

Insurance De-Risking Solutions

Key Legal Issues

16 May 2018

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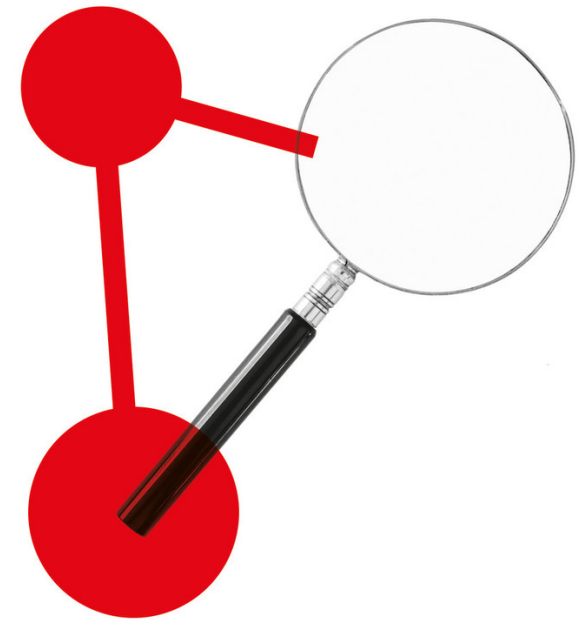


De-Risking Options



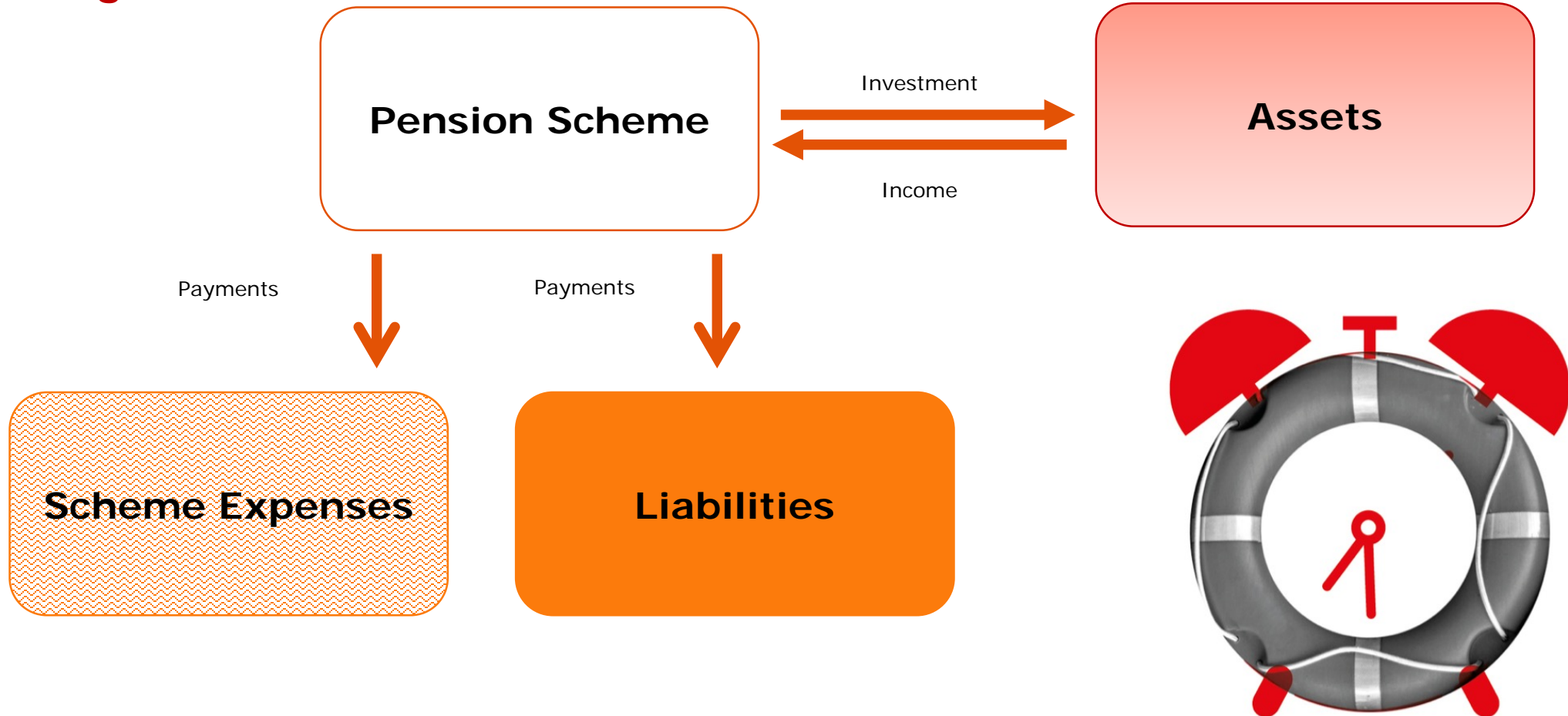
Why consider insurance de-risking options?

