



Integrated Risk Management

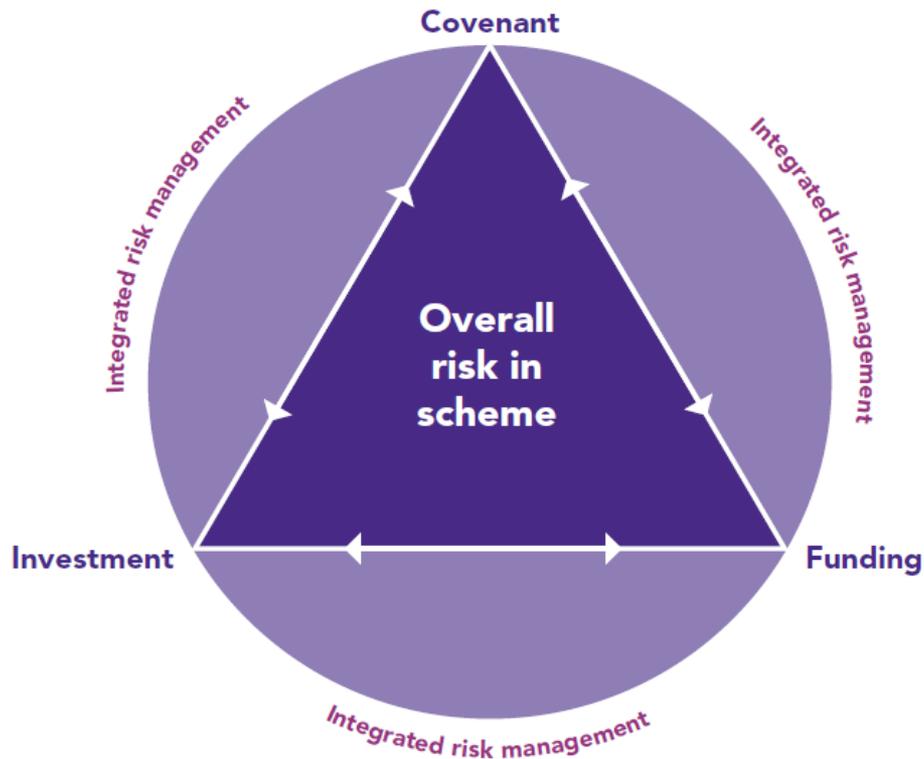
A practical guide

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What is IRM?



Source: The Pensions Regulator

A risk management tool to help identify and manage **funding, covenant, and investment** risks

Understanding the **interactions** between the three key risks to inform discussions and decisions

