

# BENEFACT

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*Our experience working with charity and not-for-profit organisations stretches back to the foundation of the firm in 1989, and we have a significant number of clients in this sector. This is indicative of the culture and values of Barnett Waddingham and our ability to provide a cost-effective service.*

*Our expertise extends across a wide range of areas, including advice to organisations participating in multi-employer pension arrangements, such as those operated by the Pensions Trust, and advice to charities on the investment of charitable funds. This is in addition to our extensive capabilities in providing services to defined benefit (DB) and defined contribution (DC) pension arrangements operated by organisations in the sector.*

### **Steve Hitchiner**

Partner and Head of Charities and Not-for-Profit sector



## Employee engagement

Employee engagement is often an important focus for charitable and not-for-profit organisations, given their culture and values, and with many of their employees being motivated by non-financial factors.

There is no agreed definition of 'engagement' but we believe it is a state where the relationship between the employer and employee is strengthened for mutual gain. The employee needs to feel valued and involved and in return the employer hopes for a more contented workforce.

Research has shown that organisations with high levels of employee engagement are more efficient and effective, and that highly engaged employees:

- are more focused, more creative at work, and take less time off sick;
- feel proud of the organisation they work for and are motivated to do their best; and
- have an increased sense of wellbeing.

We believe strongly in the correlation between engagement and workplace wellbeing. When employees are engaged and thriving, they are more likely to be agile and resilient, with fewer health problems. This means they should have fewer days off and be less likely to suffer from anxiety or depression. These factors add up to big savings in terms of staff costs, productivity and performance.

A 2014 poll by Investors in People found that 54% of employees feel that their employer does not care about their health and wellbeing, as long as they get the job done. 48% of those who state that their employer does not care about their wellbeing also say it has led to them feeling less motivated with a third saying they have considered looking for a new job as a result.

This is why we work with our clients to build an integrated wellbeing and engagement strategy. Using our analytical tools, we examine the make-up of the workforce and then, through detailed segmentation of the data, identify possible areas of risk, best employee touchpoints and how to improve outcomes (looking holistically at wellbeing: financial, psychological and physical).

We can then use our employee engagement tool, Me2, to facilitate and communicate the corporate wellbeing and engagement strategy, so as to intuitively signpost employees to areas that are relevant to them, based on their own individual needs.



## Investment of charitable funds

The Charity Commission has over the last few years placed greater onus and scrutiny on trustees of charities in relation to the investment of assets, particularly through a greater obligation to take advice on investment decisions. This coincides with challenging investment markets, reduced government funding, ever growing reputational risk around governance and socially responsible investing.

Our simple approach to thinking about a charity's Aims, Beliefs and Constraints, or ABCs, has helped us put in place coherent strategies, appropriate to the governance structure of the organisation. Establishing aims helps set a direction of travel, while we will guide the organisation trustees through establishing their beliefs and examining any constraints.

### DIVERSIFYING SOURCES OF RETURN

In a challenging market environment of low yields and subdued returns, relying on the returns from equity markets exposes organisations to risks without the same expected reward. Seeking alternative sources of return has increasing merit, whether through accessing dynamic asset allocation expertise or by investing in less liquid asset classes.

We have provided many of our clients with strategic advice on a suitable asset allocation designed to better manage risk, and then supported the selection of new managers through our expert manager research team.

## CASE STUDY: ETHICAL AND SOCIALLY RESPONSIBLE INVESTING

Following recent media attention focussed on the ethical approach adopted by other charities, a longstanding client decided to review its entire strategy so as to exclude arms and tobacco stocks from their portfolio. Having identified that their incumbent manager could not provide a suitable multi-asset portfolio which met these constraints, we provided assistance in agreeing the criteria that the prospective managers could use to define any infringing stocks, and our manager research team carried out a bespoke selection exercise to provide a short-list of prospective managers for interview. We attended the interview day with the trustees and guided them through the process of finding a suitable manager, before assisting to manage the risks associated with the transfer. This was one of many such exercises we have carried out recently.

