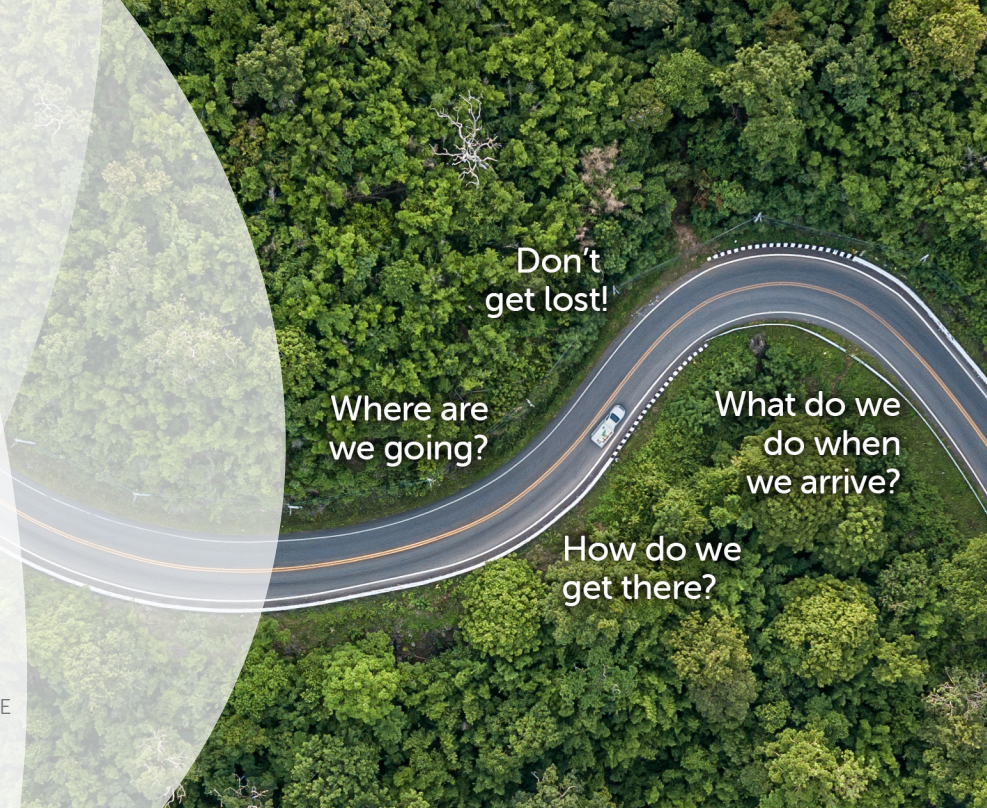


Briefing

The DB Odyssey

The long journey to your
scheme's end

RISK | PENSIONS | INVESTMENT | INSURANCE



With fewer defined benefit (DB) pension schemes open to new joiners, many DB schemes are now on the long road to their end. This makes it increasingly important for trustees and employers to think carefully about what they are trying to achieve in the long term.

This long term strategic thinking is also an increasing focus for The Pension Regulator, particularly as the government plans to legislate to make it a requirement for all schemes to set a long term target.

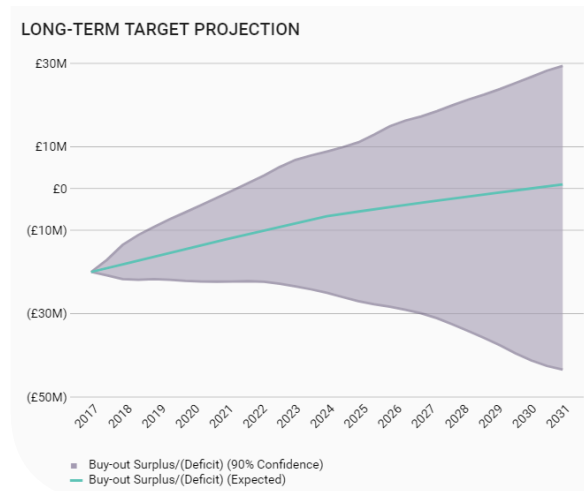
This long term target could be buying out with an insurance company, another form of settlement or continuing to pay benefits until the last pensioner dies. The journey to your target is a long road full of twists, turns and occasional potholes. We help our clients develop and implement a "journey plan" to ensure that you achieve your long term objective. Like with any journey, this involves answering four key questions:

- Where are we going?
- How do we get there?
- How do we make sure we don't get lost?
- What do we do when we arrive?