Can lead to better decision making and **better outcomes**

Think of the
BIG
picture



Effective risk management



Understanding your covenant

Determines risk tolerance and feasibility of objectives

**Legal
enforceability**

**Contribution
affordability**

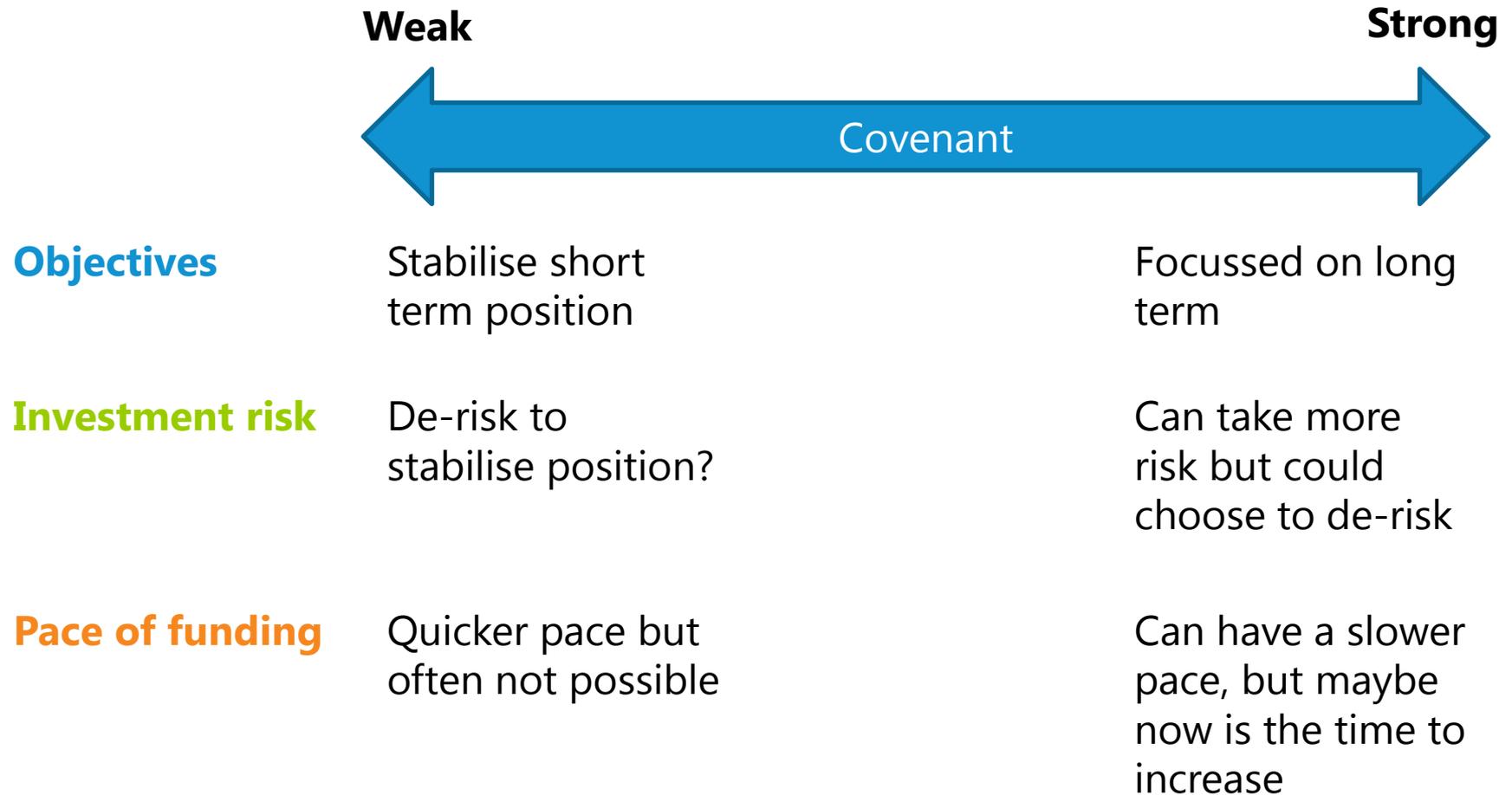
**Risk
tolerance**

Profit drivers

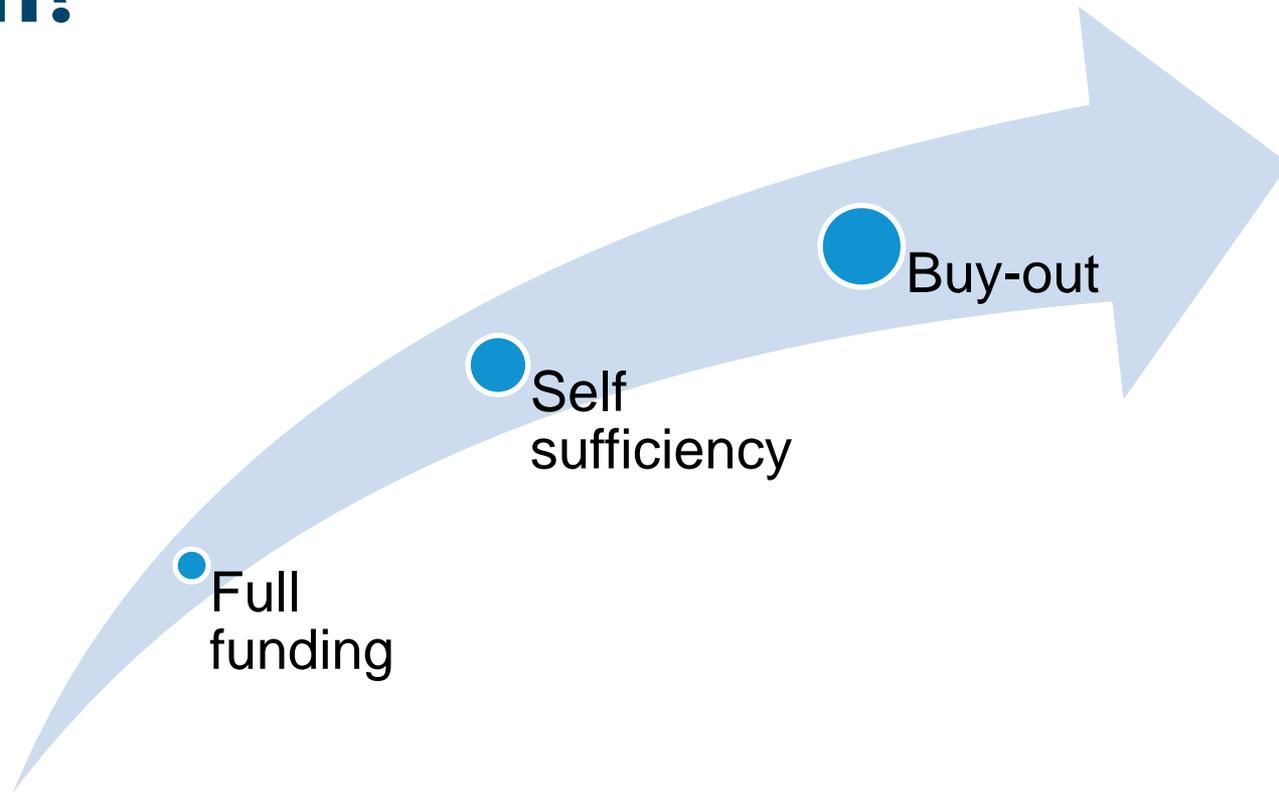
**Market
position**

**Risk of
deterioration**

Integrating covenant into decision making



What do you want to achieve and when?



What does the employer think?

