A drip, drip, drip approach

Speaking at the recent PLSA investment conference, Plumbing Pensions chief executive Kate Yates explains how the DB master trust has been reducing its risk and why you do not always need to know the ultimate end game at the start of the de-risking process

"Nothing is straightforward when you run a multi-employer pension scheme," Plumbing Pensions chief executive Kate Yates states. However, she lists three things that have helped the scheme on its investment journey – getting the governance right, understanding its risks and timely trustee training.

Plumbing Pensions is the industry-wide pension scheme for plumbers around the UK. It has assets of over £2 billion, 35,000 members and 350 contributing employers. It was set up in the 1970s to provide plumbers access to good quality, low cost, DB pension plans.

It closed in 2014 to new employers and is currently consulting on whether to close to future accrual – if so, that is likely to occur later this year.

The scheme's trustee board is made up of employer and trade union representatives, along with two independent trustees. It used to have a larger trustee board, but a smaller board sped up decision making, Yates notes.

The trustee board reports into a group made up of employer trade associations, representing all the geographical regions around the UK, and a union. This group has the decision-making powers that a sponsor in a typical pension scheme would have, she explains.

Plumbing Pensions made the deliberate decision not to have a separate investment committee, desiring to keep these decisions at board level. However, a sub-committee is used for some investment matters, such as the first-round interviews of new investment managers.

According to Yates, the trustee board has spent considerable time looking at the employer covenant that underlines the scheme.

"We have been lucky as we have not had to ask employers to pay extra contributions to plug a funding gap. However, that means that our employer covenant remains untested," she says.

As the scheme closed to new employers, it had "a quite racy investment strategy", which "produced some great investment returns and it helped keep pension contribution rates low and affordable", Yates states. However, the risk of this strategy going wrong "did not make for easy sleeping", she adds.

Therefore, the scheme considered a buy-in. According to Yates, it took time for everyone to get comfortable with the idea of transferring a significant sum of assets to an insurer as a one-off decision; there's no going back. "Our trustee board were particularly concerned about the long-term viability of the UK insurers being considered."

The buy-in of all pensioner members occurred in June 2017. Everyone is happy with this, Yates says. "We have swapped reliance on employer covenant for a large chunk of our liabilities with reliance on a highly-regulated UK insurance regime. We've got perfectly matching assets for all of our pensioner members and it helped with our cashflow too," she explains.

The plan after this was to adopt a mostly return-seeking strategy, as with just active and deferred members left, "there was quite a long timeframe before we needed the money to pay their benefits".

However, it was around this time that employers started to tell Plumbing Pensions that they could not afford to pay any higher pension contributions. Also, some wanted to leave the scheme.

In response, a less risky, diversified investment approach was decided upon.

Therefore, the past year has seen Plumbing Pensions sell off all of its UK equities, and most of its global equities. Instead it is looking to invest in a range of assets, which includes credit, leveraged liability-driven investment, property and illiquids, such as infrastructure.

"We know that our risks will reduce over time. As our members get older and start to take their benefits, it will get easier for the pension scheme to buy matching assets and hopefully cheaper to do further buy-ins," Yates says.

"We are in a fortunate position because we are nearly fully funded on a self-sufficiency basis. But we don't know at this particular point in time whether our end game is self-sufficiency or whether it is full buyout. But it doesn't particularly matter, as the initial journey for both of those end games is the same," Yates explains.

Therefore, Yates states that Plumbing Pensions is adopting a "slow and steady" approach to de-risking.

"We don't quite know what our end point is going to be, but we are pretty sure we are heading in the right direction and it's been an interesting journey so far."

Written by Laura Blows