

Pensions news for employers

Stress test and quantitative assessment of holistic balance sheet, IORP Directive review | DC – an ace in the hole? | The 6 Pillars of Wellbeing
Buy-outs, buy-ins and longevity swaps – Q2 2015 | Preparing for cyclical automatic re-enrolment | Upstream Oil & Gas services

Welcome to the autumn edition of pensions news for employers.
This newsletter covers a number of topical issues of which companies should be aware.

EUROPE NEWS

Stress test and quantitative assessment of holistic balance sheet, IORP Directive review

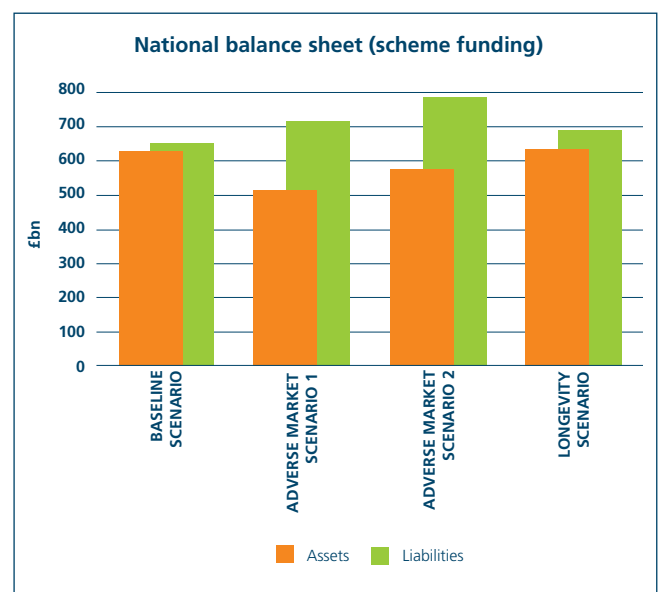
Following some preparatory work examining the investment behaviour of schemes, the European Insurance and Occupational Pensions Authority (EIOPA) is undertaking a stress test for Institutions for Occupational Retirement Provision (IORPs).

The stress test is intended to investigate how resilient pension schemes are to changes in financial market conditions and longevity, and how this might impact on the stability of the financial sector. EIOPA's previous work on stability has highlighted continuing low interest rates as a key risk for pension schemes and warned of the impact of a potential asset price shock.

The stress test for DC schemes will investigate the impact of several adverse scenarios on replacement rates (expected pension income as a proportion of final earnings) for representative members. The stress test for DB and hybrid schemes will test the impact on schemes of three scenarios, derived from similar ones used for an insurance sector stress test last year. EIOPA will publish its results in December 2015.

Recent Barnett Waddingham research has found that the adverse market scenarios tested could see the pension funding shortfall for UK plc increase to around 10% of total stock market value (see [Impact of Pensions on UK Business 2015](#)). This highlights the need for employers to consider the risk involved in running a pension scheme.

We have undertaken this stress test for the FTSE350 DB sponsors by estimating the impact of EIOPA's adverse scenarios on aggregate assets and liabilities. This is summarised below.

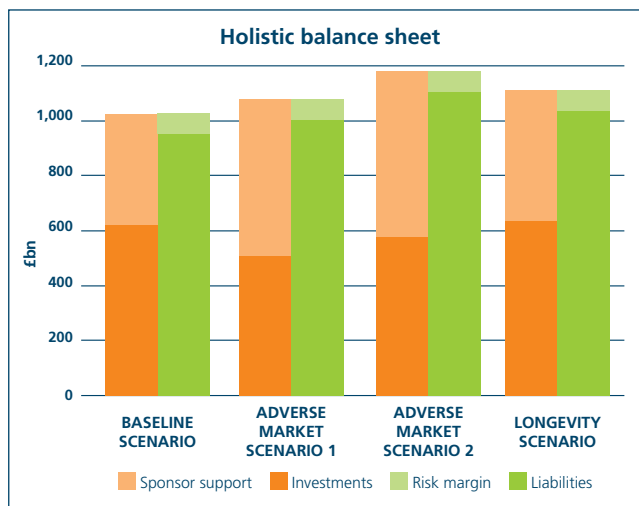


Source: Barnett Waddingham

Alongside the stress test, EIOPA is conducting a quantitative assessment on potential new solvency requirements, and the use of a “holistic balance sheet” as a supervisory tool (see [Pensions news for employers – Autumn 2014](#)). Schemes were asked to construct the holistic balance sheet under a range of options, including the use of a risk-free discount rate, risk margin and solvency capital requirement. Key to the approach is the inclusion of a value of sponsor support as an asset on the balance sheet. Participating schemes will therefore need to put a value on the maximum each employer can afford to pay to the scheme.

For the FTSE350 employers sponsoring DB schemes, we carried out some research which estimated the aggregate deficit – or sponsor support required – would be just over £400bn, a whopping increase of £380bn compared to the deficit under the current Scheme Funding regime. The research showed that around 20% of total stock market value could be needed to support pension schemes for UK plc.

EIOPA is now considering the results of the exercises and will use these to inform its advice to the European Commission on solvency requirements for pension schemes, due in March 2016. Commissioner Hill has previously said that he will “examine [solvency proposals] on their merits, bearing in mind our goal of financial stability, but also the likely impact on the wider economy, including jobs and growth”. Employers may wish to continue lobbying activities in Europe pending EIOPA’s work.