Objectives and risk

Objectives

Running the scheme on indefinitely
Managing contribution levels

Targeting a buy-out
Gradually insure liabilities

Which risk to focus on?

Risk of insolvency in long term
Risk contributions unaffordable

Risk of insolvency in short term
Risk buy-out becomes unaffordable

Strategy options

**Change pace of
funding**

**Reduce growth
asset risk**

**Liability
hedging**

**Risk transfer
(e.g. bulk
annuities)**

**Liability
management**

Example

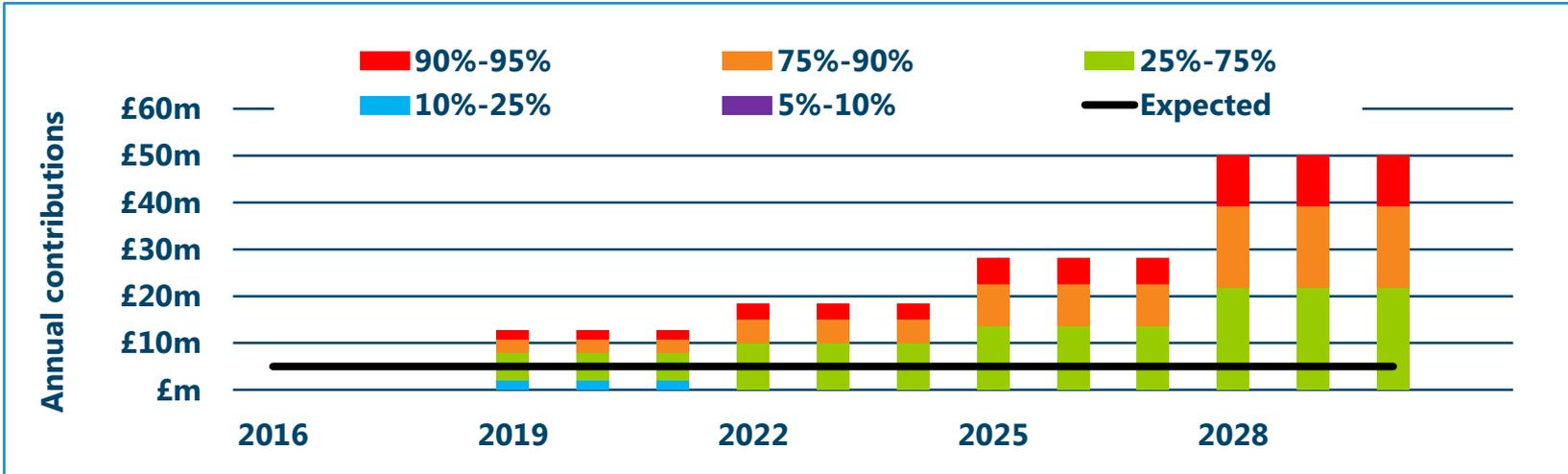
SITUATION:

