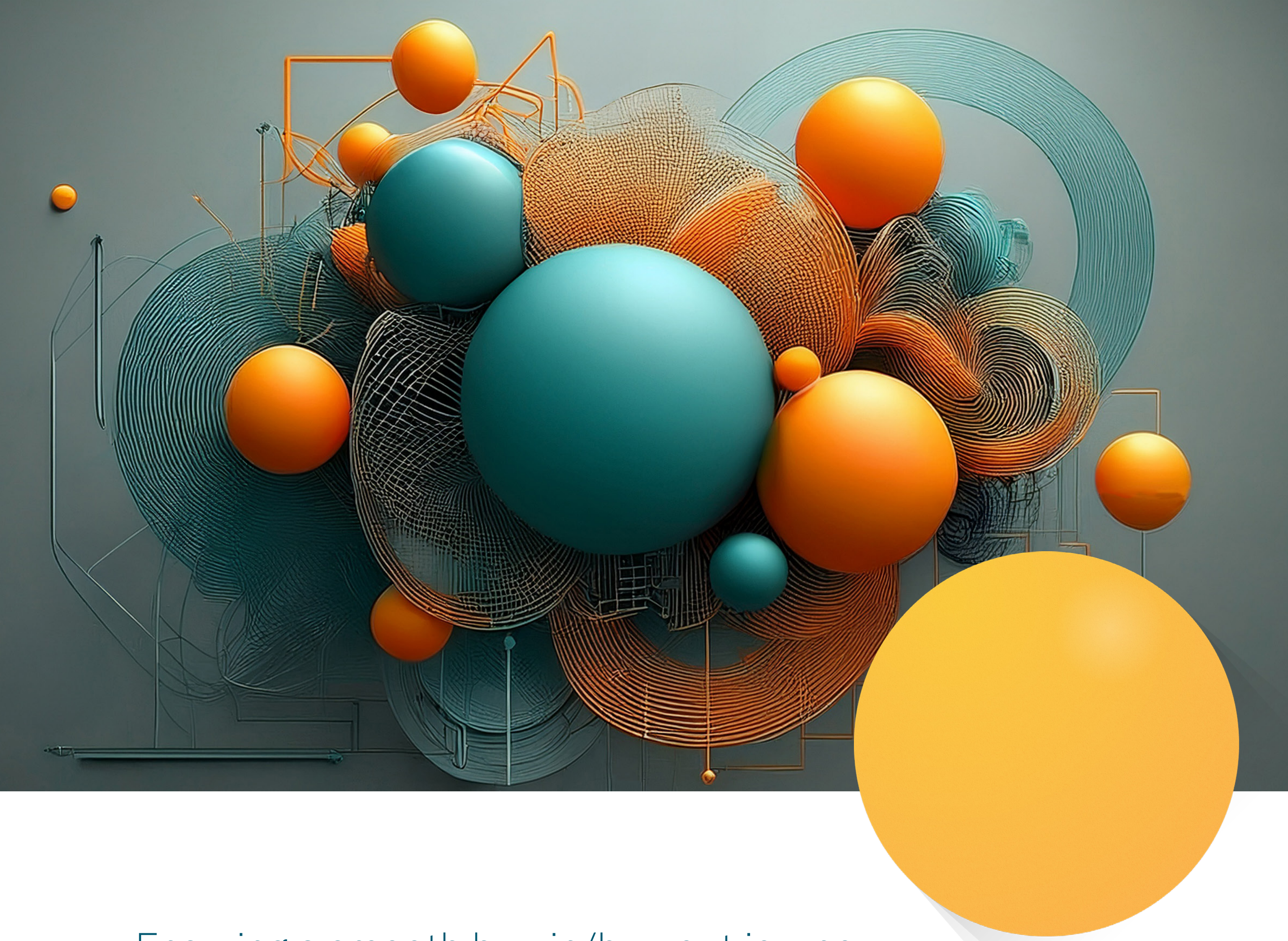


Ensuring a smooth buy-in/buy-out journey:

The critical role of data quality

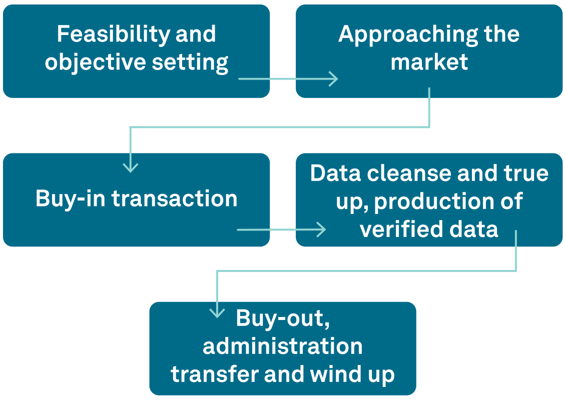
The acceleration of defined benefit schemes entering buy-in arrangements is a well-known fact, with over 500 whole scheme buy-ins since 2022. With improved funding levels and many schemes now operating with a surplus, the volume of potential transactions continues to grow.

