



BARNETT
WADDINGHAM
beyond the expected

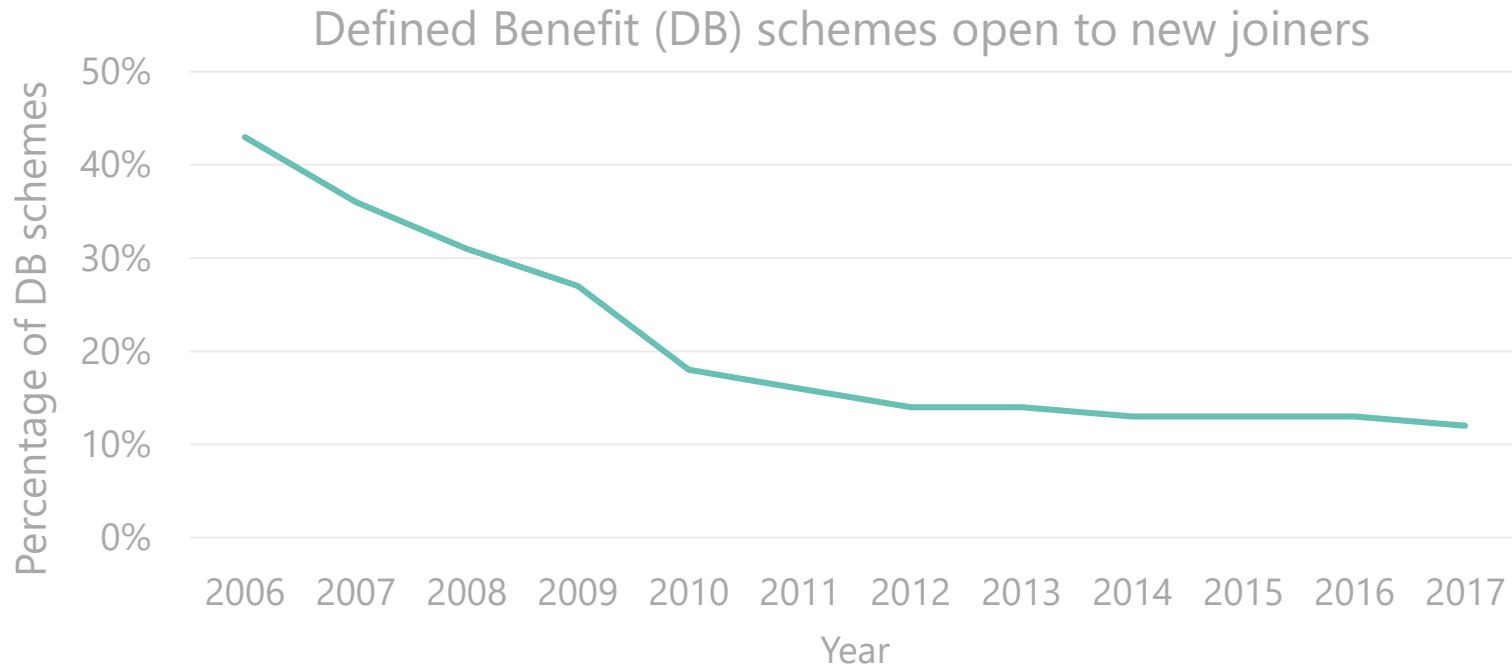
The DB Odyssey

An introduction to journey planning

Oliver McCulloch FIA
Partner, Barnett Waddingham

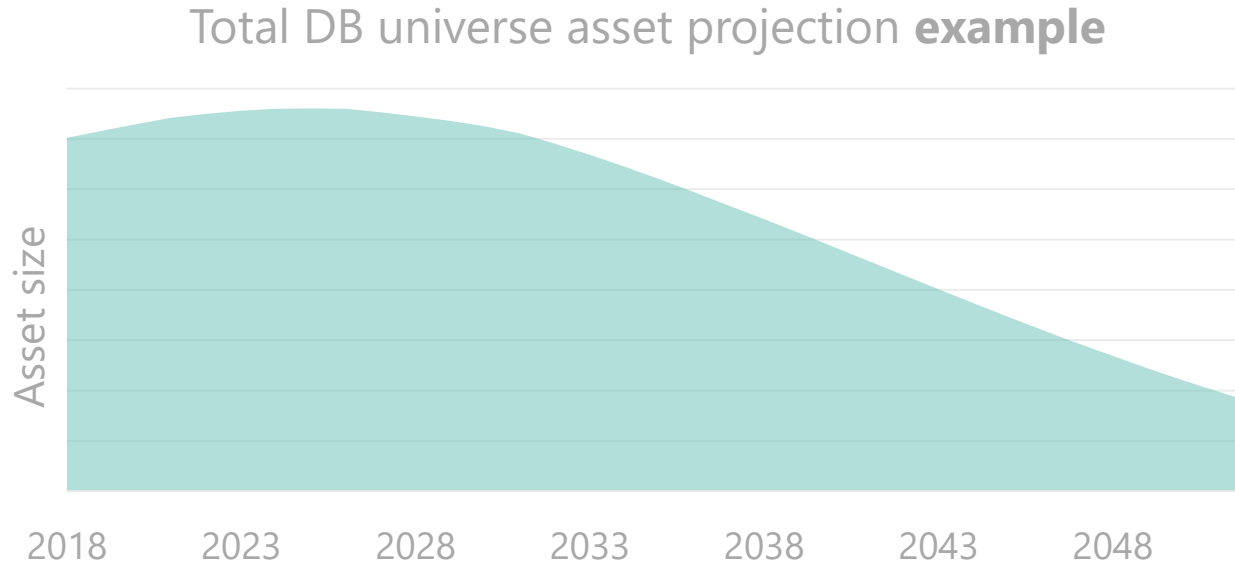


The DB landscape



Source: Pension Protection Fund Purple book 2017

The DB landscape



Source: Barnett Waddingham projection based on data from The Pensions Regulator and the PPF



26%

of schemes are planning for
buy-out in the next 20 years

Barnett Waddingham 2016 survey of Trustees
and Employers of UK DB pension schemes



Plan for
arriving

Where are we
going?

How do we get
there?

Don't get
lost!

An aerial photograph of a two-lane asphalt road that curves through a dense, green forest. The road has white dashed lane markings and a solid blue line on its outer edge. A small white car is positioned on the road, highlighted by a blue circular graphic with a blue arrow pointing upwards towards the text.

Where are we
going?

What are the options?

Settlement

- Buy-out with insurer
- Consolidation vehicle (?)

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- Consolidation vehicle (?)