Source: Barnett Waddingham

Meanwhile, the review of the IORP Directive clunks through the legislative machine. Following the European Council’s review, the directive has passed to Parliament. The Economic and Monetary Affairs Committee (ECON) has produced a draft report which suggests many welcome tweaks, including a new recital which – if adopted – would restrict further development of solvency requirements. However some concerns remain, such as a new requirement for all new schemes to be fully funded at their establishment which could well have an impact on scheme transaction activity. The revised directive will now enter trilogue negotiations and could be in place by early 2016 (although member states would have some time to transpose this into national law).

“ ” Comment

Despite budget cuts at EIOPA and strong opposition from stakeholders, including within ECON’s draft report, EIOPA has decided to press ahead with its pet project. While the two exercises have separate aims, it is no coincidence that they are being carried out at the same time – EIOPA has asked for results of the stress test on both the usual scheme funding basis and under the holistic balance sheet.

You could be forgiven for thinking that “stress test” meant something different entirely as pension schemes attempted to get to grips with hundreds of pages of technical writing. However, our research gives schemes an idea of the challenges they might face if a new EU-wide solvency regime were to be introduced.

Given that the UK has the largest scale of occupational pension provision in Europe, it is important that UK schemes are properly reflected in these exercises. It is vital that the impacts of a possible future solvency regime on the UK are clearly shown and that the advice EIOPA gives to the Commission completely recognises the UK position. We have shared our aggregate UK results with the Pensions Regulator to assist them in providing information to EIOPA.

While the deadline for submission to EIOPA has now passed, we are able to undertake calculations under the stress test specifications compared to schemes sponsored by FTSE 350 employers. If this is of interest, please speak to your usual Barnett Waddingham contact.

If you have any questions about the exercises please do not hesitate to contact us at:

eiopaexercises@thepensionsregulator.gov.uk



European companies with UK defined benefit schemes

The costs and risks associated with UK DB pension schemes are well known within the industry. With unprecedented changes to occupational pensions in the UK and with further revolutionary changes in the regulatory pipeline, the need for European parent companies of UK subsidiaries with DB schemes to manage these risks has become even more important.

We publish annual European company surveys that aim to provide parent companies with a useful benchmark of the UK pension exposure against other European-owned companies.

In most cases the parent companies in our surveys are leading players in their industries and are able to absorb reasonably substantial pension costs. However, the impact upon performance and return on investments of the UK subsidiary companies can be more pronounced. Comparisons of these subsidiaries against other UK companies without legacy DB pension liabilities, especially on a cash basis, could be heavily influenced by the pension related costs and cash contributions.

Our reports analyse the contributions paid, levels of deficit and levels of risk within the schemes.

Visit our website for reports which cover:

- **Southern European companies**
- **French companies**
- **German companies**
- **Dutch companies**
- **Scandinavian companies**

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Actuarial valuations 2015 – Issues for employers

In May 2015, the Pensions Regulator (TPR) published its 2015 funding statement. The annual statements are aimed at schemes conducting valuations each year, and this statement is intended for schemes with valuation dates between 22 September 2014 and 21 September 2015.

The statement sets out TPR's analysis of current market conditions and how sponsoring employers and trustees of DB pension schemes can agree appropriate funding plans which protect members' benefits without undermining the sustainable growth of the employer.

Schemes face larger deficits

Despite good performance of scheme assets over the period since the previous valuation, and an estimated £44 billion paid to schemes in deficit contributions, many schemes now undertaking a valuation will need to deal with an increased deficit.

Schemes that see only a modest increase in deficit, or where the employer covenant has improved significantly since the previous valuation, may be happy simply extending a current recovery plan or seeking a small increase to contributions.

Some schemes will be in a worse position. Schemes with a large deficit and/or a weak employer will not be able to take much risk and so TPR expects trustees to seek higher contributions from the employer, with the aim of maintaining the same recovery plan end date, if this is affordable.

Employers may be happy to see TPR say that trustees need to consider the impact of recovery plans on the employer's sustainable business growth, in line with TPR's latest objective. However, with this comes additional scrutiny. TPR says that if the employer is unable to afford the requested contributions, trustees should undertake increased due diligence. In particular, if the employer wishes to prioritise investment in the business over deficit contributions, trustees will need to satisfy themselves of how the money will be used and that it will improve the employer's covenant. Trustees may also seek additional security to support a longer recovery plan, and may monitor the employer's activities more closely.

Understanding risks is key

In line with the new Code of Practice on Scheme Funding, TPR is focusing on ensuring schemes manage funding, investment and employer covenant risks in an integrated way.

TPR suggests that some schemes might need to spend more time understanding their risks and putting in place a strategy to assess those risks. This could include schemes where assets and liabilities do not move together, or mature schemes where if a deficit arises there is less time to make it right.

TPR suggests schemes should also consider the impact of changes in market conditions since the valuation date, so that they can assess whether the assumptions underlying a recovery plan remain appropriate.

Investment returns are a particular source of uncertainty in pension scheme funding. While some trustees and employers may believe that gilt yields will increase in future to a greater extent than implied by the market, TPR says schemes should be wary of how they make allowance for this in a recovery plan. Trustees and employers should understand

how the scheme's funding position may change if these expectations are not borne out. Indeed, some schemes may have made such an allowance at the previous valuation, and the impact of this should be considered.

Importance of contingency planning

With the move to the new Code of Practice, pension scheme valuations are no longer an exercise to be carried out and then filed away for a couple of years. TPR wants to see all parties to the process getting into the habit of regularly monitoring the scheme's funding position, and the risks they face. Good contingency planning can help trustees and employers deal quickly with issues if – or when – they arise.

