# Five Lessons for a Pension Scheme Derisking


At the OPDU and CHUBB Annual Meeting & Risk Seminar on 16th March I shared my top 5 tips when looking to complete a buy-in or buy-out of benefits from a pension scheme.

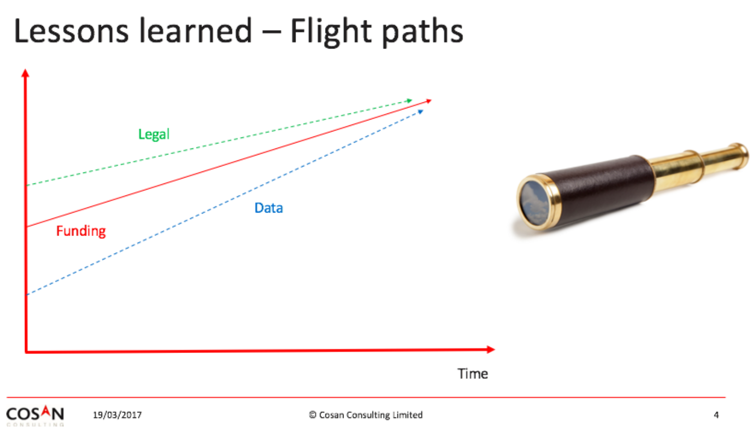
Following Arnold Wagner OBE, Chair of the PPF and Mark Howard, Partner at Clyde and Co., Claire Altman of Capital Cranfield took the audience through a case study of the buy-out of the Blackwell's Pension Scheme. Claire gave a summary of the scheme and the process of securing the benefits which is expected to be completed in June this year; just 20 months after the wind-up was triggered.

Claire is Chair of Trustees for the Blackwell's scheme and I project managed the buy-out. I therefore described 5 key lessons that will help anyone considering a buy-out or buy-in.

## Lesson 1 – You need three different flight paths

Typically Trustee Boards work with their actuary and investment manager to agree a "flight path" to get them to the position whereby they have enough money to secure the benefits. They will agree a "deficit recovery plan" to eliminate the financial deficit.

However, securing benefits is not just about having enough money. Trustees should also look to ensure that they have a full assessment of their rules and their administration practices to ensure that there is a full understanding of the benefits that are due to members. There may well be queries or gaps in the documentation of the benefits and identifying this "documentation deficit" enables a "documentation deficit recovery plan" to be created.




Similarly, Trustees should assess the state of their data. The Regulator requires Trustees to have assessed their data but the data needed to secure benefits is far greater than that required to administer an ongoing scheme. Assessing the data against the needs of a buy-out provider will enable the data deficit to be identified and a "data deficit recovery plan" to be put together.

**Lesson 2 – Price is a big unknown**

The price that Trustees will need to pay to secure benefits is an unknown quantity. The idea that we should aim for a specific amount of money is not appropriate give the room for negotiation. Instead I recommend that Trustees aim to be within "cheque writing distance" of the target: That is they are close enough to believe that the sponsor may well be willing to make up the difference to rid it of the scheme. In practice prices depend on economic conditions, the benefits, the quality of the data and how keen the insurers are for the business.

The price is an unknown until information has been provided to the market and insurers have indicated their views. Given this it is important to engage with the market as soon as possible and to monitor the appetite for the kind of liabilities that you have as soon as possible.

**Lesson 3 – Manage ALL Stakeholders**

There are a lot of Stakeholders in any risk management process. It is vital that all Stakeholders are managed effectively and efficiently. This starts with the Trustees, making sure that they understand what is needed to get to the final buy-out and what this means for members.

Members will need to be kept informed and this may mean just letting them know that progress is being made but there is nothing to report.

The Company will need to be involved from the start since there will be an immediate impact on the balance sheet. Many Companies are showing their pension scheme as an asset in their books at the present time and a buy-out will eliminate this.

Most importantly all providers need to be involved. Too often providers are kept at arm's length to keep fees down but this is a false saving. Of the main providers, the Administration team is critical and you need to involve them from the start.

**Lesson 4 – Set realistic but challenging timescales**

I was once told by someone who managed wind-ups for a living that "wind-ups take so long because wind-ups take so long". What he meant was that we all know that wind-ups take a long time so nobody hurries. Wind-up tasks are never prioritised and nobody worries if they are delayed.

To avoid this it is important that everyone agrees realistic but challenging timescales and that they stick to them. By all agreeing at the outset that the project will be prioritised the pace is quickened and the project can be completed in a timely manner. All pensions professionals will tell stories of scheme that have been in the process of winding up for many years and sometimes for decades. Indeed the disclosure requirements still state that members should be informed of progress of a wind-up EVERY TWO YEARS! This just fosters the belief that they take a long time. In most cases this doesn't have to be the case.

Challenging timescales should be agreed but it must always be remembered that "…it is more important to get it right than get it fast"!

**Lesson 5 – Communication is everything**

Communication between the stakeholders, and especially the providers, is critical. The project sponsor and the project manager need to create a culture of open, honest, comprehensive communication in which providers are happy to share issues and work together to resolve them.

Unfortunately we live in an industry where providers, especially Administrators, have been criticised so much that they are not good at sharing problems. By sharing issues together the full resources of the project can be used to ensure success. If you can keep the project team looking forward and not looking to apportion blame then success is more likely.

Good communication can also avoid problems in the future. Keeping members informed stops them from feeling that they need to chase and question the process. Furthermore, we must understand that members are generally suspicious of any pension communication. They will assume that there is a problem irrespective of the message and hence clear accurate and plain English communication is vital.

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