Where are we going?

A key question for trustees and employers is 'what are you trying to achieve?' Many trustees/employers will have an ambition to get to buy-out, but is that realistic given the high cost? Our first step is to determine what is achievable based on your current strategy.

The chart below is from our online Illuminate system and illustrates how an example scheme's buy-out position is expected to improve over time. It also shows a range of what might happen to the scheme – illustrated by the grey area.



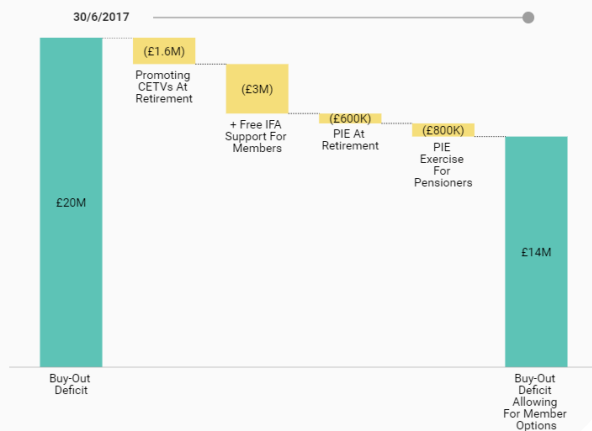
For some schemes buy-out will not be likely, at least not within the risk that the employer could reasonably be expected to support. If your scheme is in this position we will guide you through the alternatives, and discuss what realistically is achievable for your scheme.

How do we get there?

Now that we know where we are going, we can plan how we get there. When considering different strategy options we believe it is crucial that trustees and employers focus on the impact on their long term journey plan. This long term focus is key to trustees and employers making the best decisions for the long term interest of the scheme. We can use our Illuminate system to illustrate the impact that adopting different strategies has on your journey plan.

Exploring different "member options" can also have a significant impact on the long-term prospects of a scheme. For example, providing financial advice to members who wish to consider a transfer at retirement, or introducing a Pension Increase Exchange (PIE) option. In many schemes these have proven popular with members, and also beneficial to the scheme's journey plan. Illuminate can illustrate the impact on your strategy of offering these options, to help facilitate your decision making.

IMPACT OF MEMBER OPTIONS



Try not to get lost!

Most pension strategies involve a reasonable amount of risk in one form or another – for example, risk that investments don't perform as well as required, risk that the employer covenant deteriorates, or the risk that members live longer than expected. Trustees and employers need to consider how to stop this risk taking you off course.

Monitoring

Trustees and employers need to shift their focus in their monitoring to their long term objective. How well funded is the Scheme on their long-term target, and is this ahead or behind their long term plan? This allows trustees to take decisions in the best long term interest of their scheme.

Contingency plans

Trustees and employers also need to plan for possible bumps in the road. What will you do if the covenant deteriorates, or funding significantly worsens? Is there any additional support that the employer or wider group could provide in these circumstances?

Discussing these downside scenarios and putting in place contingency plans to guard against them form an important part of a scheme's strategy.

Chris Ramsey discusses the importance of contingency planning

www.barnett-waddingham.co.uk/dbcontingencyplanning



Plan for arriving

It is no use going on a journey without knowing what you are going to do when you get there. The same is true for journey planning in DB pension schemes. This is particularly so for a scheme targeting buy-out, as you will need to ensure that they meet the insurer's data and documentation requirements. We can help you to build data and documentation reviews into your journey plan to help make buying out a smooth process and to ensure you don't miss out on a short-lived market opportunity.

Summary

Set an achievable long term plan for your scheme, and base your future strategy decisions on how they effect this plan.

Get in touch with Chris Ramsey for any information on the above:

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