



PROFESSIONAL PENSIONS

AON

Empower Results®

Research Study into the
Challenges DB Schemes
Pose to Finance Teams

Conducted by Incisive Research

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Executive Summary

The following report is based on the findings of a piece of research conducted by Incisive Media in association with Aon which looked at the challenges which finance teams currently face in respect of their defined benefit (DB) pension schemes.

Responses to the survey were collected via an online quantitative questionnaire, and also by means of qualitative telephone interviews. In total, 67 respondents answered the online survey, and 10 further individuals were interviewed by telephone.

Around half of respondents were chief financial officers, group finance directors or finance directors, with another fifth identifying as treasurers. Just over half of the sample work in organisations with a turnover of up to £100m, and roughly the same proportion of the audience said that their DB scheme's assets totalled up to £100m. The majority of respondents' DB schemes were three-quarters funded to fully-funded.

Our findings suggest that pension scheme matters are a day to day responsibility for just over half of finance staff, though it's more common for them to have high-level oversight. But it also appears that pension matters arise little and often, with respondents revealing to us that they typically devote around one or two hours of their time to their scheme responsibilities per week. 77% of respondents say that they discuss pension matters with their chief executive once a month or less.

Finance staff do not tend to delegate their pension scheme responsibilities very often. When they do, however, pension administrators and trustees tend to be their usual ports of call.

Respondents revealed that they are facing myriad challenges in their role: some specifically scheme-related; some of more general corporate concern, such as fraud prevention; some of a macroeconomic nature, such as the unfolding fallout of Brexit; and others relating to regulation – namely GDPR.

With regards to DB pension schemes, the one standout challenge to emerge was finding a way to manage deficits – and respondents revealed to us that their schemes have, on balance, not got far with implementing, or planning to implement, risk reduction exercises. Perhaps one reason for this is a lack of information. When we asked respondents which topics they'd like to see more coverage of, investment strategy advice, scheme funding and liability management exercises received the most backing.

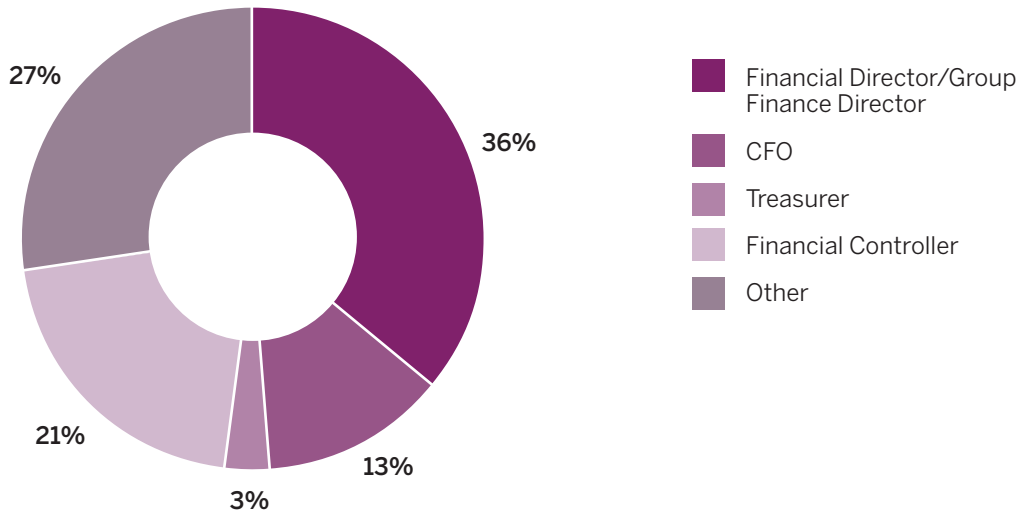
Our research also found that, although many finance professionals feel that they have a good working relationship with their boards of trustees, there are still creases to iron out, with respondents highlighting communication and better trustee training as key areas for improvement.

Demographics



Demographics

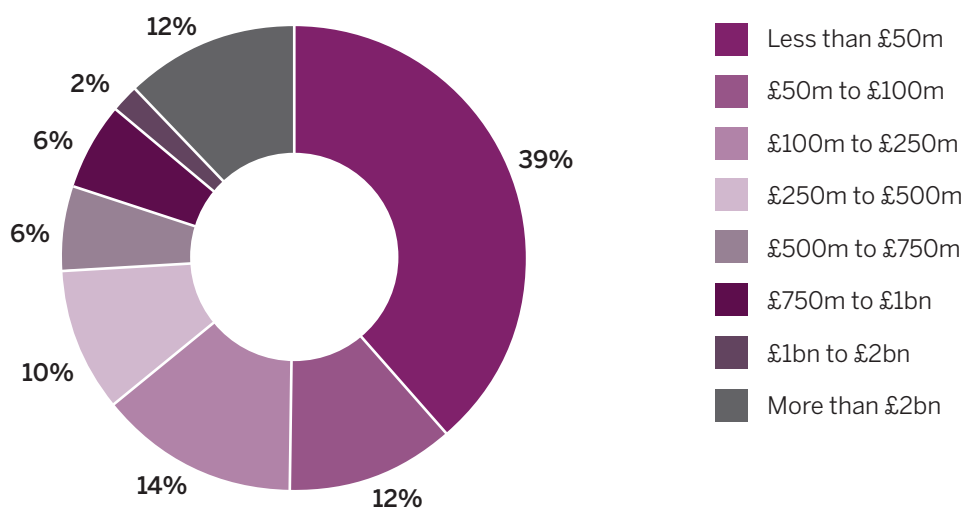
What is your role?



Other:

- CEO
- Company funding
- Financial accountant
- General counsel
- Head of benefits
- Head of finance (3)
- Head of tax
- HR
- Human Resources Associate
- Manager global benefits
- Pension manager (2)
- Pensions and insurance manager
- Pensions finance investment operations manager
- Systems manager
- Trustee and compensation

What is the size of the business you work for?