TPR guidance for assessing and monitoring DB employer covenant published. In August 2015, TPR published the first in a series of guides for trustees of DB occupational pension schemes to help them apply the DB Funding Code of Practice.

Employers will welcome the constructive and practical guidance on assessing the employer covenant as it notes that a less detailed triennial review may be reasonable for some schemes. TPR states that "covenant assessments should add value to trustees' decision-making" and that "trustees should consider the costs of commissioning external advice in the context of the benefits it could bring to the scheme". As well as setting out good practice and TPR's expectations in relation to covenant assessment, there are useful case studies and practical suggestions of how trustees could mitigate against adverse future scenarios, for example by using contingent assets to support a higher risk investment strategy. TPR has also acknowledged that it may be appropriate for trustees to place some reliance on support from non-statutory employers (e.g. overseas parent companies where no formal guarantee is in place), as for many schemes this represents a key source of funding. The guidance further re-iterates that trustees and employers should work openly and collaboratively together and that good information sharing by employers can reduce the need for detailed covenant investigations and hence costs to the employer.

“ ” Comment

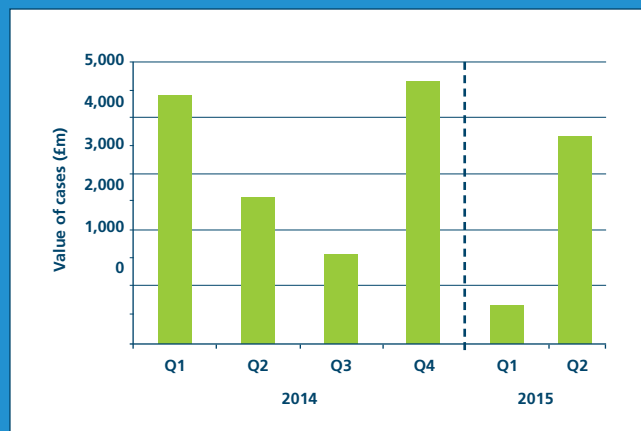
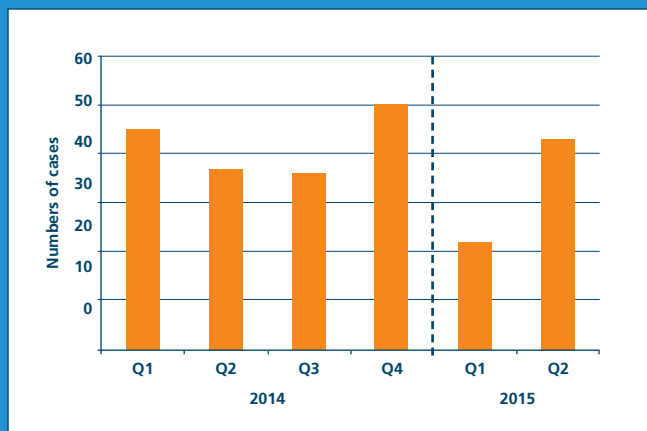
Many employers continue to experience difficult trading conditions and additional demands on cashflow from pension schemes are unlikely to be welcome. There are many ways in which employers can take the initiative and help manage their exposure to pension liabilities.

Barnett Waddingham has considerable experience in assisting employers throughout the actuarial valuation process and we would be happy to discuss solutions that would be appropriate to your circumstances. See [Actuarial Valuations in 2015 – Issues for Employers](#) for more information.

Buy-outs, buy-ins and longevity swaps – Q2 2015

Quarter 1 of 2015 was a quiet period for the bulk annuity market following a busy 2014. However, a new insurer is entering the market.

Buy-outs and buy-ins: market statistics



Provider news

In the first quarter of 2015, 22 transactions worth £804m were completed by the UK bulk annuity insurers. This was the lowest value of business completed in a quarter since Quarter 1 of 2012.

Legal & General completed the greatest value of business in Q1, with 10 transactions worth a total of £644m. Just Retirement were second with five transactions worth £93m.

Aviva's shareholders have accepted their proposed all-share acquisition of Friends Life. This was agreed at the Aviva General Meeting held on 26 March 2015. Over 99% of the votes cast were in favour of the acquisition.

Scottish Widows have been finalising their entry into the bulk annuity market and we expect them to join in the next few months.

Just Retirement and Partnership have announced that they are planning to merge subject to regulatory approval. The new entity will be called the JRG Group plc. The merger is expected to be completed by the end of the year. However, both insurers are continuing to quote separately in the bulk annuity market.

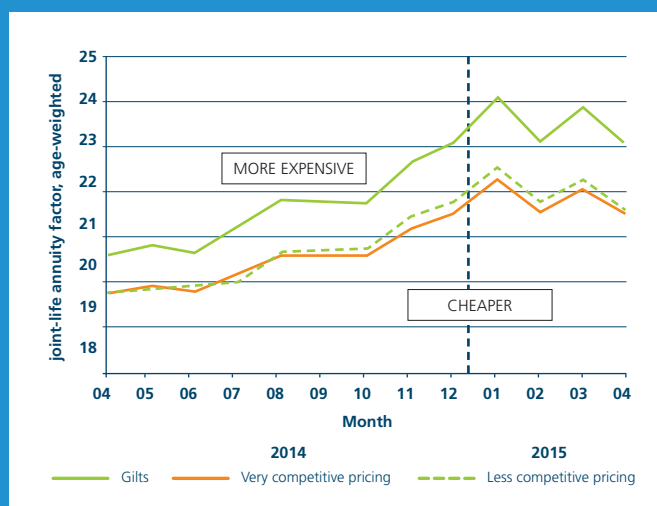
Significant transactions

Rothsay Life have announced that they have reinsured £1.2bn worth of UK annuity policies currently insured by Zurich UK Life. These policies are in respect of 28,000 policyholders. The two parties intend to transfer these annuities to Rothsay Life in due course subject to court approval and regulatory consultation.