The bulk annuity market is becoming more competitive, with new insurers entering and existing players enhancing their capabilities. Each insurer must offer more than the best price. Helpfully, they have been preparing for this increased activity for some time. With trustees putting more emphasis on non-price factors such as insurer administration, member experience and financial strength in their choice, insurers' post transaction capability is under the spotlight.

Smaller schemes (under £100m) now have more opportunities to engage in buy-ins, thanks to insurer automation and streamlined processes. Some insurers are specifically targeting this part of the market.

While some schemes may opt for a 'run-on' strategy, for many, the ultimate goal remains buy-out and wind-up. Regardless, paying accurate benefits to the right person at the right time remains the trustees' main obligation.

It goes without saying that excellent data quality is essential. Measures go beyond record-keeping and scoring, it involves understanding the benefit structure, ensuring provisions are easily identifiable, and verifying they are — or have been — administered in line with scheme rules. At every stage of an insurer transaction; approaching the market, selecting the insurer, converting to buy-out, data quality will have an impact on decisions, timings, price, options and member experience. A clear understanding of the data quality is a major factor for an effective execution and is a critical part of the early discussions with all stakeholders when undertaking a transaction feasibility review and aligning objectives.



Understanding data quality

The Pensions Regulator record-keeping scores provide a baseline but do not capture the full scope of data accuracy required for insurer transactions. It's about ensuring the data is comprehensive, consistent, and clearly mapped to the scheme's rules. Some members might have special provisions based on service, salary history, or particular events like early retirement enhancements. The data must be detailed and structured in a way that accurately reflects different types of obligations. Complexities of the scheme and who are impacted by these must be recorded. If the benefit structure is not clearly understood, it can lead to incorrect calculations, which in turn can affect the valuation and pricing of the transaction. It can also delay the transfer of administration to the insurer if there is uncertainty in the specification of calculation routines.

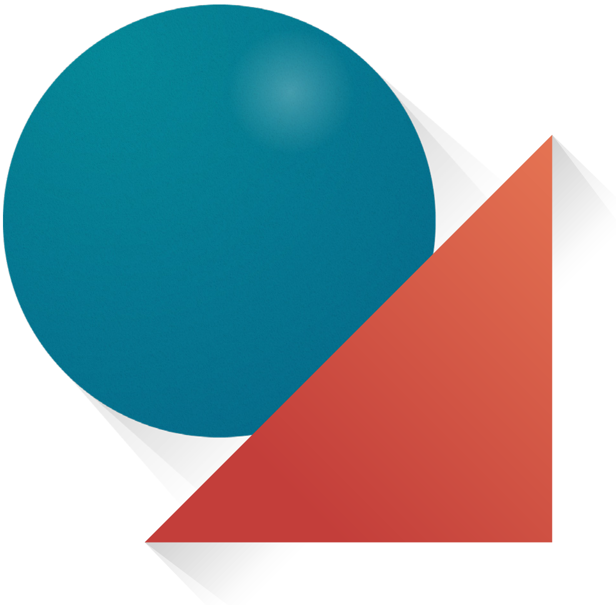
Trustees need to know the areas of administration practice where data is not readily stored in the administration system but is instead derived as and when needed during the processing of the relevant event. An example of this is the contingent spouse pension. It is not unusual for this to be calculated at the point the member dies, after reviewing the level of benefit applicable and historical rules. Whilst this leads to inefficiencies in administration it seems to be an accepted exception. Insurers will need the current value rather than relying on event-driven calculations which require various data inputs, often from different sources.