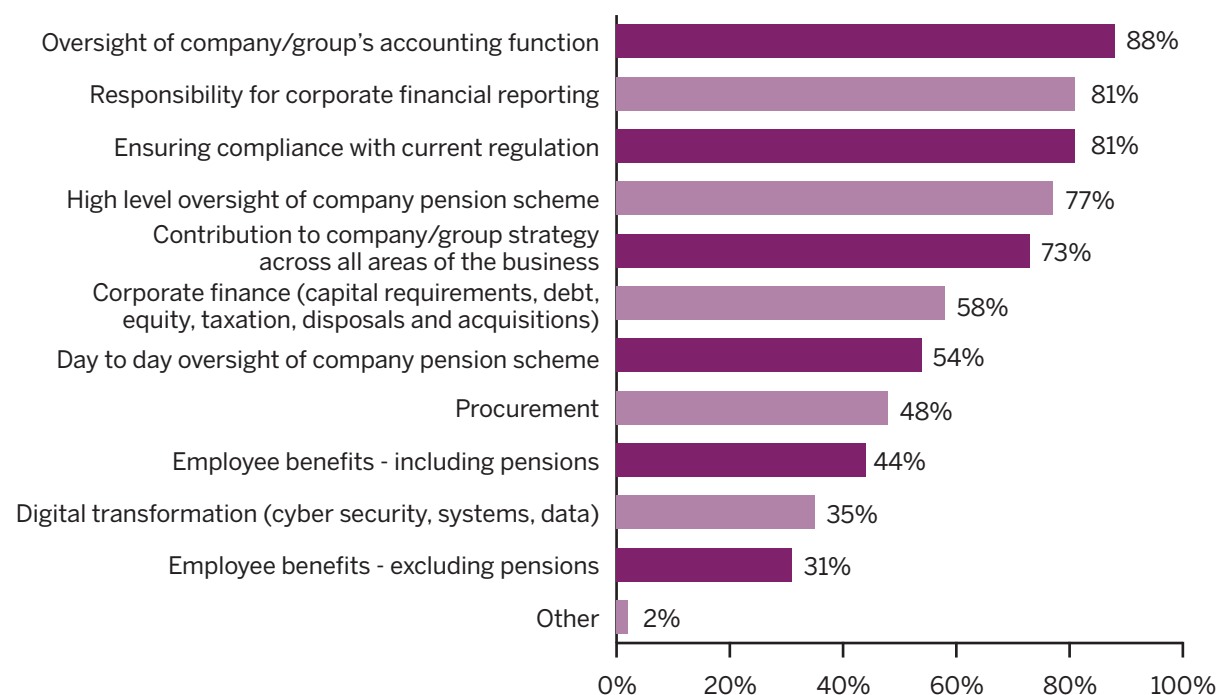
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The background of the slide features a complex network diagram. It consists of numerous nodes, represented by small circles in various shades of purple and pink, interconnected by thin, light grey lines. Some nodes are highlighted with concentric dashed circles, suggesting they are key or central points in the network. The overall structure is dense and interconnected, with some nodes having a higher degree of connectivity than others.

Key Findings

Key Findings

Which of the following core responsibilities fall within your personal remit?
Please tick all that apply



Other:

- GDPR, Contract, Commercial

Interview comments

Oversight of the pension scheme by finance professionals tends to be at a high level, with other dedicated teams handling "the brunt of the day-to-day monitoring". The teams in question may be pensions departments, or in other organisations this role falls to a fiduciary management team and in one case an HR manager; "but that's more to do with the mechanics of the scheme and people's enquiries".

Two scenarios emerged during our interviews in which this situation is different from the general trend and that is either at a particular time of focus on the DB pension scheme (for example the triennial valuation) or because the finance professional is also a trustee or trustee director.

- "At the moment we're going through the triennial valuation process so this particular year there's even more meetings, more communication with the trustees' advisers."
- "It's been more involved this year – we've been working very closely with the trustees and our parent company to get some sort of parent company guarantee to enable us to have a smoother valuation process."
- "It depends on where we are in the cycle. When we did the GPP launch, I got more involved in that. The next thing will be to move our administration somewhere else so there's always an undercurrent of pensions rumbling along."
- "General finance directors in the company, because of their roles, would not have any detailed knowledge of the plan. I have a high degree of involvement as I sit on the trustee board and a couple of sub committees."
- "My main job is financial controller but the day to day running, any stuff that needs to be submitted for each year end for costings or what the transfers are if someone leaves that would come through me. I'm also a trustee of the pension scheme and the scheme administrator."

Key Findings

Which one issue related to your role is most likely to keep you up at night this year?

- Annuary valuation, need to resolve with trustees, how Brexit will develop
- Availability or refinancing options
- Balancing the budget - I work for a Local Authority
- Brexit and systems
- Brexit inspired sharp economic downturn
- Budget cuts due to grant reductions
- Business growth
- Cash flow
- Cash flow
- Cash generation
- Changes in regulation as they pertain to operational deliverables
- Changes in regulatory requirements
- Cost control
- Cyber security / fraud
- Data quality
- DB pension contribution rates
- DB pension deficit
- Dealing with latest actuarial valuation and arranging parent company guarantee and recovery plan
- Equity values, 40% at moment, to take more risk off table
- External market conditions that affect my accounts that I have no control over
- Financial performance vs budget
- Fraud
- Fraud prevention
- GDPR is on the rise at the moment
- GDPR - Data Protection
- Government funding for further education
- IT systems
- Managing working capital
- Mostly to do with sales incentive, commission payments
- Orders pipeline
- Overall employee benefits and overall revenue growth
- Overfunding pension
- Oversight of the pensions scheme, digital transformation and corporate strategy
- Pensions
- Performance
- Political stability, i.e. Russia
- Potential fraud
- Profitability
- Reporting timelines
- Reversal of investment gains
- Sources for funding capital projects
- The annual accounts
- The cost of pensions
- The financial reporting
- UK economy and Brexit implications

Key Findings

Interview comments

Comments from the interviewees ranged from the macroeconomic issues to specific pensions matters:

“We have trade wars kicking off with China and America potentially other countries and just general global strife that might be afoot currently and whether these things deteriorate and we find ourselves in a prolonged downturn.”

