AMNT training day

Welcome and state of the nation’

Bob Scott

Partner

9 October 2018

Recent developments

What's happened in the last 4 weeks…

Pension tax relief will be cut to pay for the NHS, Chancellor expected to announce

PENSIONS

No ban yet on transfer fees

The financial watchdog stops short of taking action on unscrupulous advisers

Pensions minister exclusive: government 'committed' to dashboard

Social care

Meeting the cost

Theresa May ditches manifesto plan with 'dementia tax' U-turn

Prime minister accused of 'manifesto meltdown' but insists nothing has changed after introducing idea of cap on social care costs

IS IT TIME FOR THE CARE PENSION?

House of Commons Library

Social care: forthcoming Green Paper on older people and parallel programme (England)

The ACA survey, which was conducted over the summer and received responses from 349 employers of all sizes, found:

- **72% of employers say social care costs borne by individuals should be capped.**

Finance Act 2004

At a cost of £165 million by 2008, I will replace the eight existing tax schemes for pensions with a single lifetime allowance. I will set the allowance at £1.5 million for the first year of the scheme, from April 2006, and will set the allowance now for the years until 2010 when the figure will be £1.8 million.[1]

Tax receipts

Annual allowance charges

Year	Annual Allowance (4)	Number of Annual Allowance charges paid by the scheme through the Accounting for Tax return (1,3)	Total value of Annual Allowance charges paid by the scheme through the Accounting for Tax return (2,3)	Number of individuals reporting pension contributions exceeding their Annual Allowance through Self Assessment (1,3)	Total value of pension contributions exceeding the Annual Allowance reported through Self Assessment (2,3)
2006-07	£215,000	-	-	140	£2 m
2007-08	£225,000	-	-	230	£3 m
2008-09	£235,000	-	-	190	£8 m
2009-10	£245,000	-	-	170	£5 m
2010-11	£255,000	-	-	140	£6 m
2011-12	£50,000	1,920	£40 m	5,570	£148 m
2012-13	£50,000	1,290	£28 m	3,850	£95 m
2013-14	£50,000	2,540	£55 m	5,840	£178 m
2014-15	£40,000	2,890	£56 m	7,260	£183 m
2015-16	£40,000	1,720	£36 m	5,430	£143 m
2016-17	£40,000	2,340	£44 m	16,590	£517 m

September 2018

iii) The Self Assessment return does not include the value of tax charges resulting from pension saving in excess of the Annual Allowance. Estimates are not available for the value of tax charges resulting from pension saving in excess of the Annual Allowance reported on the Self Assessment return, as these are combined with all other income on the Self Assessment return, to calculate the tax liability.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/744161/Sept_2018_Personal_Pensions_publication.pdf

Tax receipts

Lifetime Allowance charges

Year	Lifetime Allowance	Number of Lump Sum Lifetime Allowance charges paid by the scheme through the Accounting for Tax return (55%) (1,4,5)	Total value of Lump Sum Lifetime Allowance charges paid by the scheme through the Accounting for Tax return (55%) (2,4,5)	Number of Non Lump Sum Lifetime Allowance charges paid by the scheme through the Accounting for Tax return (25%) (1,4,5)	Total value of Non Lump Sum Lifetime Allowance charges paid by the scheme through the Accounting for Tax return (25%) (2,4,5)	Number of all Lifetime Allowance charges paid by the scheme through the Accounting for Tax return (1,3,4)	Total value of all Lifetime Allowance charges paid by the scheme through the Accounting for Tax return (2,3,4)
2006-07	£ 1,500,000	50	£3 m	160	£1 m	210	£5 m
2007-08	£ 1,600,000	50	£1 m	160	£2 m	210	£3 m
2008-09	£ 1,650,000	100	£4 m	160	£3 m	260	£7 m
2009-10	£ 1,750,000	140	£8 m	140	£5 m	290	£13 m
2010-11	£ 1,800,000	160	£7 m	140	£5 m	300	£12 m
2011-12	£ 1,800,000	170	£11 m	190	£7 m	360	£18 m
2012-13	£ 1,500,000	220	£12 m	220	£8 m	440	£20 m
2013-14	£ 1,500,000	410	£25 m	520	£20 m	930	£45 m
2014-15	£ 1,250,000	360	£18 m	660	£26 m	1,020	£44 m
2015-16	£ 1,250,000	340	£26 m	840	£40 m	1,180	£66 m
2016-17	£ 1,000,000	490	£35 m	1,620	£67 m	2,120	£102 m

September 2018

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/744161/Sept_2018_Personal_Pensions_publication.pdf

Dashboard

It's really complex…

Brits say a Pensions Dashboard would help them save more, but robo-advice is a step too far for many, find LCP/YouGov

Limitations

Why haven't TPR "done better"?

142. **The Pensions Regulator's feeble response to the underfunding of Carillion's pension schemes was a threat to impose a contribution schedule, a power it had never—and has still never—used. The Regulator congratulated itself on a final agreement which was exactly what the company asked for the first few years and only incorporated a small uptick in recovery plan contributions after the next negotiation was due. In reality, this intervention only served to highlight to both sides quite how unequal the contest would continue to be.**

143. **The Pensions Regulator failed in all its objectives regarding the Carillion pension scheme. Scheme members will receive reduced pensions. The Pension Protection Fund and its levy payers will pick up their biggest bill ever. Any growth in the company that resulted from scrimping on pension contributions can hardly be described as sustainable. Carillion was run so irresponsibly that its pension schemes may well have ended up in the PPF regardless, but the Regulator should not be spared blame for allowing years of underfunding by the company. Carillion collapsed with net pension liabilities of around £2.6 billion and little prospect of anything being salvaged from the wreckage to offset them. Without any sense of irony, the Regulator chose this moment to launch an investigation to see if Carillion should contribute more money to its schemes. No action now by TPR will in any way protect pensioners from being consigned to the PPF.**

https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2017/carillion-inquiry-17-19/

TPR Future

The Regulator's new approach…

What will change?

The following key changes will take place as we operate using our new model:

All schemes will be clearer about what we expect of them. We will target our activity to address the biggest risks we identify and prioritise. We will use thematic reviews, surveys and consult with stakeholders to assess what we need to do to address the risks and set very clear expectations of those we regulate. Our expectations will be measurable and help us monitor progress towards tackling risk.

All schemes will be more likely to experience TPR regulatory interventions. As our directive campaigns are rolled out, schemes will experience significantly more intervention, with an expectation that improvement actions will be undertaken in a timely manner to reduce risks. This will be particularly apparent to DC schemes who to date have received little intervention.

DB schemes will experience an increased likelihood of TPR intervention concerning their annual valuations and the reduction of deficits. As we start to focus more intently on groups of schemes, more DB schemes will receive communications from us requesting specific improvements to be made.

We will continue to expand and improve our use of data to better target our supervisory activity on schemes and employers that present the greatest risk. Those we regulate will experience regular changes to the data requested in the scheme return and additional requests for information where unacceptable risk is perceived.

We will be a quicker, more proactive and tougher regulator. With good quality, comprehensive data readily to hand, we will be well placed to take proactive actions and to reach timely decisions.

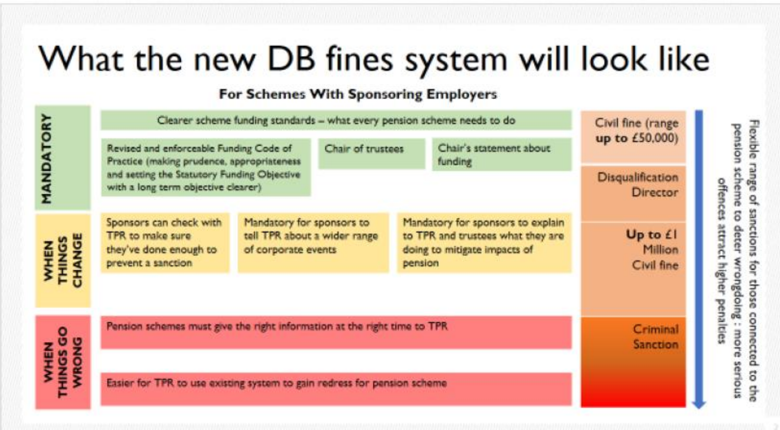
Source: http://www.thepensionsregulator.gov.uk/docs/tpr-future-making-workplace-pensions-work.pdf

The next Pensions Bill

Summer 2019?

We will:

- Strengthen the Regulator's ability to enforce Defined Benefit scheme funding standards, through a revised Code, focussing on:
  - how *prudence* is demonstrated when assessing scheme liabilities;
  - what factors are *appropriate* when considering recovery plans; and
  - ensuring a *long-term* view is considered when setting the statutory funding objective.
- Require the trustees of Defined Benefit pension schemes to appoint a Chair and for that Chair to report to the Regulator in the form of a Chair's Statement, submitted with the scheme's triennial valuation.



Royal Mail and CWU agree to introduce UK's first CDC scheme

Royal Mail and CWU agree in principal to set up CDC scheme subject to legislative changes

The Pension SuperFund

CLARA

Intergenerational issues

How to shift the balance

Use of our work

Bob Scott

Partner

020 7432 6605

Bob.scott@lcp.uk.com

Prepared on 9 October 2018

This generic presentation should not be relied upon for detailed advice or taken as an authoritative statement of the law. If you would like any assistance or further information, please contact the partner who normally advises you. While this document does not represent our advice, nevertheless it should not be passed to any third party without our formal written agreement.

Our experts work in pensions, investment, insurance, energy and employee benefits.

Join us at our next event **www.lcp.uk.com/events**

Share our insights and opinions on our viewpoint **www.lcp.uk.com/our-viewpoint**

Watch and listen to our comments on topical issues **Our YouTube channel**

Connect with us for updates **@LCP_actuaries**

LinkedIn

LCP INSIGHT CLARITY ADVICE

AMNT training day

Helping DB members make better decisions

Damian Bailey, FIA
Senior Consultant
9 October 2018

Pensions transfers are a hot topic

Pension transfers almost triple in 2017

FT ADVISER

Why now is the time to cash in your final salary pension

The Telegraph

Factory gate 'vultures' feast on British Steel pensions

Thousands of workers cheated by unscrupulous advisers, MPs warn

THE TIMES

BBC RADIO 4 Money Box

Home Episodes Clips Podcast Presenters

Money Box Live: Pension trans

Three years ago pension freedoms were introduced, allowing millions of people to transfer out of their Defined Benefit schemes and cash in their savings. The appetite for transferring appears to have grown...

BBC News Sport Weather iPlayer TV Rad

NEWS

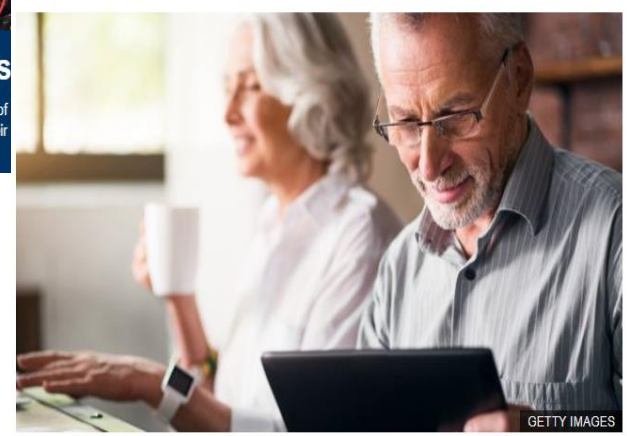
Home UK World Business Politics Tech Science Health Family & Education

Business Your Money Market Data Companies Economy

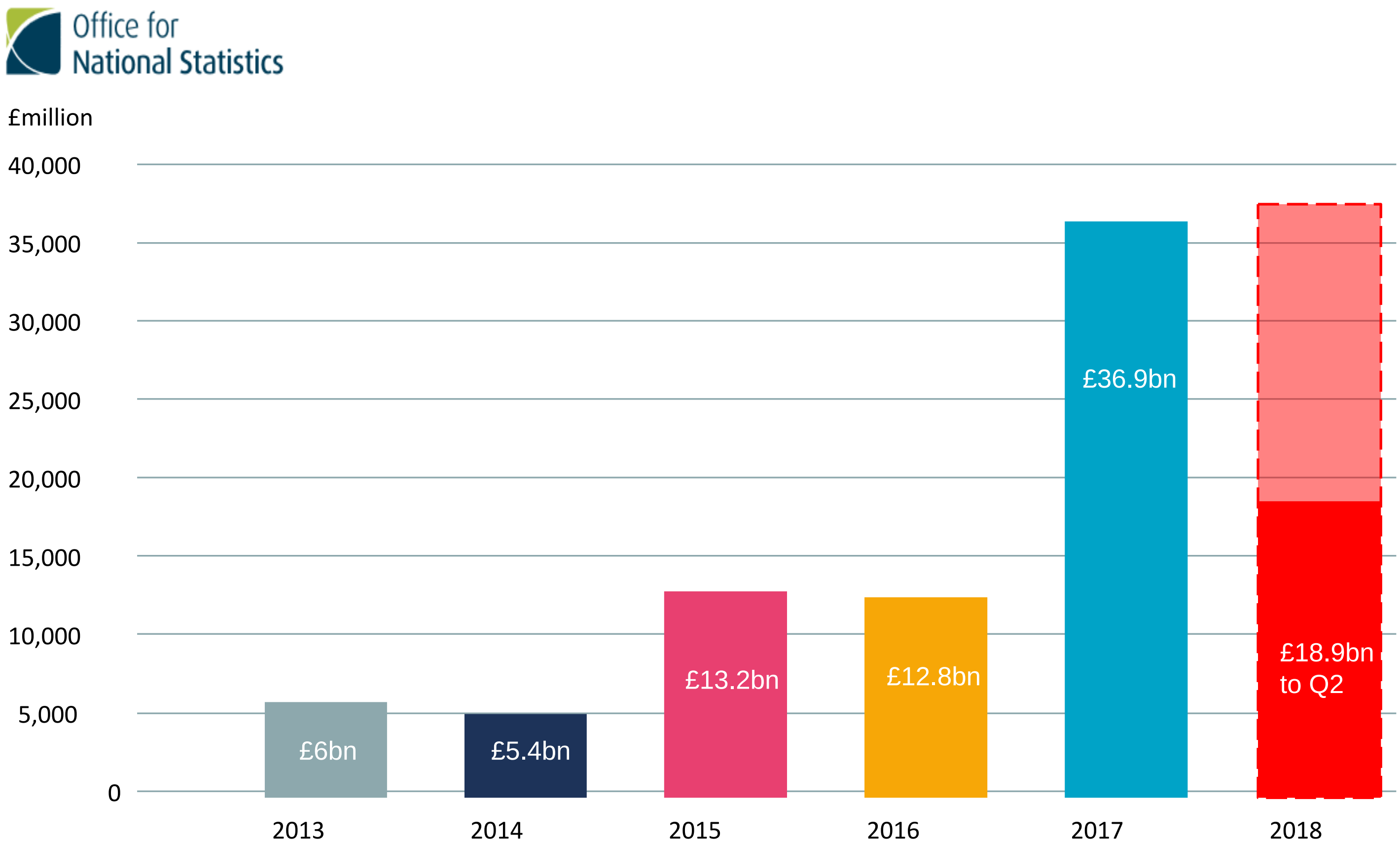
Pension transfers 'too generous', says regulator

