



Independent Trustees



## Example claims

Are you a pension trustee or scheme sponsor? If so, just how much attention do you pay to trustee indemnity insurance?

The trustee boards of some ongoing pension schemes do consider carefully whether this insurance represents value for money. Others may only give it cursory thought once a year when it appears on a trustee meeting agenda - and then only to make sure their scheme secretary says they are covered.

As professional pension trustees we know why trustee indemnity insurance deserves close attention, especially if your pension scheme is being, or has been, wound up.

Here are nine examples that show just how easy it is for a claim to arise...

# Trustee indemnity insurance

## Overlooked beneficiary insurance (OBI)

### Example 1: Member missed from annuity purchase

**Claimant:** UK-based insurance company

**Background:** A former employee had left the company with a deferred pension. The employee, however, was not included in the annuity purchase from the claimant's life assurance company in 2009 and the claimant has only just become aware of the fact.

**Payout:** £57,000

### Example 2: Spouse's pension omitted from policy

**Claimant:** medical practice

**Background:** Following the wind up of the pension scheme, a member wrote to the insurance company benefits had been secured with to file a complaint that a 50% spouse's pension was not included in his policy. He had previously received correspondence confirming this benefit was payable. The member in question had already retired and had confirmed this in writing because of a second marriage.

**Payout:** ongoing claim, estimated payout £25,000 with £4,000 legal costs

### Example 3: Members missing from data sent to insurer

**Claimant:** financial services company

**Background:** A pensioner had contacted the scheme administrator to obtain an update on the wind up exercise and their benefit entitlement. At this point, it was discovered this pensioner along with 51 other members had not been included in data sent to the insurance company concerning deferred entitlements. Consequently, they were overlooked for benefit payments and were therefore making a claim against the financial services company.

**Payout:** £2,400,000

## OBI insurance continued

### Example 4: Transfers in omitted from buyout

**Claimant:** scheme sponsor

**Background:** A dispute arose between a pension schemes trustees, sponsor and administrator relating to the beneficial interests of 32 members who had transferred into the scheme in 1996.

The wind up of the scheme was triggered in 2010. In order to secure member benefits, annuities were purchased via a bulk buyout. An insurance policy was taken out to cover the liabilities in respect of any beneficiaries whose interests may have been overlooked. The scheme sponsor also placed an advertisement in compliance with Section 27.

Later, it became apparent that the beneficial interests of the 32 members had been overlooked. They were not covered by the bulk buyout and none of them had responded to the section 27 advert.

**Payout:** approximately **£868,000** was paid out to 15 of the 32 transferred-in members

### Example 7: Incorrect service records

**Claimant:** international bank

**Background:** A firm of actuaries made a complaint on behalf of 45 former employees. They claimed, at the wind-up of the company's pension and life assurance plan, the employees' pension entitlements had been based on an incorrect period of completed service.

**Payout:** **£1,200,000 with £65,000 legal costs**

### Example 8: GMP equalisation

**Claimant:** engineering company

**Background:** A member of the company's pension scheme filed a complaint concerning the equalisation of guaranteed minimum pension (GMP) benefits between sexes, following the wind-up of the scheme.

**Payout:** Whilst the Pension's Ombudsman did not uphold the complaint, the insurance covered **legal fees of over £3,000**

## Run off claims examples

### Example 5: Loss of funds

**Claimant:** multinational communications company

**Background:** A commercial law firm representing 16 employees claimed for loss of funds following the liquidation of their pension scheme. The trustee insurance covered the insured's claim and legal fees plus the pension trustee's legal fees.

**Payout:** **£615,000 plus £9,500 legal costs**

### Example 6: Dependants' benefits

**Claimant:** tenants' association

**Background:** The family of a former employee filed a complaint regarding payment of pension and benefits. Two claims were made: one by the wife of the former employee, and one by the daughter. Both claims were honoured without any legal costs involved.

**Payout:** **£82,000**

### Example 9: Incorrect contributions for members on maternity leave

**Claimant:** international brewery

**Background:** The chairman of the trustees complained that contributions had been underpaid for four members of the company's retirement death benefit scheme. Three of the individuals had gone on maternity leave, and calculations for benefit payments had been based on actual salary during this time. However, pensions contributions due in respect of the individuals had been miscalculated using a lower salary figure, leading to a shortfall of funds for payment of benefits.

**Payout:** **£100,000 with £8,000 legal costs**

## Find out more

These cases show how important trustee liability insurance can be, especially where a scheme is being, or has been, wound up. Maintaining cover for as long as possible is vital, as the time lag before a claim arises can be considerable.

If you have any questions, contact James Double on **0118 313 0896** or **james.double@psitl.com**

For further information about our services, visit **[www.psitl.com](http://www.psitl.com)**