# An enduring insurance alternate to buy-out

Professional Pensions Show
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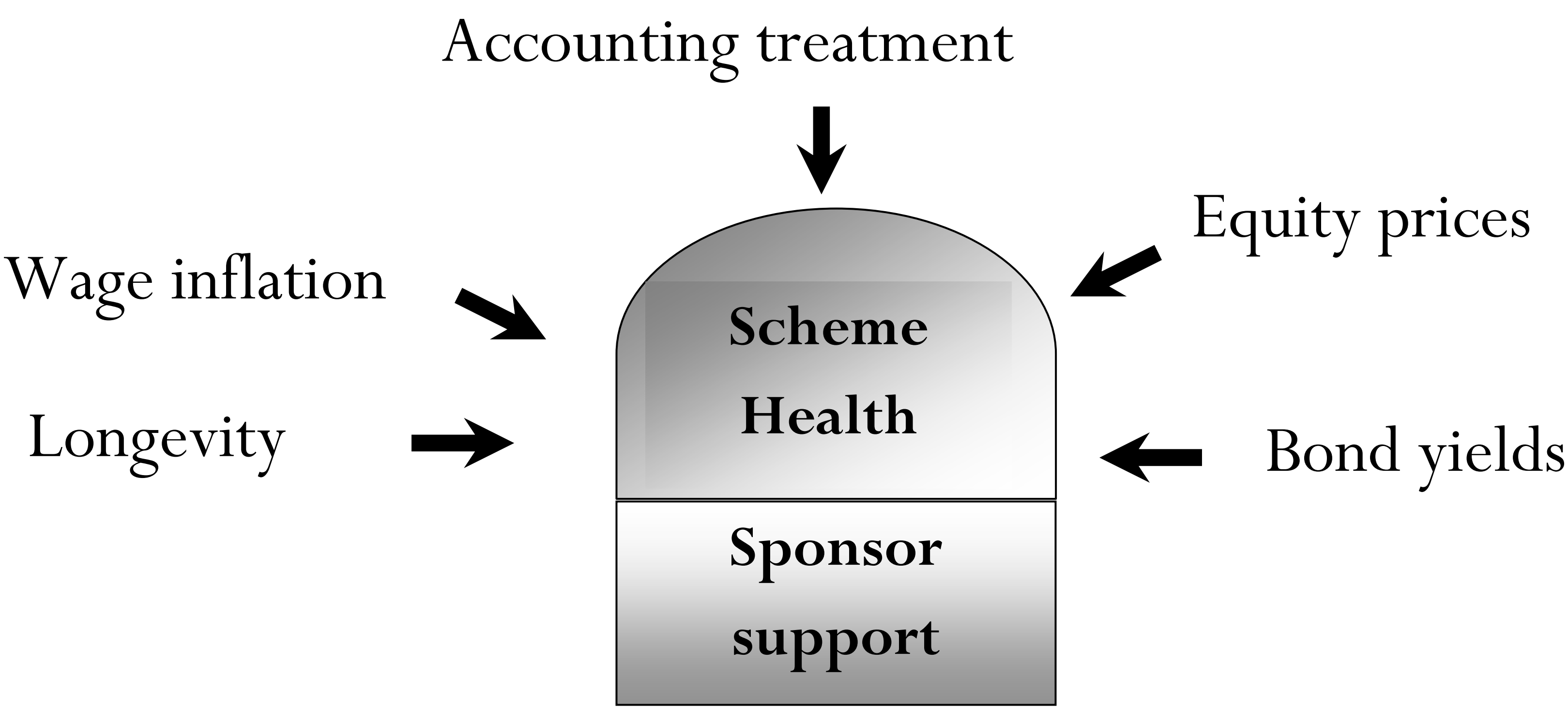
Con Keating, BrightonRock

# The Problem – The graveyard of DB



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# Death and Burial

- There is a useful and extensive analogy – Burial
- The bulk annuity providers are undertakers
- Their products are of little use before death
- Trustees should not wish to commit suicide or for that matter to be buried alive
- The finance director might wish to, but really should not do anything to hasten Grannie's death just to get his hands on the family china

# Burial Technologies and Costs

- The bulk annuity providers are focussing their research correctly
- They are developing efficient coffin and grave-digging technologies
- The Aleva/Citibank sponsor-substitution solution is merely consigning Grannie to a remote care-home to while away her final days

# The Parish

- Of course anyone who dies indigent will be buried by the Parish
- But that is a pauper's grave
- Of course if the family is wealthy enough burial costs are not a problem
- And family wealth is best served by focussing on the family business
- The marble mausoleum is, of course, neither suitable nor affordable for all
- And the PPF exists simply to defray Parish burial expenses

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# The Enduring Solution

- A Burial Society, not an undertaker
- In return for an annual premium, it will pay for the burial chosen by the family
- If illness strikes a family prematurely, it will provide health care
- The family is removed from any reliance on the Parish in distressed times