Employer covenant review concludes employer can afford current £5 million pa contributions but couldn't afford £10 million pa

TRUSTEE OBJECTIVE:

Keep deficit contributions affordable both now and in the future

Measure effectiveness of any strategy in light of this

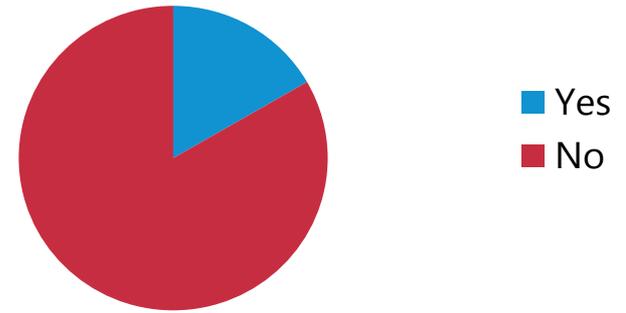


Plan for the unexpected

The Pensions Regulator:

“All schemes need to put **contingency plans** in place in the event a downside risk materialises”

Trustees with formal contingency plan in place for the scheme



Source: BW survey on trustees' approach to risk management

- **You already have a contingency plan – but is it sufficient?**

Formal
agreements

Informal
planning

Unilateral
powers

Documentation

Important to document discussions and conclusions of IRM process...

...and detail your monitoring framework

But doesn't need to be lengthy!

What makes effective monitoring?

Integrated

Bespoke

Actionable

LAST VALUATION

5 Apr 2014

81%
FUNDED
100% BY
APR 2022

RETURNS
5.4% BEST ESTIMATE
5.3% REQUIRED

UNSECURED RELIANCE
£414M
DEFICIT CONTS
£14.6M PA

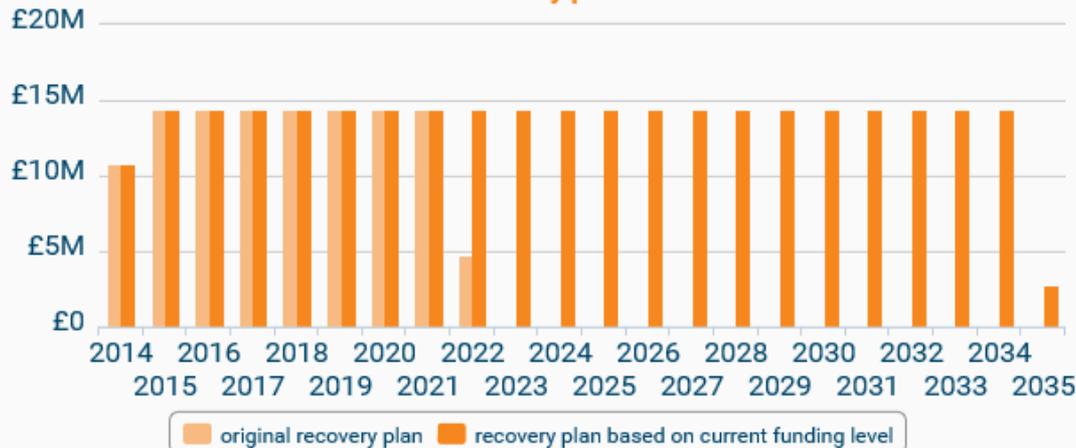
FUNDING

click chart for more detail

funding level



recovery plan



TODAY

22 Aug 2017

77%
FUNDED
100% BY
MAR 2035

RETURNS
3.7% BEST ESTIMATE
7.5% REQUIRED

UNSECURED RELIANCE
£660M
DEFICIT CONTS
£44.3M PA

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INVESTMENT

asset values at 31 Dec 2016

total **£530,466,000**

Insight Investment Segregated LDI	£43,408,000
Janus Henderson Global Investors Multi Asset Credit Fund	£78,546,000
Insight Investment Bonds Plus Fund	£84,747,000
Baring Asset Management Baring Dynamic Asset Allocation Fund	£90,524,000
Ruffer LLP CF Ruffer	£80,825,000