“We have three big legislative changes where we have to make sure we’re compliant – gender pay gap reporting, which we’ve done, tick, GDPR and payment reporting.”

“I guess it’s just balancing the costs, and investment into the scheme, alongside the current economic conditions and what could be future economic conditions that Brexit might pose.”

For another interviewee, “Brexit is Brexit, and we’ll see what happens”. “Pensions is one of the biggest issues that we have at the moment. The thing that resonates with us is derisking of the plan and from a corporate sponsor perspective, what do we want the scheme to be doing in order to minimise the risk of the requirement for further contributions from the company.”

Another interviewee cited a legacy issue. “No one in the pension scheme is actually employed by the company any more. It’s very much both a financial and a resource distraction, and liability – so we’d like it gone. What we’ve tried to do is to get rid of all the liabilities as best we can: liability management – all the normal things in terms of making smaller payments, trivial payments etc. We shut it a long time ago. For us it’s just a legacy issue.”

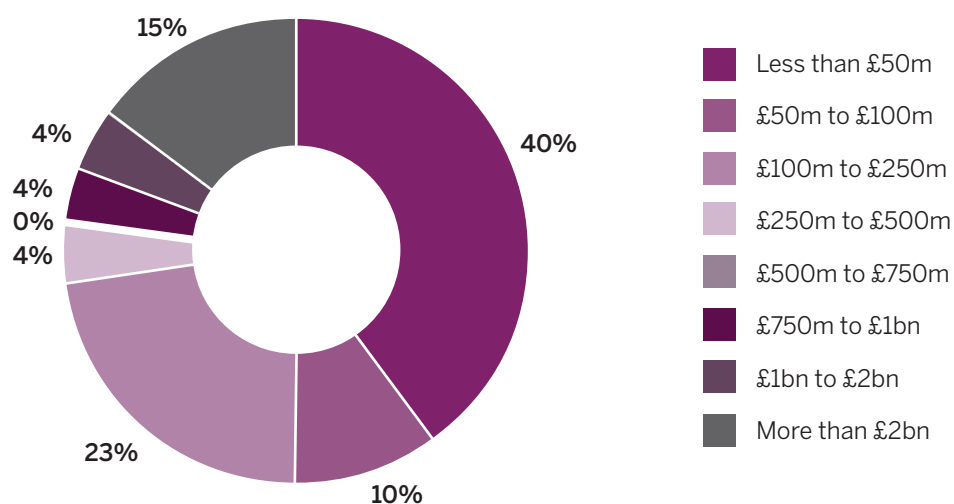
Funding position is a challenge currently faced by many of the finance professionals we interviewed. Interviewees gave

a target funding level of between 113 and 120% for their schemes and made the following comments with regard to their concerns on this issue:

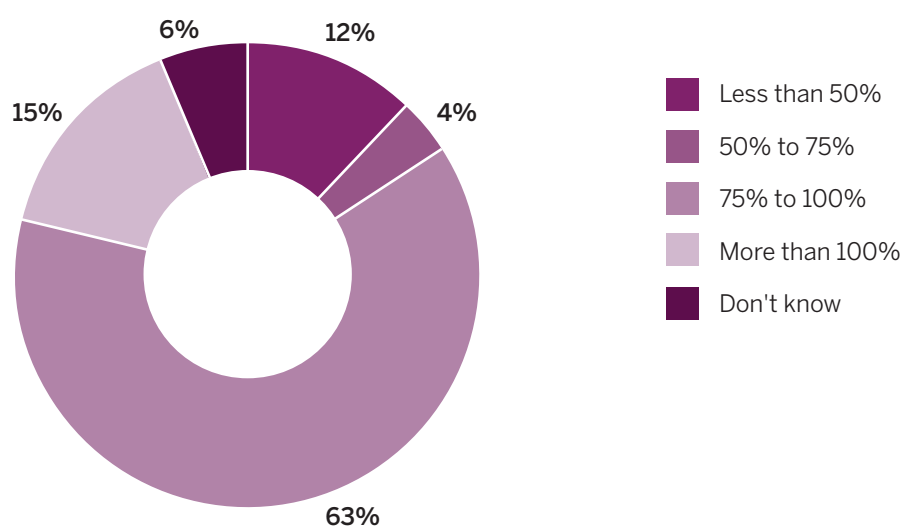
- “Our investment strategy reflects our funding position and requires use of some riskier investments. By that I mean equities rather than bonds or something else. We rely on some riskier return-seeking assets than we would like. But we balance that off by ensuring that we’re hedged appropriately against interest rate and inflation risk and appropriately hedge some of our assets against our liabilities.
- “We have a recovery plan that has been agreed with the company. We’re constantly, and I mean week-to-week, monitoring how the funding position of the plan is changing. We have the tools from our providers that enable us to do that.”
- “The parent company might look at - is it worth continuing; they might decide to close the scheme.”
- “On the basis of reduced numbers of active members and a large deferred population or retired population; that’s where we are at the moment. We’ve gone through a couple of exercises to try and reduce the liabilities within the plan; we’ve done a mitigation exercise and trivial commutation.”
- “I suppose [the triennial valuation date] could have been September the year before when everything was even worse but it was a very low point and it’s very difficult, it’s a big issue to resolve, and the pension regulator, quite rightly because obviously some companies abuse the situation, has obviously toughened up and made it a stricter process with more formal securities in place and guarantees and a more involved process.”
- “We’re merging our two DB schemes; one is in deficit, one is in surplus, and the merger will allow us to have a less aggressive recovery plan.

Key Findings

What is the approximate size (assets) of your main defined benefit pension scheme?



