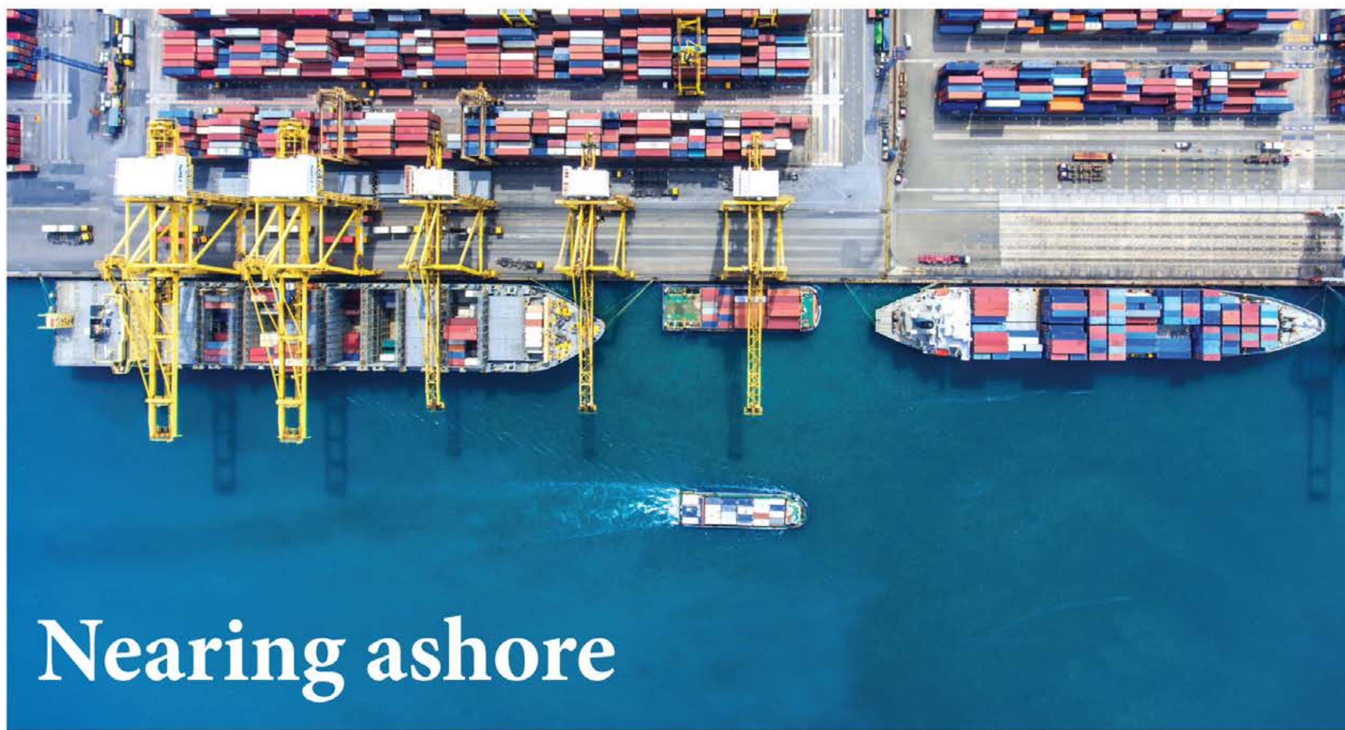

Nearing ashore

Unlike many other pension funds, the MNOPF managed to close its DB scheme to future accrual without protest. It has also successfully wound up its old section DB scheme and is on path to complete its journey plan by 2025. Natalie Tuck speaks to the fund's chief executive Andy Waring on the fund's success and the next seven years

Seven years is just a short amount of time for the Merchant Navy Officers Pension Fund (MNOPF), given its 80-year history, but as its chief executive Andy Waring notes, if the team do a fantastic job, then there may not be an MNOPF in 2025.

Since the financial crisis the fund has learnt "incredibly fast", Waring states. "We adapted our governance strategy immediately in 2009 and it has served us really well. We've been benefitting from it ever since. That is why the funding level has improved and we are on a steady journey to get fully funded by 2025."

The fund's latest figures, up to the end of March 2016, show it had a deficit of £266 million, with liabilities of £3.2 billion and assets of £2.9 billion, giving it a funding level of 92 per cent. Back in 2009, however, the fund was in different health, with its actuarial valuation revealing a deficit of £740 million, and a funding level of just 68 per cent.

All change

Since then, the fund has gone through lots of change. It closed to new members as far back as 1996 but didn't close to future accrual until 2016, when there were around 600 active members left in the fund. Following the 2015 actuarial valuation, it was advised that to meet future liabilities the contribution level would need to rise from 32.4 per cent to 42.5 per cent.

"Both the union and employers agreed that it was too high a contribution level for the benefit being provided (career average defined benefit scheme). They reached agreement to close the fund, but only on the basis that the current contribution rate (approx 30 per cent) would be paid into the defined contribution arrangement," he explains.