whole fund return to 31 Dec 2016



best estimate return on assets above that required under recovery plan



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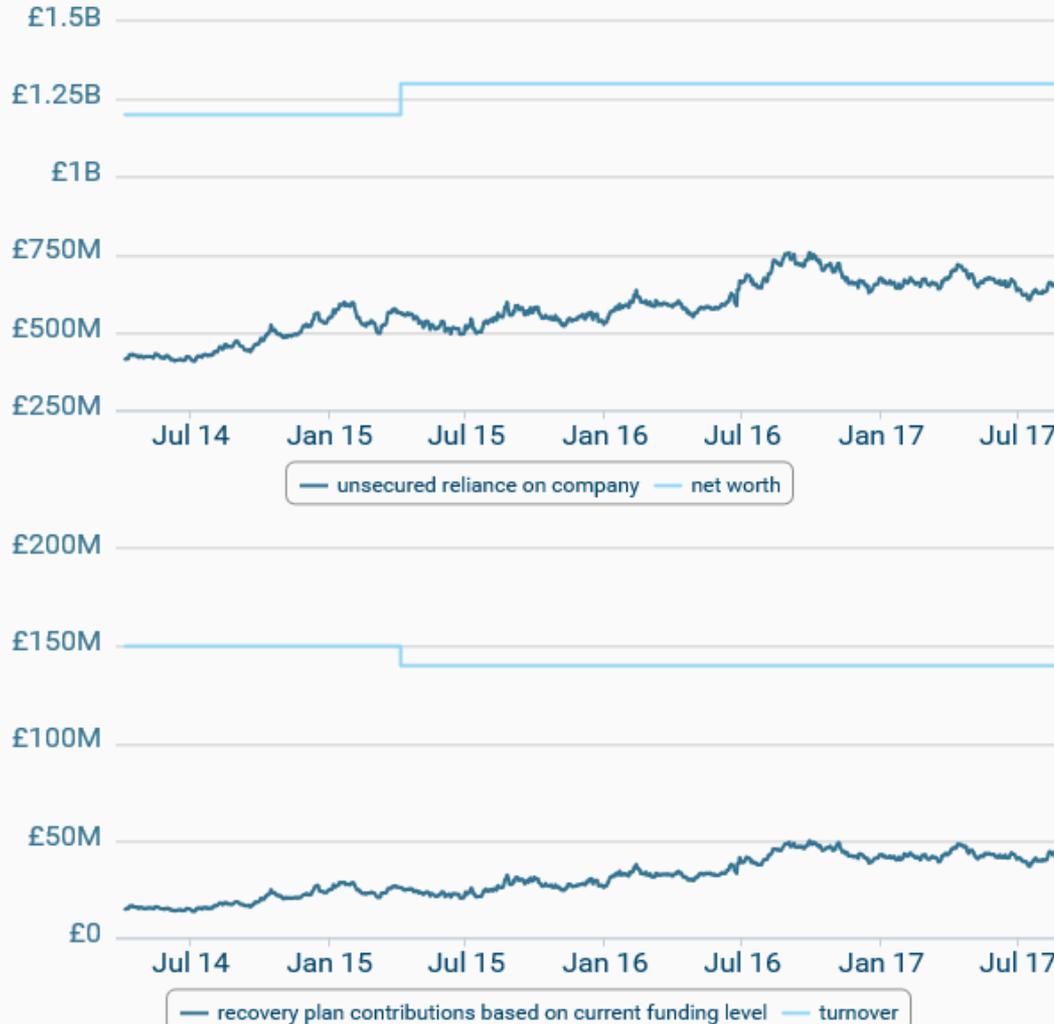
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COVENANT



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Summary



Where to find out more

- www.barnett-waddingham.co.uk/DB-Risk-Management



Any questions?



Regulatory Information

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