Run-off

- Low risk “self-sufficiency” strategy
- Continue “high risk” strategy

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Settlement

- Buy-out with insurer
- Consolidation vehicle (?)

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- Low risk “self-sufficiency” strategy
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PPF assessment

- PPF + buy-out
- PPF entry

Buy-out vs. self-sufficiency

Buy-out

Full settlement of liabilities with insurer

Expensive option due to insurer solvency requirements and profit margin

Full risk with insurer

Potential one-off P&L charge

Self sufficiency

Low risk strategy in the Scheme


Freedom to invest in some “risky assets”

Risk remains with Employer

Ongoing expenses

No negative accounting treatment

What is achievable?



Key question:
Can you reach
target with an
acceptable level
of risk?

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STAGE 1:
Target buy-
out with
existing
strategy

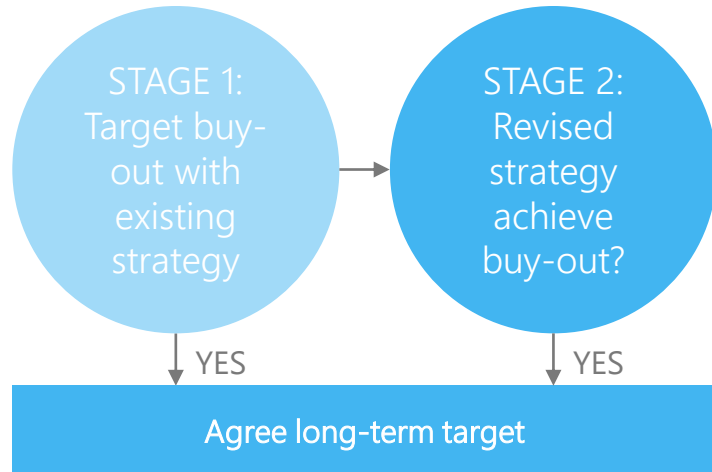
What is achievable?

Key question: Can you reach target with an acceptable level of risk?



