

PROJECT DE-RISK:

DB Journey Planning - a case study of navigating the twists and turns to reach a safe harbour

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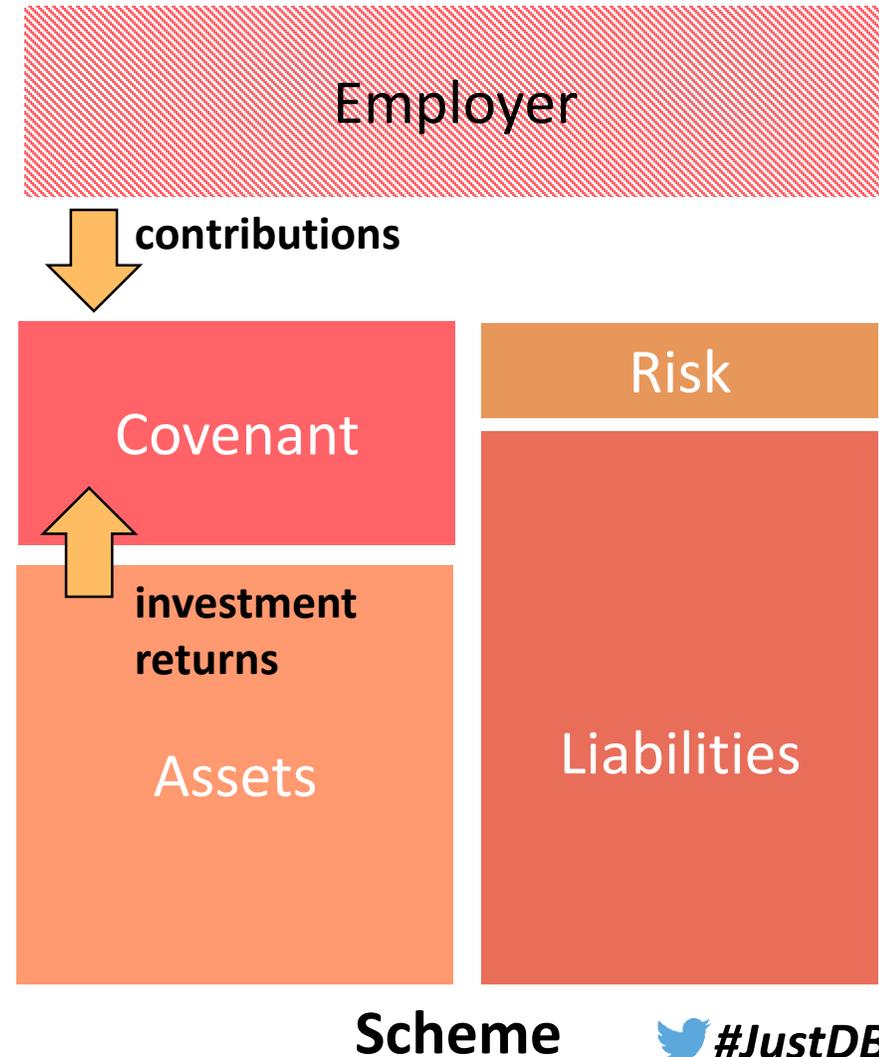
Journey Plan for this Session

- Does Covenant matter?
- Covenant in journey planning
- The Quilter Cheviot Retirement Benefits Scheme (QCRBS) experience
- Lessons from the QCRBS journey
- Questions?

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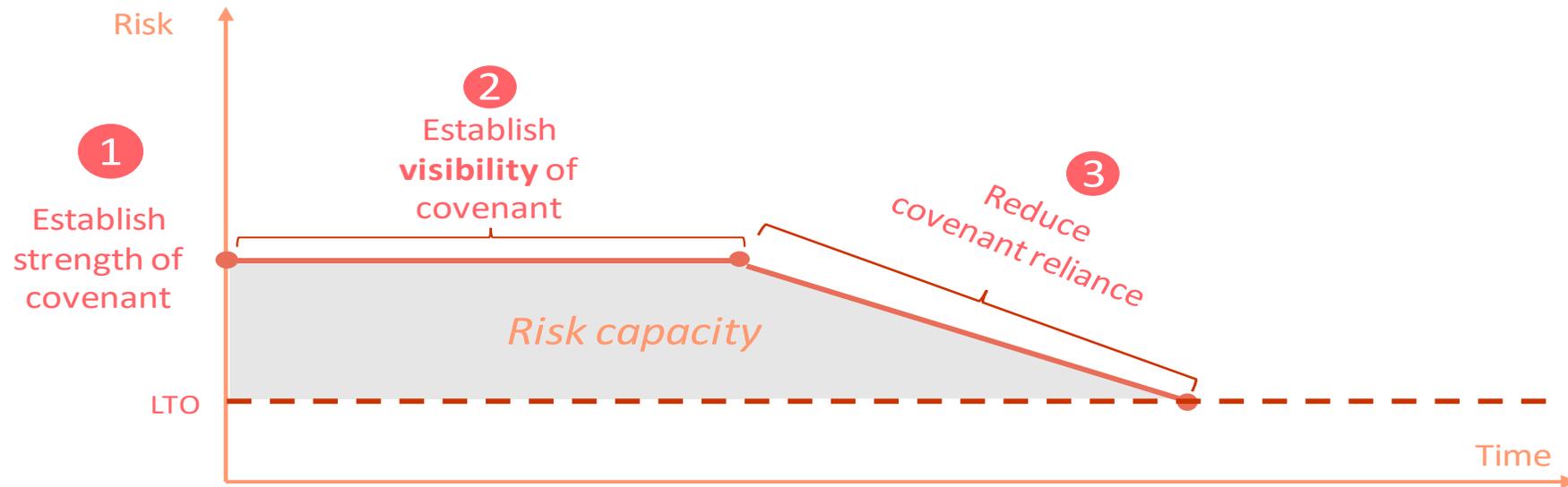
Does Covenant matter?