- Eliminate asset management and investment risk
- Reduced reliance on sponsor covenant
- Reduces liabilities => scheme more sustainable?
- Enhances security of benefits
- Positive impact on funding standard liabilities



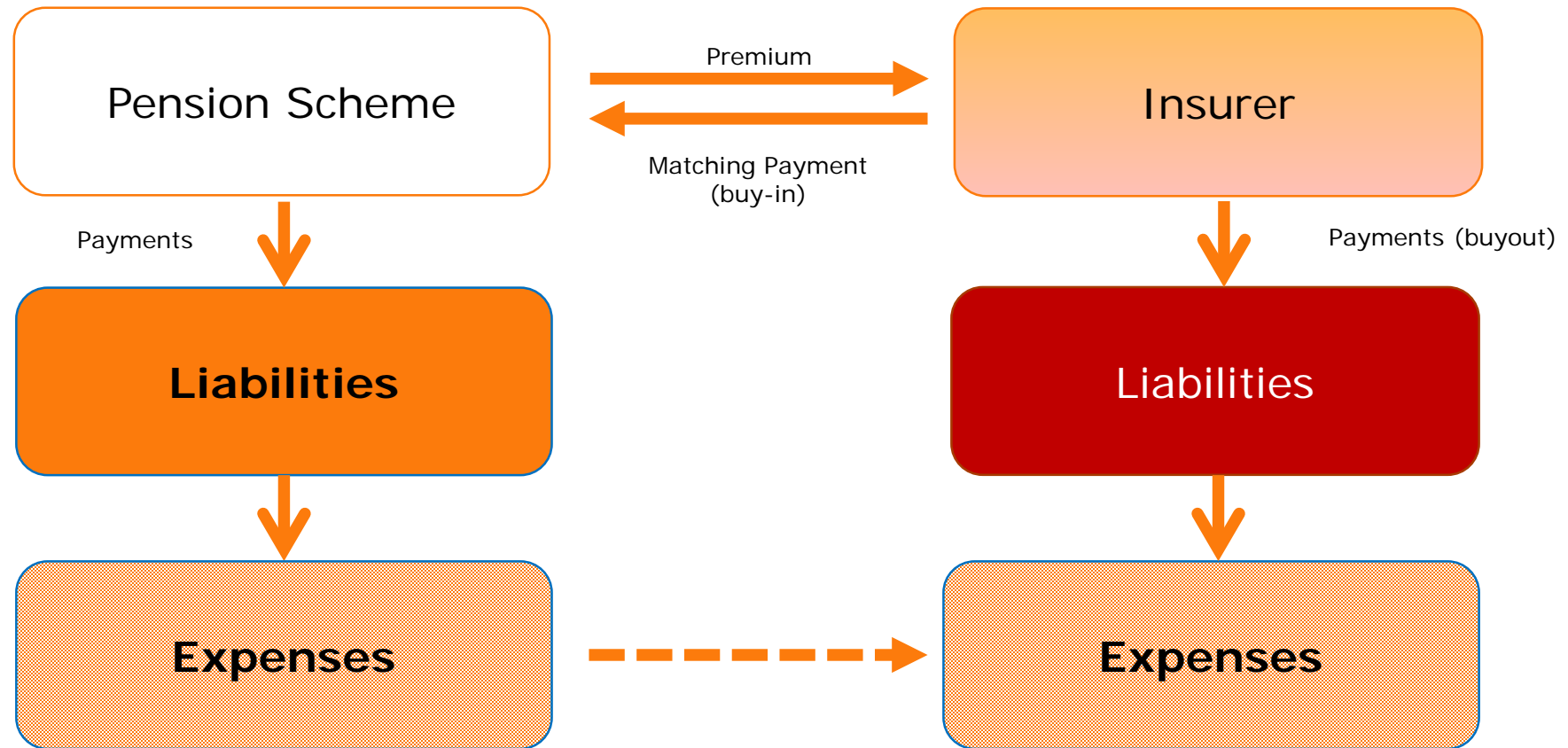
What Are You Trying To Achieve?