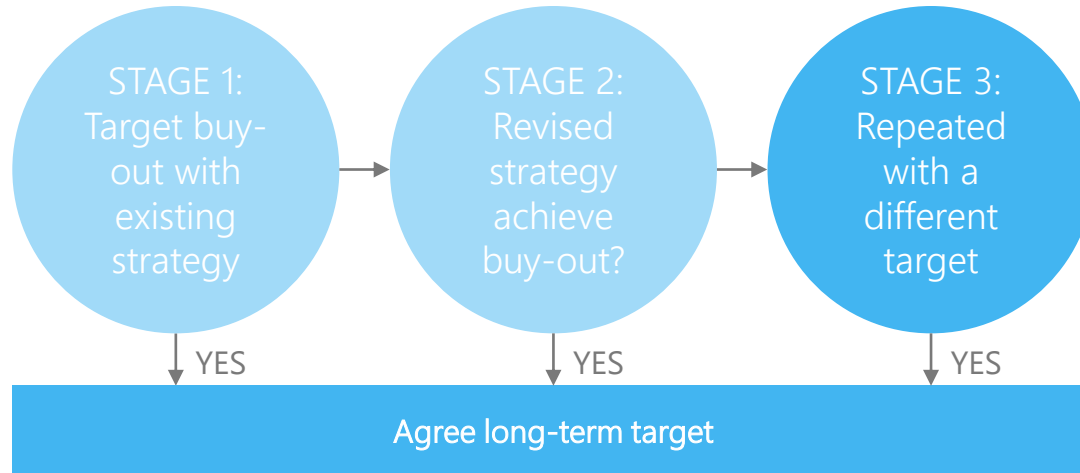
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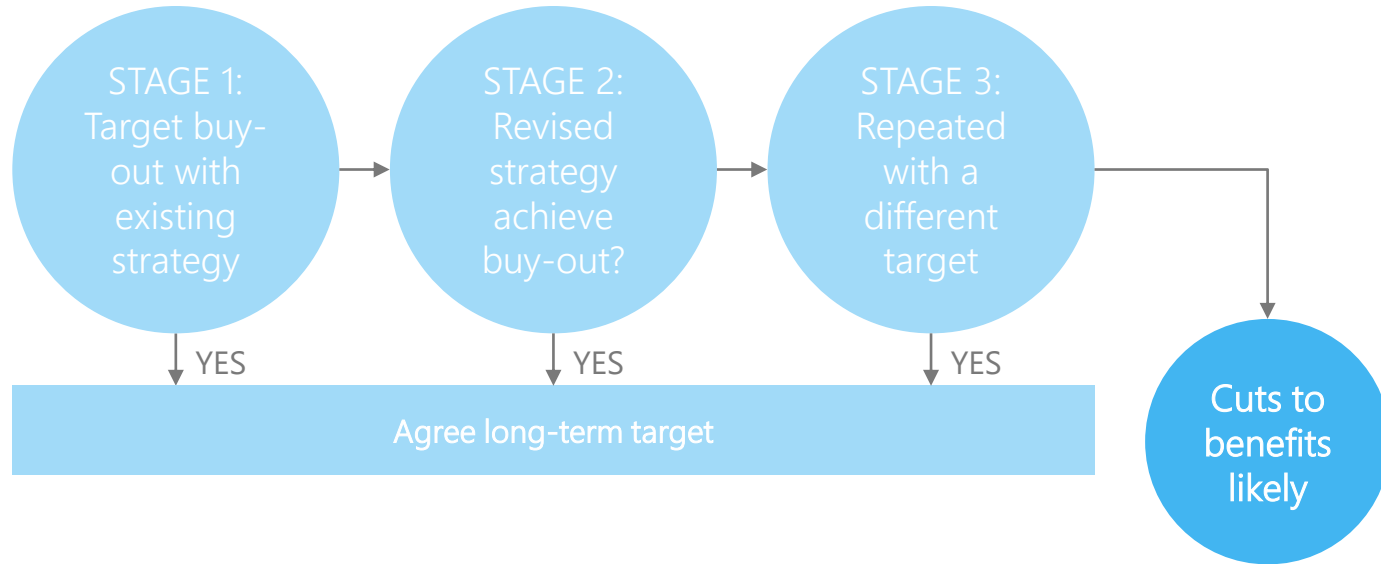
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How do we get
there?

