



PENSION JOURNEYS.

HAVE YOU SET THE RIGHT COURSE?

“Trustees and employers should be agreeing a clear strategy for achieving their long term goals, recognising how the balance between investment risk, contributions and covenant support may change over time, particularly as schemes become more mature and potentially better funded.”

The Pensions Regulator, announcing the 2019 Annual Funding Statement



PLAN THE JOURNEY

Schemes are often over-exposed to the fate of a handful of businesses in their covenant and the volatile returns of their investments. Getting to a place where less reliance is placed on these factors is crucial – this is a long journey for many schemes and requires careful planning.



STAY ON COURSE

Valuations are formal checkpoints along the journey to ensure risks remain balanced, but key variables need to be monitored continuously and contingency plans put in place, to prepare for expected events and withstand the unexpected.

**In the four roadmaps, we identify tools, resources, and ideas to help you successfully navigate through key phases of your scheme's journey.
Where is your scheme now?**

JOURNEY PLANNING

Plotting a stable route using a variety of tools and resources

Few people get in a car without knowing where to go or a rough idea of how to get there. Yet pension schemes are often managed without a clearly expressed end-game target, or a plan of how to reach it. Like a map or GPS unit, journey planning provides you with much-needed guidance to help your scheme achieve its objectives.

Below we set out what resources are available to help you plot a stable and achievable route, taking into account The Pensions Regulator's 2019 Annual Funding Statement and integrated risk management ("IRM") guidance.

TPR ANNUAL FUNDING STATEMENT 2019

"Paying the promised benefits is the key objective for all schemes. This requires schemes to look ahead and set clear plans for how the objective will be delivered."

The Pensions Regulator, 2019. Visit thepensionsregulator.gov.uk for more information.

STAGE 1 WHERE ARE YOU TODAY?

BUILD YOUR KNOWLEDGE

If you want to know more about why The Pensions Regulator is focusing on long-term targets, consider covering some core IRM concepts at your next board training session:

- Could the lifespan of your covenant be shorter than the time until your last pension payment?
- What are the dynamics between covenant and investment risk and how will these dynamics influence your choice of end-game?
- As your schemes matures, what risks increase and what options are available to you to manage them?
- What is the universe of investment tools and options available to you, to build a fully robust portfolio?

STAGE 2 WHERE DO YOU WANT TO GO?

HOLD AN END-GAME WORKSHOP

Determining what destination you want to set for your scheme is best done with all your advisors under one roof, so you can agree what's realistic and achievable.

- Your **covenant advisor** could assess the sponsor's ability to underwrite investment risk and make contributions.
- Your **investment advisor** could provide viable options on the investment risk-return trade-off.
- Your **actuarial advisor** could model scheme maturity and recovery plan scenarios.

End-Game Agreed

Continued...

STAGE 3 HOW CAN YOU GET TO YOUR DESTINATION?

BEWARE OF SCHEME MATURITY

As your scheme matures its risk dynamics and liquidity needs will change. It is crucial to consider this in your journey planning and risk management.

- Ask, how mature is my scheme? If it is mature, your asset may have to work harder to recover from an investment shock, especially if funding levels are low to begin with.
- What is the best way to arrange the scheme's assets to allow it to meet its liquidity needs, including the challenges of Enhanced Transfer Values, settlements, commutations/pensioners and other cash flow risks associated with a maturing scheme?
- How do you think about the trade-offs between strategies such as CDI and return-seeking assets?

EXPECT THE UNEXPECTED

Identify what events could cause your pension journey to go off-track, and plan how best to respond.

- Establish actionable contingency plans to cover severe scenarios, including those that impact your scheme's investments and sponsor simultaneously.
- Ensure you have the governance in place to react and respond in a timely manner.

PLAY PENSIONSIM

Put yourself behind the wheel of a simulated pension scheme and manage its journey towards an end-game target.

- Gain hands-on experience balancing and managing covenant and investment risk through volatile financial markets.
- It's a valuable learning experience for trustees and sponsors alike.

Visit pensionsim.com for more information.

RUN A QUANTITATIVE IRM ANALYSIS

Once your end-game is agreed, it's important to balance cash contributions with investment returns in a way that works for your specific situation.

- Have you considered the level of risk your sponsor could support in a worst-case scenario in addition to its ongoing affordability?
- You have carefully considered your investment return needs, but have you assessed whether the returns you need are viable at this point in the market cycle?
- Have you examined the factors used by The Pensions Regulator to assess the overall risk profile of your scheme?

TPR Annual Funding Statement 2019

- What can you do to minimise those risks today?

Any analysis needs to consider the above factors, and more, in aggregate – IRM can rarely be distilled into a single number.

SET YOUR INVESTMENT STRATEGY

Determine the best way to invest your scheme's assets, taking into account your end-game target and the level of contingent support that may be available from your sponsor.

- Does your investment strategy strike the right balance between what the sponsor can afford and the timescales you have planned for?
- Are your investment return requirements realistic in the current environment?
- Are you aware of the consequences of your investments going wrong?
- Considering your covenant strength and scheme maturity, is your strategy in line with the expectations set out in The Pensions Regulator's 2019 Annual Funding Statement?

Journey plan
documented and agreed

Investment
strategy implemented

What
next?

VALUATION MONITORING UNEXPECTED EVENTS

Contact us at: info@cardano.com