Existing Position



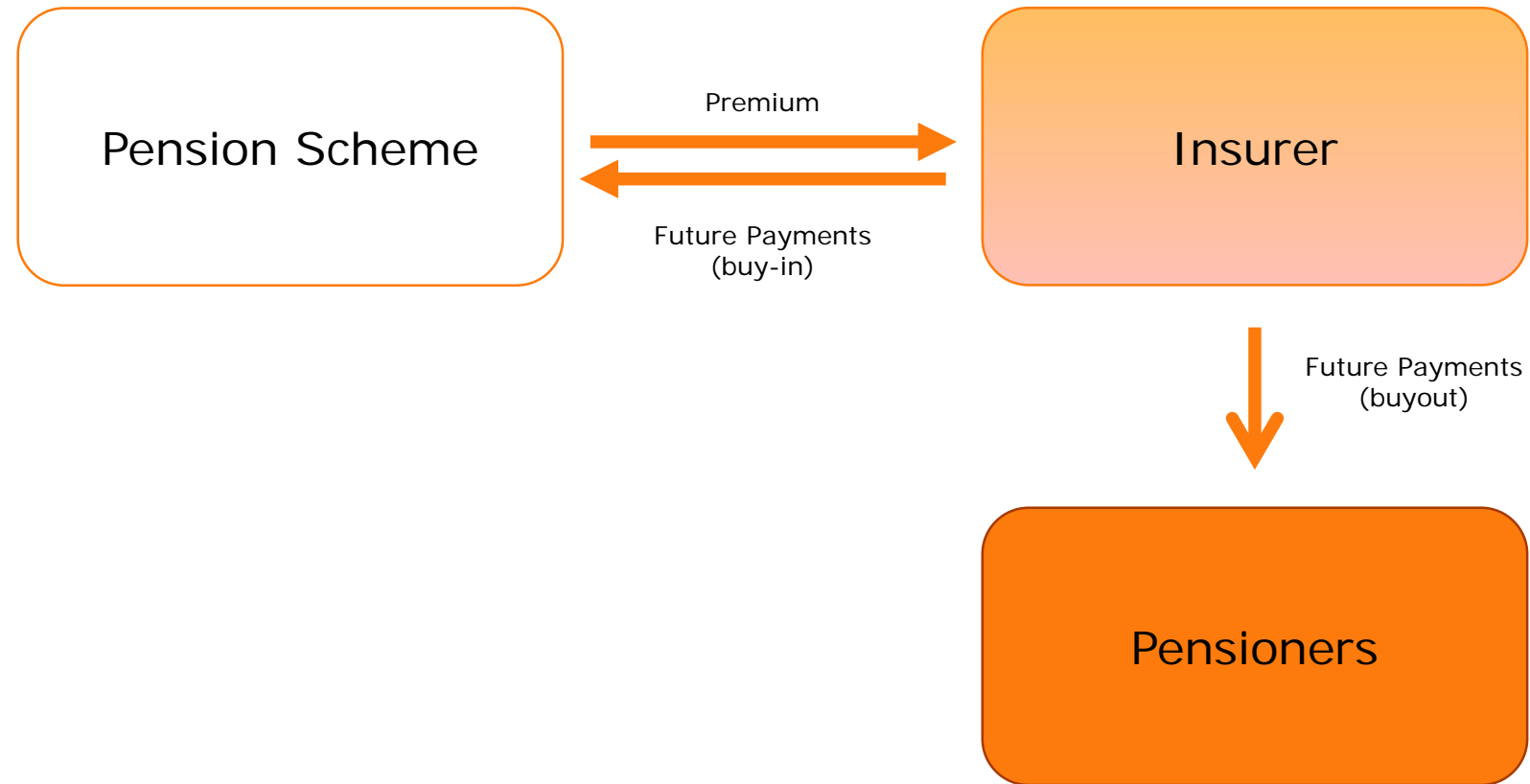
Risk Transfer – Lowering of Investment or Matching Risk