# A Complete Solution

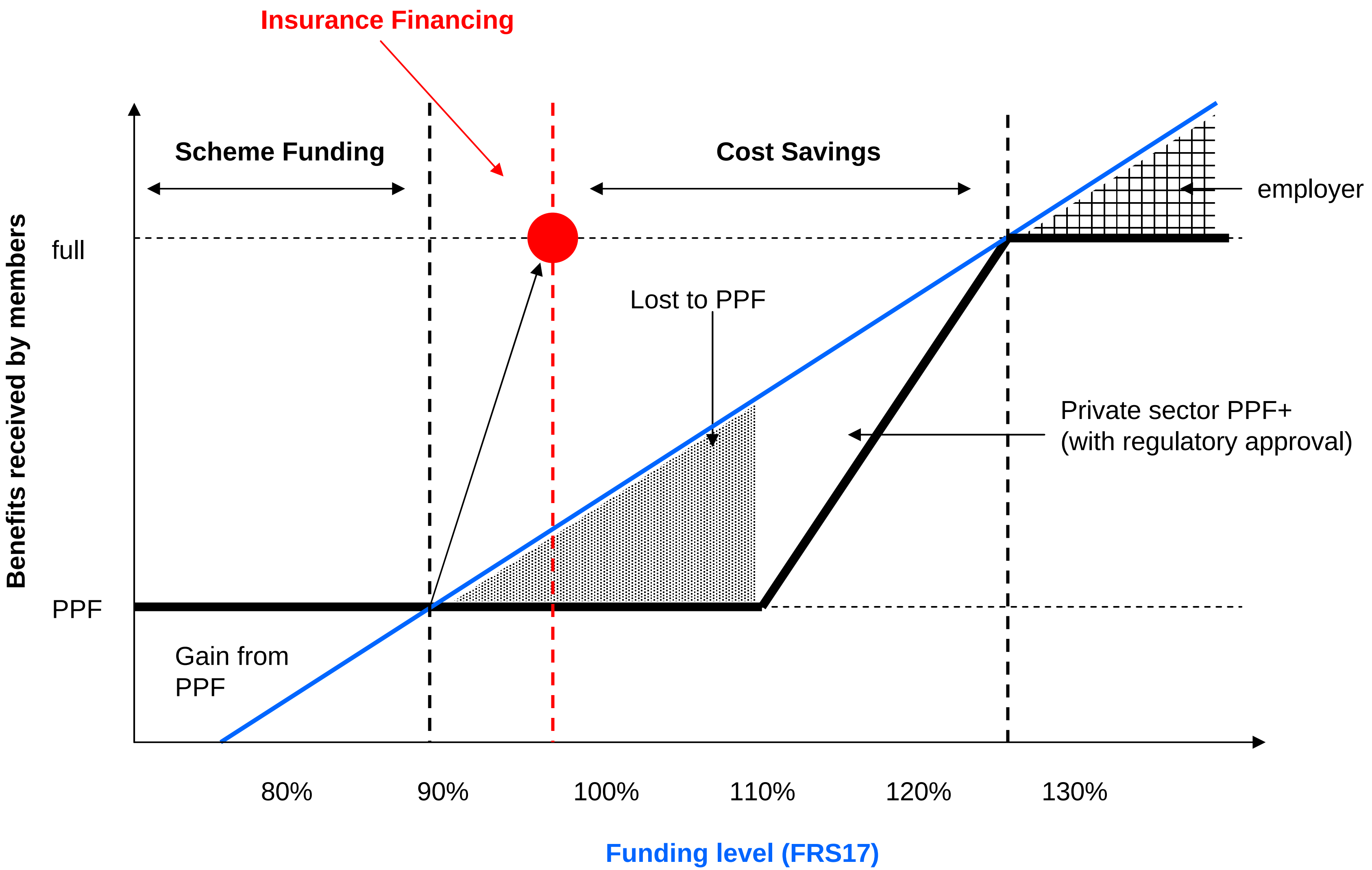
Credit insurance *plus* Life insurance

*If sponsor defaults, the insurance company pays pensions in full:*

- credit cover is perpetual, as required by the Regulators
- scheme can elect bulk annuity transfer or other liability discharge at any point in time

- **The cost:**
- Less than 0.5% p.a. of FRS 17 liabilities.

# Benefits and Funding Level



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# Stakeholder Benefits

**Scheme Trustee**

- Removes sponsor covenant concerns
- Is a contra-cyclical asset of the scheme
- Cheaper than any alternative
- Allows continuance
- Allows greater freedom e.g. investment diversification

**Company Finance Director**

- Cash-flow control
- Lower costs
- Reduced balance-sheet volatility
- Less concern with trustees
- Lighter regulation

**Intermediary**
Allows business model continuity

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# The insurer should not be interested in

- Becoming involved in the benefits policy of the sponsor
- Becoming involved in the corporate affairs of the sponsor
  - other than to the extent that these may adversely affect the likelihood of default and magnitude of any recovery
- Becoming involved in the investment policy or management of the pension scheme
- Becoming involved in the funding policy of the pension scheme
- But should wish to be kept informed of scheme asset allocation and funding levels

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# Pension Regulatory Attitude

- HMT, DWP, tPR and PPF are not objecting to the introduction of the this form of contract.
- They have even indicated a willingness to change statutory regulations to facilitate such forms of contract.

*Broadly speaking, schemes which are not eligible for the PPF are schemes which already have very secure provisions for the protection of their members' pensions. The likelihood of such schemes requiring PPF assistance is zero, and for this reason it is considered that such schemes should not have to pay the levy.*

- Explanatory memorandum to SI 2005 590