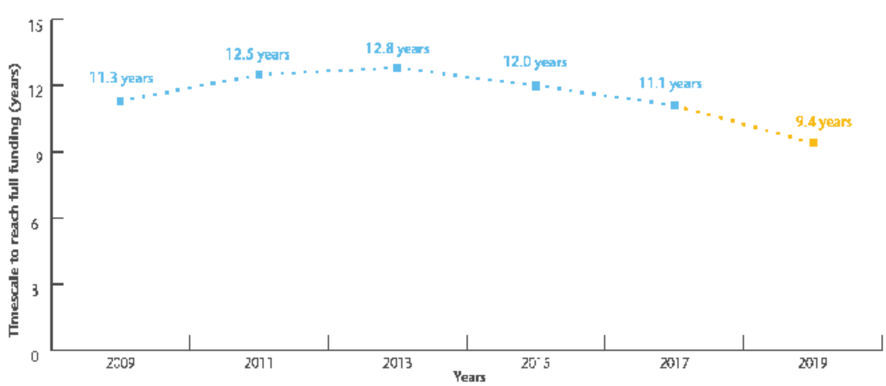
Summary
• The endgame may be closer than you think; 90 per cent of schemes have a long-term target and aim to be there in under 10 years.
• Start your preparations early. Do not leave it too late to start working on data or considering member options. Now is the time to focus on these areas.
• Capacity. There is potential that in the future there will be limited capacity with insurers, the IFA market or administrators to enable schemes to realise their objectives. Prepare now to avoid being at the back of a queue!

In it together

David Pharo and Thomas Williams explain the importance of partnership with your administration provider when de-risking

Recently, employers and trustees have been increasingly focused on the endgame.

We know this because Aon recently announced the results of its *2019 Global Pension Risk Survey*. This reminded us that in the 10 years since the global financial crisis, many schemes have closed to future accrual due to rising costs caused by maturing membership profiles. This has led to a shift in focus to longer-term, lower-risk destinations. In fact, over 90 per cent of schemes have a de-risking target. And schemes seem to be in a hurry to get there, with the target timeframe falling to under 10 years for the first time in a decade.



Source: Aon's 2019 Global Pension Risk Survey

What does this mean in reality? It means that with 90 per cent of schemes having a long-term target and aiming to achieve it in under 10 years, there is a lot of activity in the de-risking space:

• Starting with risk transfer transactions and securing scheme liabilities with an insurer, we continue to see the volumes increase each year. While it is not just about headline makers – a third of Aon transactions in 2019 were for small schemes – it is hard to ignore the big, in some cases record-breaking, announcements in this space, namely Asda, Rolls Royce, telent and National Grid. While 2018 was the record year for risk transferred to insurers, with £25 billion transacted, it is expected that the 2019 total will exceed £40 billion.

• Alongside this, the introduction of pension freedoms in 2015, which provide members with more flexibility and choice when holding a defined contribution pot, has meant a significant increase in the number of members transferring out of defined benefit plans. This has led to £60 billion transferred across nearly 400,000 members to date.

• Importantly, it is not just a case of engaging with members on their options or engaging with an insurer; these two steps are part of the same journey. One insurer told us that in over 80 per cent of cases they see, the scheme has completed some form of member options exercise prior to a risk transfer transaction.

What are the key areas where you should engage with your administrator?

As a large administration provider, the insight we get from our *Global Pension Risk Survey* is enormously useful in helping to inform us on trends in the market and with our clients. This year's survey highlights two key areas of focus for administrators:

• Retirement information shared with members.

• Data quality and how that can

impact schemes from a time and a cost perspective.

Both of which highlight the importance and benefit of involving the scheme administrator early in discussions to ensure that schemes meet their goals and objectives.

Retirement information shared with members

As referenced above, since pension freedoms were introduced in 2015 we have seen a large increase in the number of members taking transfers at retirement. In fact, our *2018 Member Options Survey* reported that more than 90 per cent of schemes had seen an increase in members doing this, with 40 per cent having seen a significant increase.

How are schemes reacting to this change in demand? What are schemes doing to ensure that members are considering the options available and making good decisions – not just seeing the 'big number' in a transfer value?

There are three scenarios that we see typically applied:

- Telling members that they have the option to transfer.
- Quoting a transfer with retirement benefits.
- Tools and advice are made available to assist with decision making.

There is nothing new in understanding these scenarios; what is interesting, though, is to consider trends. In our *2019 Global Pension Risk Survey* we heard that:

- Over 50 per cent of schemes currently provide a transfer value, while a further 25 per cent are planning to offer this.
- 23 per cent currently provide some form of technology support and a further 28 per cent are looking to provide this.
- Over 20 per cent of schemes provide paid IFA advice, with a further 25 per cent considering this as an option.

Looking back to 2015, when freedoms were introduced, most schemes were adopting a cautious 'wait and see' approach, and pretty much all were simply telling members that they had the option of taking a transfer. In the space of just four years, we have seen a huge shift, and we believe that this trend will only continue as schemes react to meet the demand from members and revise their 'at retirement' process as part of their broader de-risking strategy.

Data quality and its impact

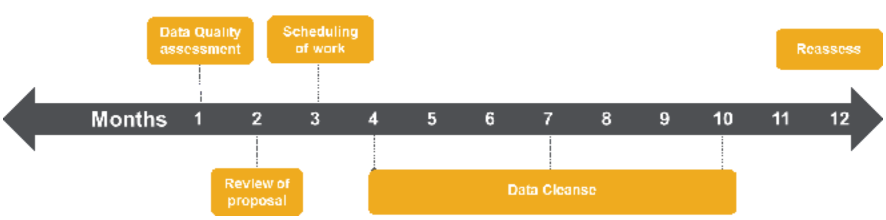
It is crucial to involve your administrator in strategic planning – and even more so when looking at data quality, specifically considering two questions:

1. **How long will a data improvement exercise take?** We know that many schemes are fewer than 10 years away from reaching an endgame. It is worth factoring in that any data improvement exercise that schemes may want to undertake in the lead up to this could, as illustrated by the steps shown below, take up to a year to complete.
2. **What data is needed to complete a risk reduction transition (buy-in/buyout)?** Pretty much all schemes are looking at the quality of their data in one shape or form. Typically, though, this takes the form of assessing their data against TPR's common and scheme-specific measures. While these are both useful measures from a scheme governance perspective, and also in helping your administrator deliver high quality day-to-day administration, it is important to know that if you are looking to complete a buy-in or buyout in the future, focusing solely on these two measures will not necessarily get you ready.

Insurers will typically focus on the following key data areas:

- Contingent spouses' data, which your administrator typically only calculates accurately at the point of death.
- Marital data. We would recommend undertaking an exercise to capture current information in the lead up to a transaction.
- In payment data. This is likely to be information administrators will hold, but may include pre-/post-commuted pensions and cash commuted at retirement that historically may not be available.
- Movement data; insurers typically look for information for the past seven years to be provided.
- Benefit specification; although this would typically be prepared by the scheme's legal adviser, input from your administrator is recommended.

The underlying message is that the more you provide, the fewer assumptions the insurer will make – and if you leave the insurer to make the assumptions, you can expect prudence that will not be in the scheme's favour!



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