Rothsay Life have also announced that they have completed a £675m bulk annuity transaction with the Lehman Brothers Pension Scheme. The Scheme had been an assessment period with the Pension Protection Fund but, following a settlement agreement between the trustees and Lehman Brothers' administrators, full Scheme benefits can now be paid. The bulk annuity policy will convert to a buy-out in due course.

Pricing

Pricing has increased significantly over the last year due to falling gilts, swap and corporate bond yields. However, for schemes that are considering swapping gilts for a pensioner buy-in, the attractiveness of this option has increased. The following graph shows a range of pensioner pricing that may be achieved for a sample scheme along with the comparable value of pensioner liabilities using a discount rate set at prevailing gilt yields. It demonstrates that for cases where very competitive pricing can be achieved (the red line), the pricing graph is cheaper than the gilt yield liabilities. Therefore, it may be possible to switch the gilts for a pensioner buy-in contract at no extra cost.



Whether competitive pricing can be achieved will depend on the attractiveness of the buy-in to insurers, the number of insurers quoting and the structure of the selection process.

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FEATURED CASE STUDY

‘Top-Slicing’ Medically Underwritten Buy-in



We jointly advised the trustees and the company on a medically underwritten pensioner buy-in for the Renold Pension Scheme, achieving very significant savings of over 10% relative to a traditional approach – successfully securing around £25m of the pensioner liability at no additional funding cost.

As part of the overall de-risking journey a buy-in opportunity was identified for the scheme – a £200m defined benefit arrangement sponsored by an international engineering company. The ‘top-slicing’ transaction involved a medically underwritten pensioner buy-in for the largest liability members (circa. 40), which represented around 25% of the total liability.

Adopting a medically underwritten approach offered potential savings from both the process of gathering medical and lifestyle information itself as well as benefitting from the high degree of competition in this market, with the specialist insurers looking to establish and grow their presence. These factors meant the pensions risk could be removed, including the concentration of longevity risk associated with these members, at an attractive price.

Barnett Waddingham sought to optimise the deal pricing by running a fully competitive tender process involving all of the active providers. A specialist third party was engaged to collate the medical underwriting information. Through effective member communication, and direct engagement, an extremely positive response rate of over 90% was achieved.

Barnett Waddingham’s insurance sector specialists were also able to support the trustees and company in their review of the insurance counter-party. Completion of the transaction with Just Retirement, including the use of a price tracking and execution mechanism designed to reduce the risk of market movements relative the gilt holdings used to fund the buy-in, provided a positive outcome for all the stakeholders.

The highly competitive pricing for the transaction resulted in an implied return underlying the buy-in policy considerably in excess of gilts, with full matching and risk mitigation in

respect of the members covered. A key aim of removing the concentration of longevity risk was also achieved.

“” Comment

“Working closely with the company, as part of the overall de-risking strategy for the scheme, the trustees had clear objectives for managing the risks associated with the liabilities for this group of members. Supported effectively by our advisers Barnett Waddingham and Pinsent Masons throughout the process, this buy-in transaction with Just Retirement represents an extremely positive result for all parties associated with the scheme.”

Warwick Jones, Chairman of Trustees Renold Pension Scheme

“” Comment

The company considers this transaction to be an important move in helping to manage its legacy pension obligations and the impact of volatility on its balance sheet. Attractive pricing through the use of medical underwriting allowed us to secure a material proportion of the pensioner liabilities at no additional cost, thanks to the proactive advice and commitment of Barnett Waddingham.

Brian Tenner, Finance Director, Renold plc

Preparing for cyclical automatic re-enrolment – Time for a review?

HR Directors may not have thought much about auto-enrolment since the staging date and declaration of compliance took place – although an increasing number of fines suggests that considering whether the correct processes are being followed is vital. Auto-enrolment (AE) is three years old this October and large employers will need to begin preparations for their first cyclical automatic re-enrolment duty.

We have seen an increase in action taken by the body responsible for policing AE – the Pensions Regulator (“the Regulator”) - with 166 fines in the last quarter of 2014, compared with 3 for the quarter before that. The Regulator has now also issued their first escalating fines - the level of which depends on the number of workers an employer has:

Number of persons	Prescribed daily rate (£)
1-4	50
5-49	500
50-249	2,500
250-499	5,000
500 or more	10,000

A simple alarm system for the Regulator is the completion of a “declaration of compliance”. A well-known retailer failed to complete this, and following an audit carried out by the Regulator, a number of failings were identified. This resulted in formal action – which included the employer making contributions (which had been missed) in respect of both the employer and employee. One of the main reasons behind these failings was a change in key personnel involved with the project. It’s easy to see how changes to the team working on payroll could lead to some mistakes, but this unexpected, significant cost could have been avoided, had the employer conducted their own audit prior to the Regulator’s involvement.

