- The orange line represents the typical pensioner payments a **defined benefits scheme** may expect to make over time.
- The cost of a typical **bulk purchase annuity** policy is based on the expected cost of providing the full **pensioner payments**, represented by areas **1** and **2**.
- Using the delayed pensioner payment, Aviva doesn't start paying pensions until **five years later** in this example.
- This moves the effective cost of the **bulk purchase annuity** policy to area **2** only. It means the **trustees** can spread the cost marked as 1 in the graph over five years instead of paying it to Aviva as part of a **bulk payment**.
- **Trustees** will continue to pay pensions up until Aviva takes over. As a result, this option relies on a high degree of employer support.
- The **trustees** decide when the **handover point** will fall, taking into account their scheme funding position and the employer support available. The later the **handover point**, the less liabilities are passed to Aviva, and so the lower the cost of the **buyout**.
- This is likely to be attractive to employers who are supporting **trustees**.

How does it affect pension benefits?

This table sets out how the delayed pensioner payment option affects different benefits:

Benefit type	Impact
Pensions in payment	• The trustee (supported by the employer), pays pensions in payment during the delay period. • Aviva starts making pension payments at the end of the **delay period**.
Spouse's benefits on the death of a pensioner	• This is covered in the same way as the member pensions in payment. • The trustee (supported by the employer), pays pensions in payment during the delay period. • Aviva starts making pension payments at the end of the **delay period**.
Lump sum payments on divorce for pensioner	• During the delay period the trustee (supported by the employer), pays a lump sum with an allowance for the start date of the Aviva pension payments.

Deferred pensioners	• Deferred scheme members are treated separately to pensioners in payment. This is to remove the uncertainty of not knowing when deferred scheme members will start to retire and how long they will draw their pension payments for.
	• Aviva starts paying benefits as and when the member retires, even if this is during the delay period.
	• The Aviva policy will also pay for other benefits paid to deferred pensioners during the delay period. This includes:
	  • tax-free cash
	  • **transfer values**
	  • lump sum payments on divorce.

What are the sponsoring employer's responsibilities under the delayed pensioner payment option?

During the **delay period**, Aviva won't make any payments to the **trustees** for the pensioners in the scheme, other than to those who are **deferred pensioners** when the policy commences and who retire during the **delay period**. This means that the employer must make sure the **trustees** have enough funds to cover these payments.

It will be the trustees' responsibility to continue paying pensions in payment, but effectively the employer will make the payments.

This means that the **sponsoring employer** must be financially stable enough to make these payments during the **delay period**.

What happens if the employer becomes insolvent during the delay period?

The employer must make sure that the trustees can pay the pensioner payments. If they become insolvent during that time, it's unlikely that the **trustees** will have enough funds to pay pensions for very long.

If the employer becomes insolvent, we will work with the **trustees** to reshape the benefits under the delayed pensioner payment option.

This will mean bringing forward the date at which we will begin to pay pensions. However, there will be a cost for this. As we'll begin paying benefits before the handover date, we will pay lower amounts than if we'd started paying pensions on the date initially agreed.

We'll reshape the deal on a **cost-neutral basis**, but take into account our expenses in running this calculation, plus any additional costs for **dis-investing and re-investing** assets.

The reshaping exercise is likely to be complicated and could take some time to finalise. Because of this, the **trustees** may want to consider keeping a minimal level of assets within the scheme to cover short-term payments to members if we need to reshape the deal.

What due diligence will Aviva run?

As well as the standard **due diligence** for a **bulk purchase annuity** policy, we'll also run **due diligence** to assess the financial strength of the sponsoring employer.

We'll only offer the delayed pensioner payment option to employers who are unlikely to become insolvent during the delay period. This also means that we may limit the length of the **delay period** we offer to reduce the chance of employer insolvency during the **delay period**.

Frequently asked questions

General questions

Does the delayed pensioner payment option cover deferred pensioners?

No, but if you want to **buyout** the benefits of **deferred pensioners** as well, you can do this under the same policy, although they will be treated separately to **current pensioners**. In that case, Aviva would always start paying **deferred pensioners** as and when they retire, even if this was during the delay period rather than at the **handover point**. The Aviva policy will also pay for other benefits paid to **deferred pensioners** during the **delay period**.

Is this suitable for buyouts?

Prior to the **handover point** the policy must be held by the trustees (i.e. as a **buy-in**). Once past the **handover point**, the trustees may move to **buyout** (i.e. request that Aviva issues individual policies to members), in accordance with the terms of their **bulk purchase annuity** policy.

Should my scheme retain any assets?

Yes, we expect schemes to keep a minimum level of **assets** to cover:

- on-going expenses
- any **balancing payments** as a result of finalisation
- pensions to members if the employer should become insolvent.