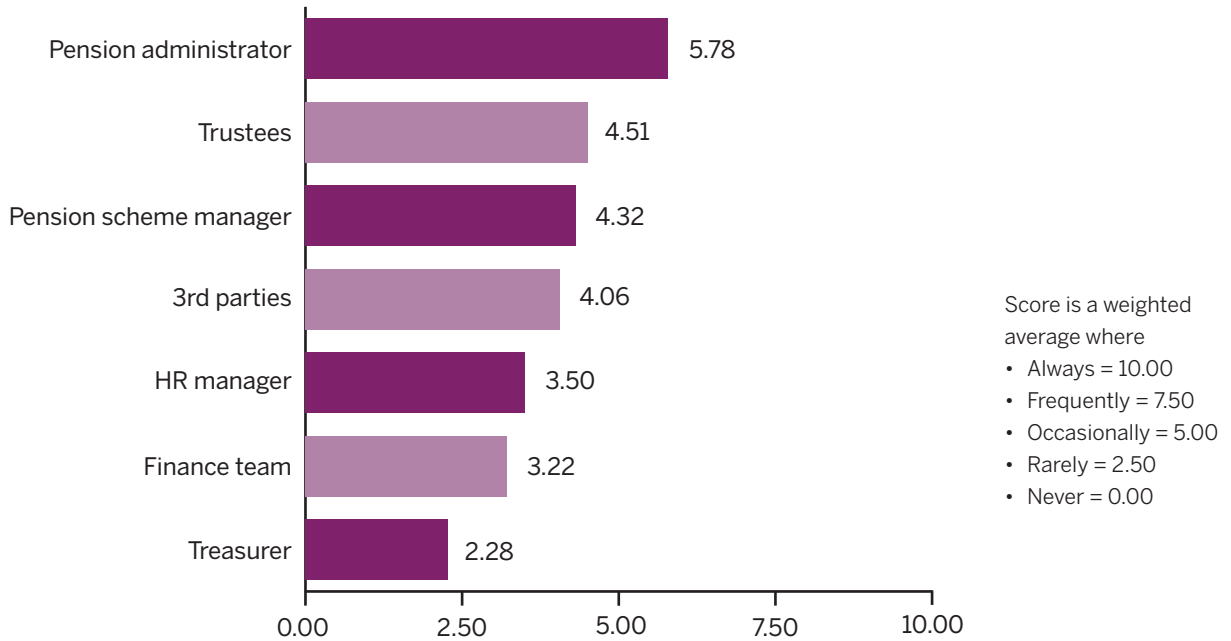
If known, what is the funding level of your scheme?



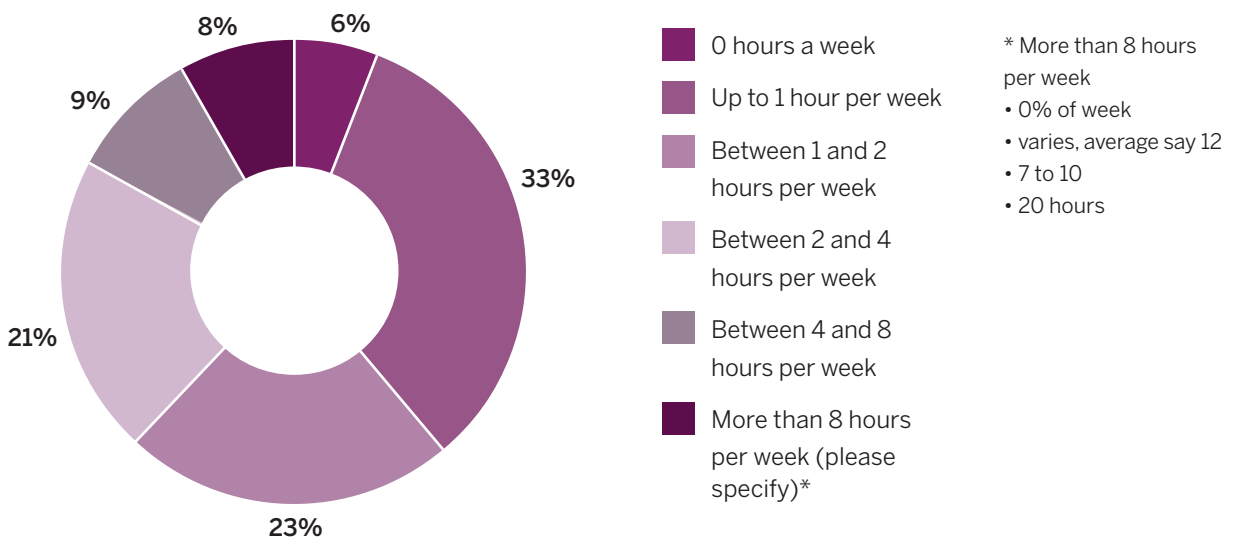
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Key Findings

How often would you usually delegate your own pension scheme-related responsibilities to one of the following personnel?



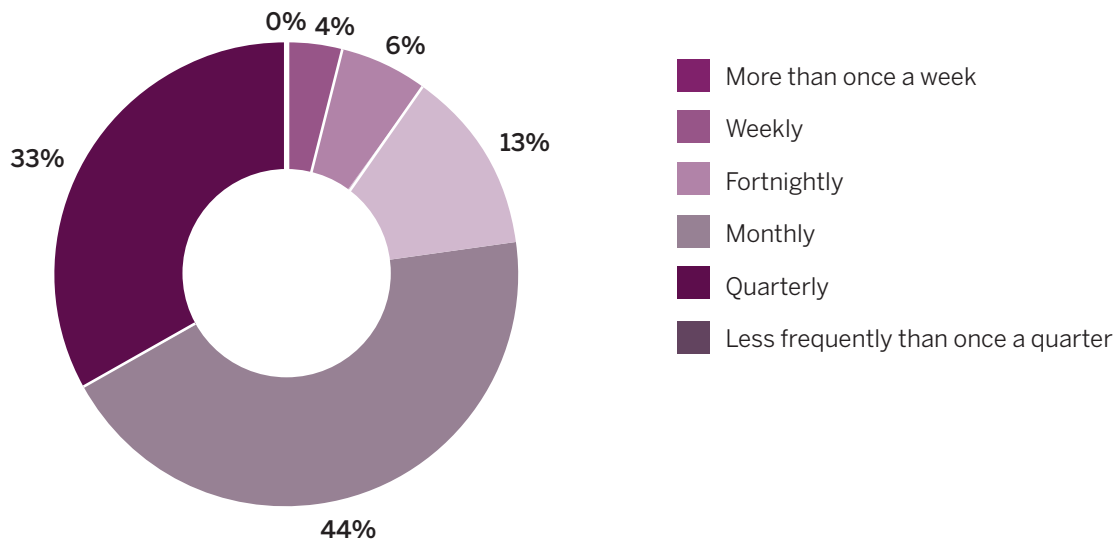
Over the course of an average week, approximately how many hours would you devote to dealing with pension scheme issues?