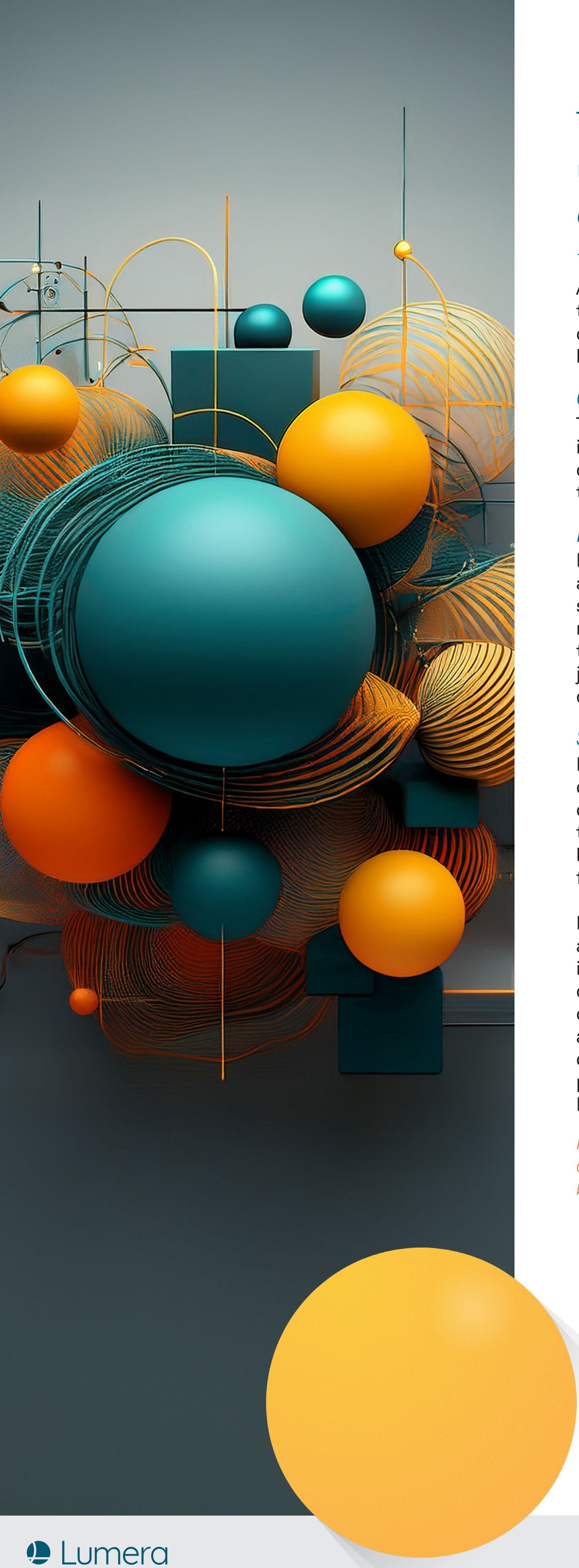
Post buy-out, insurers will be issuing policy documents to members detailing their benefits and therefore require these to be clearly defined and provided as up to date values. Administration thereafter is simpler in the fact there is no scrutinising historical rules to establish the benefits due.

The incumbent administrator may also be undertaking data cleanse projects (arising from ongoing work to improve data quality or part of the on-boarding service if there's been a change in administrator) – updates are usually provided in the regular Administration Report and must be taken into consideration. Most administrators will have undertaken the GMP reconciliation exercise, Lumera are not seeing the same completion rates for GMP rectification, with schemes yet to start the recalculations. As for GMP equalisation, very few schemes are coming to the buy-in transaction with equalised benefits. A clear plan of these exercises needs to be obtained from the administrator.

Trustees must ensure the method for assessing the data quality is fit for purpose and transparent, with clear results and recommendations. Anything short of a comprehensive assessment at this early stage will cause delays and cost implications when identified later in the journey.

Lumera have seen schemes taking a 'light touch' approach only to find scheme complications and data issues and miss critical milestones whilst these are being resolved. Many of these could have been solved with the insurer in the early agreements or dealt with as part of the wider data cleanse phase and benefitted from economies of scale.





The benefits of early understanding of data quality

Time efficiency:
Allows you to identify and plan resolution of the data issues, taking into account capacity constraints. The sooner you know what needs to be done, the sooner you can get the work started.