29 August 2018

Share

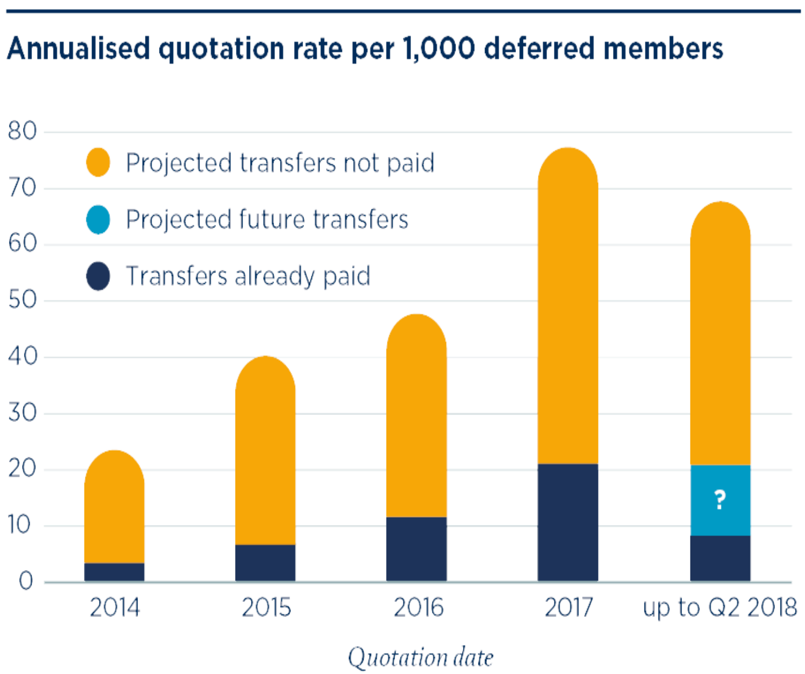


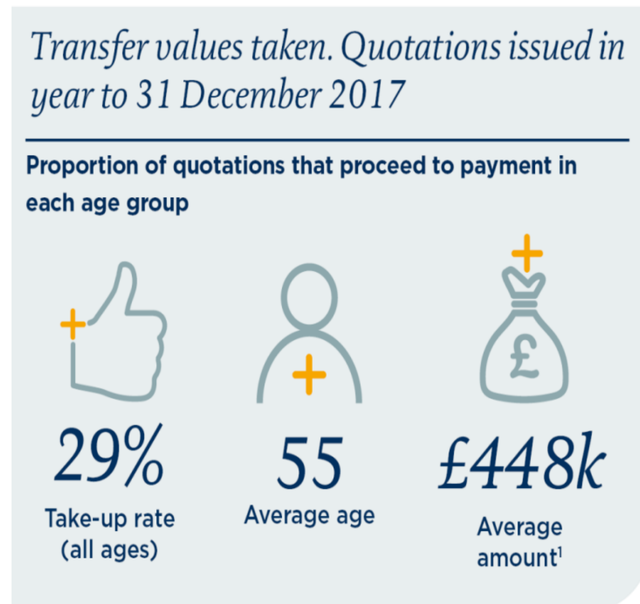
Transfers out to other pension schemes getting more popular



Source: Office for National Statistics September 2018

LCP transfer survey - current transfer activity





The risks

British Steel pension scheme members 'preyed on' by financial firms

The Guardian UK edition

MPs hear claims that financial advisers are targeting steelworkers so they can pocket huge fees

New Model Adviser

British Steel: we served sausages, not chicken says introducer

- We have seen initial charges of **up to 4%** of transfer values as part of a contingent charging arrangements.
- We have also seen some in-house investment vehicles with annual charges of **up to 2% p.a..**
- Both of these types of charging arrangements eat into member's pensions savings significantly leaving less for the member.

Regulators are playing catch up


FINANCIAL CONDUCT AUTHORITY

Advising on Pension Transfers – feedback on CP17/16 and final rules and guidance

Policy Statement
PS18/6

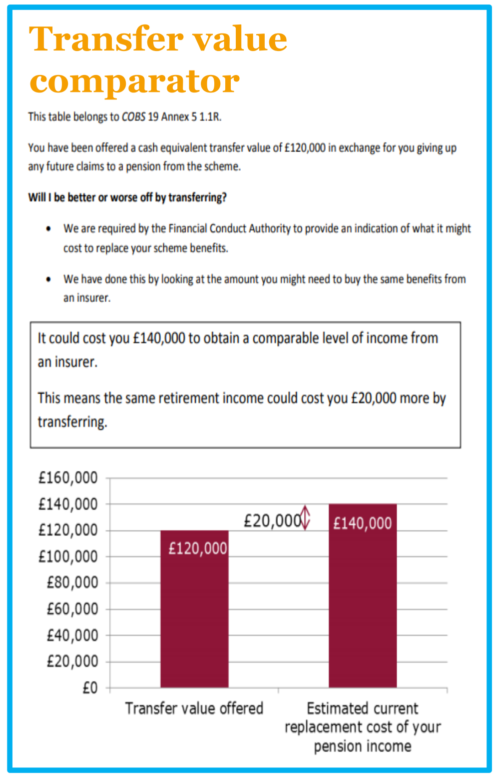
March 2018

FINANCIAL CONDUCT AUTHORITY

Improving the quality of pension transfer advice

Consultation Paper
CP18/7**

March 2018


Transfer value comparator

This table belongs to *COBS* 19 Annex 5 1.1R.

You have been offered a cash equivalent transfer value of £120,000 in exchange for you giving up any future claims to a pension from the scheme.

Will I be better or worse off by transferring?

- We are required by the Financial Conduct Authority to provide an indication of what it might cost to replace your scheme benefits.
- We have done this by looking at the amount you might need to buy the same benefits from an insurer.

It could cost you £140,000 to obtain a comparable level of income from an insurer.

This means the same retirement income could cost you £20,000 more by transferring.


Don't let a scammer enjoy your retirement

Find out how pension scams work, how to avoid them and what to do if you suspect a scam.

Scammers can be articulate and financially knowledgeable, with credible websites, testimonials and materials that are hard to distinguish from the real thing. Scammers design attractive offers to persuade you to transfer your pension pot to them or to release funds from it. It is then invested in unusual and high-risk investments like overseas property, renewable energy bonds, forestry, storage units, or simply stolen outright.

Scam tactics include:

- contact out of the blue
- promises of high / guaranteed returns
- free pension reviews
- access to your pension before age 55
- pressure to act quickly

If you suspect a scam, report it

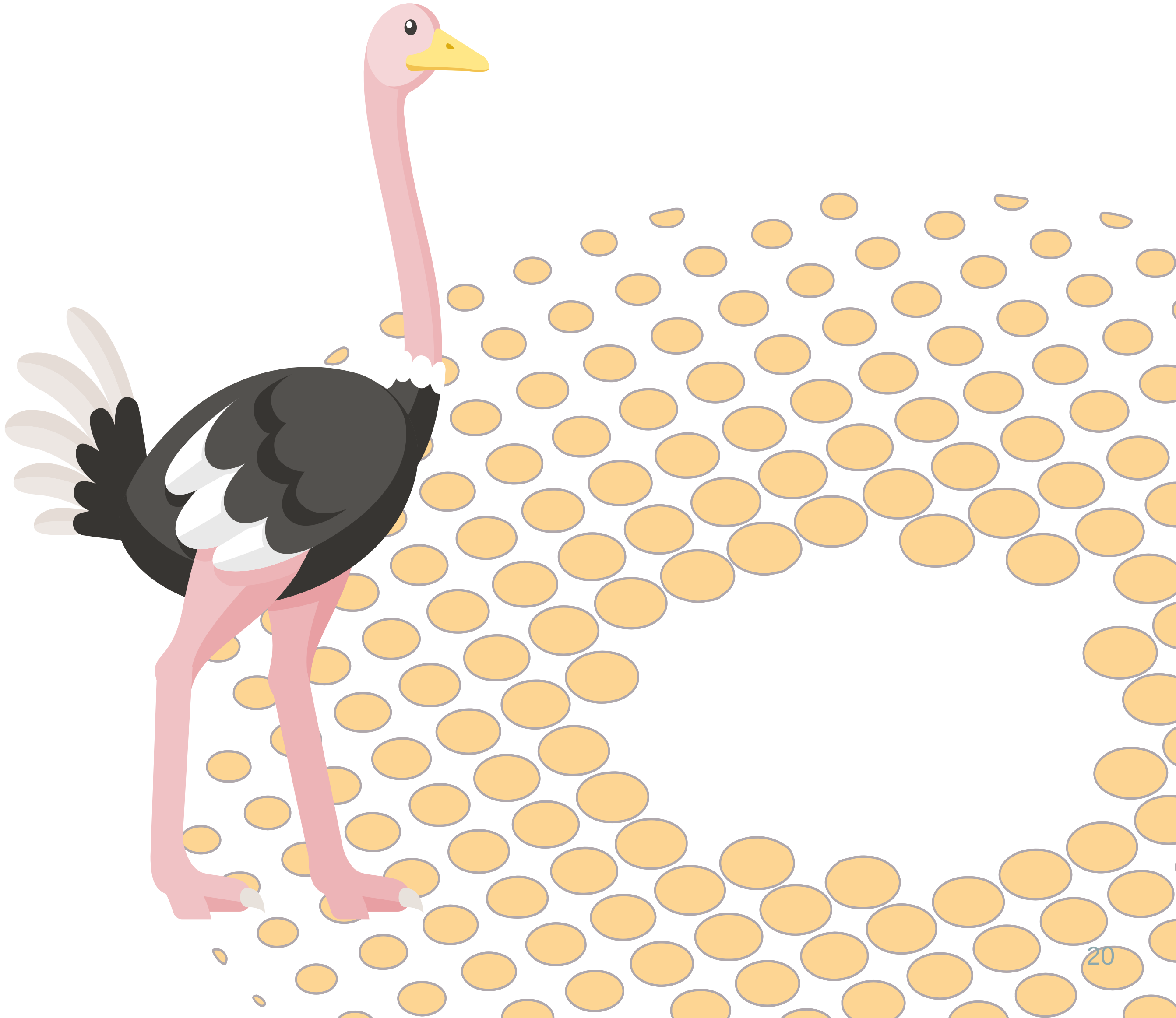
- Report to the Financial Conduct Authority (FCA) by contacting their Consumer Helpline on 0800 111 6768 or using the reporting form at www.fca.org.uk
- Report to Action Fraud on 0300 123 2040 or at www.actionfraud.police.uk
- If you're in the middle of a transfer, contact your provider immediately and then get in touch with The Pensions Advisory Service (TPAS) at www.thepensionsadvisoryservice.org.uk

www.fca.org.uk/scamsmart

What should trustees do?

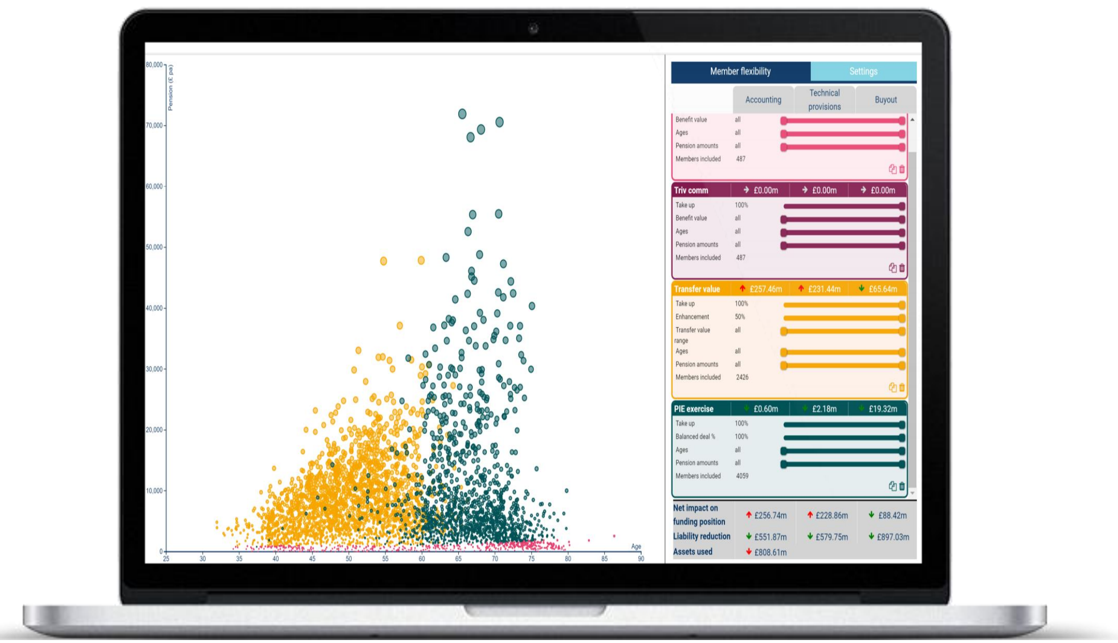
What should trustees do?

1. Understand your membership
2. Revisit the options your scheme offers
3. Review your scheme communications
4. Consider appointing an independent financial adviser
5. Look at how and when you communicate



Understand your membership

Look at your numbers



Think about your people

Source: LCP Focus - http://focus.lcp.uk.com

Look at the options your scheme offers

LCP INSIGHT CLARITY ADVICE

LCP Survey: How do DB schemes communicate retirement options?

15% offer partial DB transfer value

10% offer "reshaping options" but only half communicate them

10% schemes write to members before normal pension age

5% provide access to named IFA

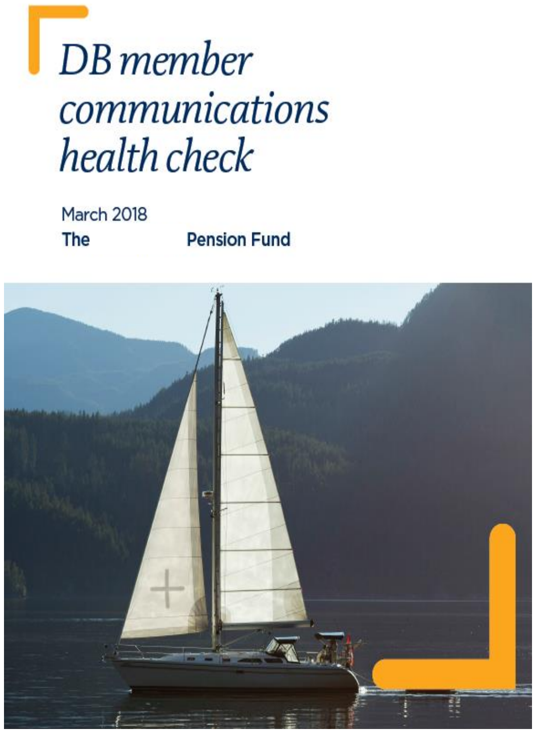
Nearly **100%** offer early retirement but **80%** don't highlight it

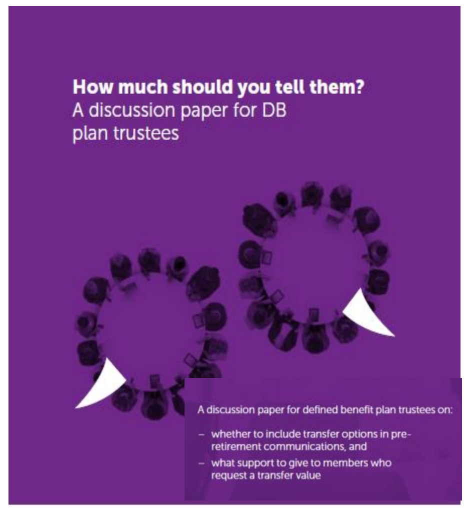
30% quote transfer values at normal pension age (up from 20% in 2015)

https://www.lcp.uk.com/pensions-benefits/publications/survey-how-do-db-schemes-communicate-with-members/

Source: LCP Survey: How do DB schemes communicate retirement options? - August 2017

Review your scheme communications





EVERSHEDS SUTHERLAND

ROYAL LONDON

Consider appointing a pension specialist independent financial adviser

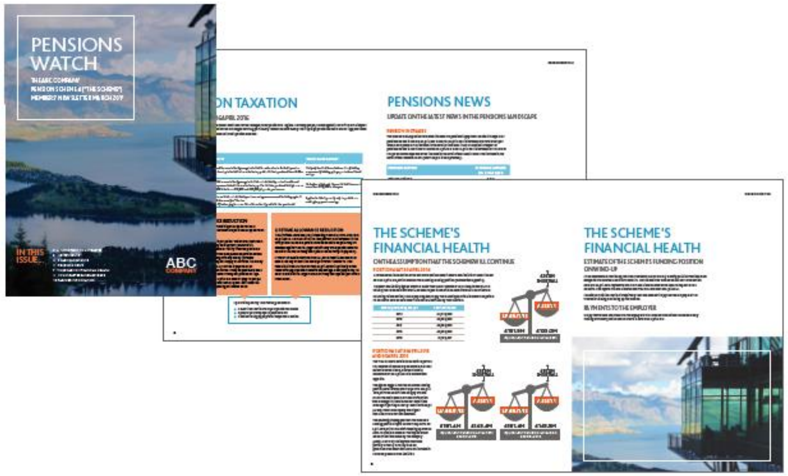
- We are seeing more schemes starting to retain a pension specialist financial adviser.