Your levers

Design a strategy to get you to your long term target

Time
horizon

Investment
strategy

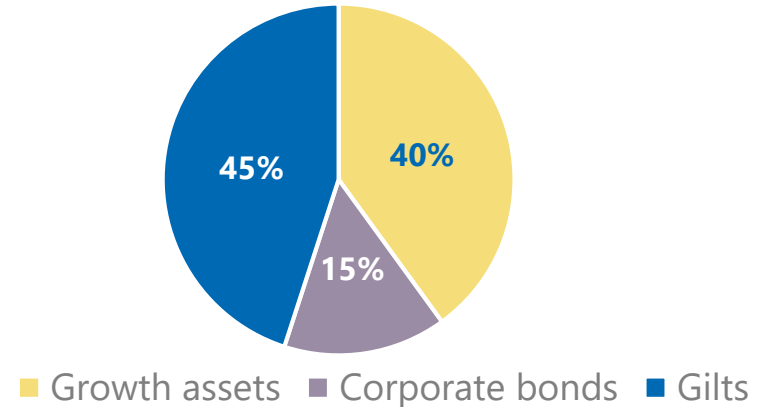
Employer
support

Member
options

Case study – Strategy based on long term target

	Funding (£000s)	Buy-out (£000s)
Liabilities	33,900	43,600
Assets	35,600	35,600
Surplus / (Deficit)	1,700	(8,000)
Funding level	105%	82%