Re-enrolment

Cyclical automatic re-enrolment (or ‘re-enrolment’) is the duty approximately every three years to re-enrol workers who have opted out or ceased active membership of a qualifying pension scheme. The re-enrolment assessment is a standalone assessment that will need to be undertaken in addition to the regular auto-enrolment assessment each pay period and for a different group of workers. Once re-enrolment has been completed, the employer must re-declare compliance with TPR, explaining how it has carried out its re-enrolment duty.

Audit

Auditing a company’s compliance with auto-enrolment is of course likely to be a significant undertaking – consider the actual process of implementing auto-enrolment and how much work (and therefore cost) was involved. Some of the key points which should be included in an audit are issues which could impact some workers, and not others. These include the amount that is deducted, when people are assessed for auto-enrolment and perhaps even postponement being used incorrectly (for example,

if the postponement notice is not issued to those individuals for whom postponement applies within 6 weeks, the employer will have breached the regulations).

The fact that issues with auto-enrolment may not be apparent for every worker means that a spot check may not be an appropriate way to carry out an audit. Although carrying out spot checks would involve less work, there is a significant risk that you could miss breaches. A more appropriate way forward would be to use a specialist AE auditor who could offer a service which focusses on all aspects within payroll, and takes data into account from each worker. This approach would then be a useful base from which to consider how to put right any issues.

The cost of the mistakes that some companies will have made in the last two and a half years, since the beginning of auto-enrolment, could potentially be very financially damaging. Reviewing your scheme allows you to feel safe in the knowledge that your business’s auto-enrolment provision is compliant and problem free.

“” Comment

With re-enrolment on the horizon for many large companies, this gives employers the ideal time to revisit both their implementation and ongoing processes for compliance. There have been, and will continue to be, a number of clarifications and easements to the early rules that many employers may not be aware of these. Checking whether the software systems that the employer currently uses for auto-enrolment and that it can be used for re-enrolment should be a key consideration.

Barnett Waddingham offers employers a three stage ‘audit’. These stages can be taken in isolation if there are concerns over particular areas only.

- *Stage 1 - Strategic Audit, a high level overview*
- *Stage 2 - Implementation Audit, an in-depth review of assessment, communications and payments*
- *Stage 3 - Contribution Audit, an in-depth review that contributions have been correctly applied*

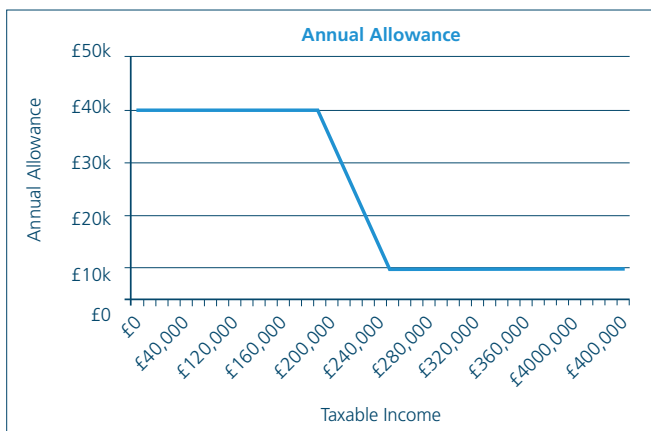
Find out more about our auto-enrolment audit service in our brochure [click here](#)

Budget 2015 - Take Two

The Chancellor of the Exchequer's second Budget of 2015 - the first of this new parliament – included a number of announcements in relation to the taxation of pension savings.

Annual Allowance reduction for high earners

Individuals with taxable annual income above £110,000 could face a significantly higher pensions related tax bill after the Chancellor's 'Emergency Budget' announcement. George Osborne has said that, with effect from the 2016/17 tax-year, the current Annual Allowance (AA) of £40,000 will be tapered for anyone whose total income (including the value of pension savings) is above £150,000 – so that if total income is over £210,000, the Annual Allowance will be cut to £10,000. Individuals with income (excluding pension savings) below £110,000 should not be affected.



We understand that existing 'carry-forward' rules will continue to apply meaning that individuals can make use of any untouched AA from up to three previous tax years. The 'Scheme Pays' option is also expected to remain in place for now. Where an individual faces an AA charge above £2,000, they may therefore be able to direct their pension scheme to meet the charge without having to meet their tax bill directly from income.

However, alongside the announcement, the Treasury has issued a Technical Note on aligning 'Pension Input Periods' (PIPs) with tax years from April 2016. Under current arrangements, pension contributions to DC and accrual in DB schemes is effectively measured over the PIP and compared with the AA over tax year in which that PIP ends. Schemes and pension arrangements had before now been free to select their own PIP.

The planned transitional arrangements are complicated. PIPs that were open on Budget Day (8 July 2015) will be closed off immediately. The next PIP will run from 9 July 2015 to 5 April 2016. This could result in some arrangements having up to three PIPs ending in the 2015/16 tax year. A consequence of this change is that, in order to protect those with irregular savings patterns, the Annual Allowance for 2015/16 is effectively doubled to £80,000 (plus any available carry-forward), which may give scope to some individuals to make additional contributions before next April that they wouldn't previously. The Annual Allowance for the PIP from

9 July 2015 to 5 April 2016 will be £40,000. However, extra care should be taken where the 'Money Purchase Annual Allowance' applies as a result of having accessed pension savings under the new flexibilities first announced in the March 2014 Budget.

The Government will consult again later on whether the changes make the concept of a PIP redundant.