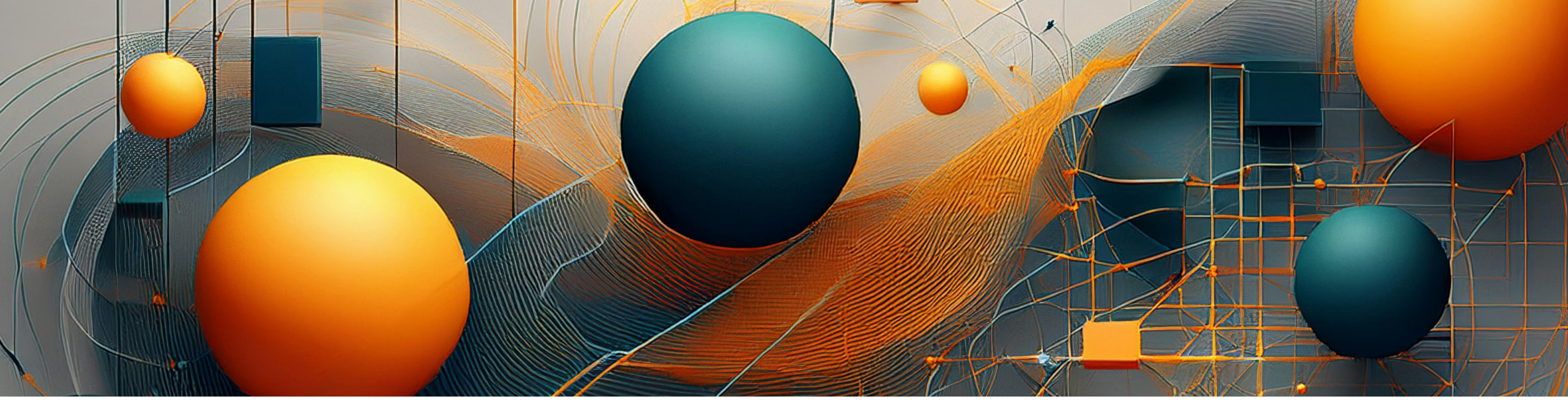
Cost efficiency:
The earlier you spot potential problems or gaps in the data, the more you can mitigate additional costs that would arise from last-minute corrections, reducing unexpected expenses.

Regulatory compliance:
Early preparation means you can ensure benefits are being administered in accordance with the scheme rules and regulations. Finding those nuances impacting small groups of members or those unclear provisions at the beginning of your journey will stop them from becoming legal or compliance setbacks.

Stakeholder confidence:
By showing a clear understanding of the quality of the data, the preparation results, along with a data cleanse plan, you can build confidence with the scheme sponsor, insurers, actuaries, and legal advisors, making them more willing to move forward and help speed up the transaction.

No one expects the scheme to have resolved all of these issues before approaching the insurance market. In fact, Lumera provide clients with a full data quality report including data cleanse recommendations, solutions and a timetable to rectify benefits based on our detailed independent data and benefit audit as part of the insurers initial Information to quote/ Request for Pricing pack.

Nevertheless the data cleanse phase must be completed before the scheme can convert to buy-out.



What are the data cleanse tasks?

When undertaking scheme data audits and due diligence on behalf of our clients, we see a range of ad hoc data cleanse issues being identified, with varying numbers of members impacted. The bigger, typical tasks are:

- GMP rectification
- GMP equalisation
- Missing contingent spouse pensions
- Deferred benefit tranching

These exercises require a recalculation of benefits, deferred and in payment, amendments to the tranches and sometimes the total pension. Therefore, changing the benefits the insurer had initially priced. *Whilst the insurer will be aware of these exercises, and made assumptions during the buy-in pricing phase, the insurer will undertake a 'true-up' exercise; calculating the balancing premium using the cleansed data including any changes to the benefit specification (and an allowance for cashflows during the period). More on this next.*

Depending on the complexities of the scheme, trustee decisions are likely to be required throughout the exercises with advice from the scheme actuaries and lawyers, along with confirmation of admin practice from the BAU administration team.

These data cleanse tasks are specialist calculations and with the exception of very small schemes, benefit from being completed in bulk exercises. Each one of the tasks noted above has dependencies on the other but with good controls and governance it is possible to run them concurrently which will significantly speed up the production of results.

True-up exercise

The initial data used for pricing the buy-in transaction is typically an anonymous data set containing only the data items required to price the transaction. In Lumera's experience, this data set is populated by the scheme via a collation of admin system reports and the scheme's standard valuation report.