- They will often be cheaper for the scheme and cheaper for members:
  - No up front contingent charges and
  - No additional annual charges on funds under management

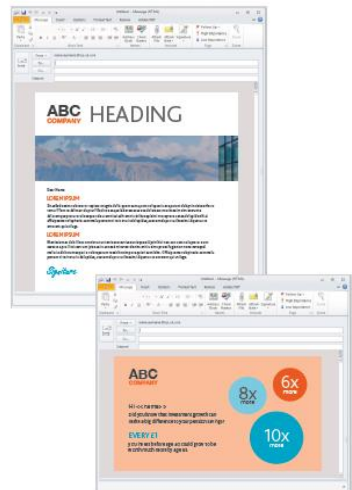
- But these pension specialists are getting booked up
  - our latest information is that some of these specialist IFAs are now booked up until Q3 next year

Use your full suite of communications

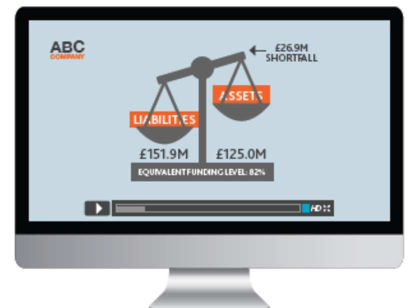
Booklets and leaflets



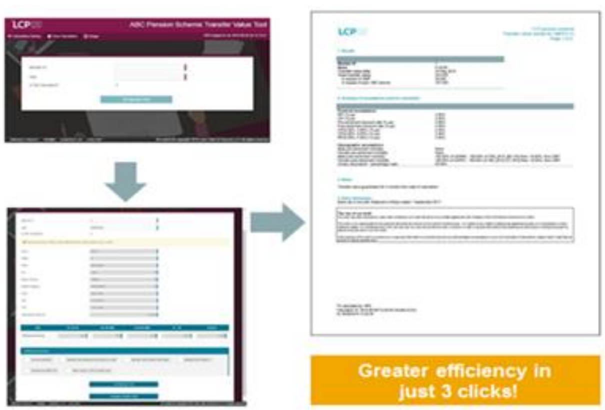
Websites and digital



Videos and mobile



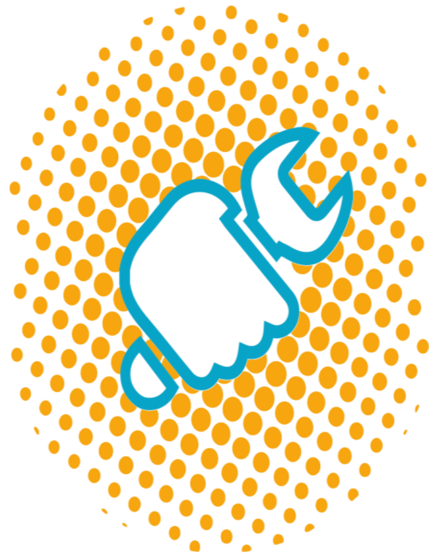
Interactive modellers



Member self-service

Conclusion

Communications should be clear, timely and actionable



Members should feel empowered to take the decision which is right for them

Trustees should be bold enough to help members make these decisions

Use of our work

Damian Bailey, FIA

Senior Consultant

01962 873357

damian.bailey@lcp.uk.com

Prepared on 8 October 2018

This generic presentation should not be relied upon for detailed advice or taken as an authoritative statement of the law. If you would like any assistance or further information, please contact the partner who normally advises you. While this document does not represent our advice, nevertheless it should not be passed to any third party without our formal written agreement.

Our experts work in pensions, investment, insurance, energy and employee benefits.

Join us at our next event **www.lcp.uk.com/events**

Share our insights and opinions on our viewpoint **www.lcp.uk.com/our-viewpoint**

Watch and listen to our comments on topical issues **Our YouTube channel**

Connect with us for updates **@LCP_actuaries**

LinkedIn

AMNT training day

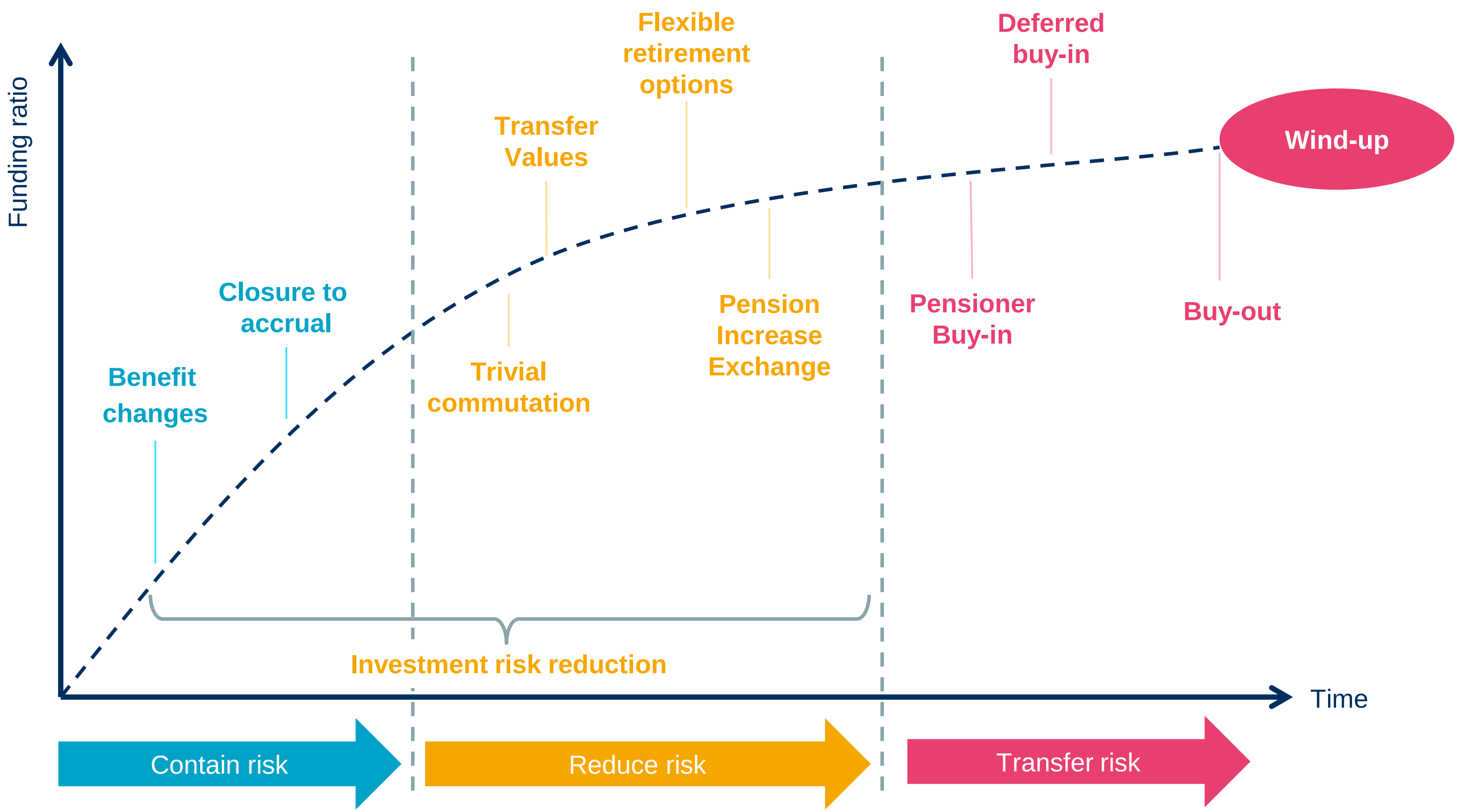
Supporting members through their retirement options – liability management exercises

Clive Harrison, FIA

Partner

9 October 2018

The risk management journey



Which exercises might the sponsor propose?

The most effective way to manage risk will be driven by the membership

Source: LCP Focus - http://focus.lcp.uk.com

Transfer value exercise

Keeping money in family, university, child's wedding, holiday, new car, second house

Plan Pension

£15k pa

Partial transfer

£7k pa Plan pension
+ £50k tax-free
+ £100k transfer

Full transfer out

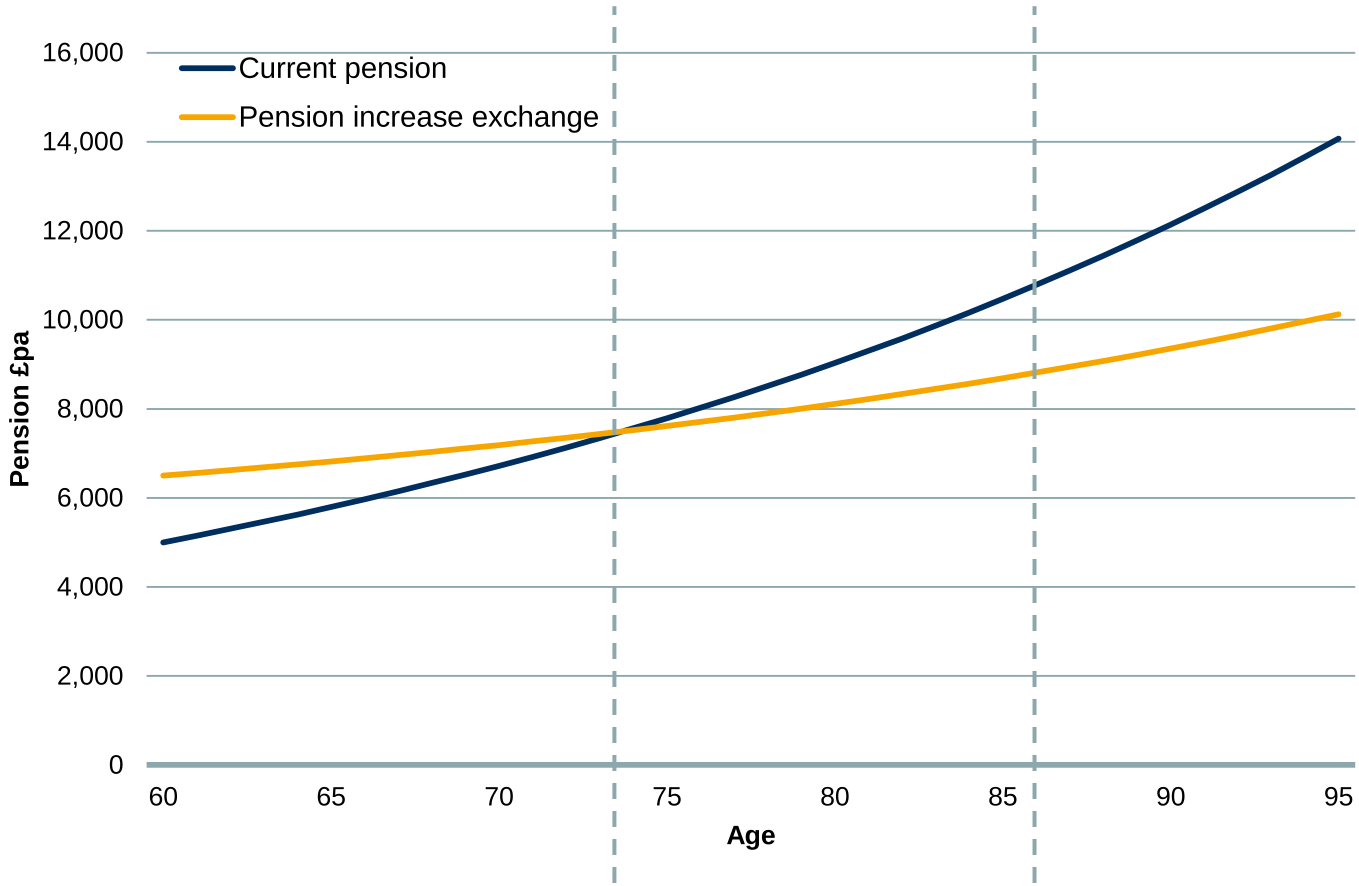
£300k TV

- Members can access new pension flexibilities
- Allows member to re-shape their benefits
- Can give higher Tax Free Cash Sum

- Shrinks the pension scheme
- Reduces risk and improves deficit
- Reduces PPF levy and admin costs
- Reduces the eventual cost of buyout

The Transfer Value option will be more attractive to members who want to benefit from the increased flexibility now available under the new Pension Freedoms

Pension increase exchange



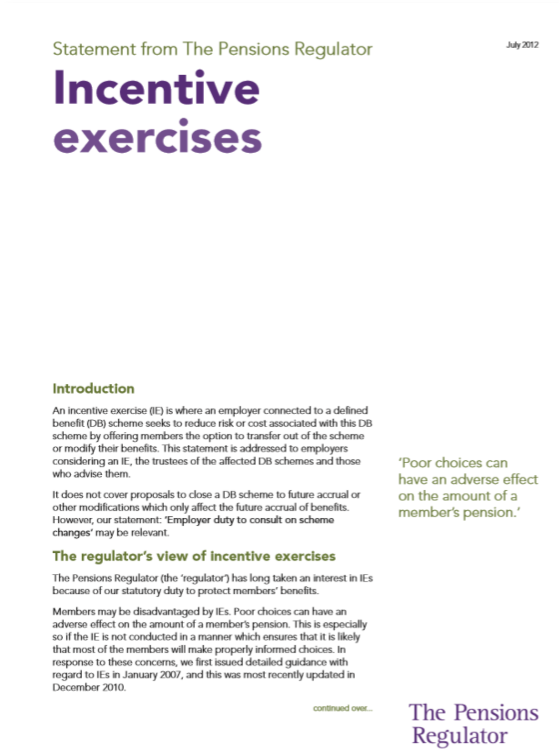
Annual payment crossover – age at which increasing pension pa becomes greater

“Breakeven” – point at which the cumulative value of the two payment options is equal

Benefit for members
- Higher pension while younger
- More tax free cash at retirement?
- More predictable pension
- Guidance or advice provided

Benefit for company
- Reduces risk
- Less exposure to inflation and life expectancy
- Can reduce deficit
- Makes buy-in more affordable
- P&L credit

Guidance relevant to member option exercises



Statement from The Pensions Regulator

July 2012

Incentive exercises

Introduction

An incentive exercise (IE) is where an employer connected to a defined benefit (DB) scheme seeks to reduce risk or cost associated with this DB scheme by offering members the option to transfer out of the scheme or modify their benefits. This statement is addressed to employers considering an IE, the trustees of the affected DB schemes and those who advise them.