Green Paper: Consultation on pensions tax relief

The Chancellor also used his Budget speech to launch a Government consultation on a possible radical overhaul of the pensions taxation system. In the Green Paper: 'Strengthening the incentive to save: a consultation on pensions tax relief', the Treasury is asking what reforms might be introduced in future. In particular, the Government has asked whether the current system 'undermines the incentive for individuals to save into a pension'.

Whilst the Government is 'approaching the consultation with an open mind', they have asked whether the current 'Exempt-Exempt-Taxed' approach could be replaced with a 'Taxed-Exempt-Exempt' approach akin to other savings vehicles such as ISAs, with the Government potentially paying top-up contributions.

	Current approach	Possible alternative
Contributions	Exempt (savings made out of pre-tax earnings)	Taxed (savings made from post-tax earnings)
Income / Growth	Exempt from personal tax	Exempt
Proceeds	Taxed as income (although 25% may be tax free)	Exempt from income tax

The Treasury has stipulated that any reforms should reflect the following key principles:

- taxation of pensions should be 'simple and transparent',
- individuals should be allowed to take personal responsibility for their retirement savings,
- the early success of auto-enrolment should be built upon, and
- the system should be sustainable and in line with the Government's 'long-term fiscal strategy'

Please speak to your usual Barnett Waddingham consultant or contact Bhargaw Buddhdev on 01494 788133 or at executivepensions@barnett-waddingham.co.uk to discuss how these changes affect your tax planning or to speak about our educational seminars for individuals who may be affected by the Annual and Lifetime Allowances.

The 6 Pillars of Wellbeing

Wellbeing is a buzzword in the UK right now with more and more employers wanting to understand the benefits wellbeing can bring to their organisation. Wellbeing can directly impact company performance in a number of key areas such as productivity, reduced absence, better engagement and commitment and reduced insurance premiums. However, employers are finding it difficult to define “wellbeing” and to make it sure that it impacts their whole workforce.

A Growing Wellbeing Need

There is a trend for workplace wellbeing in recent years. With large salary increases not an option for most companies, employers are looking for other ways to reward and compensate their employees through benefits, as well as attract and retain talent. On top of this employers rarely see a return on their benefit and wellbeing spend because they are often not tailored to the specific needs of the workforce. Employers are struggling to define what “wellbeing” looks like and how it can be applied to and benefit their workforce. The demographic of a law firm in London will differ to that of a manufacturer in Aberdeen. Therefore it is not feasible to apply a blanket approach.

We believe that there are 6 pillars to wellbeing: job security, financial security, health, support, protection and work/life balance and in order to for a company to see a tangible return on investment they must understand their to their corporate position against each of these pillars. This means that data is key; we believe that surveying employees against these pillars as well as mining absence and health claims data is the right solution to building a tailored benefits and wellbeing package. In support of this, in March 2015 Barnett Waddingham undertook an employee wellbeing survey of over 300 employees across a wide range of industries to determine the current wellbeing position of UK plc.

Employee Survey Results



JOB SECURITY

Our research shows that over 24% of employees had considered leaving their job over the job security and over 37% stated job security was an issue to them. There will be an element of personal performance related drivers but this will not account for all employees.

24%

CONSIDERED LEAVING DUE TO JOB SECURITY

37%

JOB SECURITY WAS AN ISSUE

22%

WEREN'T KEPT UP TO DATE ON COMPANY PERFORMANCE



HEALTH

Employers want to ensure that employees are present and healthy. However they should provide preventative benefits rather than only reactive benefits such as Private Medical Insurance. Prevention is better than cure, and employers should introduce applicable benefits such as health seminars. These could focus on stress, musculoskeletal conditions and acute conditions such as heart, cancer and stroke conditions. Due to cost, it is not always possible for employers to cover everyone on Private Medical Insurance schemes. However with growing NHS waiting times, it is important that employees get access to fast health care. Health Cash Plan schemes or new GP video consultation technology are cost effective options. This can ensure that all employees, not just senior staff, can be returned to health quickly.

41%

FEEL THEIR JOB IS DETRIMENTAL TO THEIR HEALTH

43%

FEEL THEY ARE NOT SUPPORTED IN LIVING A HEALTHY LIFESTYLE



SUPPORT

Line managers play an extremely important role in supporting employees. Companies are investing more in line manager training so they are more effective in supporting their employees and identifying and managing stress within their teams for example.

17%

FEEL THEIR DIRECT MANAGER IS NOT APPROACHABLE

20%

FEEL THEIR EMPLOYER DOES NOT CARE ABOUT THEM



PROTECTION

Providing long term absence cover, through such benefits as Group Income Protection, will allow employers to ensure that employees can continue to maintain relative financial security. It can also help to alleviate stress and allow them to return to work quicker. Such policies can also monitor absentees, regularly assessing whether the absence is genuine, as well as providing treatment, help and advice where required.

In regards to protection after death, the growing trend of flexible benefits can allow employees to tailor their Life Assurance benefit to their individual needs. It is also cost effective if the additional cost is funded by the employee.

Where there is a concern that employees do not feel protected during maternity and paternity leave, internal policies should be reviewed. This can ensure employees are not only supported during this period, but also feel motivated to return to work.

43%

NO PERCEIVED MATERNITY/PATERNITY SUPPORT

34%

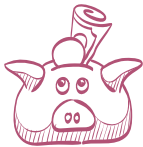
NO PERCEIVED SUPPORT IN ABSENCE

41%

NO PERCEIVED SUPPORT IN ILL HEALTH

30%

NO PERCEIVED SUPPORT



FINANCIAL SECURITY

Financial security relates to an employee's complete situation including savings, debt, pensions and investments. It is clear that future financial security is a real concern but for many their current debt will be a more pressing concern. Financial education and financial planning tools will become more commonplace in the market.