As a result, the MNOPF put a replica copy of the defined contribution Ensign Retirement Plan, which had been set up the previous year for maritime workers, within the existing legal structure of the fund, naming it the Ensign Retirement Plan for the MNOPF.

"It was an attractive benefit package for the members, but it was also good for the employers because it stopped them accruing further liabilities and having to pay the higher contribution rate, and employees didn't see their contribution rate go up either. It was a win for the members, a win for the employers and it was wholly consistent with the MNOPF's journey plan," Waring says.

Closing the fund to future accrual also saved schemes from having to pay Section 75 lump sums every time an employer ceased to employ active

maturity of the members, there were several employers triggering the statutory debt each year, and it risked putting them out of business.

"The way the debt gets calculated in a multi-employer scheme like the MNOPF produces a very significant figure that employers were having to find if they stopped employing active members[…] By simultaneously closing the scheme to future accrual and switching all the members from defined benefit to defined contribution, it meant that they all then avoided, or deferred, the triggering of that statutory debt."

The MNOPF has also successfully wound up the old section of the defined benefit scheme, which was for benefits accrued pre-1978, through a series of de-risking exercises. It has also undertaken a longevity hedge on the remaining DB section, for benefits accrued post-1978.

The fund had realised longevity risk was fast becoming its biggest risk. As a result, in 2014, it completed a £1.5 billion longevity hedge, insuring the longevity risk of all of the pensioners in the new section. Waring says that the transaction reduced the overall risk in the fund by about 10 per cent.

"At that point we didn't do a buy-in because with buy-ins you need to hand over assets to the insurers and we didn't really have the capital flexibility to hand over the assets," he said.

Coming up next

However, with the fund in a much healthier position, could it be eyeing up more de-risking exercises in the future? "Absolutely," answers Waring. "Our journey plan is about securing the promise to members and we aim to do that by 2025. We're not saying exactly how we're going to secure those promises but you can probably read something into how we dealt with the old section to see what is possibly in our minds."

Giving away more information, he explains the fund is now at a position where it can look at other insurance transactions, such as a buy-in, to secure some of the new pensioner liabilities that have emerged since undertaking the longevity hedge. "Our new pensioners are emerging at about £200 million a year in terms of liability, so it is quite rapid. But we are trying to balance securing promises to members with investment flexibility in the portfolio. If things go wrong you need to have the investment flexibility to put it right."

He is confident, however, that when the time comes, the fund will be able to secure a good deal: "We are quite pro-active, we are very innovative, we are amongst the leaders. We find there are price advantages, those competitive advantages, if you are prepared to be a first mover. We are always looking out for new ideas and we challenge providers to be innovative. It is probably a testimony to how our funding level has improved overtime as to how successfully we have managed to de-risk."

His advice to other schemes is to have a clear long-term strategy for the fund and set targets as to how progress can be measured. He also suggests funds look at all the options, be prepared to innovate and invest in relationships with potential future counter parties. "Insurers give the best ideas, pricing and opportunities to those funds that have the governance and the ability to transact," Waring states.

Communication

Amongst all the complexity of de-risking, Waring realises the importance of keeping members reassured. As well as all of the usual ways of communication, such as writing to members, the website, newsletters and the use of social media, the MNOPF also hosts a series of member forums.

He will next be making a trip to Plymouth, where all the members that live in the South West are invited to attend a talk about the fund and ask any questions they have. The fund attempts to get to every region in each valuation cycle, hosting three to four member forums each year.

"It is easy for people in our industry to forget what it is about, that the widow who lives in Barrow-in-Furness is utterly reliant on the MNOPF paying her pension. It is so easy to forget that this is what we are doing. I think the investment community in particular forgets that far too easily," he says, adding that mostly members just want to hear that their pension is ok.

On top of this, the fund also hosts employer forums in London, usually twice a year, where companies participating in the scheme can ask questions to the executive team. However, Waring says that employer interest in the fund is wavering, which doesn't surprise him, given the fund's current "comfortable position".

Looking to the future

As well as the fund being on the de-risking journey, so too is the trustee. At the end of June, the trustee board reduced in size from 14 to 10 directors. "We are taking the trustee on a simplification journey as well. We are not reducing the governance, we are looking at the roles of the committees and boards and simplifying."

To no forget the maritime workers who will become the pensioners of the future, there is the master trust, Ensign Retirement Plan, which is available to everyone in the industry. Combined with the Ensign Retirement Plan for the MNOPF, it has £50 million of assets and 90 employers signed up. It already has some big names on board, such as Stena Line and Maersk.

"The whole purpose of the Ensign Retirement Plan is about improving the retirement outcomes of people in the sector. It has good contribution rates, good investment options, low charges and flexibility. It has a joint contribution rate of 10 per cent but we encourage employers to contribute more," Waring says. "We're trying to put in place the new MNOPF for the new generation."

Written by Natalie Tuck