It does not cover proposals to close a DB scheme to future accrual or other modifications which only affect the future accrual of benefits. However, our statement: '**Employer duty to consult on scheme changes**' may be relevant.

The regulator's view of incentive exercises

The Pensions Regulator (the 'regulator') has long taken an interest in IEs because of our statutory duty to protect members' benefits.

Members may be disadvantaged by IEs. Poor choices can have an adverse effect on the amount of a member's pension. This is especially so if the IE is not conducted in a manner which ensures that it is likely that most of the members will make properly informed choices. In response to these concerns, we first issued detailed guidance with regard to IEs in January 2007, and this was most recently updated in December 2010.

continued over...

'Poor choices can have an adverse effect on the amount of a member's pension.'

The Pensions Regulator

The Code of Practice for Incentive Exercises

Search...

HOME ABOUT THE CODE OF PRACTICE CONTACT US SUPPORTERS OF THE PRINCIPLES Q&A

2016 Review of the Code

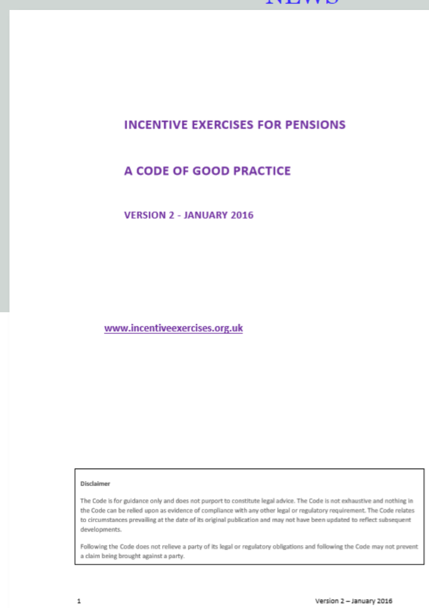
The Code of Good Practice on Incentive Exercises was launched in June 2012 and we were tasked with monitoring the effectiveness of the Code over a three-year period and with recommending action to government, whether to continue the Code unchanged, amend it to address the evolving market or to set it aside in favour of legislation.

It has been gratifying to see the Code well received by the industry. The interest shown in understanding how the Code should be applied in different circumstances through attendance at IE Industry Forums and questions asked of members of the IE Monitoring Board and through our website, has been encouraging. It is clear that trustees and employers want to comply with the Code, despite its voluntary nature, and we believe that the Code has resulted in better behaviours, better run exercises and less risk of members being disadvantaged.

The review process was carried out in the main by the small group of dedicated experts, the Technical Group of the Board and through consultation with the IE Industry Forum and guidance from the Board. What we realised early on was that the Principles of the Code resulted in positive behaviours and that change or withdrawal of those Principles could risk a decline in good practice. We therefore saw no need to change the Principles themselves, but to update the body of the Code to reflect the changing environment. We also decided to introduce Boundary Examples to help illustrate how the Code could and should be applied in practice. The revised Code was published in January 2016.

Why a Code?

NEWS



INCENTIVE EXERCISES FOR PENSIONS

A CODE OF GOOD PRACTICE

VERSION 2 - JANUARY 2016

www.incentiveexercises.org.uk

Disclaimer

The Code is for guidance only and does not purport to constitute legal advice. The Code is not exhaustive and nothing in the Code can be relied upon as evidence of compliance with any other legal or regulatory requirement. The Code relates to circumstances prevailing at the date of its original publication and may not have been updated to reflect subsequent developments.

Following the Code does not relieve a party of its legal or regulatory obligations and following the Code may not prevent a claim being brought against a party.

1 Version 2 – January 2016

FCA FINANCIAL CONDUCT AUTHORITY

Improving the quality of pension transfer advice

Consultation Paper

CP18/7**

March 2018

Pensions Regulator guidance

How should trustees deal with a proposal?

- Trustees should start from the presumption that such exercises and transfers are not in most members' interests, and they should therefore approach any exercise cautiously and actively
- Trustees should engage in the offer process and apply a high level of scrutiny to all incentive exercises to ensure members' interests are protected
- Trustees should be consulted from the start with any concerns alleviated before progressing
- Conflicts of interest should be appropriately addressed

www.thepensionsregulator.gov.uk/docs/incentive-exercises-statement-july-2012.pdf

The Industry Code of Good Practice for incentive exercises

- In June 2012 an industry Code of Practice for incentive exercises was published.
  This was updated and revised in February 2016

- Aim is to improve the standard of incentive exercises while preserving such exercises as a legitimate tool for sponsors to help manage pension liabilities

- It is a voluntary Code, but typically expected to be followed, and we expect sponsor will wish to show compliance if proceeding with an incentive exercise.

Seven key principles:

✓ All parties involved should know their roles and responsibilities and act in good faith

✓ Communications should be fair, clear, unbiased and straightforward

✓ No cash incentives should be included to take-up offer (although enhancements to transfer values are acceptable)

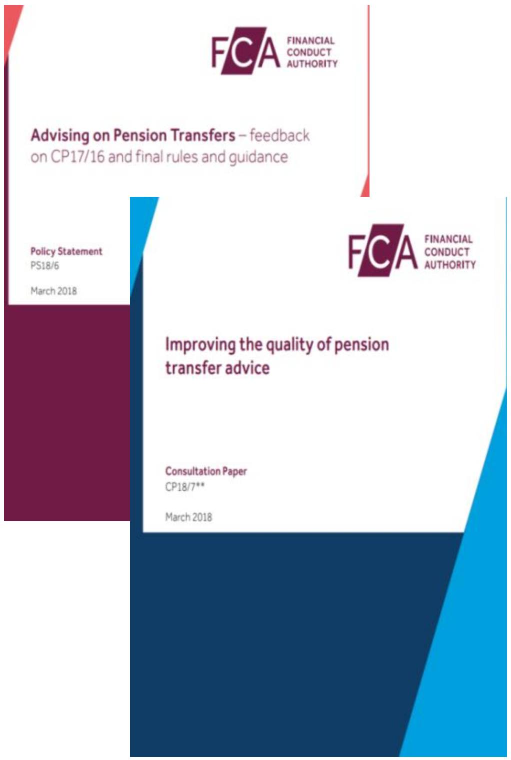
✓ Sufficient time given to members, and no undue pressure (at least 3 months to make a decision with at least 2 weeks to consider final advice)

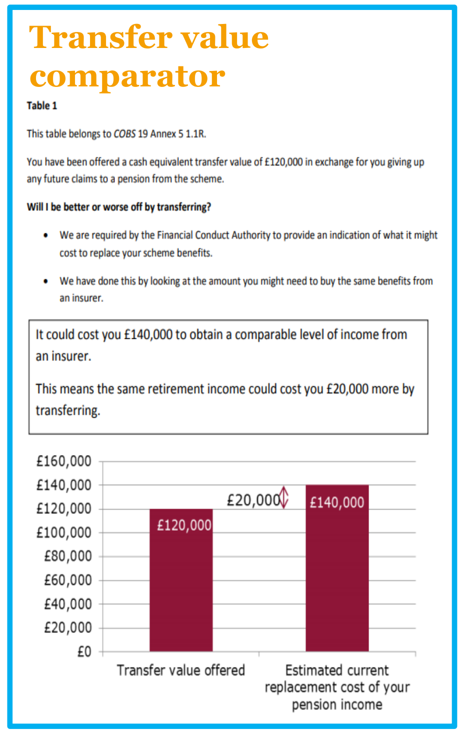
✓ Where an offer is time-limited, IFA advice should be paid for by the employer

✓ Good record keeping, with reporting of insistent customers (ie for those members acting against the advice they receive)

✓ Over 80s need to opt-in, and vulnerable client procedures should be in place (eg face to face advice may be required in special circumstances)

Financial Conduct Authority





Transfer value comparator

Table 1

This table belongs to *COBS* 19 Annex 5 1.1R.

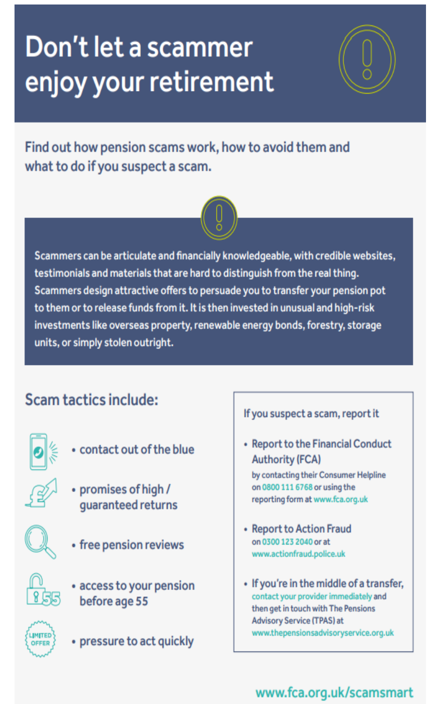
You have been offered a cash equivalent transfer value of £120,000 in exchange for you giving up any future claims to a pension from the scheme.

Will I be better or worse off by transferring?

- We are required by the Financial Conduct Authority to provide an indication of what it might cost to replace your scheme benefits.
- We have done this by looking at the amount you might need to buy the same benefits from an insurer.

It could cost you £140,000 to obtain a comparable level of income from an insurer.

This means the same retirement income could cost you £20,000 more by transferring.



Don't let a scammer enjoy your retirement

Find out how pension scams work, how to avoid them and what to do if you suspect a scam.

Scammers can be articulate and financially knowledgeable, with credible websites, testimonials and materials that are hard to distinguish from the real thing. Scammers design attractive offers to persuade you to transfer your pension pot to them or to release funds from it. It is then invested in unusual and high-risk investments like overseas property, renewable energy bonds, forestry, storage units, or simply stolen outright.

Scam tactics include:

- contact out of the blue
- promises of high / guaranteed returns
- free pension reviews
- access to your pension before age 55
- pressure to act quickly

If you suspect a scam, report it

- Report to the Financial Conduct Authority (FCA) by contacting their Consumer Helpline on 0800 111 6768 or using the reporting form at www.fca.org.uk
- Report to Action Fraud on 0300 123 2040 or at www.actionfraud.police.uk
- If you're in the middle of a transfer, contact your provider immediately and then get in touch with The Pensions Advisory Service (TPAS) at www.thepensionsadvisoryservice.org.uk

www.fca.org.uk/scamsmart

Trustees responsibilities

Understand the offer terms

Data quality and gaps

Scheme Rules

Fair, clear, unbiased communication

IFA selection?

Administration resource

Investment strategy and cashflows (eg LDI)

GDPR and data sharing

Vulnerable members

Overseas members

Equality across membership?

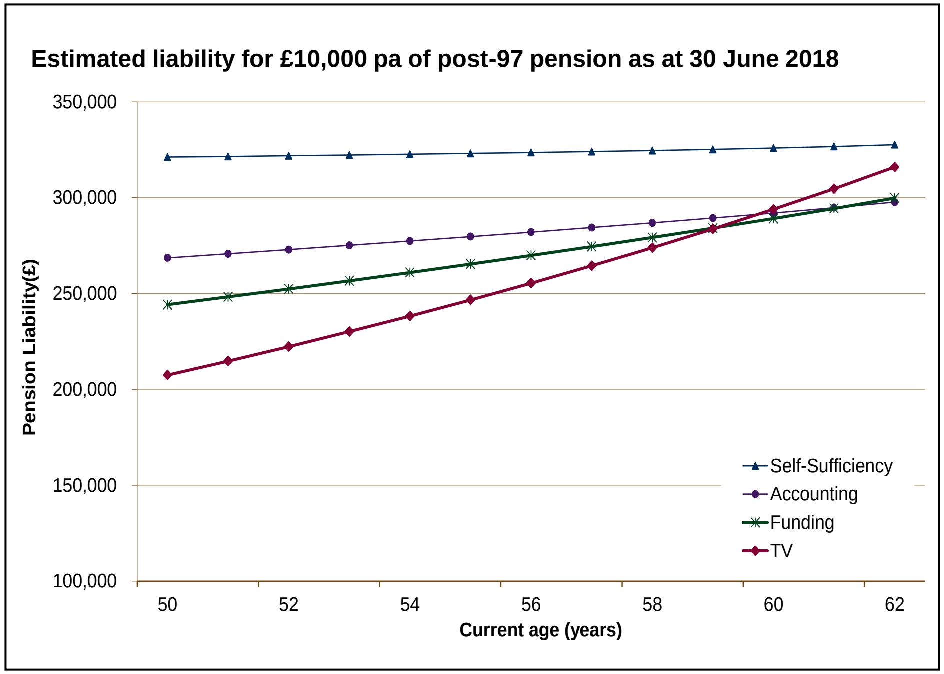
Pensions taxation?

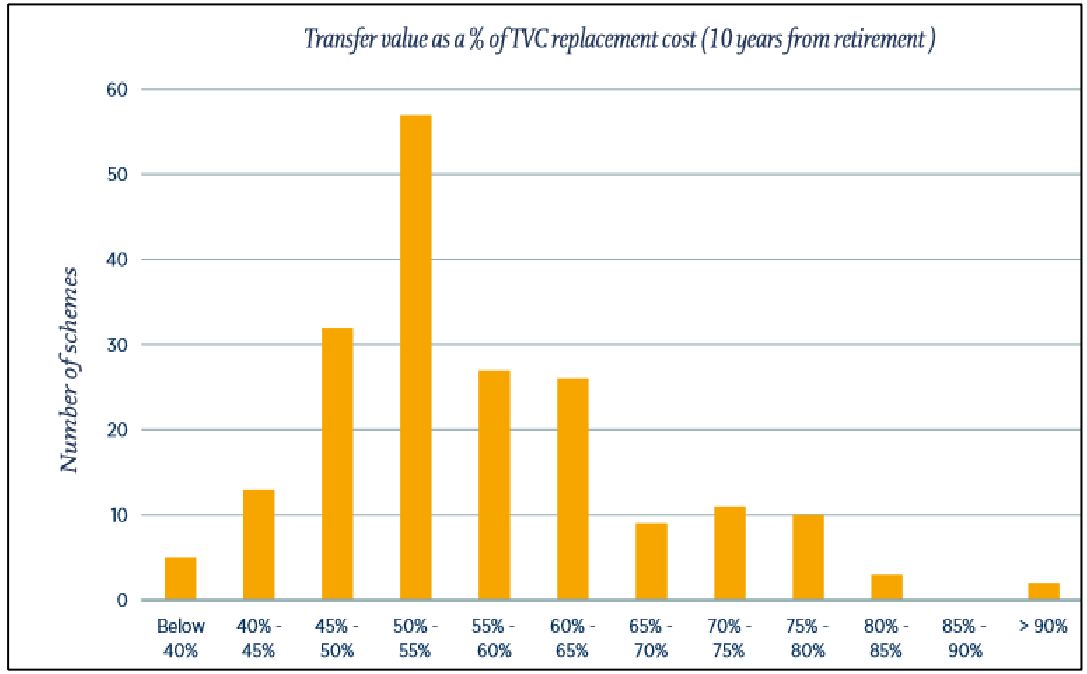
Which exercises might the sponsor propose?