- Measure of the Employer's ability to underwrite scheme risks
- Funding levels change over time
- Employer contributions are required to fund benefits and address deficits
- Direct Covenant
 - Legally binding support
- Indirect Covenant
 - Support from wider group



Covenant in journey planning

- “Shape” of journey plan is influenced by the strength of the covenant
- Covenant support must be monitored to make sure the plan remains robust
- Material de-risking along the journey will need to take into account:
 - Any increase in risk exposure
 - Covenant support required after de-risking



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Covenant journey planning

Time to full funding

- Available cash for funding
- Covenant forecasting (structural risk in the sponsor)
- Support for investment risk over time
- Scheme cash flow needs
- Trustee plans for risk reduction over time
- Trustees' approach to risk

'Affordability pathway' forecasting future covenant progression and availability

Journey plan shape

- Analysis of optimal shape of journey plan
- Sponsor-specific underpin of risk from time to time
- Scheme specific need for funding time to time
- Scheme specific member maturity factors (i.e. % pensioner)
- Specific risk reduction / liability management steps taken into account
- Integrated monitoring

'Milestones and monitoring' to shape and manage the journey plan

Tasks	Covenant example
Buy-in	CRA
Longevity hedge	CRA
Closure (accrual)	Business case
Asset changes	Risk underpin & Quality
Contingent assets	Quality
Data & Benefit Cover	CRA

Covenant has a role in most steps along the journey plan

Funding target

Run-off

- Analysis of funding margin needed to ensure parity with insurer

Consolidator

- Comparison of sponsor and consolidator security
- Ability of covenant to fund any premium

Buy-out

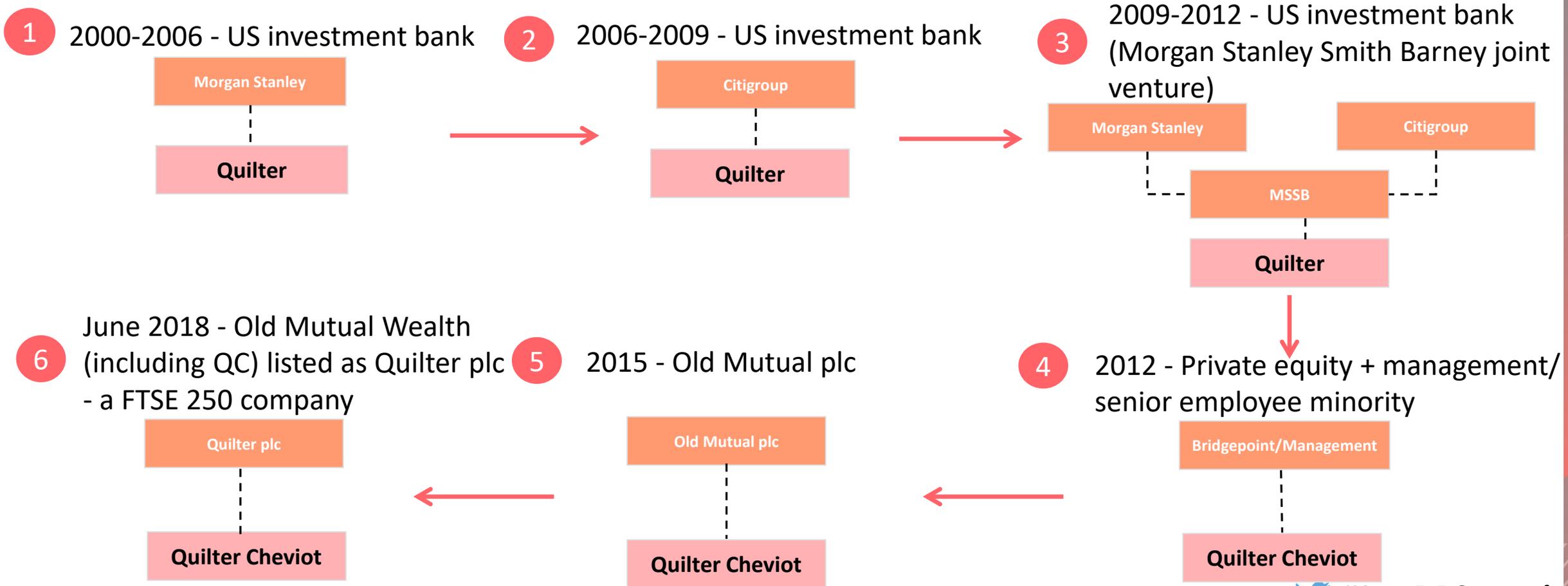
- Counterparty risk assessment
- Consideration of support compared to sponsor