## Integrated Risk Management and Employer Covenant: DB pension schemes

### PENSION REGULATOR GUIDANCE ON INTEGRATED RISK MANAGEMENT

The Pensions Regulator (TPR) has issued regulatory guidance to help pension fund trustees and employers develop an Integrated Risk Management (IRM) framework, which TPR views as 'an important tool' for managing the risks associated with funding DB pension schemes.

TPR's approach focusses on modelling, understanding and mitigating the interaction between three key risk areas – funding, investment and employer covenant.

The idea that collectively monitoring these three risks is an important part of an overall strategy is not new. TPR's Code of Practice on funding DB schemes, for example, devotes an entire chapter to IRM, noting that 'trustees should adopt a proportionate integrated approach to risk management'.

TPR is keen to emphasise that IRM is an ongoing process and that trustees should consider its introduction 'wherever the scheme lies within its valuation cycle'. Therefore, trustees are encouraged to consider how risk management processes could evolve to take account of TPR's latest publication. Schemes may already have a risk management framework in place to use as a starting point, though many will have to make an 'initial investment' to get IRM up and running.

### ASSESSING AND MONITORING THE "EMPLOYER COVENANT"

A key part of the IRM framework is assessing the employer covenant, which TPR defines as the "employer's legal obligation and financial ability to support the pension fund now and in the future".

The employer covenant underwrites risk, and should guide the pension fund trustees' approach to strategy and prudence. As such, a full employer covenant review should be carried out as part of each triennial funding valuation, although the level of detail should be proportionate to the circumstances.

The nature of some not-for-profit employers means that different factors should be considered when assessing the employer covenant, and TPR's regulatory guidance on employer covenant includes a specific section on not-for-profit organisations.

## Pensions Trust "Growth Plan" update

The Pensions Trust Growth Plan is a sector-wide multi-employer pension arrangement, in which a large number of non-associated organisations participate. There are around 40,000 members of the Growth Plan, being employees and former employees of participating organisations, with around 14,000 of these being members in receipt of a pension.

The Growth Plan has a number of different sections or "series", many of which are DB in nature. The plan has a substantial deficit in relation to these DB benefits and, therefore, organisations that have participated in these sections need to pay contributions to address the funding shortfall, in addition to any contributions being paid for ongoing employee pension benefits. Participating organisations also need to allow for the present value of these deficit contributions to be included as a liability in their accounts.

### TPR EMPLOYER COVENANT GUIDANCE: KEY POINTS FOR PENSION FUND TRUSTEES TO CONSIDER IN RELATION TO CHARITIES AND NFPS

Ensure you **understand the legal status of the employer**, for example whether the employer is a charitable incorporated organisation, a company limited by guarantee, a charitable trust or another body.

- The legal status of the employer can be complex, with potential implications for support both on an ongoing basis and in the event of insolvency.

Ensure you **understand the extent of any restrictions on income, assets or reserves**.

- Restricted funds might not be available for financing the pension fund, although this does depend on the specific circumstances. Pension fund trustees should not necessarily assume that income or assets shown as restricted cannot be used for pension purposes, particularly where there is significant reliance on the covenant and restricted funds form a material part of the employer's finances.

Consider the **ability of the employer to generate cash**, and the extent to which this cash is available for the pension fund. This will depend on factors such as:

- the **diversity of the employer's income sources**, including their reliance on voluntary contributions;
- the **future outlook for these income sources**;
- the availability of **reserves** and the **policy for retention** of reserves;
- the level of **discretion over costs** incurred by the employer; and
- the **key risks** to these income streams (e.g. reputational risks) and **policies for managing these risks**.

### BARNETT WADDINGHAM SEMINARS: A PRACTICAL GUIDE TO INTEGRATED RISK MANAGEMENT

We are holding seminars on IRM in our offices across the UK during November 2016, in which our experts will share their views on the pragmatic application of IRM, and how it can benefit your pension scheme.