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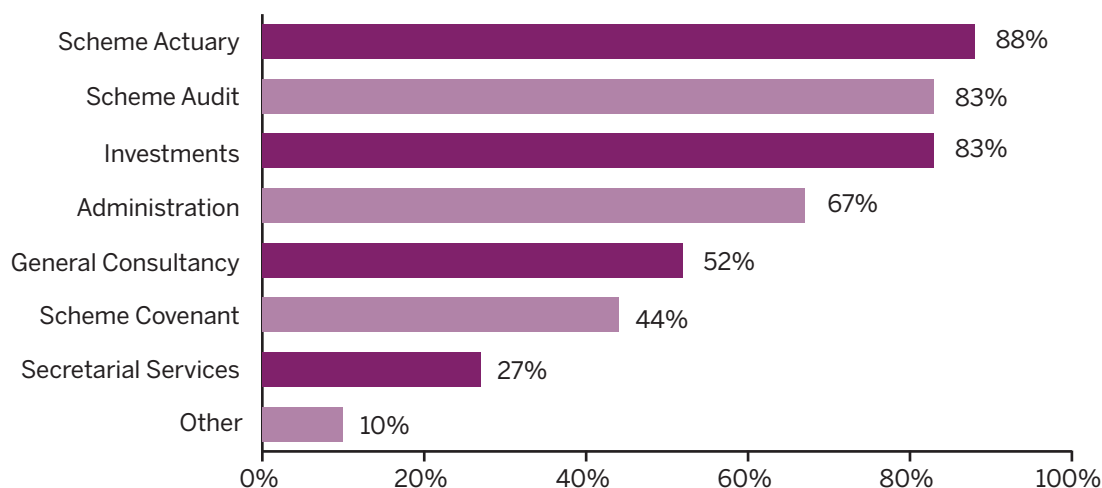
Key Findings

How often would you typically discuss pension scheme matters with your CEO?

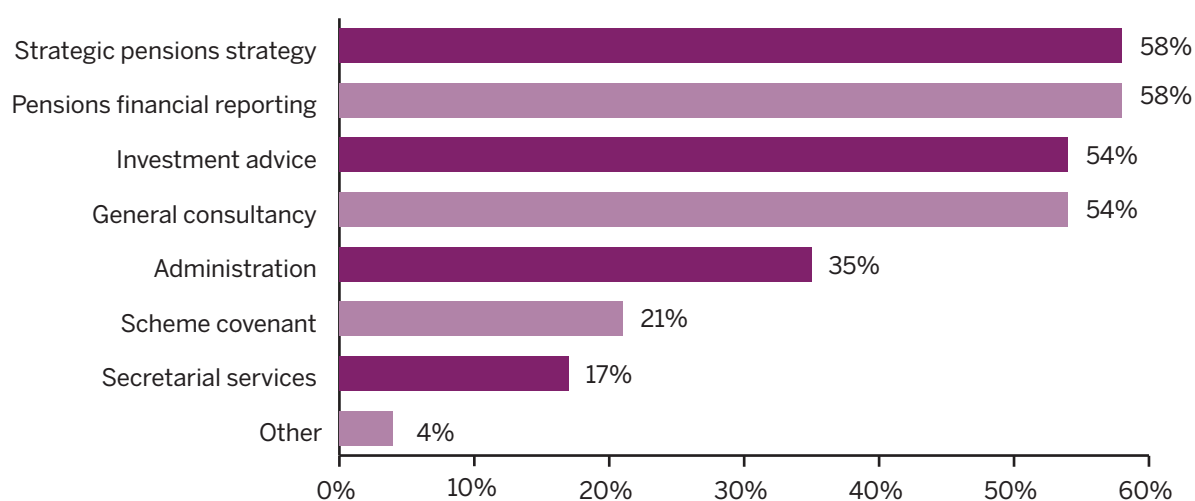


Key Findings

Which of the following do your Trustees currently employ the services of an external consultant for? You may select more than one option



Which of the following does your company employ the services of an external consultant for? You may select more than one option



Other:

- Actuarial
- Training/Education

Key Findings

Which of the following topics would you like to see more coverage of/more information on? You may select more than one option.



*(Transfer exercises, Pension Increase Exchanges, early retirement exercise)