'Choosing a target' relies entirely on an assessment of the long-term covenant expectation

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Changing covenant structure - Quilter Cheviot ownership

- Quilter has had six changes of ownership since it was sold by Commercial Union (now Aviva) in 2000



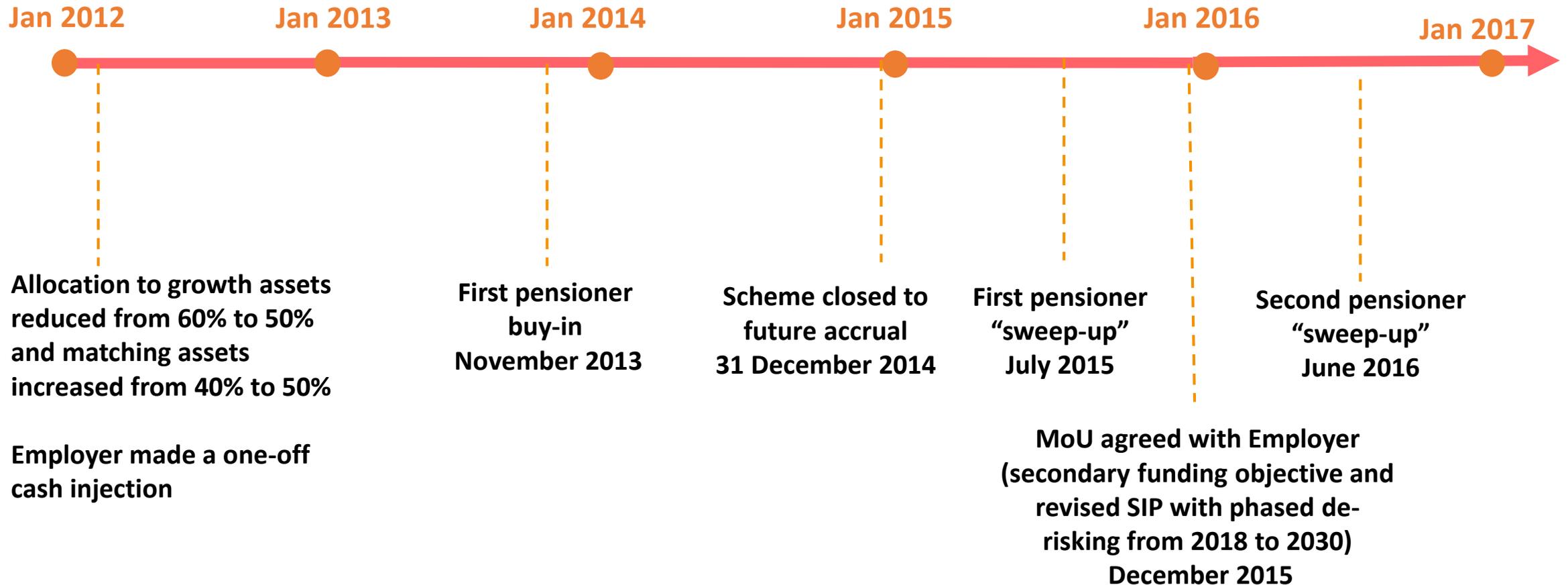
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Why did the Trustees seek independent covenant advice?

- Change to TPR guidance in 2009 after global financial crisis depleted pension scheme asset values and increased deficits
- Focus on “linkage” between Scheme funding/Covenant/Investment strategy
- Bridgepoint acquisition coincided with the Scheme’s 2012 actuarial valuation
- Acquisition resulted in a complex debt structure

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QCRBS de-risking journey plan



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Lessons from the QCRBS journey

- Agree a realistic target and journey plan with Sponsor
- Trustees' professional advisors will help set strategic objectives
- Maintaining a collaborative relationship with Sponsor is key
- De-risking is a learning process for Trustees and Employers - keep the plan under review
- Things can (and do) change very quickly - not only corporate structure/covenant but also individuals
- Take advantage of de-risking opportunities to accelerate the journey plan
- Member data needs to be "clean" - particularly if the target is a bulk annuity purchase

But journey rarely goes as planned - expect the unexpected!  [#JustDBSummit](https://twitter.com/JustDBSummit)

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