The most effective way to manage risk will be driven by the membership

Source: LCP Focus - http://focus.lcp.uk.com

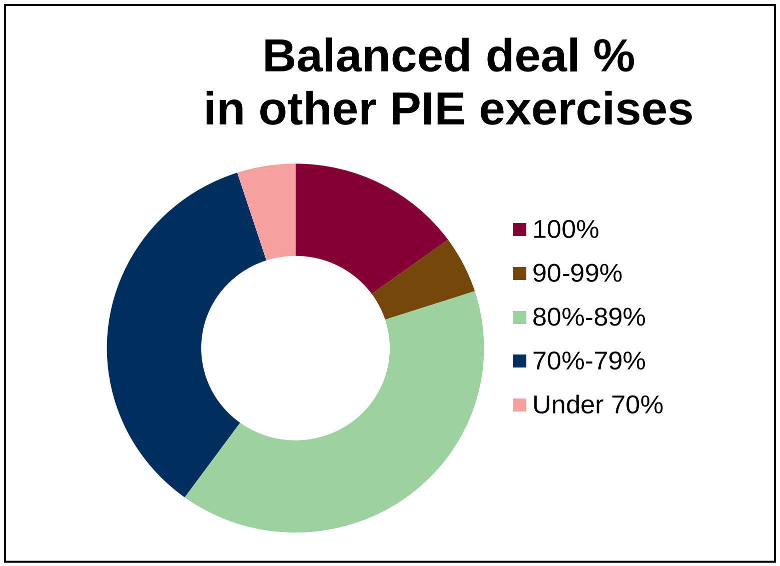
Review your transfer value assumptions?

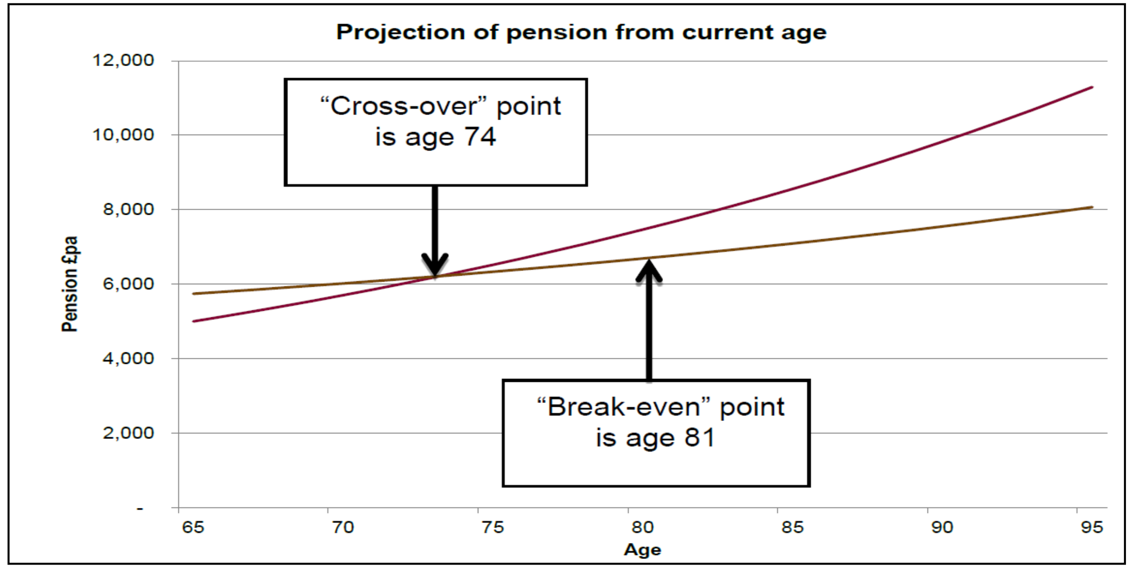




Source: LCP survey of DB Transfer Value Comparators September 2018

Important design consideration for PIE exercises





- Which elements of pension to include?
- Whether to exchange spouses’ increases?

Typical process for appointing an IFA

Agree long-list, requirements & draft ITT

Analyse responses & agree shortlist

Contracts, references and site visit

Provide benefit specification and member data

Go-live

Month 1 Month 2 Month 3 Month 4 Month 5 Month 6

Issue ITT

Beauty parade & select preferred provider

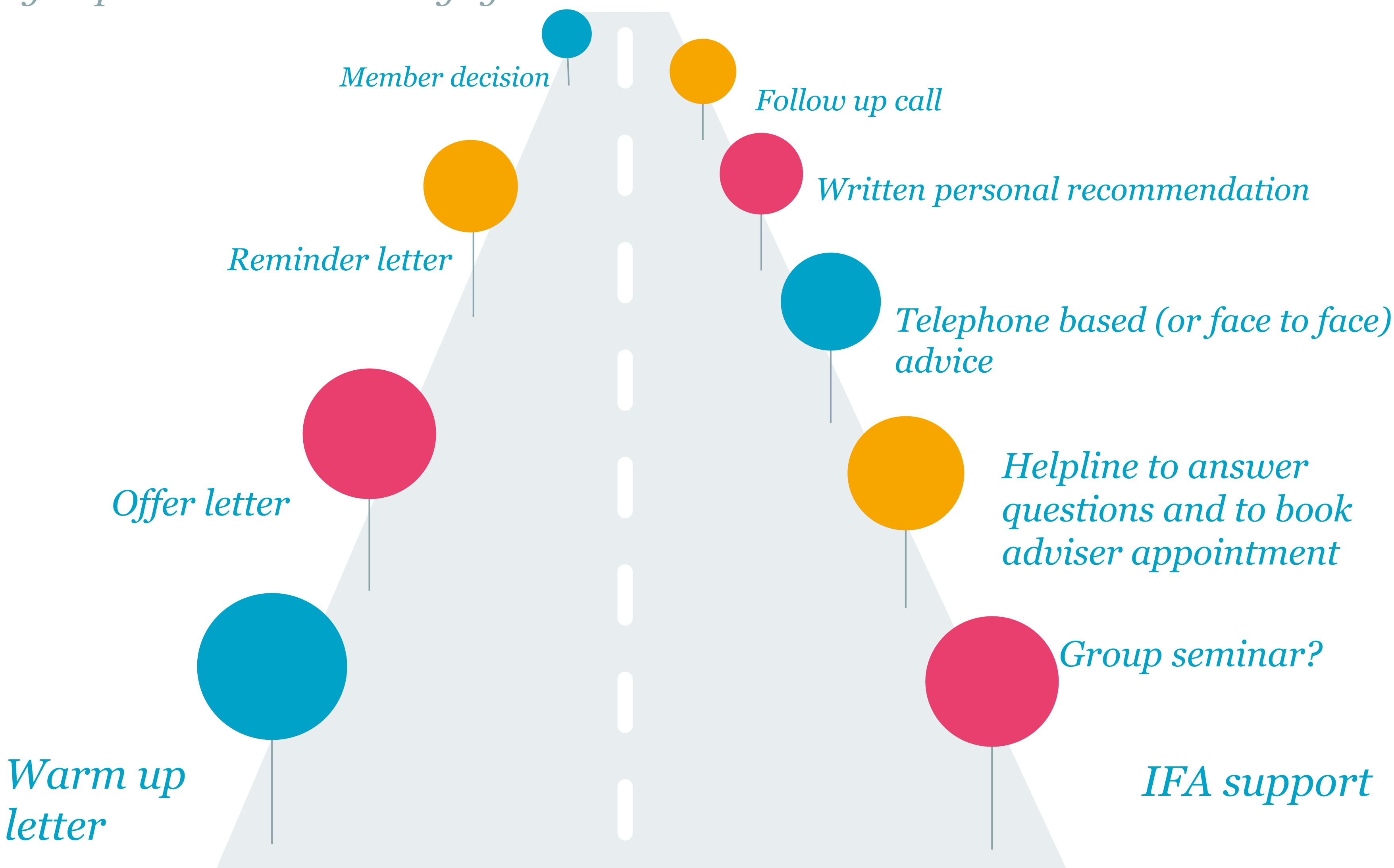
Kick-off meeting

Adviser training and set-up

APTA & TVC setup

Typical member journey

Good communication leads to better member understanding and usually improves members' engagement



Use of our work

Clive Harrison, FIA

Partner

01962 873362

clive.harrison@lcp.uk.com

Prepared on 9 October 2018

This generic presentation should not be relied upon for detailed advice or taken as an authoritative statement of the law. If you would like any assistance or further information, please contact the partner who normally advises you. While this document does not represent our advice, nevertheless it should not be passed to any third party without our formal written agreement.

Our experts work in pensions, investment, insurance, energy and employee benefits.

Join us at our next event **www.lcp.uk.com/events**

Share our insights and opinions on our viewpoint **www.lcp.uk.com/our-viewpoint**

Watch and listen to our comments on topical issues **Our YouTube channel**

Connect with us for updates **@LCP_actuaries**

LinkedIn

LCP INSIGHT CLARITY ADVICE

AMNT training day

Integrated Risk Management (IRM)

Francesca Bailey
Senior Consultant

9 October 2018

Risk management is key to a well managed scheme

Leading to better understanding, decisions and outcomes

Our clients' journey	*The closer to the end game, the more focus on the journey and risks – important not to be thrown off course*
TPR	*Investment guidance* *Covenant guidance* *Annual statement* → *Continued emphasis on IRM and contingency planning*
White paper	*Trailing new tPR powers and DB chairs statement.*
IORPII	*Legal requirement for Risk Manager and ORA*
The political backdrop	*Including BHS and Carillion and involvement from Department of Business, Energy and Industrial Strategy.*

Clients are asking for a risk management framework that.......

Simple and intuitive

Engaging

Leads to actions and better risk management

The 10 key pension scheme risks

Funding, investment, covenant and governance

Funding risks	Investment risks	Covenant risks
Inflation *Projected cash flows are too low due to inflation being higher than expected*	**Investment underperformance** *Your funding position worsens because your investments underperform*	**Affordability** *Company unwilling or unable to fund the scheme to an appropriate level*
Longevity *Projected cash flows are too low due to members living longer than expected*	**Reinvestment risk** *Low future returns make it harder for you to deliver the investment returns you need*	**Balance sheet strength** *Pension scheme large in the context of the company's overall resources, putting a strain on its ability to underwrite scheme risks*
Member options *Members take options that result in different cashflow pattern to assumed*	**Disinvesting to pay benefits** *Increasing needs for cash to pay pensions as more members retire cause you to become a forced seller*	**Sponsor failure** *The company fails, the scheme's section 75 debt is triggered and there are insufficient asset realisations to secure members' benefits in full*

Governance risks exist across all three areas (and summarised in our risk register)

Defining the key pension scheme risks

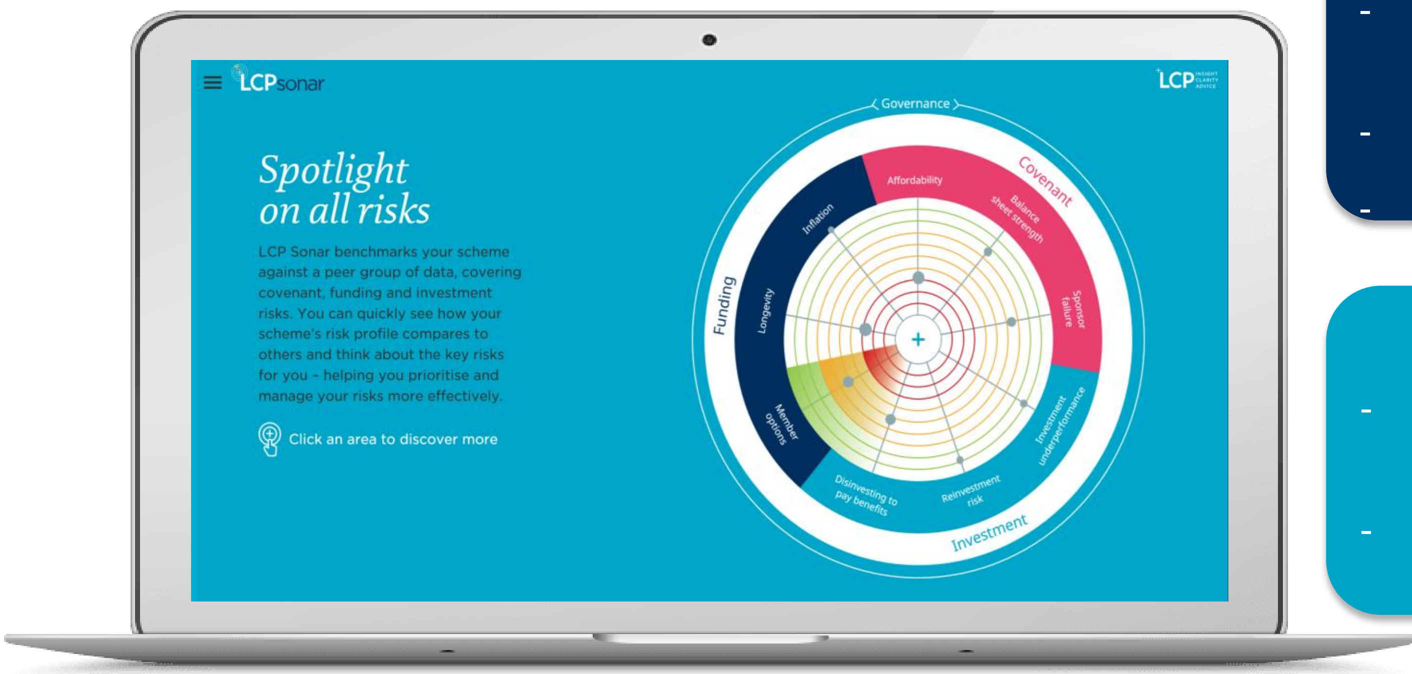
Funding, investment and covenant

Funding risks	Investment risks	Covenant risks
Inflation *Impact of 1% inflation shock*	**Investment underperformance** *90% 3 year investment VaR / technical provisions*	**Affordability** *Profit before tax / technical provisions deficit*
Longevity *Longevity risk / total VaR*	**Reinvestment risk** *Impact of 1% interest rate shock*	**Balance sheet strength** *Net assets / buy out deficit*
Member options *% of technical provisions relating to non-pensioners*	**Disinvesting to pay benefits** *Year 1 cashflow / asset value*	**Sponsor failure** *PPF levy band*

We are NOT aiming for 9 perfect metrics that precisely capture the risk of every pension scheme. We are looking for **simple** and **intuitive** metrics that offer a good starting point for discussion for many schemes, where we have a broad set of data for comparison

LCP Sonar

A new tool to raise risk management with your fellow trustees



What Sonar is:

- An engaging tool to start conversation
- Considering a range of risks
- Help identify areas to focus on

What Sonar is NOT:

- A tool that accurately tells every client what all their key risks are
- A bespoke analysis of a particular scheme

Risk is ranked on a lower to higher basis - i.e. the lower your ranking the less risky the position

Affordability

Profit before tax / technical provisions deficit – Risk level: 2/10

Company unwilling or unable to fund the scheme to an appropriate level

Did you know…

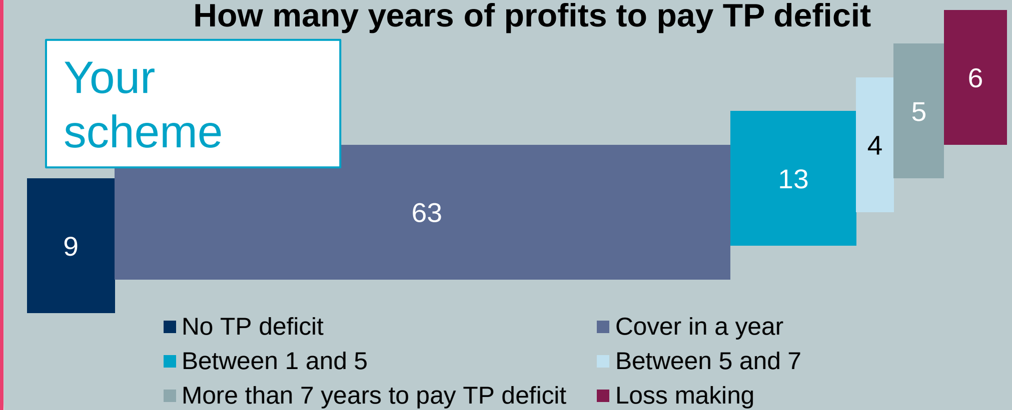
tPR expects **fair treatment** between schemes and shareholders

Our 2017 Accounting for Pensions Survey showed the FTSE100 paying 4 times as much in dividends as deficit contributions

The Green Paper quoted an estimated multiple of 11 for the FTSE350

How do you compare?