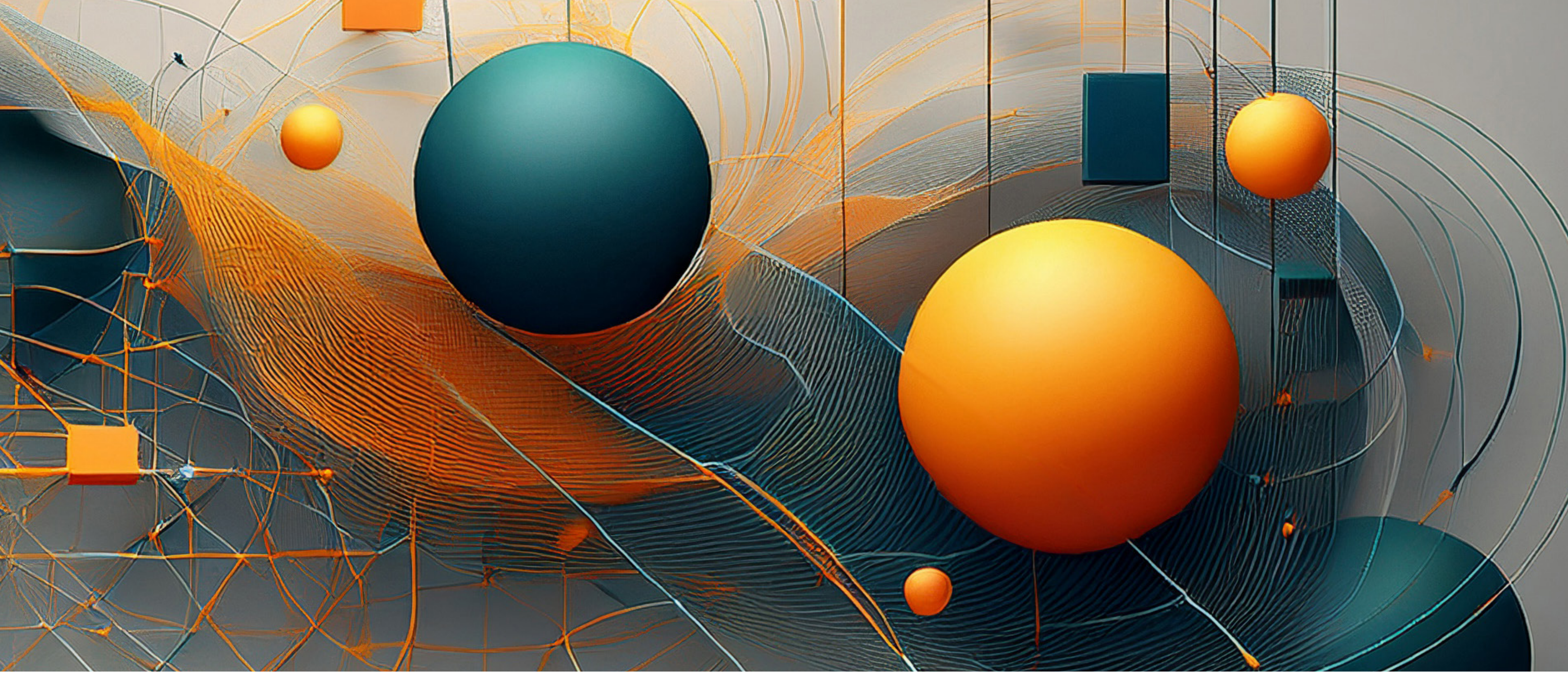
The true-up exercise uses data which has been amended to reflect the data cleanse activity and will include more data items, including personal details and will provide the insurer with their requirements to progress the buy-out phase. This data set is also known as verified data. As the purpose of the true-up is to calculate the balancing premium, the data set is usually required at the date the insurer became responsible for the insured benefits, the 'on-risk date,' which challengingly, is in the past. This involves adjusting cleansed data to reflect historical pension increases and other factors, aligning it with the agreed on-risk date.

Depending on the time elapsed between the two and scheme benefit structure, this can be a lengthy, resource heavy, complex process.

Lumera recommend trustees and administrators ask insurers, during the selection phase, what their data requirements are and in what format these are needed.

Understanding this in advance of providing the data, will allow time to consider data which may not be readily available in the administration system and ensure there is a repeatable extraction process to populate the insurer's templates.

During the transaction, data will be provided to the insurer several times and therefore it is important that the extraction process is automated, controlled and repeatable. This will prevent errors caused by manual intervention or inconsistent approaches being taken, both of which we have seen causing a lot more work to correct the issues. These problems can be avoided with careful planning and good processes/technology.



What is preventing schemes from converting to buy-out within a reasonable timeframe?

The recent years have seen schemes eager to take advantage of the low interest rates to lock in insurance coverage, not knowing how long this period may last for. Focus has been on getting the scheme's buy-in completed but often this has been at the expense of completing non-essential transaction activity such as the data cleanse and rectification tasks, pushing these further down the project plan.