42%

STATED THEIR IMMEDIATE FINANCIAL SECURITY AS A CONCERN

68%

STATED THEIR FUTURE FINANCIAL SECURITY AS A CONCERN



WORK/LIFE BALANCE:

Many employers try to improve the work/life balance to lower absenteeism and retain talent. However, employers must be careful in how they implement changes, as a blanket approach may not benefit the whole workforce.

To improve a work/life balance, employers must communicate with employees to find out what would suit their demographic, and then offer a tailored approach so everyone can benefit.

38%

DO NOT FEEL THEY HAVE A WORKLIFE BALANCE

33%

DO NOT FEEL THEIR EMPLOYER SUPPORTS A WORKLIFE BALANCE

“ ” Comment

Our survey showed that there is a real concern amongst UK employees about how protected and supported they are by their employer. There needs to be an understanding that wellbeing is not just about implementing benefits that improve and maintain an employee's health. A benefit package, both through insurance/reimbursement schemes and internal policies, should help the employee feel protected and supported in their job roles and lives. By doing this, employers can not only lower absenteeism and presenteeism rates, but they can also help to reward, motivate, attract and retain talented employees.

Featured Blog: Risk Maturity on the Rise!

How prepared are firms today to deal with and proactively take risks?

We surveyed almost 100 risk and insurance professionals from 85 organisations in June about their attitudes towards risk maturity in their organisations. The results shown below are pleasing, indicating that most respondents feel risk maturity is on the rise.



Are we nearing the end of the 'risk management journey'?

The last economic downturn in 2008 caused numerous corporate failings and was the catalyst for a step change in regulatory requirements pertaining to risk management. For some, this may indeed mark the end of one leg of the journey focused on establishing the basics. However, the number of corporate crises has not abated. We see for many businesses the necessary next leg of the journey is to provide real insights with data and evidence that will empower business leaders to make informed decisions and drive action.

[SEE THE FULL BLOG LISTING >](#)



DC – an ace in the hole?

DC membership is on the rise, but contributions may follow suit

Many decision makers have come to adopt a healthy scepticism regarding the impact of defined benefit (DB) pension schemes on the business. However, the increasing cost of defined contribution (DC) schemes should not be overlooked.

With over 12,000 UK companies sponsoring some form of DB pension scheme, many corporate transactions will require consideration of the costs and risk associated with such arrangements.

Playing with a poor hand

The key issue with DB schemes is that the majority of the costs and risks are borne by the sponsoring employer. Parties intent on acquiring a business will need to focus on what opportunities there are to mitigate the risks posed by any DB schemes.

Although the cost of providing newly accruing benefits has increased due to plummeting interest rates and rising longevity, the real pain has come from repairing substantial funding shortfalls. Firms in the FTSE350 that sponsor DB schemes contributed over £55bn in the five years to 2013 just to pay down DB deficits.

For proactive decision makers, it would be prudent to start considering opportunities to de-risk the scheme even before a deal has been reached. This might include a flight path towards buy-out or self-sufficiency in the long-term. In the short-to-medium-term, options to mitigate DB risks include buy-ins, pension increase exchanges and enhanced transfer value exercises.

In 2014, transactions in the UK bulk annuity market totalled £13.2bn which corresponded to a record level of pension scheme de-risking.

The recent changes offering DC members greater freedom in how they take their pension savings could present a further opportunity, for example by offering a standard option at retirement to transfer benefits out of the DB scheme.

It is little wonder that the popularity of DB schemes continues to wane, with the majority of companies having introduced alternative DC arrangements. In contrast to DB schemes, DC plans offer fixed costs from the sponsor's perspective.

According to the Pensions Regulator, in 2014 the number of 'active' members accruing benefits in DB schemes was surpassed by the number of 'active' members saving in DC schemes.

Furthermore, the new freedoms could have the effect of making DC plans more attractive than ever before from the point of view of employees.

The only game in town?

The shift towards DC has been marked in recent years. Owing to a perfect storm of regulatory, economic and demographic pressures, in 2014 only around one in eight DB schemes continued to offer DB benefits to new members.

One area in which DC offers employers comparative stability is the fixed nature of employer contributions. However, in the next few years there will be some strain on DC contribution rates for UK employers as the automatic enrolment regime matures. For the largest employers in the FTSE 350 also sponsoring a DB scheme, the total contributions paid into DC schemes increased significantly (by around 16% on average) in 2013 as they were required to begin automatically enrolling workers.

From October 2018, the minimum contribution rate payable by employers to DC plans will have tripled from its current level to 3% of "qualifying" earnings. With over 5 million individuals enrolled to date, this will clearly represent an increase in costs for many employers.

There is a risk that future legislation may compel a rise in minimum contributions, particularly as a maturing DC market becomes the main source of income in retirement for many. It is possible that at least some of the burden of any future escalation of DC contributions will fall on employers.

Average total (employer and employee) contributions to DC schemes were around 9% of salary in 2013. Some commentators have suggested minimum DC contributions of up to 12% of salary are necessary to provide a basic income in retirement.

However, even the prospect of increasing DC contributions will not change the fact that this form of pension provision is likely to remain less costly than ongoing DB provision. In 2013, the average DC contribution paid by employers was around 6% of salary compared with over 15% of salary for accruing benefits within a DB scheme.