Key Findings

Interview comments

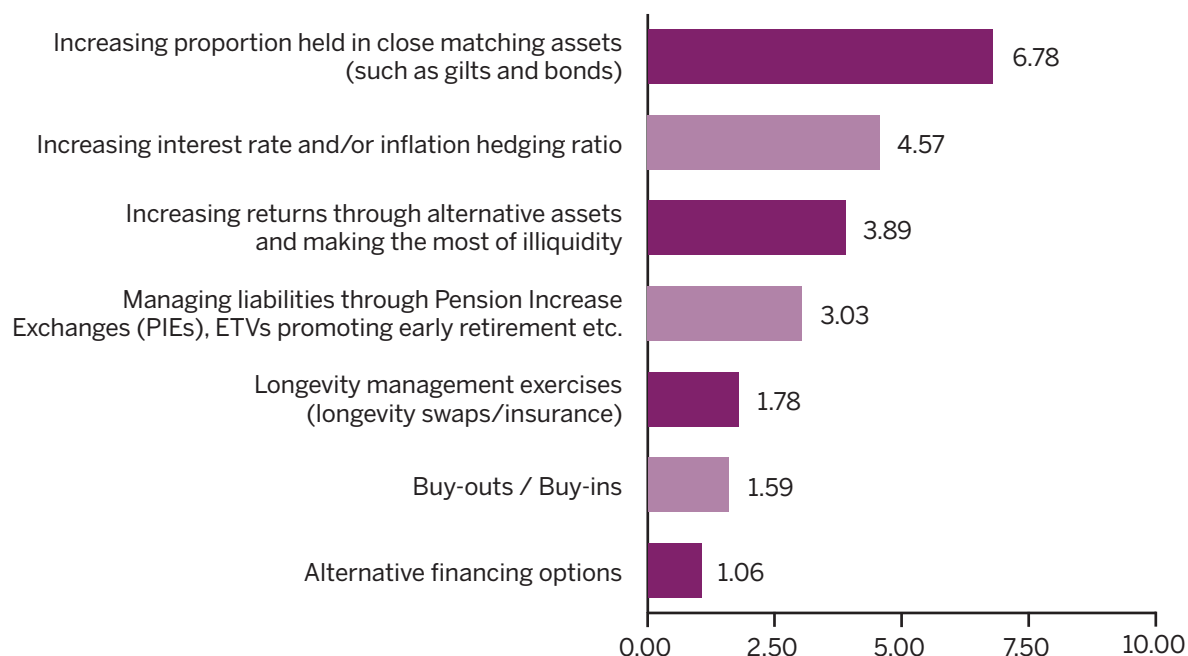
Interviewees made the following remarks with regard to their information needs:

- “Briefings from Aon make me aware of topics that are occurring.”
- “Conferences are very good. It’s very easy in your day to day life to be busy with things. There you can keep abreast of the issues and dip into the ones most relevant to you.”
- “Integrated risk management is relatively new to us as a trustee board. That’s something we’ve been considering over the last year and we have put in place some KPIs to help us understand that risk.”
- “Buy in/buy out – we’re not really in the position at the moment to look at those too closely. We monitor the relative price differential but because we’re not fully funded then we’re not in a position really to seriously look at that type of option. At some point in the future we’d love to be in that position. We do monitor what the costs of particularly buy outs are and I think they may have come down in price but they still offer a healthy premium to the funding position.”
- “We’ve started to look at one or two ideas around introducing member options. I don’t think we’ve exhausted the list of options. For example we haven’t looked yet at whether we could write to members and say well in exchange for your inflation-related pension we’ll offer you a slightly higher fixed pension now that won’t go up any more. I know some schemes have looked at that; my stepfather’s scheme for example has gone that far and offered members a higher pension now but they give up any RPI increases in the future. We’ve not done that.”
- “I guess there’s not a lot of information on what is going to happen after Brexit. I guess that’s everyone’s main concern.”
- “Investment strategy is top of the list. It’s one of those areas that affects the valuation. If you’ve not been prudent enough or you’ve been too prudent. It’s a grey area. What is prudent? The regulator can come along and say you’ve not been prudent enough. It’s very difficult to get the right flavour.”
- “The additional cost of fiduciary management is marginal, compared to what we’d incur if we tried to do it ourselves. And they’re better placed than us, and it is their day job, as opposed to us who have other day jobs, which don’t enable us to act as quickly as they can. In the past, we’ve found that where there have been opportunities to de-risk, whether that’s crystallising the gains on equities and transferring to gilts that better match our liability duration - in the past, when it’s been a good time for that, by the time you get agreement from the company to do that (because you don’t want to bite the hand that feeds you), that opportunity has been missed. And similarly with buy ins – we’ve often missed that. So if you can have some mechanism in place where you can act more quickly to take advantage as opportunities arise – fiduciary management offers that in one fell swoop.”

Key Findings

How far has your scheme gone towards implementing the following risk reduction projects?

	Already implemented	Currently implementing	Planning to implement	Considering over next 18 months	Not considering
Increasing proportion held in close matching assets (such as gilts and bonds)	48%	19%	2%	17%	13%
Longevity management exercises (longevity swaps/insurance)	4%	2%	12%	27%	56%
Increasing interest rate and/or inflation hedging ratio	23%	17%	10%	19%	31%
Increasing returns through alternative assets and making the most of illiquidity	23%	12%	4%	21%	40%
Managing liabilities through Pension Increase Exchanges (PIEs), ETVs promoting early retirement etc.	12%	12%	10%	21%	46%
Alternative financing options	2%	2%	4%	21%	71%
Buy-outs / Buy-ins	4%	0%	8%	33%	56%

