Staying strong

Adam Cadle talks to Weetabix Group Pension Scheme chair of trustees Ian Forrest about the recent successes within its retirement plans and what the future holds

Can you outline the structural workings of the Weetabix Group DB and DC pension schemes?
The DB scheme closed to new entrants with effect from 5 April 2013. Members who joined prior to that date continue to accrue DB pension, but employees joining the business after that date join the Weetabix Group Personal Pension Plan (WGPPP).

Could you outline the funding status of each scheme?
The DB schemes within the group have modest deficits versus their technical provisions, in the context of the Weetabix Group. There are no funding issues in relation to the WGPPP given it is a standalone DC arrangement.

The Weetabix Group pension scheme recently won the Best Investment Strategy Award at the Pensions Age Awards 2016. Could you explain your current investment strategies you are utilising in the current market?
In order to reduce the volatility of the scheme's funding position and variability of sponsor contribution requirements, over the last couple of years we have worked with Mercer to design an integrated investment and funding strategy. We have revolutionised the scheme's investment arrangements (with the new strategy having been in place since June 2015) and now employ a well-integrated funding and investment strategy, termed cashflow-driven financing.

From an investment perspective, key to the approach is the use of income-generating assets, with the objective to provide a reasonably high cashflow match for the scheme's expected benefit cashflows. The current asset portfolio therefore consists of long-term buy and maintain corporate bonds, which form the 'bedrock' of the strategy, alternative credit investments (specifically, high-yield debt, multi-asset credit, income-focused property, and private debt), and liability-hedging funds (which aim to achieve a 100 per cent hedge ratio of liability interest rate and inflation exposure).

The scheme's investment strategy is integrated with the funding approach. In particular, a dynamic discount rate methodology is used whereby the actuarial discount rate (on the technical provisions basis) is linked to the current yield available on the asset portfolio and is re-assessed by the scheme actuary on a monthly basis. Since the new integrated strategy was fully implemented in June 2015, the scheme's funding level has continued to progress reasonably steadily. In particular, we have seen a lot less volatility than we would have experienced with our old strategy (which had more traditional investment arrangements, including an allocation to equities and other more traditional growth assets). The scheme's funding position has been largely unaffected by changes in gilt yields or credit spreads and, in particular, was unaffected by equity market falls in August 2015 and January 2016.

Have any of the schemes undergone a de-risking exercise or does the firm expect to undergo any more in the near future?
We would see the move to the new cashflow-driven financing strategy as a de-risking exercise in itself.

As already mentioned, the scheme's assets are invested in income-generating securities to achieve a reasonably high cashflow match for the projected liabilities. As part of this, we have removed equity risk (as the asset portfolio consists of purely fixed-income instruments and income-focused property) and minimised interest rate and inflation risk by targeting a 100 per cent hedge ratio. The approach we have implemented also mitigates the risk of needing to disinvest from the scheme's asset portfolio to access cash (for example to meet benefit payments) when asset prices are depressed.

We have also considered and tried to minimise the impact of reinvestment and default risks by adopting prudent assumptions within the overall approach (particularly within the discount rate methodology).

As a next step on overall risk management, we are now considering how we can further address the remaining risks to which the scheme is exposed, for example longevity risk.

What are the Weetabix trustees doing to combat the threat of scams to beneficiaries?
We have communicated with our members on the need to be vigilant and in particular to adopt the attitude that if an offer seems to be good to be true, it probably is. We intend to continue to remind our members about this.

Our administrators are experienced and bring to our attention any request for a transfer to an arrangement that may be a scam. This allows us to take appropriate steps.

How is the scheme administered? Is it through a third-party administrator?
We have appointed Mercer to manage the scheme's trustee bank account and take on other administrative duties.

As the intention is for some investment income to be received into the trustee bank account to help meet benefit obligations, cashflow management is important – so this is an important feature of our relationship and agreement with the Mercer team.

What issues in the near future do you see as being potentially problematic for the scheme?
As highlighted earlier, we're conscious that longevity remains a key risk for us and are investigating the ways we could look to mitigate this with our advisers.

In addition, from an investment perspective the governance associated with our type of approach could become an issue – but we've worked hard with Mercer to ensure that sensible processes are in place for us to be able to assess the success of our strategy effectively. In particular, we make use of Mercer's fiduciary or implemented platform, which vastly reduces the governance burden.

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As the issues around occupational pension schemes become more complex and better regulated, we have an ongoing training programme in place, which ensures that governance of the pension scheme evolves and that we, the trustees, understand our duties and responsibilities.

Written by Adam Cadle

Weetabix Group Pension Scheme
The Weetabix Group Pension Scheme (c.£500 million asset portfolio) had a reasonably traditional portfolio, with defined allocations to growth assets (equities, property, and diversified growth fund exposures) and matching assets. In 2013, the trustees and sponsoring company initiated dynamic de-risking of the overall investment strategy of the scheme. This involved (over 2013-14) increasing hedging of interest rate and inflation exposures at market-favourable rates and opportunistically selling growth assets to capture upturns in market valuations. As a result, funding levels saw a significant improvement by Q2 2015.