How many years of profits to pay TP deficit



Source: FTSE 100.

Potential actions

- ☐ Use LCP Visualise to monitor the ability of the company to support the scheme on an ongoing basis
- ☐ Assess scheme funding needs / agreed contributions versus other usages of company cash
- ☐ Agree potential contingent contributions or other contingency plans with the company
- ☐ *Speak to our covenant team to find out more*

Balance sheet strength

Net assets / buy out deficit - Risk level: : 1/10

Pension scheme large in the context of the company's overall resources, putting a strain on its ability to underwrite scheme risks

Did you know…

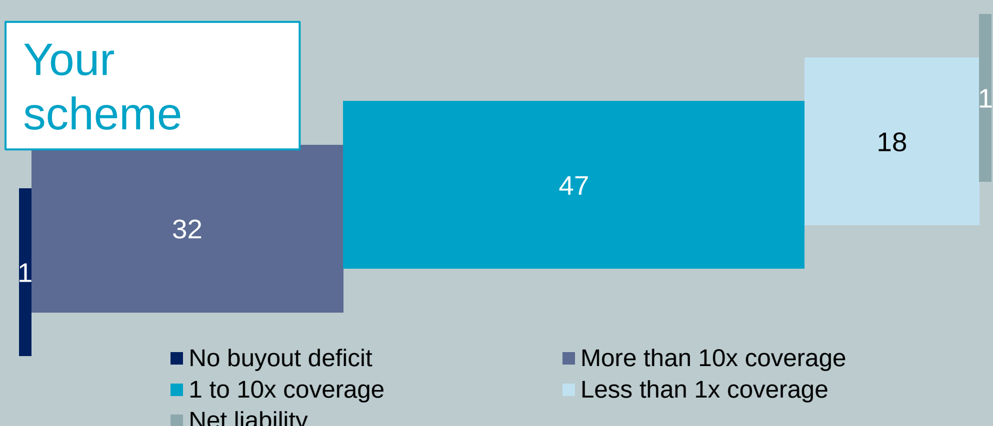
tPR encourages trustees to put in place a **legally binding** contingency plan, eg a parental guarantee

Around **1/3** of LCP clients have a formal **contingency plan**, of which 2/3 in form of a guarantee

PPF data says **10%** of schemes have **contingent assets**, 3/4 in form of guarantee

How do you compare?

Coverage of net assets over buyout deficit



Source: FTSE 100.

Potential actions

- ☐ Use LCP Visualise to monitor the ability of the company to support the scheme
- ☐ Agree a *contingency plan* with the company
- ☐ *Speak to our covenant team to find out more*

Sponsor failure

PPF levy band - Risk level: 4/10

The Company fails, the scheme's section 75 debt is triggered and there are insufficient asset realisations to pay members' benefits in full

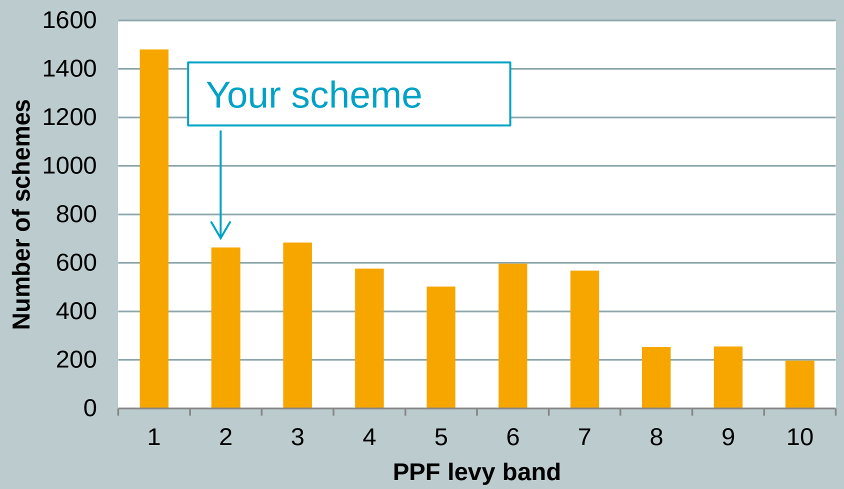
Did you know…

The risk of sponsor failure is a **key area of focus** for tPR following cases such as BHS, British Steel and Carillion

On average, **90 schemes a year** have fallen into the PPF over the last 11 years (out of ~6,000 schemes today)

PPF data says **10%** of schemes have **contingent assets**, 3/4 in form of guarantee

How do you compare?



Source: PPF Purple Book 2017. Data for 5,773 schemes in the UK.

Potential actions

- ☐ Agree appropriate covenant metrics and use LCP Visualise to monitor these
- ☐ Agree contingency plans with the company to offer protection in the event of sponsor failure
- ☐ *Speak to our covenant team to find out more*

Investment underperformance

90% 3 year VaR / technical provisions – Risk level: **5/10**

Your funding position worsens because your investments underperform

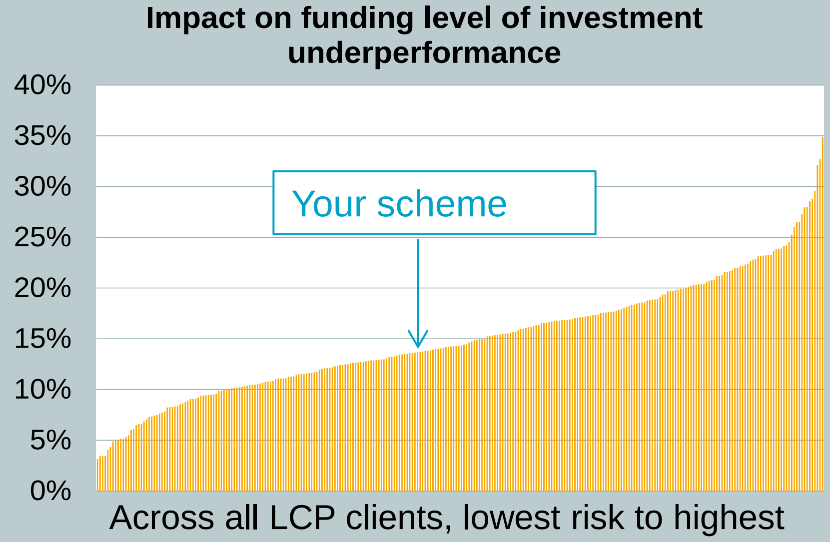
Did you know…

The average UK pension scheme's split between growth and matching assets has changed significantly over time, from around **70/30** in 2007 to **50/50** today

tPR guidance encourages trustees to consider **diversifying** the assets to reduce risk

tPR encourages trustees to consider long term financial risks such as **climate risk**

How do you compare?



Potential actions

- ☐ Investment beliefs session to determine appetite for different investment risks
- ☐ Consider introducing new asset classes to improve diversification
- ☐ Adopt a trigger mechanism to reduce risk as and when affordable. We can help you monitor triggers daily using LCP Visualise

Reinvestment risk

Impact of 1% change in interest rates on TP funding level - Risk level: 7/10

Persistently low interest rates make it harder for you to deliver the investment returns you need in future

Did you know…

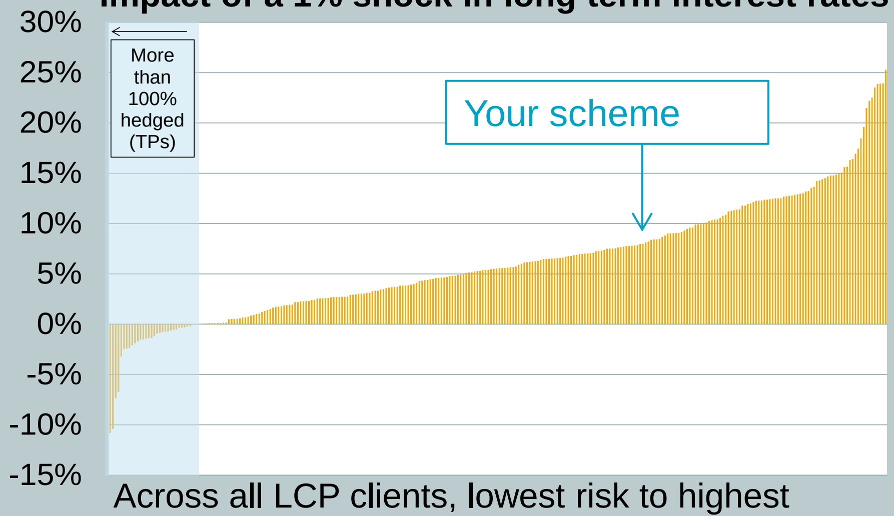
tPR guidance encourages trustees to consider how effective their matching portfolio is, and whether **Liability Driven Investment** ("LDI") can improve this

The number of pension schemes using LDI (which can help manage reinvestment risk) increased by 27% over 2016, to over 1,800

The average LCP client has an interest rate hedge level of around 60%

How do you compare?

Impact of a 1% shock in long term interest rates



Potential actions

- ☐ Review your matching portfolio and consider possible enhancements eg LDI, longer bonds or buy-ins
- ☐ Consider setting a trigger mechanism to capture opportunities to increase interest rate hedging
- ☐ Consider different approaches such as "Cashflow Driven Investment" and "non-gilts" approaches to funding

Disinvesting to pay benefits

Year 1 cashflow / asset value - Risk level: **2/10**

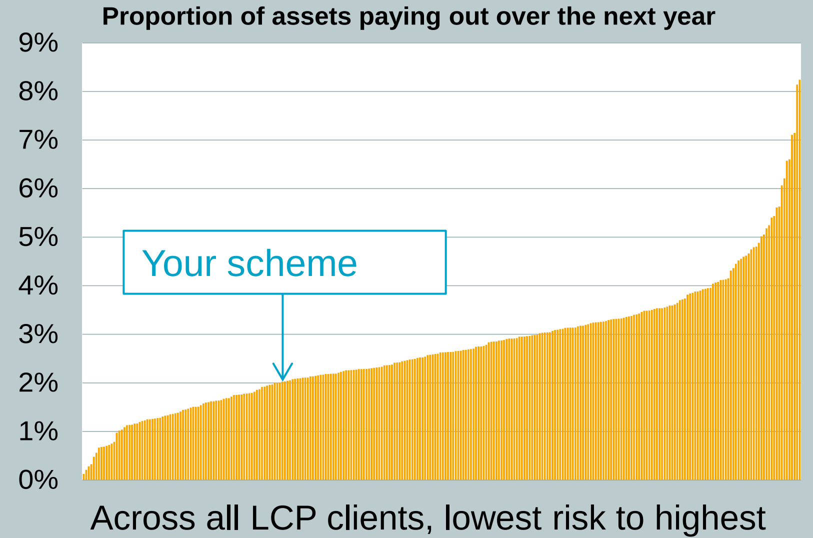
Increasing needs for cash to pay benefits as more members retire cause you to become a forced seller

Did you know…

Around half of UK pension schemes are currently cashflow negative, increasing to around 80% in the next 10 years

The pattern of your returns matters! tPR guidance encourages trustees to consider "**sequencing risk**" and to plan appropriately

How do you compare?



Potential actions

- ☐ Review your cash flow policy
- ☐ Consider asking your managers to distribute income rather than reinvesting it
- ☐ Consider investing in assets that deliver higher levels of income, such as private credit or buy-ins

Member options

% of technical provisions relating to non-pensioners - Risk level: *8/10*

Members take options that result in a different cashflow pattern to that assumed

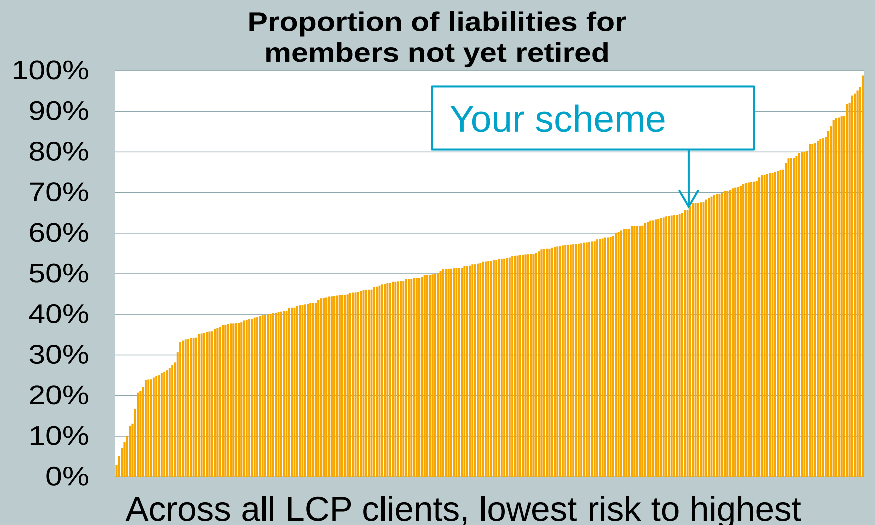
Did you know…

Around 60% of members in UK DB pension schemes have not yet retired

Research in August 2017 revealed that members are typically offered 25-30 times their annual pension as a transfer value

Our recent policy paper from LCP and Royal London revealed that around **1 in 6** schemes offers a partial DB transfer option

How do you compare?



Potential actions

- ☐ Consider whether a liability management exercise may be appropriate
- ☐ Review your member communications strategy
- ☐ Monitor take up of options, particularly transfer values
- ☐ Stress test investment strategy to check enough liquidity

Longevity

% of 1 year 90% VaR related to longevity - Risk level: 6/10

Projected cashflows are too low due to members living longer than expected

Did you know…

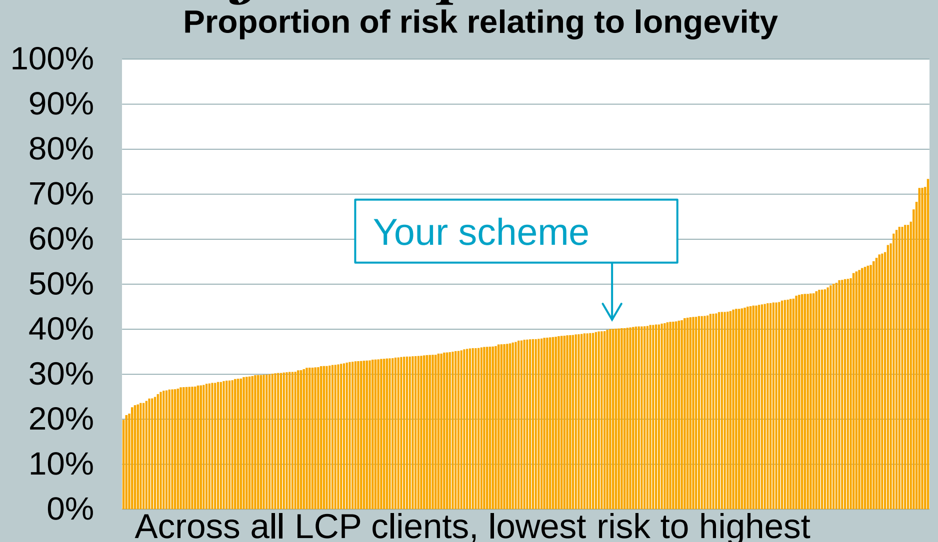
Life expectancy for a UK male increased by ~10 years since 1980

Recent changes in longevity pricing have reduced typical hedging costs by around 4%

Average estimated **buyout funding levels** for FTSE100 UK pension plans increased by nearly 10% from August 2016 to September 2017

Average buyout funding level for LCP clients is 65%

How do you compare?