If you would like to attend one of these seminars, details are available from our website. Alternatively, we are happy to provide a bespoke training session on IRM where we can analyse the particular circumstances of your pension fund and sponsoring organisation.

## ACTUARIAL VALUATION AS AT 30 SEPTEMBER 2014

The latest triennial funding valuation of the Growth Plan had an effective date of 30 September 2014 and was completed at the end of 2015, with revised deficit funding arrangements coming into effect from April 2016. A summary of the position revealed by the valuation is as follows:

Growth Plan valuation 30 September 2014	£million
Expected present value of the accrued liabilities	969.9
Total value of the assets	793.4
<b>Shortfall</b>	<b>176.5</b>

The funding position has worsened since the previous triennial valuation, with the deficit increasing from £147.6million to £176.5million. This is in spite of the additional deficit contributions that have been paid by participating organisations over the period since the previous valuation. As a result, many organisations will have seen an increase in the deficit contributions they are required to pay, as well as an extension of the period over which they are payable, but the precise impact will vary for each organisation.

Since the formal valuation, a further annual update has been carried out "as at" September 2015, which showed a reduction in the deficit to £138.6 million. However, the deficit contribution arrangements will not change in light of this update, as the contributions payable by employers are typically only reviewed as part of each formal, triennial valuation.

If you are currently participating in the GP and paying deficit contributions, you may wish to consider your options, such as potentially leaving the GP and paying the withdrawal debt instead. Although this withdrawal debt is likely to be significantly higher than the total annual deficit contributions that would otherwise payable, payment of the withdrawal debt would also mean there is no risk of further contributions being required in future.

## How we can help

Our expertise in the charities and not-for-profit sector extends across a wide of range of areas.

We provide a full range of services in relation to DB and DC pension arrangements sponsored by organisations in the sector. This includes actuarial, investment and administration services to pension fund trustees, as well as actuarial advice to employers sponsoring these arrangements.

Specifically within this sector, we have at least 75 clients who we advise in relation to their DB pension scheme and at least 20 clients who we advise in relation to their DC arrangements. We have also advised at least 20 organisations in the sector who participate in multi-employer arrangements operated by the Pensions Trust.

In addition to our pension related services, we have also advised 10 charities on the investment of trust assets.

For further details of how you can use our expertise for your benefit, please visit our website:

[www.barnett-waddingham.co.uk/charities-sector](http://www.barnett-waddingham.co.uk/charities-sector)

## About Us



### Steve Hitchiner FIA

Partner and Head of Charities and Not-for-Profit sector

Steve is an actuary with wide ranging defined benefit (DB) pension advisory expertise, who has a particular focus on the Charities and Not-For-Profit sector. Around half his scheme actuary clients are in the sector, and he has advised a large number of charities participating in sector-wide multi-employer pension arrangements.

Steve's aim is to provide pragmatic and straightforward advice and to communicate complex subjects in a way that can be easily understood.



### Neil Davies FIA CERA

Charities and Not-for-Profit sector: Associate and Investment Specialist

Neil advises a range of UK businesses on investment matters relating to defined benefit (DB) and defined contribution (DC) pension schemes, as well as advising trustees of charities on their investment strategies.

His work advising charity clients on the investment of charitable funds covers a number of areas, including support with objective setting, asset allocation advice, governance issues, and manager monitoring.



### David Spilsbury APMI Dip PFS

Charities and Not-for-Profit sector: Associate and Workplace Health and Wealth Specialist

David is a defined contribution (DC) Client Relationship Manager with experience of running a number of significant DC projects, including changes to pension arrangements, benchmarking, auto-enrolment, DC benefit design and the selection of suitable vehicles and providers.

David also advises a number of Charities and Not-For Profit organisations regarding their DC arrangements alongside wider employee benefit and engagement issues.