Current investment strategy



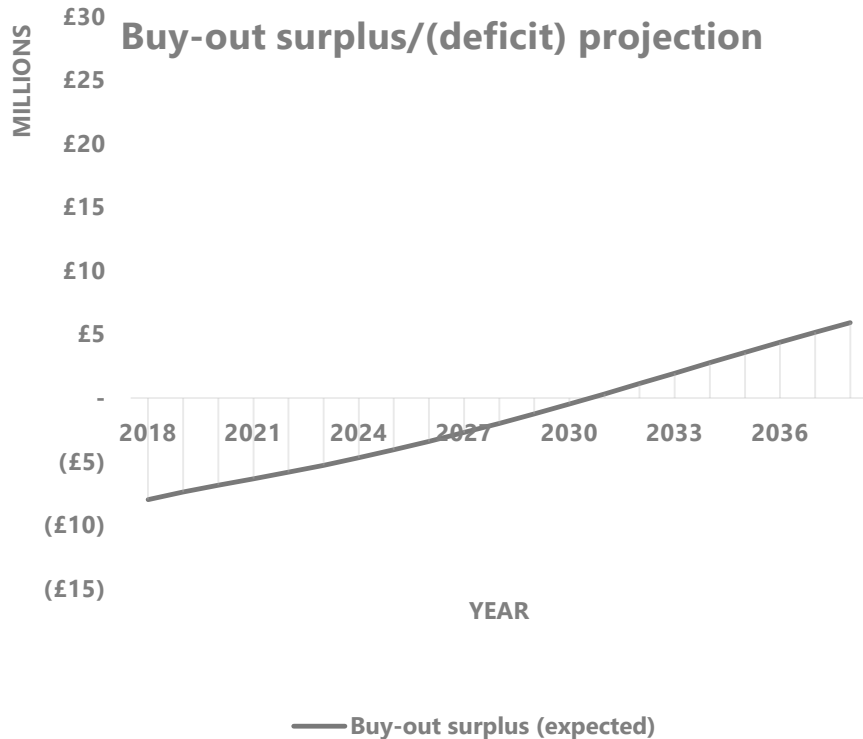
Covenant is tending to strong

Funding basis allows de-risking to 25% equity without additional contributions

There is a desire to get to buy-out but no long term planning has been done yet

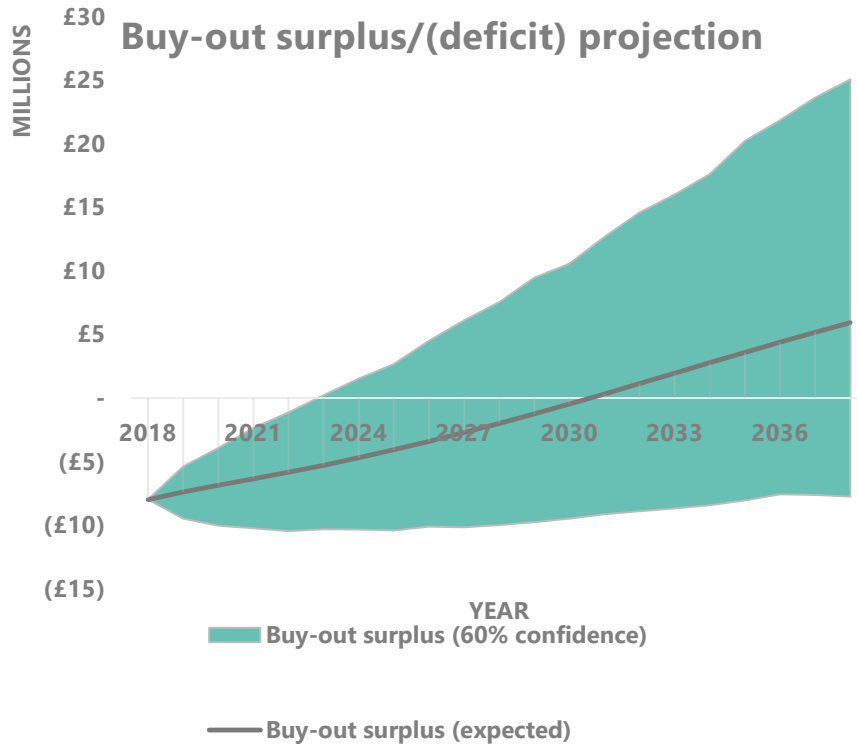
What should the Trustees and Company do?

Analysing the current strategy



	Existing strategy
Investment strategy	40% equities
Employer contributions	None
When is the buy-out deficit expected to be removed?	12.5 years

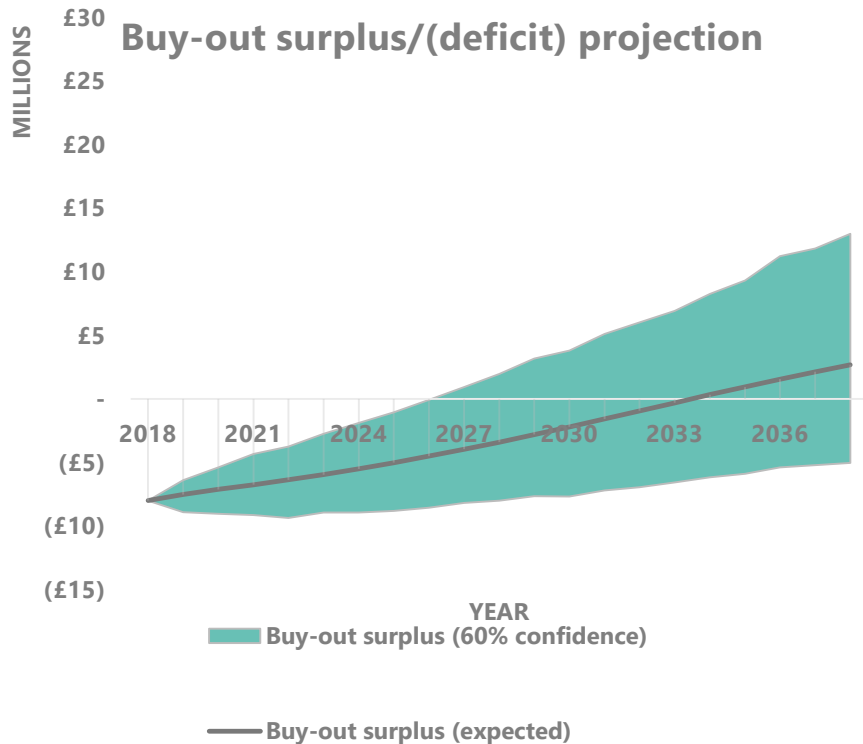
Analysing the current strategy



	Existing strategy
Investment strategy	40% equities
Employer contributions	None
When is the buy-out deficit expected to be removed?	12.5 years
Chance of reaching buy-out in 10 years	42%
Downside risk measure (1 in 5 worst deficit in 10 years)	£10m

Key question: Can the Employer support this level of long term risk in the Scheme?