Can I alter the date at which Aviva starts paying pensions?

You can bring forward the date at which we take over pension payments by purchasing a short-term policy which covers the additional benefits with us.

In certain situations, you can push back the date at which we will start making pensioner payments. You could do this as an alternative to paying a **balancing payment** when we finalise the deal.

What happens if deaths are higher or lower than expected during the delay period?

We will start paying pensions to all surviving pensioners and spouses at the end of the **delay period** regardless of the exact level of deaths.

Frequently asked questions

Questions about pensions in payment

What happens to spouse's benefits on the death of a pensioner in payment?

These are treated in the same way as all other pensions in payment. The **trustees** are responsible for paying spouse's pensions during the **delay period**. Aviva will take responsibility for all pensions in payment, including spouse's pensions, after the **delay period**.

What happens on transfers paid on divorce for pensions in payment?

We'll calculate a fair value for the pension payments Aviva would have expected to make once these came into payment, and pay the appropriate percentage to the **trustees**. The pension due to be paid by Aviva to the individual from the **handover point** will be reduced accordingly.

The **trustees** have the ultimate responsibility for making lump sum payments to individual members and their ex-spouses. This means the scheme would need to top up the lump sum paid by Aviva to give the full value to the member.

Questions about deferred pensioners

What happens to deferred pensioners?

Unlike pensions in payment, we would start paying **deferred pensioners** as and when they retire, even if this is during the delay period.

Who pays tax-free cash to deferred pensioners?

If a **deferred pensioner** opts to take tax-free cash from their pension, we would pay this even if it is within the **delay period**.

Who pays for transfer values to deferred pensioners?

We pay for any **transfer values** to **deferred pensioners** regardless of when they retire.

What happens to the spouse's benefits on the death of a deferred pensioner?

We pay the spouse's benefits when a **deferred pensioner** dies regardless of when that happens.

Glossary

Balancing payment/s	The amount of money that remains to be paid after we've verified the scheme data and the **bulk purchase annuity contract** is finalised. If this is a positive amount, the trustees pay this amount to Aviva. If it's a negative amount, we pay this amount to the trustees.
Bulk payment	This is the payment the scheme makes to us to start the cover.
Bulk purchase annuity	Trustees use bulk purchase annuities to remove investment, inflation and longevity risk from their **defined benefit**/final salary pension schemes. They buy a **bulk purchase annuity** from an insurer, who pledges to meet the defined benefit promises outlined in the contract to scheme members. This can be for a full scheme or a section of the membership.
Buyout	This is when replacement policies are issued to individuals to replace their benefits under the **bulk purchase annuity** policy held by the **trustees**. The individuals then have a direct relationship with Aviva and, once a replacement policy has been issued to each individual, the **bulk purchase annuity** policy comes to an end.
Buy-in	This is when the trustees of a pension scheme buy a bulk insurance policy to cover some of their members (for example, current pensioners already being paid). The trustees hold the policy as an asset in their name and are still responsible for paying pensions to scheme members.
Cost-neutral basis	This is fully defined in the BPA policy documents, but it broadly means that we'll calculate the price of the new deal in a way that makes sure we don't make either a profit or loss from the adjustment. However, some elements of the pricing will be outside our control because they are affected by market conditions, so the price itself may change.
Current pensioners	Employees who are in a **defined benefit scheme** and currently being paid a pension.
Deferred pensioners	These are members of occupational schemes, often **defined benefit schemes**, who are no longer building up benefits under the scheme, but are not yet receiving pension payments.
Defined benefit scheme	A defined benefit pension plan is a type of pension plan where an employer promises members a specified monthly benefit when they retire. The amount they will get is calculated using a formula based on the member's earnings history, length of service and age.
Delay period	The period during which trustees will pay pensions. We will take over the payments when the delay period ends.
De-risking	Removing one or more risks from a pension scheme, such as: investment, mortality or longevity risk.
Dis-investing	To stop investing in an asset, such as a corporate bond or UK gilt. After cashing in our holding, we may use the money to invest in another asset to cover the rest of the delay period.
Due diligence	The process by which Aviva will investigate the financial strength of the employer using, for example, reports compiled by business ratings agencies.
Handover point	The date Aviva starts making pension payments.
Pensioner payments	Pension payments being paid to current pensioners.
Re-investing	To begin investing in an asset, such as a corporate bond or UK gilt.
Sponsoring employer	The employer responsible for the pension fund.
Transfer value	This is the value of a member's pension if they choose to take their defined benefit pension to another pension provider before they retire.
Trustees	Trustees are legally responsible for overseeing every element of an occupational or workplace pension fund. They are generally employees or former employees, who can be appointed by the company or elected by the scheme membership. They may also be independent.
Under-funded schemes	A pension scheme that has liabilities greater than its assets.