Desired Position



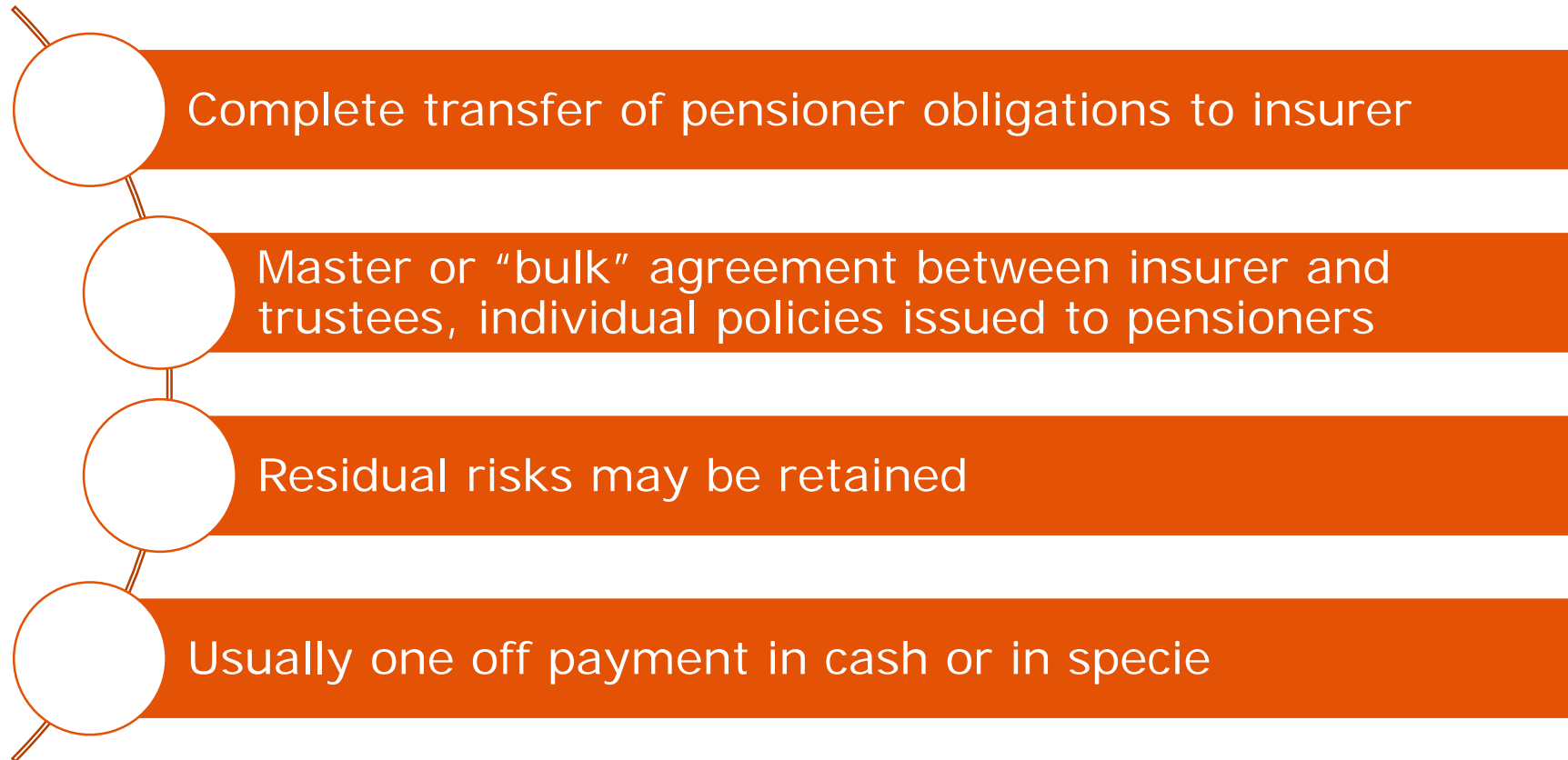
Risk Transfer – Increase in Counterparty Risk

The Risk Trade Off



Insurance De-Risking Options

An annuity buyout



Key Legal Issues – buyout

- Status under Pensions Act
 - Pre Wind Up
 - Post Wind Up
- Ability to buyout benefits pre-wind up
- Impact on each category of member
- Ability to replicate benefits
- Impact on discretions
- Insurer covenant and track record
- Regulatory status of insurer



Insurance De-Risking Options

An annuity buy-in

- Trustee retains obligations to pensioners
- Insurer agrees to make matching payments
- Bulk agreement with insurer
- Deferreds may be included

Key Legal Issues – buy-in

Status under Pensions Act

I Investment Regulations Apply

But Annuity has exemption from

- Diversification requirement
- Regulated markets requirement

II Funding Regulations Apply

But if full buyout right on wind up is a match for MFS purposes

III Risk Reserve

Annuities zero rated



Key Legal Issues – buy-in

- Ability to invest in annuity contract (deferred annuities?)
- Update SIPP
- Retention of discretions
- Covenant of insurer



Insurance De-Risking Through captives

Captive Annuity



Additional Legal Issues – Captives

Avoidance of
self-
investment

Status of
captive

Security?

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