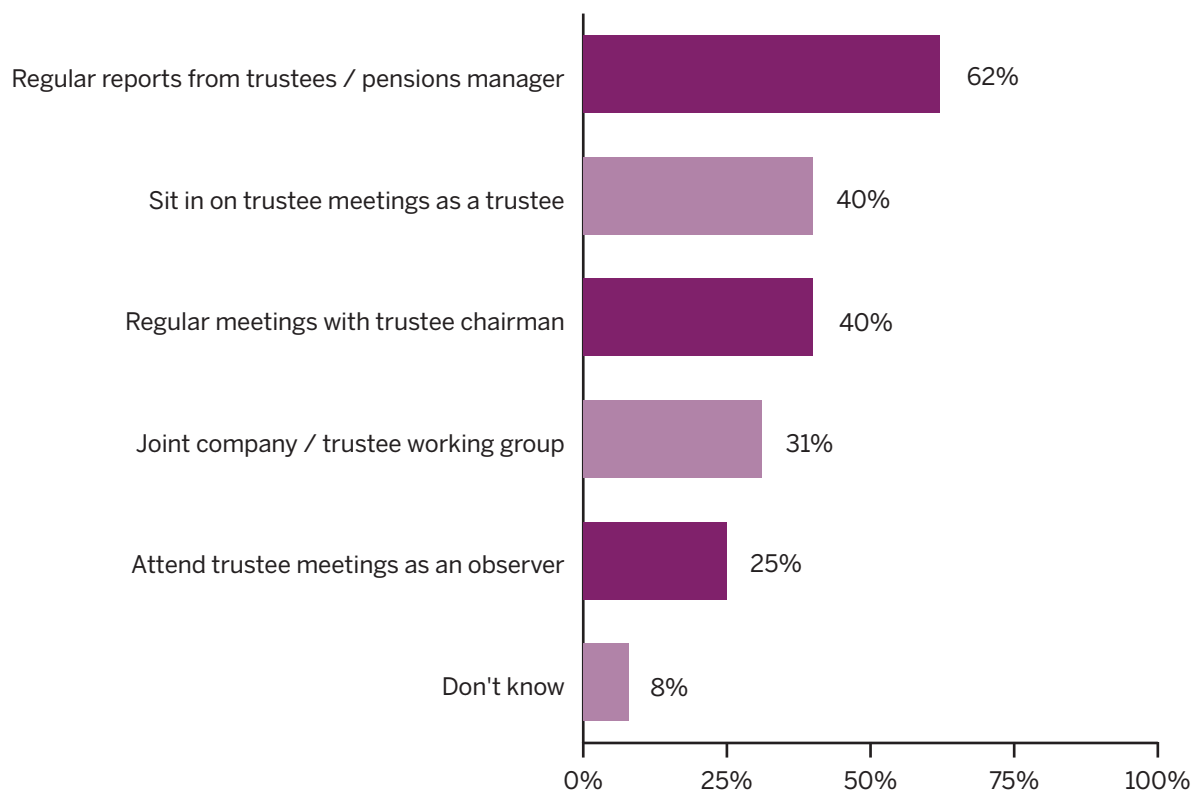


Score is a weighted average where

- Already implemented = 10.00
- Currently implementing = 7.50
- Planning to implement = 5.00
- Considering over the next 18 months = 2.50
- Not considering = 0.00

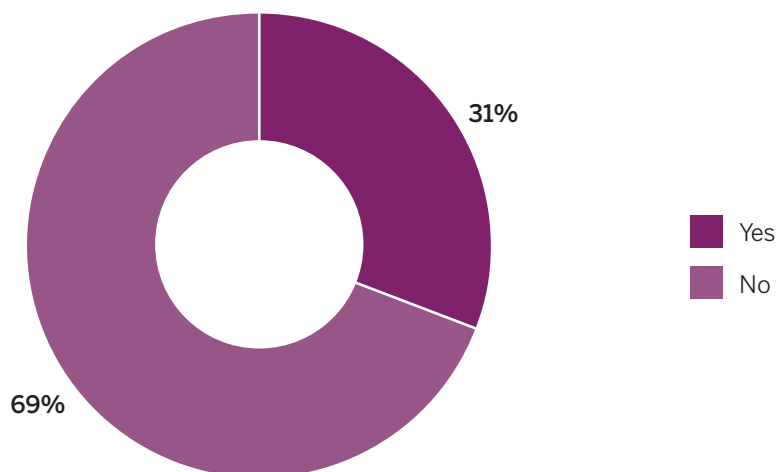
Key Findings

How do you communicate and negotiate with trustees? Please tick all that apply



Key Findings

Would you consider yourself as the final decision maker regarding the corporate aspects of DB pension matters?



Please specify (by their job title) which personnel are the final decision makers regarding DB pension matters

- | | | |
|--|---|--|
| <ul style="list-style-type: none"> • Board of governors • CEO • CEO • CEO / Trustee board • CFO • CFO • CFO • CFO • CFO • CFO • CFO • Charity trustees • Company secretary • County council member • Deputy general secretary | <ul style="list-style-type: none"> • Director of HR • Global chief finance officer/
Group board of directors • Group CFO • Group of directors • Group pensions committee
(of which I am a member).
Includes Group CFO and Group
HR director • Group treasury • Joint working group • Local authority • Managing director • Shareholders | <ul style="list-style-type: none"> • The board • The board of directors • The committee • Treasurer • Trustee board • Trustee/company combination • Trustees • Trustees • Trustees • Trustees • Vice president of finance • Vice president |
|--|---|--|

Key Findings

What one thing would improve your working relationship with your pension scheme trustees?

- A rise in discount rate
- Alignment of strategy post 100% funding of Statutory Funding Obligations
- Already have a very good relationship
- Better advisors
- Better communication in terms which non experts would understand
- Better reporting and collaboration
- Better understanding of differences and reasons between FRS102 and actuarial valuations
- Better understanding of other sides needs
- Clearer communication (de-jargon)
- Communication is good
- Currently works well
- Establish mutual understanding and balancing of pensions responsibilities and corporate constraints
- Excellent relationship
- Extra capacity to be able to give them more frequent training. Elected members are really good, but we need extra capacity to train them in a changing environment.
- For them to better understand the business needs of short term and long term cash flow requirements and the understanding that releasing obligations now would benefit both the pension scheme and the business in the long term
- Get on quite well
- Get rid of them
- Good position, very open, don't have anything I want to change
- Good working relationship. Would be useful to attend trustee meetings periodically
- I am a trustee
- I think if the Group CFO had attended meetings more frequently than once a year such as twice or three times a year we would have been able to get the answer to queries we had much easier.
- If they actually gave notes of the meetings
- Improving our position on the DB scheme by reducing risk and the deficit
- It's fine
- key thing is more trustee training
- more communication from group
- More information regularly
- More regular meetings
- More time in trustee meetings
- N/A
- Not any communication, so anything
- Nothing
- Nothing
- Nothing – we have a good working relationship
- Nothing as I am a Trustee
- Nothing I can think of
- Nothing – our relationship is very good
- Reducing third party adviser conflict
- regular communication
- Regular meetings
- Relationship is productive
- The trustees recognising need for balanced relationship with company as a stakeholder
- Trustees better able to assess downside as well as upside in investment decisions
- Very good
- We have a very good relationship and they share information with me and we attend their meetings so no issues in this area
- Wider direct engagement by trustees
- Works well at present

Key Findings

Interview comments

Generally, interviewees reported good working relationships with the trustee board, and respect for their knowledge and commitment:

- “When things are difficult we work together to resolve it.”
- “They all do the trustee training, so they are all kept up to date and they’re all knowledgeable. They know and understand the background quite well and therefore can engage in good discussions.”
- “They aren’t totally taking what the advisers say, they actively participate not just accept that what the adviser says is gospel.”
- “They all take their responsibility very seriously.”

