Self-medicating

Eli Lilly and Company, the global pharmaceutical business, has a DB pension scheme with around 6,500 members, including 700 active ones. Jack Gray speaks to Lilly director, pensions and benefits, Julie Osman, about the scheme's member outcomes, the challenges facing its trustees and its road to self-sufficiency

With the company's pension scheme providing DB accrual to 700 of its 1,600 employees in 2019, Lilly has one of the most proportionally active DB pension schemes. The Eli Lilly Group Pension Plan, which won the DB Pension Scheme of the Year 2019 at the Pensions Age Awards, has not required company contributions since 2014 and has an agreed de-risking strategy that is targeting self-sufficiency. In what are increasingly complicated and highly-scrutinised times for pension trustees, the trustees at Lilly look to set the scheme apart from other occupational pension schemes with unorthodox investment strategies, active management and an ongoing commitment to its DB scheme members.

The scheme is still providing accrual to over half its employees and has been over 100 per cent funded on a Technical Provisions basis since 2011. What are the key things the scheme trustees have done to manage the scheme and create positive outcomes?

Lilly was established over 140 years ago. Since then we have focused on our aim of uniting caring with discovery to create medicines that make life better for people around the world. In today's world, discovering, developing and bringing to market new pharmaceuticals can be a lengthy process and we value highly the expertise of our employees to bring our medicines to the market to benefit patients and their families. As such we remain committed to helping employees plan and save for their future. The Lilly scheme remains a cornerstone of that for many.

The trustee board has been proactive in reviewing the covenant of the sponsor and understanding the strength and opportunity that this positive relationship brings. The board has sought and taken high-quality advice in this matter and this has allowed them to be confident in their decisions about their risk appetite. This, plus good quality investment advice, regularly reviewed to ensure the asset allocation is effective, has meant ongoing reduction in risk metrics whilst superior returns have been achieved, helping to not only keep the scheme in this well-funded position but also to improve the funding levels. This has been achieved without requiring contributions from the company for ongoing benefit accrual.

The scheme is targeting self-sufficiency. Why was this decided upon rather than other strategies, eg buyout?

The scheme worked collaboratively with the sponsor a number of years ago to

set out a long-term funding target. Like fiduciary management, self-sufficiency is perhaps a catch-all term that may be defined differently for each scheme. Our goal is to not rely on company contributions for either benefits earned to date or benefits to be earned by the remaining active population. This reflects the long-term thinking of both the company and trustee board, and the overall ability of the company to manage the size of the pension assets and liabilities that it has.

What has been done so far to achieve self-sufficiency and what still needs to be done?
If the view is taken that the self-sufficiency is no longer relying on company contributions then we have achieved this, but we have set the bar higher and still need to cover future benefit accrual. As we reduce investment risk, other risks such as longevity, which have up to now been second order, will start to become more important and will need to be addressed.

We have made progress on our self-sufficiency target since setting this plan in place and have taken de-risking steps when the agreed flightplan allowed.

Does the scheme have a target date to achieve self-sufficiency?
The trustee board has set peak cash outflows as the timeline to achieve self-sufficiency.

The role of a trustee board is becoming increasingly complicated. What have Lilly trustees done to navigate challenges posed by, for example, sustainable investment, increased responsibilities and accountability, and GMP reconciliation?
The role of the board has become more challenging. The board has always been very thoughtful about how they develop their business plan and prioritise their resources and time, focusing time on the most impactful decisions and delegating where they consider appropriate. They remain accountable but set the strategic direction and receive reports back on implementation. For example, working collaboratively with the scheme administrator, actuary and legal advisers, we have completed GMP reconciliation and are well on track to have all rectification letters issued in the next couple of months. This will stand us in good stead as we move onto GMP equalisation. Having a team of long-standing advisers who we work with very closely to deliver excellent service is key to implementing quickly and effectively.

In 2017, Lilly's parent company announced the potential divestiture of its animal health business. In what ways could this have impacted the scheme and its members, and how did trustees address this challenge?
For the UK, the animal health business entailed a significant manufacturing site as well as a sales and marketing operation. The divestiture would mean a significant change to local profitability and a change to the membership. As they completed their due diligence to set assumptions for the January 2017 valuation and to agree the continuation of the long-term funding scheme, the trustees had already considered this outcome as one of the scenarios that could arise. So, at announcement the trustee board were able to recap on the scenario planning that had been done, refresh it for any additional changes to regulatory guidance and quickly engage with the company. As our definition includes future service, the divestiture led to improved funding levels. The trustee board also worked collaboratively with the company to ensure that the animal health employees were supported to understand the impact of the eventual divestiture on their pension and that the online member portal was updated to reflect this and allow them ongoing access to pension modelling tools and the optional transfer value from the scheme.

Is there a plan for the future once/if self-sufficiency is achieved?
The aim is for the scheme to be financially and operationally self-sufficient. There will clearly be much to address in future years to remain in excellent health as regulation, governance expectations and investment opportunities develop. Remaining forward thinking, engaged with our environment, with our sponsor and understanding how regulation is developing and able to react and respond will remain key to this for the Lilly scheme to continue to meet our commitment to pay member benefits in full as they fall due.

Written by Jack Gray