Conclusion

Whilst deficits from legacy DB will remain a problem for some time to come, these should not deter investors or shareholders particularly where credible options are available to take risk off the table. Coupled with a sensible approach to the provision of future retirement savings, this should provide companies with the means to confront such challenges up front in the process of an acquisition.

“ ” Comment

Barnett Waddingham has experience of advising companies through all pensions aspects of an acquisition, whether at the purchase stage, the sale stage or in between the two. Our expertise covers DB and DC schemes, other employee benefits and personalised pensions advice for senior staff.

We focus on the specific circumstances of each deal whilst taking account of the bigger picture, identifying priorities and opportunities in the context of the overall deal which could otherwise be lost on a piecemeal approach.



Impact of pensions on UK business 2015

We recently published our fifth annual report considering the impact that pension provision is having on UK business. We believe that it is unique in considering the financial impact of DB pension schemes within the context of the wider finances of FTSE350 companies.

Interestingly the research also finds that while £65bn is the highest aggregate defined benefit (DB) deficit recorded for the FTSE350 index since 2009, the UK's largest public companies contributed less towards DB pension scheme deficits than at any time since 2009. The research, conducted by Barnett Waddingham for the fifth year running, highlights the impact DB, or final salary, pension schemes are having on FTSE350 businesses.

Key findings from the research include:

- In 2014, employers committed over £7bn to clear funding shortfalls, although this is over 40% less than the average figure paid in each year from 2009 to 2012, and nearly 20% less than payments in 2013. This may reflect the Pension Regulator's (TPR) revised Code of Practice for DB schemes although whether this trend continues is unclear at this stage.
- Oil and Gas firms in the FTSE350 saw their combined pension deficit more than double to £12.6 billion in 2014 compared to £6.2 billion in 2013.
- The amount contributed by employers into defined contribution (DC) pension arrangements increased by nearly one fifth in 2014, reflecting the new impetus towards DC savings under the auto-enrolment regime as well as employees being moved into DC arrangements as DB schemes continue to close to accrual.
- Despite this move to DC, for every £1 spent on pension provision for staff in 2014, 32p of this was directed towards paying down funding shortfalls on legacy DB benefits.
- Under the European pension supervisor's (EIOPA) new stress test, the adverse market scenario would see the pension's funding shortfall for UK plc increase to around 10% of total stock market value.
- Underlining the risk associated with DB schemes, the research found that 80% of companies with material pension shortfalls recognise their DB scheme to be a principal strategic risk for the business.

[VIEW THE REPORT IN FULL >](#)



Upstream Oil & Gas services

The Upstream Oil and Gas industry has heavy requirements for capital and operating expenditure, and faces unique and complex problems associated with natural uncertainty, unpredictable commodity prices, and the associated operational and financial risks.

The present environment of low commodity prices, rising exploration costs, and constrained access to capital has increased the need for in-depth, accurate and complete analysis of uncertainty, risks and valuation. Many investors and providers of capital have recognised that accurate assessment of the quality of assets, especially hydrocarbon reserves, is inherently difficult, but of key importance.

We bring a variety of actuarial and risk management skills to bear on the problems faced alike by the Upstream Oil and Gas industry, and those who provide finance. Working where needed in tandem with industry professionals such as geoscientists, reservoir engineers and facilities engineers, we can provide in depth analyses for the industry at Project, Portfolio or Company level.

For investors and financiers, we can provide an actuarial and financial perspective to support your valuation and due diligence process, for example reviewing the effectiveness of a company's risk management strategy. We can give a professional opinion on the statistical assessment of the quality of valuations, assets, Production Forecasts and Field Development proposals. We can also support assessment of insurable risks such as Supply Chain interruption, Country risks or natural hazard, integrating this with review of non-insurable or hedgeable risks to provide a holistic risk assessment.

Our main areas of expertise:

- Asset valuation and validation at a corporate level
- Decision analysis - an actuarial approach
- Financial community, investors and counterparties
- Statistical and financial modelling
- Understanding, managing and valuing risks

[FIND OUT MORE >](#)

OCTOBER

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2015

LONDON

DC CONFERENCE

UK PLCs' greatest assets must be their workforce but how do employers get the best from their employees. Our conference will challenge your thinking and help bring clarity to the complexities of defined contribution.

Location: Imperial War Museum London

NOVEMBER

4

2015

LONDON

ANNUAL PENSIONS CONFERENCE

We are pleased to announce details of our annual London Pensions Conference to be held on 4 November 2015.

Location: London

NOVEMBER

17

2015

LEEDS

DE-RISKING SEMINAR

The appetite of DB pension schemes to manage, and ultimately remove, their pensions risk is ever increasing. What options and flexibilities are available to schemes to help them transact successfully? Find out at our seminar.

Location: Leeds

JANUARY

14

2016

BIRMINGHAM

BIRMINGHAM INVESTMENT CONFERENCE

Relevant to pension scheme trustees, employers and pension professionals, our Investment Conference will give delegates the opportunity to hear from industry experts and keep informed in an ever evolving industry.

Location: The Belfry, Birmingham

JANUARY

27

2016

LONDON

LONDON INVESTMENT CONFERENCE

Our London Investment Conference is aimed at pension scheme trustees, employers and pension professionals. The Conference gives delegates the opportunity to hear from industry experts and keep informed in an ever evolving industry.

Location: London

[SEE THE FULL EVENT LISTINGS >](#)

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail.

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