Impact of reducing investment risk

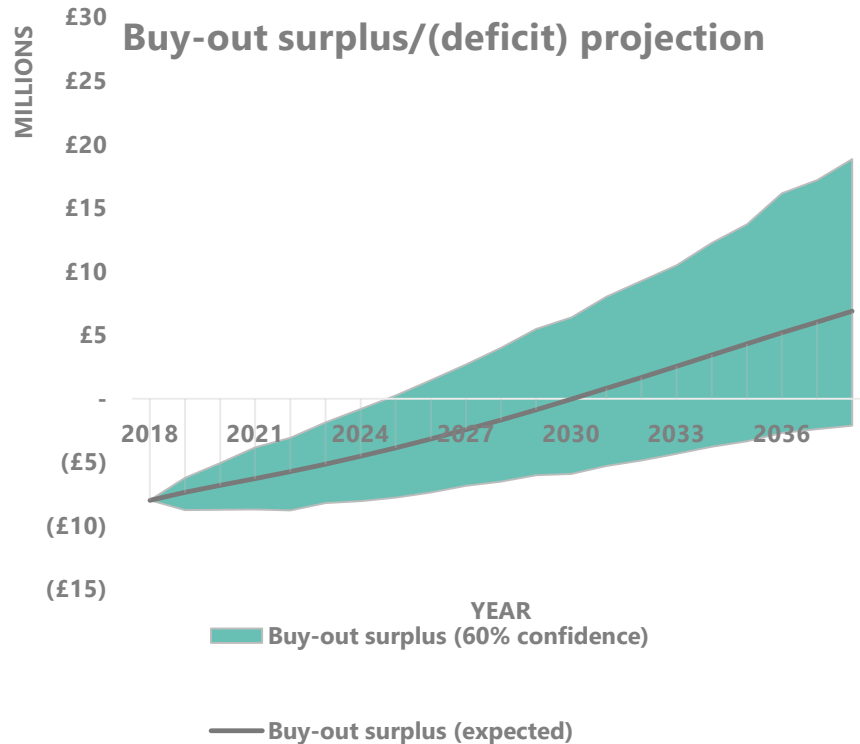


	Option 1
Investment strategy	25% equities
Employer contributions	None
When is the buy-out deficit expected to be removed?	15.5 years
Chance of reaching buy-out in 10 years	27%
Downside risk measure (1 in 5 worst deficit in 10 years)	£8m

Has this helped?

- Lower long term risk...
- ...but relying on the Employer for longer

Reducing risk and increasing contributions



	Option 2
Investment strategy	25% equities
Employer contributions	£150k pa indefinitely
When is the buy-out deficit expected to be removed?	12 years
Chance of getting there in 10 years	39%
Downside risk measure (1 in 5 worst deficit in 10 years)	£6.5m

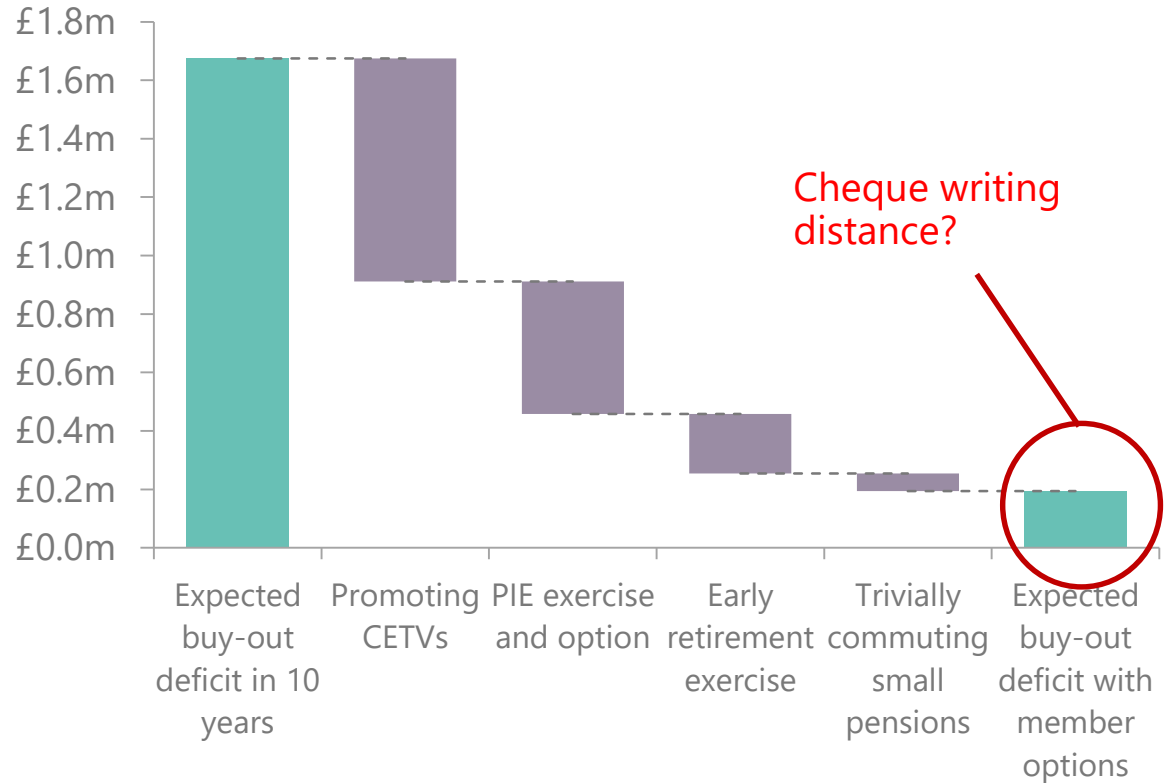
- Small regular contributions can have a big long term impact
- **Present a business case to the Employer**