For schemes pursuing buy-out, insurers establish an 'on-risk date' during contractual discussions, marking the point at which they assume responsibility for insured benefits.

The contractual discussions will also include agreements of the expected data cleanse activity the insurer requires the scheme to carry out, and a timeframe to complete this. Completion of this activity will result in the scheme providing verified data to the insurer confirming the members and benefits to be insured.

Typically, this data cleanse/verification phase has taken 3 to 5 years, or longer if the scheme is more complex or has not prepared properly.

Many insurers are now frustrated by the volume of schemes still in the buy-in phase, but with the expectation that they will eventually convert to buy-out, putting some strain on the balance of resource effort.

Trustees are feeling pressure from the sponsor to convert to buy-out. Some of the buy-in deals were concluded more than 5 years ago, and the sponsor had expected the scheme to be off their balance sheet by now.

While the scheme administrators are the obvious team to carry out the data cleanse tasks, their capacity is of significant concern. With pipelines already full with similar work for the next few years, and the continual legislative distraction (e.g. dashboards), and of course BAU, they are significantly stretched to undertake the demand for further data cleanse work.

Even where buy-out is not the endgame, rectification exercises such as GMP equalisation still need to be completed.

So what are the alternatives?

Outsourcing:
Some trustees may look for third-party specialists who can help complete the data cleanse and verification work.

Automated solutions:
Technology could be leveraged to assist with some of the bulk calculations and verification.

Streamlining processes:
Trustees and insurers might consider ways to simplify or prioritise certain tasks to reduce the burden on the administrators and other parties involved.

Lumera's approach

At Lumera, we have been working closely with trustees and insurers for years, delivering technology-driven solutions that simplify and accelerate data cleanse, rectification programmes and data transformation.

The challenge many schemes face is that traditional data cleansing methods are slow, resource-heavy, and dependent on administrator capacity. This is where Lumera's intelligent automation and AI-driven tools change the game.

Our technology enhances efficiency by enabling parallel processing. This allows complex benefit recalculations—such as GMP equalisation and contingent spouse pension adjustments—to be executed at scale.

This eliminates reliance on manual interventions, significantly reducing processing time while ensuring greater accuracy and consistency.

By leveraging automation and technology, we enable multiple workstreams to run concurrently, helping schemes complete the data cleanse phase faster, with minimal disruption to BAU administration. Our unique tracking system ensures populations are correctly processed and monitored as they move through the various cleanse activities. Insurers benefit from receiving verified, structured, and implementation-ready data sooner, expediting their ability to on-board and administer benefits post buy-out.

Empowering stakeholders, from trustees to members

Beyond solving technical and administrative challenges, Lumera's approach is designed to empower all stakeholders; trustees, insurers, sponsors, and, most importantly, members.

- Trustees gain data clarity and confidence, enabling well-informed decision-making.
- Sponsors benefit from cost predictability, with transparent processes that reduce unexpected financial exposures and clear project timelines.
- Members experience greater certainty, accuracy, and security, ensuring they receive the correct benefits at the right time.

For schemes looking to move beyond buy-in to buy-out, or even those adopting a 'run-on' strategy, the ability to process bulk calculations efficiently, maintain data accuracy, and reduce reliance on administrator capacity is critical.

Lumera delivers the technology, expertise, and industry insight to make this a reality—while keeping the end-customer at the heart of the journey.

Summary / highlights

- Data quality is not just about presence and consistency, it's about ensuring it is comprehensive and clearly mapped to the scheme's rules.
- Early understanding of data quality will enable you to plan the transaction accurately and mitigate hidden costs.
- *Engage with all stakeholders; sponsor, administrators and insurers to understand objectives and requirements during the early stages of a transaction will support a smooth journey.*
- *Seek collaboration with experts in this field to deal with capacity issues and knowledge sharing.*

Finally

With early preparation, collaboration, and the right technology, schemes can turn the challenges of a transaction into a well-managed, efficient process—delivering security and certainty for all stakeholders.

About Lumera

Lumera is dedicated to the digital transformation of the European Life and Pensions industry. As insurtech innovators, we provide future-proof core technology for policy administration.

The Prudent Revolution is our mission – bridging technology and partnership to navigate the fastest, safest path through complex change for L&P providers.

We combine tech and industry expertise with relevant market experience to offer a broad range of consultancy and data services – from managing faultless legacy system migration to facilitating compelling end-user experiences.

Based in Stockholm, Lumera has significant presence with offices in the United Kingdom, the Netherlands, Norway, Sweden, India and Vietnam.

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