Good communication is imperative

- “I’d say open contact is a very important part of the working relationship. The trustees need to feel that the people they’re talking to from the company have the same aims in mind and that is the most important thing to getting a constructive working relationship.”
- “Better communication is something we’ve learned

recently. We know trustees engage with the directors or finance when it comes to valuations and maybe we should be communicating more regularly, maybe every quarter, so nothing comes as a shock.”

Interviewees have observed that relationships can become more strained when the trustees have different objectives to the company:

- “Where the scheme has got a £1bn+ deficit and the company is only putting in £100m a year or so and therefore in financial terms there is a very large number which is only being closed out over a long period. I think that’s where the relationships come under much more stress because at that point the trustees’ aim to get to self-sufficiency quickly is different to the company’s aim to preserve flexibility over their use of cash.”

Trustee recruitment can be a challenge:

- “We’ve found it difficult to get members; we’re short one member on the member-nominated trustees. It’s quite hard to get people with an interest to come on board.”

Key Findings

If you were appointed pensions minister, what would be the first thing on your agenda?

- Abolish RPI for benefits growth.
- Amend parameters for PPF LEVY AND FRS to more closely align with triennial actuarial parameters particularly on asset classes rather than fictional non relevant restricted options which have no bearing to actual experience of the scheme.
- Better balance between pressure on employers to support schemes and protection of members' benefits.
- Brexit considerations.
- Challenge the ongoing valuation methodology.
- Change auto-enrolment rules to pay contributions on all earnings.
- Change RPI to CPI for across the UK.
- Check where is the nearest fire exit.
- Clarify RPI CPI
- Clearing the red tape
- Costs
- Don't make any more changes
- Funding gaps
- Give the LGPS pools a bit more flexibility in the arrangements going forwards
- Giving more flexibility on repayment plans to have payment holidays and/or small payments in the near future
- Governance
- Happy, appointed
- Harmonisation of benefits across sectors
- Have a detailed look at pensions system, see how it could work
- I don't know
- I would revise the auto enrolment scheme to reflect more business concerns around cost of it
- I'd encourage taking a longer view on reducing deficits. Less than 10 years is too short.
- Increase annual allowance and reinstate tax benefits of investing in pensions
- Increase input in terms of pensions
- Increase lifetime and annual allowances
- Increase penalties for underfunded schemes while dividends and management bonuses are being paid
- Increasing contribution levels across DC
- Look at re-balancing demands/expectations of generous government DB schemes which the many fund for the few
- Moving all public sector employees to a DC scheme! Moving away from IAS19 to a fund to buy-out model
- None
- Put it back to how it was in the past
- Reduce SPA
- Review of the pension fund performance
- Separate high-risk schemes from low-risk schemes. Focus on schemes that need focus - not painting all schemes with the same wide stroke.
- Simplification
- Simplification
- Simplification and Education
- Simplify regulation
- Simplifying member choices
- Sustainable solution to future pensions in the UK
- Tackling the mis-selling of financial advice, due to pensions freedom. Mis-selling of IFA advice.
- The success of AE
- To increase the level of contributions for high net worth individuals, think its far too low
- To make sure that deficit is covered for everybody
- To resign
- To try and not keep tinkering with the system, everybody comes in and tinkers, pensions are long term and as such the rules need to be applied long term for the system to work
- To try to get the level of stakeholder pensions to a more realistic level
- Try and review what PPF companies way, how level works
- We need to have pensions simplifications and legislations too complicated

Key Findings

And lastly, where do you go for news/education relevant to your role?

- Accountancy firms Actuarial firms The Pensions Regulator
- Advisors
- Advisors and regular updates
- Advisors such as Aon, Eversheds, Slaughter & May, LCP, etc
- All sources from daily BBC website to monthly accounting publications
- Aon and Barnett Waddingham
- Aon annual conference and LGPS conferences.
- Aon updates, Pension magazines
- Attend certain seminars, Mumbai pension advisers, training sessions, regular emails from Aon for example
- Attend conferences and receive relevant publications by e-mail from advisors
- Aviva
- Barnett Waddingham as our scheme administrator
- Chair of Trustees
- Chosen consultants
- CIMA/ACCA
- Conferences Lawyers updates Consultant's training
- Conferences, seminars
- County council
- Emails from members of charity finance groups, CFG
- Financial news
- Hymans/AON newsletters
- I use Aon Hewitt, training and trustee board/toolkit/professional pensions magazine
- ICAEW
- ICAEW magazine
- Internet
- Internet - government scheme advice and reputable news agencies for commentary
- Internet, FT
- JLT
- Magazine such as Professional Pensions, updates and emails from the consultants which have been named in this survey also through events which I have attended.
- Magazines, Professional Pensions, administrators hold seminars
- Multiple newsletters, relevant seminars, visiting investment managers, advisors training
- One or two conferences/training
- Online
- Online news in relevant journals, attending directly relevant conferences and other meetings.
- Pension advisors
- Pension regulator website
- Pension regulator, general few bits and pieces ACCA
- Pensions press, various in house training arrangements and seminars
- Prag
- Professional advisers
- Professional Pensions
- Professional Pensions and a number of industry seminars/conferences.
- Professional Pensions newsletter and magazine
- Professional Pensions. I also rely on my team
- Public domain and advisors
- FT
- Times Ed FE Week Accountancy
- To Willis Towers Watson the internet also, and periodicals
- TPR WEBSITE seminars / webinars newsletters from professional pension advisors
- Trade journals
- Various
- Webinars, conferences and new letters
- Website, good pensions forum