Potential actions

- ☐ Consider a buy-in or longevity swap to begin to hedge longevity risk
- ☐ Understand and monitor longevity risks using LCP LifeAnalytics

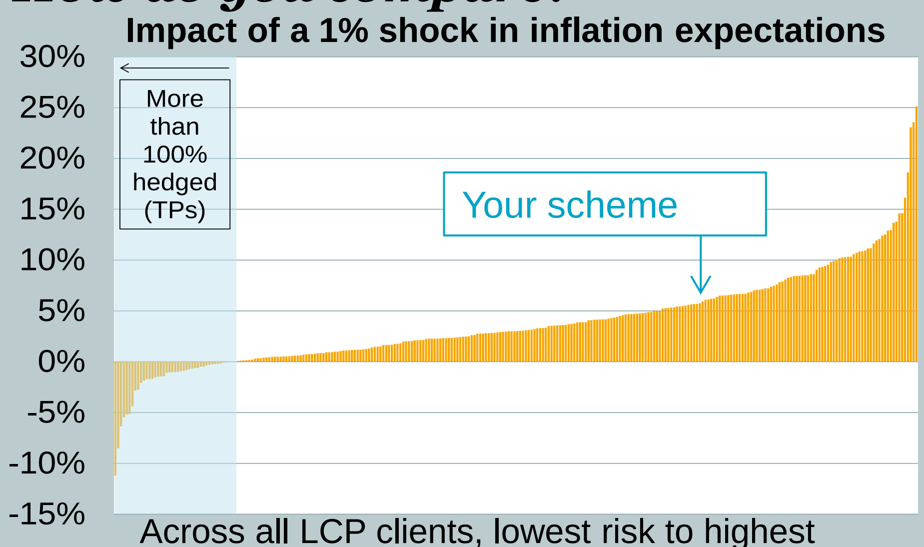
Projected cashflows are too low due to inflation being different to expectations

Did you know...

It is typically impractical to perfectly hedge pension increases with minimum and/or maximum levels (ie “LPI” increases)

The average LCP client has an inflation hedge level of around 60%

How do you compare?



Potential actions

- ☐ Annual review of the effectiveness of your inflation hedging
- ☐ Investigate assets that offer inflation protection, including LDI but also real assets eg property
- ☐ Consider setting a trigger mechanism to capture opportunities to reduce inflation risk
- ☐ Consider a pension increase exchange exercise to reduce inflation sensitivity of liabilities

Governance

The governance requirements of every scheme is different and your approach should be tailored to your circumstances

Below we set out some of the key risk areas being considered by the trustees of defined benefit schemes

Structures and processes	Management and operations
• Quality of risk management • Regulatory and compliance requirements • Trustee decision making and recording discretions • Management of conflicts of interest	• Management of scheme costs • IT, cyber security and data protection • Administration, record keeping and data quality • Business and strategic planning

People	Relationships
• Trustee knowledge and understanding • Board composition, effectiveness and diversity • Trustee roles and responsibilities • Succession planning for trustees and advisers	• Sponsor/Trustee relationship • Member communications • Working with advisers • Management of all key stakeholders

Did you know…

tPR recognises that being a Trustee is an important and challenging role – there is lots of guidance to help you

tPR aims to raise the standards of governance with its 21st century trusteeship programme

Potential actions

- ☐ Assess your training needs using LCP's free Training Needs Analysis tool
- ☐ Watch our video on the key steps in an effective risk management process
- ☐ Speak to our Governance specialists to find out more and receive tailored support

Brings to life details about the various risks your scheme may face based on scheme-specific data

Displays risks in an integrated way; you can view many types of risks in one place

An interactive tool which allows trustees to compare the riskiness of your own scheme with others

Helps prioritise managing the different risks faced

Allows independent trustees to see how their schemes compare to each other (and the wider peer group)

Helps trustees to understand the importance of covenant which is often overlooked

Shows what risks could throw you off course as you get closer to the end game of the scheme

May give employers insight into the next thing the Trustees will be thinking of, encourages a collaborative approach

See the potential impact of proposed changes in helping to manage certain risks – eg what a change to investment strategy might do to your LCP Sonar profile

Empowers trustees to go to the Board of the sponsoring company and say "we are out on a limb here"

Use of our work

Francesca Bailey

Consultant

020 7432 3084

francesca.bailey@lcp.uk.com

This generic presentation should not be relied upon for detailed advice or taken as an authoritative statement of the law. If you would like any assistance or further information, please contact the partner who normally advises you. While this document does not represent our advice, nevertheless it should not be passed to any third party without our formal written agreement.

Our experts work in pensions, investment, insurance, energy and employee benefits.

Join us at our next event **www.lcp.uk.com/events**

Share our insights and opinions on our viewpoint **www.lcp.uk.com/our-viewpoint**

Watch and listen to our comments on topical issues **Our YouTube channel**

Connect with us for updates **@LCP_actuaries**

LinkedIn

AMNT training day

21st Century Trusteeship

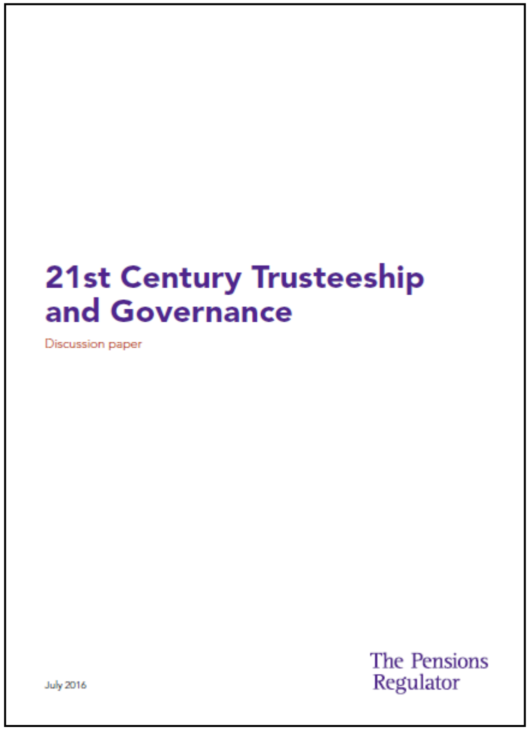
Rachika Cooray

Partner

9 October 2018

Raising the standards of governance

- Stimulate a dialogue
- Gather views on good governance
- Identify barriers and challenges

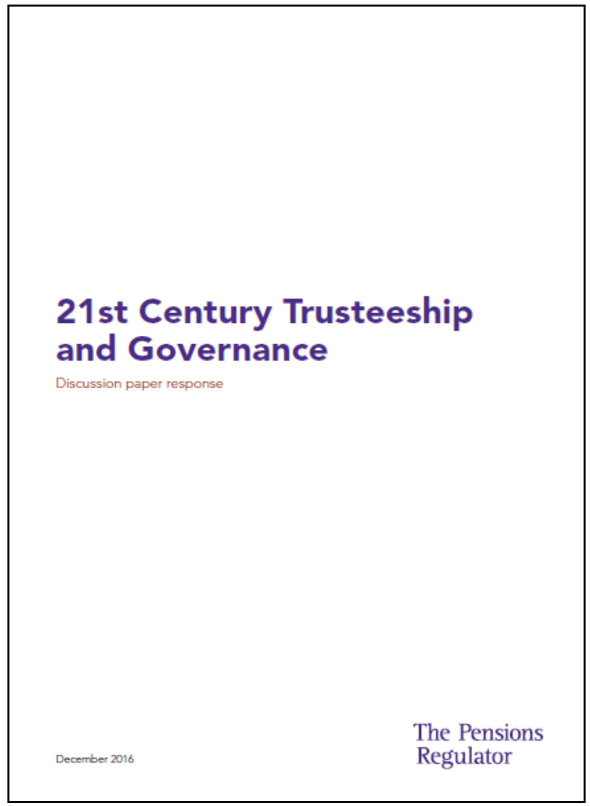


21st Century Trusteeship and Governance

Discussion paper

July 2016

The Pensions Regulator



21st Century Trusteeship and Governance

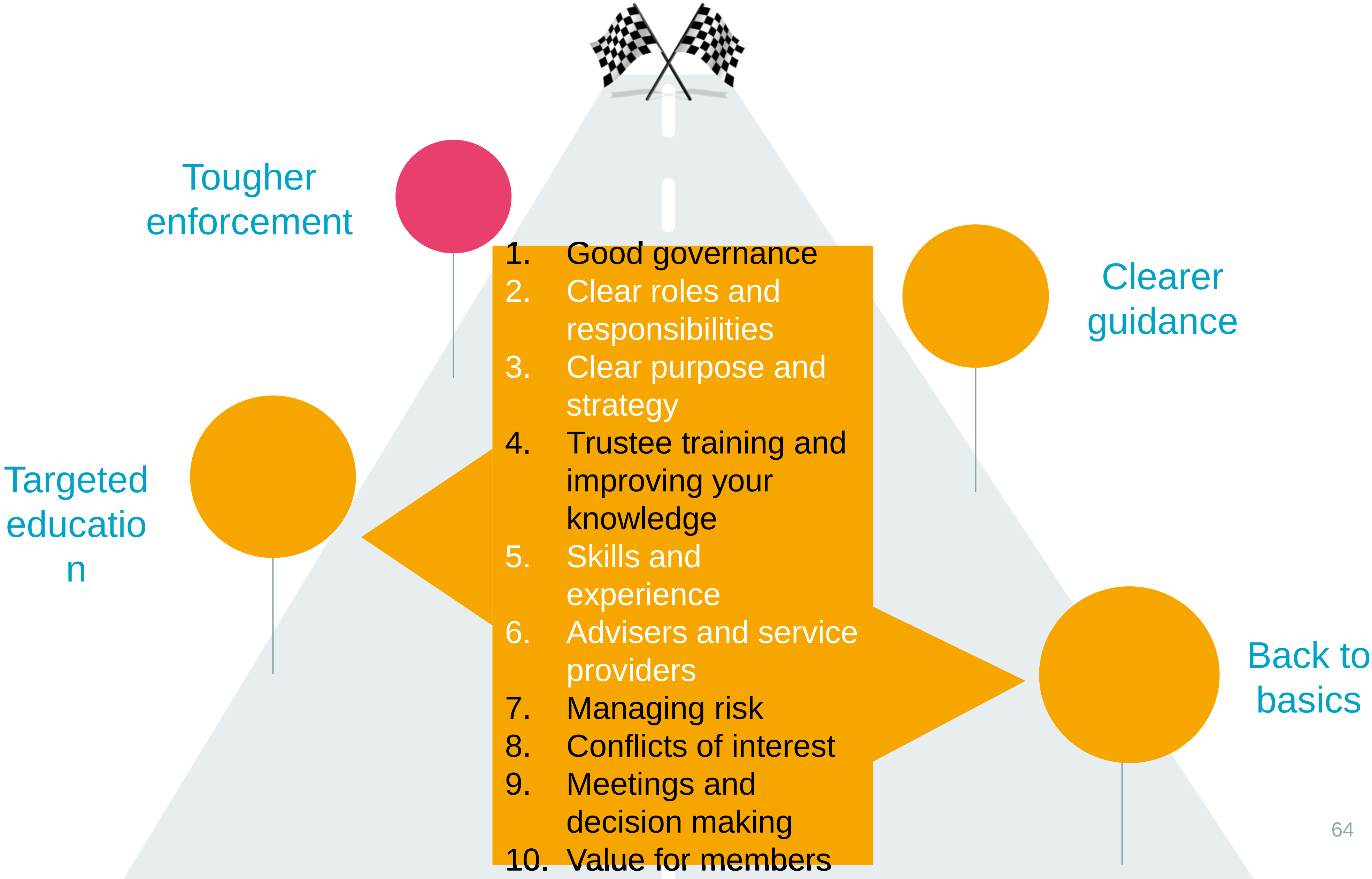
Discussion paper response

December 2016

The Pensions Regulator

"Effective trusteeship and governance are key underpinning factors in achieving good member outcomes"

The journey so far



1. Good governance
2. Clear roles and responsibilities
3. Clear purpose and strategy
4. Trustee training and improving your knowledge
5. Skills and experience
6. Advisers and service providers
7. Managing risk
8. Conflicts of interest
9. Meetings and decision making
10. Value for members

Review your delegations and role descriptions

Module 2: Clear roles and responsibilities

Trustees / scheme managers are accountable for all scheme activity including functions delegated to third parties.

Roles, responsibilities, decision-making, governance structures and processes need to be clearly documented.

Guidance for trustees

Example terms of reference for board and sub-committees

Your terms of reference should be drafted and agreed by the board. They will then be used to direct future meetings and ensure they are as productive and useful as possible.

The following template should be a useful starting point, and an example that you can compare your existing terms of reference to. It can show you where you might want to make some alterations and improvements.

October 2017

The Pensions Regulator

Roles and responsibilities

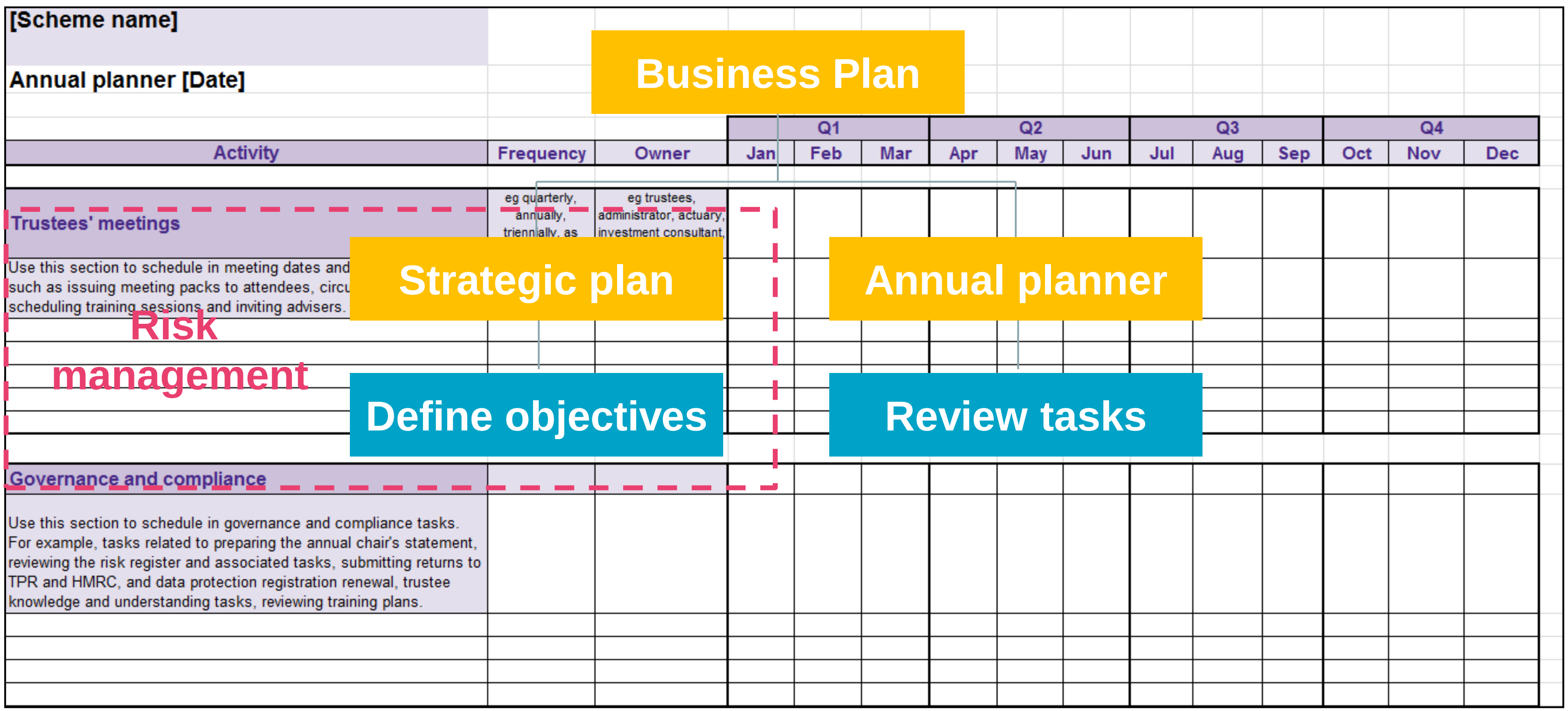
Role	Main responsibilities
Trustee	• Run the scheme in the best interests of all members including deferred members, pensioners and other beneficiaries in accordance with the scheme documentation. • Develop and maintain effective governance and internal controls to deliver investment (and funding for defined benefits), administration and communication activities. • Decide what help to get and what to delegate. • As a trustee board, make decisions and set the scheme's objectives and strategy. • Effectively monitor and oversee advisers and those carrying out scheme activities. • Foster an open and constructive relationship with employers to understand their views and risks.
Chair of trustees	• Lead and support the board. • Ensure collective competence of the board with appropriate governance processes in place. • Make sure meetings and scheme business are run efficiently with trustees, advisers and service providers who participate effectively.
Professional trustee	• Run the scheme in the best interests of all members including deferred members, pensioners and other beneficiaries in accordance with the scheme documentation. • Develop and maintain effective governance and internal controls to deliver investment (and funding for defined benefits), administration and communication activities. • Decide what help to get and what to delegate. • As a trustee board, make decisions and set the scheme's objectives and strategy. • Effectively monitor and oversee advisers and those carrying out scheme activities. • Foster an open and constructive relationship with employers to understand their views and risks. • Provide professional expertise and ensure good governance.