Member options

Member options can be a “win-win”

- Members benefit from additional choice/information
- These options can be designed to be attractive to both members and the Scheme

Scheme can benefit from significant reduction in buy-out cost and risk



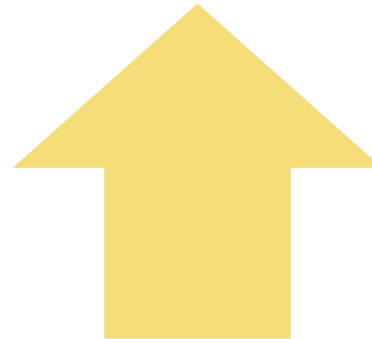
What if there is no solution?

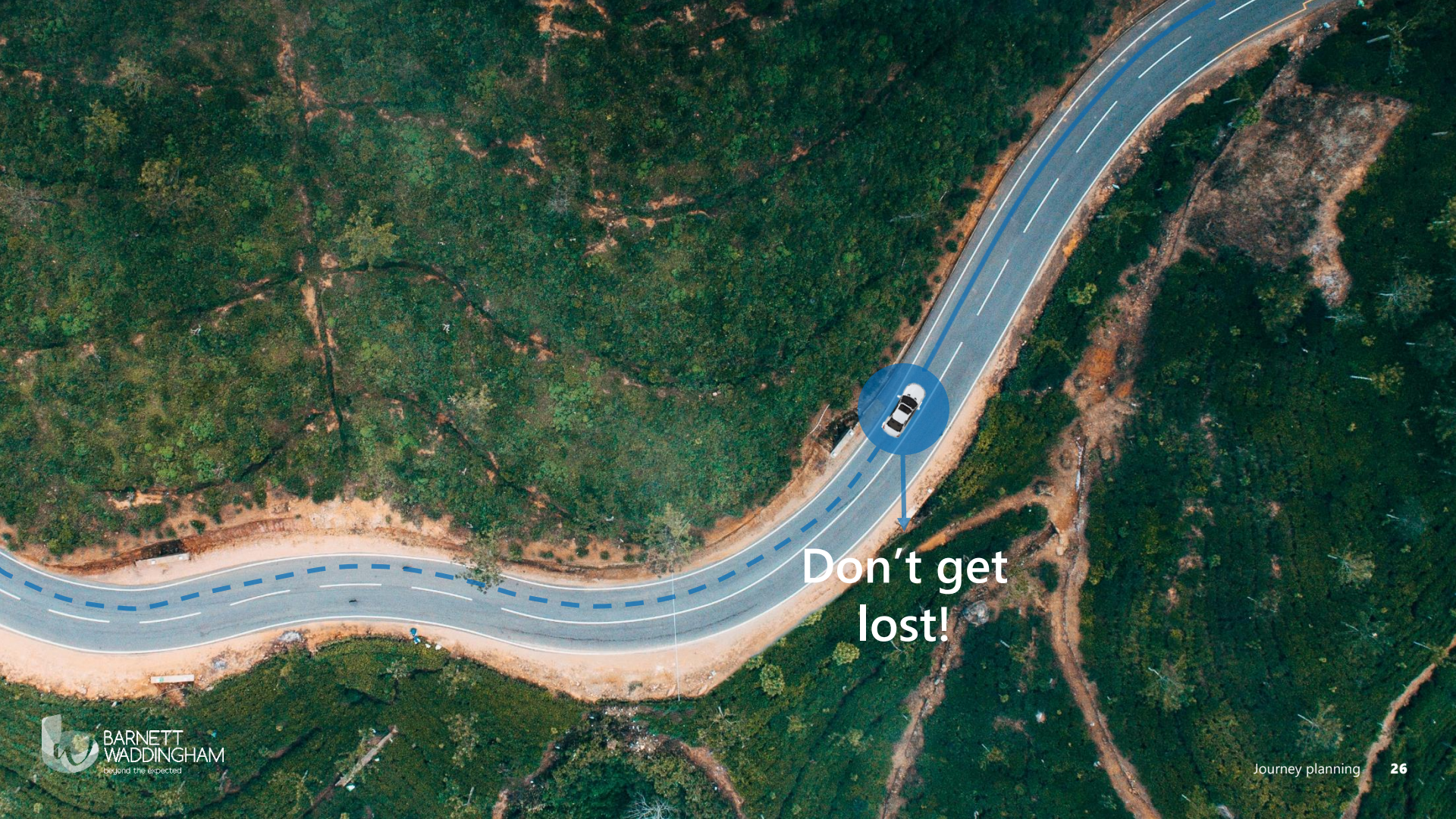


Maintain risk
and hope for
the best?



Reduce risk
and accept a
lower level of
benefits?





Don't get
lost!

Monitoring your strategy



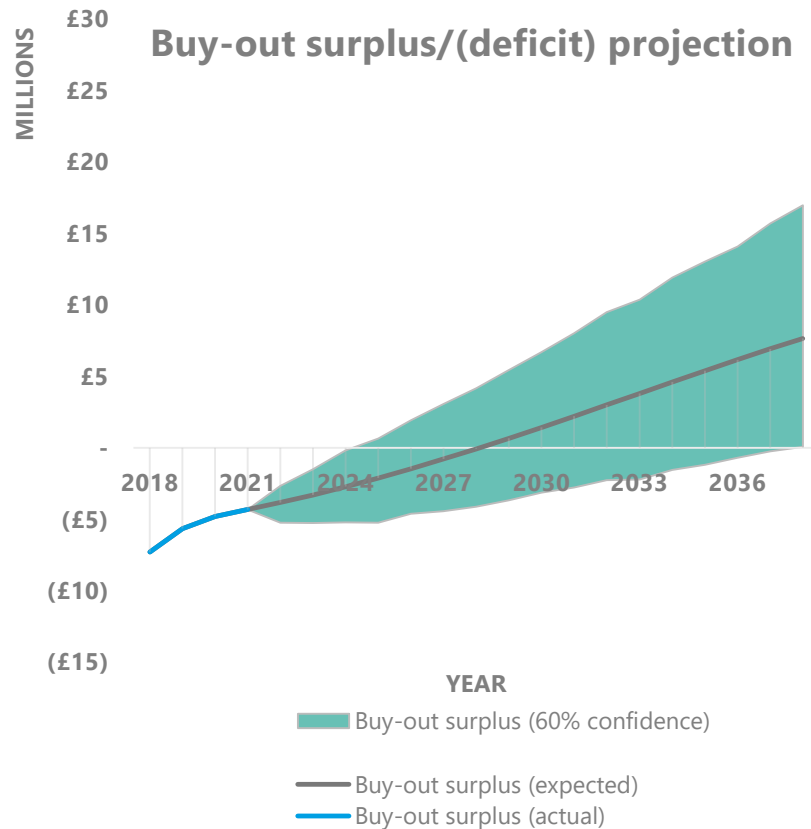
**Focus your
monitoring
framework on
your long term
objective**

Monitoring your strategy

	Strategy at start (2018)	2021 update
When is buy-out deficit is expected to be removed?	12 years	10 years
Chance of getting there in 10 years	39%	50%
Long term risk measure (1 in 5 worst deficit in 10 years)	£6.5m	£4m

Do I need to revise my plan? Is this an opportunity to de-risk?

- What are the pros/cons?



Contingency plan

Insolvency of employers

- Security over assets

Weakening covenant

- Support from wider group

Deteriorating funding

- Contribution triggers

And lots more!



Plan for
arriving

Planning for buy-out

- ✓ What is “cheque writing distance”?
- ✓ Consider scheme structure issues (e.g. salary linked benefits)
- ✓ Buy-out market engagement strategy
- ✓ Dressing for sale:
 - ✓ Scheme benefits – “insuring the appropriate benefits”
 - ✓ Membership data – “fit for transaction purposes”
 - ✓ GMP reconciliation and rectification
 - ✓ GMP equalisation



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Regulatory information

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