Maintain an annual planner and business plan

Module 3: Clear purpose and strategy

Develop and regularly review the scheme's business plan.

Set a clear strategy and objectives for the scheme and monitor progress against these.



Appoint good quality professional advisers and service providers to help you run your scheme well and to benefit from a diverse range of views and experience

Retain sufficient oversight of delegated tasks and regularly review performance

http://www.thepensionsregulator.gov.uk/trustees/scheme-management-skills.aspx

Selecting → **Monitoring** → **Reviewing**

Business continuity planning

http://www.thepensionsregulator.gov.uk/guidance/guidance-relations-with-advisers.aspx

Assess your skills and evaluate effectiveness

Module 5: Skills and experience

Aim for a diverse trustee board, in terms of backgrounds, experience, skills and demographics.

Review the performance and effectiveness of the board annually.

Fitness and propriety

You should work with your sponsoring employers to assess the fitness and propriety of candidates as part of the recruitment process.

The table below sets out examples of the information you may need in order to assess the extent to which individuals demonstrate the qualities of a fit and proper candidate.

Qualities of a fit and proper candidate	Examples of information sources

• Honesty and integrity
• Competence and capability
• Financial probity
	• References and details of any previous experience
	• Education/qualification certificates, if any
	• Directorship disqualification checks, for example through Companies House
	• Conflict of interest declarations
	• Bankruptcy checks. You can check an individual's bankruptcy status through The Insolvency Service
	• Criminal record declarations, including:
	  • any attempt to deceive
	  • any misuse of trust funds
	  • any breaches of trust law, particularly if these are significant, persistent, deliberate or contrary to legal advice received
	  • unspent criminal convictions, with the exception of minor offences. Refer to government guidance on ex-offenders and employment


Q1: We have a diverse trustee board, in terms of backgrounds, experience, skills and demographics
LCP INSIGHT CLARITY ADVICE
3
2
1
0
Strongly Agree
Strongly Disagree
Strongly Agree
Strongly Disagree

Key takeaways

- *Brush up on the Regulator's expectations*
- *Review your delegations and role descriptions*
- *Maintain your annual planner and business plan*
- *Get the best out of your advisers*
- *Complete a board effectiveness review*

Contact us

Rachika Cooray
Partner
0207 432 6658
Rachika.Cooray@lcp.uk.com

Our experts work in pensions, investment, insurance, energy and employee benefits.

Join us at our next event
www.lcp.uk.com/events

Share our insights and opinions on our viewpoint
www.lcp.uk.com/our-viewpoint

Watch and listen to our comments on topical issues
Our YouTube channel

Connect with us for updates
@LCP_actuaries

LinkedIn

AMNT Training Day
Pensions Disputes - The Pensions Ombudsman

Richard Pettit, Partner
Catrin Young, Senior Associate

Our agenda

- Introduction to the Pensions Ombudsman
  - Jurisdiction
  - Who can bring/defend a complaint?
  - Limitation periods
  - Decisions and Awards
  - Awards for non-financial injustice
- Your turn – Pensions Ombudsman Quiz

Jurisdiction

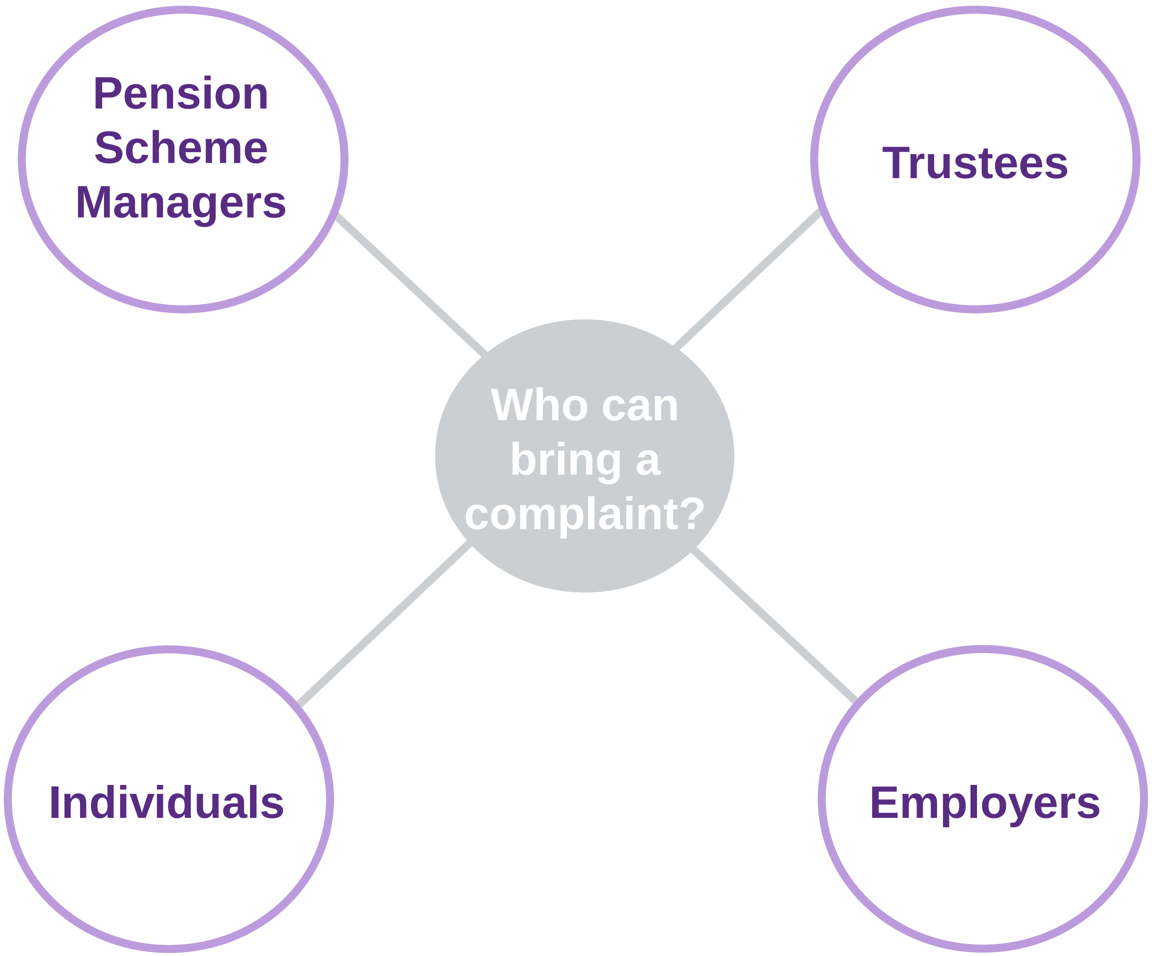
Can look into

- disputes of law or fact
- maladministration of personal and occupational pension schemes
- actions and decisions of the Pension Protection Fund
- some decisions made by the Financial Assistance Scheme

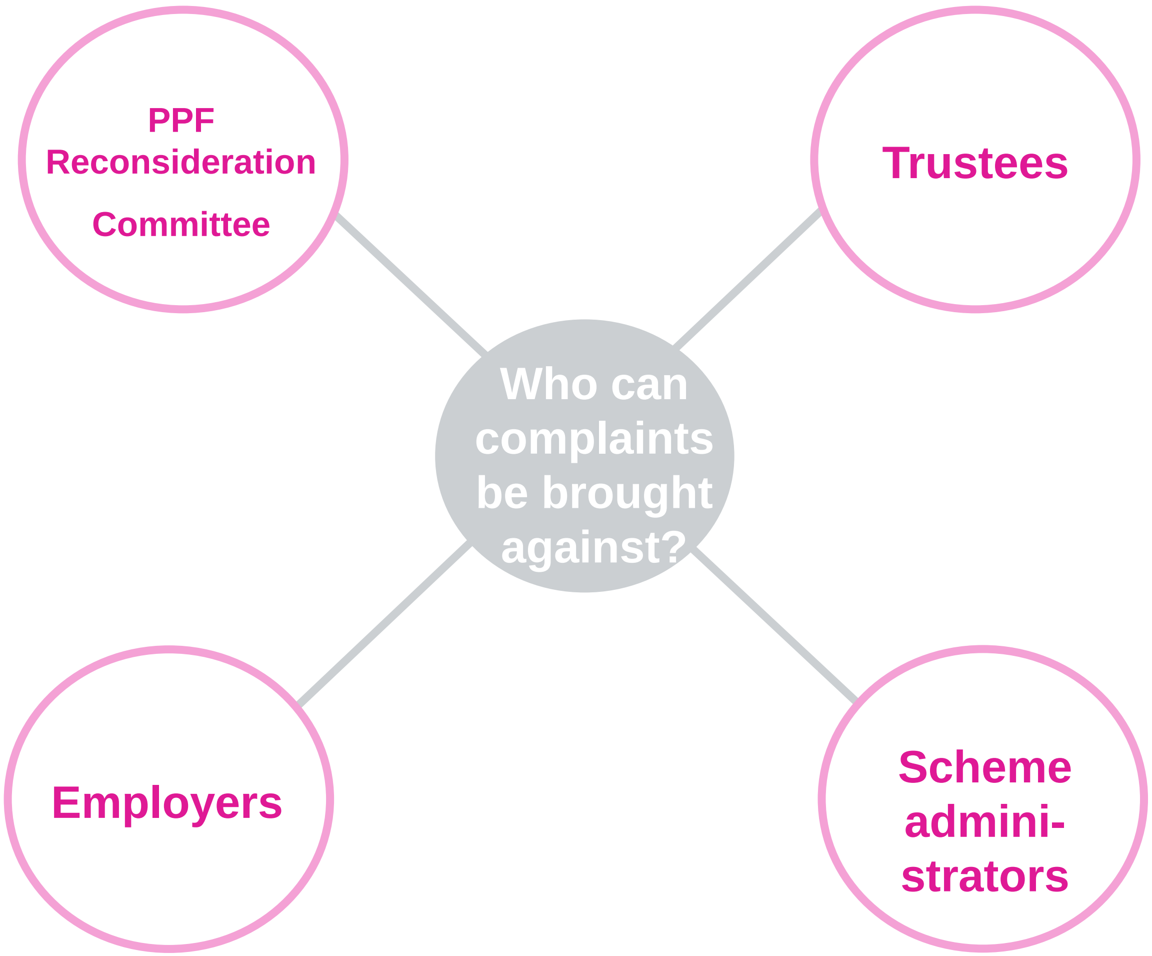
Cannot help with complaints about

- State Pensions
- tracing a lost pension
- sales or marketing (mis-selling) of pensions
- the type of benefits a pension scheme offers
- a decision made by a tribunal, court or another Ombudsman
- Pension schemes administered outside of the UK
- matters that are the subject of court proceedings or employment tribunal claims

Who can bring a complaint?



Who can complaints be brought against?



Limitation Periods

Contact with The Pensions Ombudsman (TPO) about a complaint needs to be made

- within three years of the act or omission complained about

- or, if later, within three years of when the complainant first knew (or ought to have known) about the act or omission

TPO may extend these time limits, if he considers it reasonable, e.g. to allow for delays due to pursuing an internal dispute resolution procedure (IDRP). There have been a relatively small number of instances where the Ombudsman has exercised this discretion

Decisions and Awards

If a complaint is upheld TPO will usually tell the people at fault what they need to do to put things right.

TPO's determination can be enforced in the courts (unless there is a successful appeal on a point of law) and is binding on all the parties to a complaint.

TPO cannot set aside a discretionary decision taken by scheme trustees, unless the trustees have:

- Taken irrelevant considerations into account.

- Failed to take any relevant considerations into account.

- Committed some other procedural impropriety.

- Acted in such a way that no reasonable body of trustees, properly directing themselves, could act.

Awards for ‘non-financial injustice’

Burges Salmon

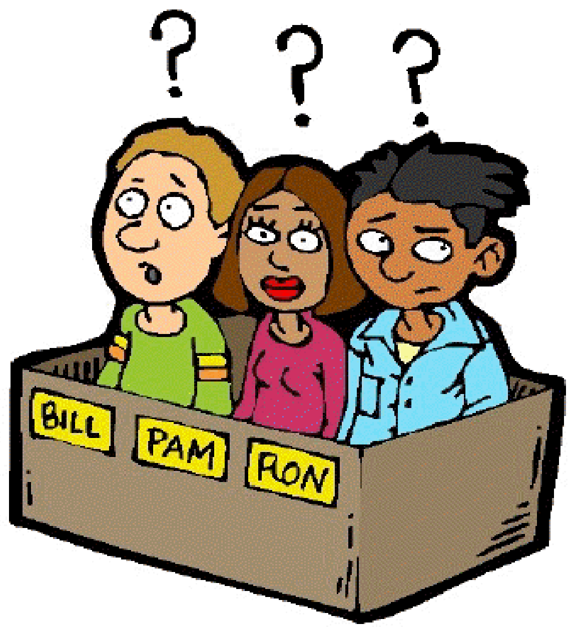
Fixed amounts for compensation awards for distress and inconvenience - “non-financial injustice”

Awards for non-financial injustice will usually fall into one of five categories

TPO will consider, amongst other things:

- whether the complaint in question could have been avoided or resolved at an early stage;
- how well the complaint (and IDRP) was handled by the respondent;
- whether the maladministration occurred on a single or over many occasions; and
- what level of distress or inconvenience was suffered by the complainant

Pensions Ombudsman Quiz



www.burges-salmon.com