

Is your endgame closer than you expect?

David Thompson and Andrew Cooper reveal the importance of a holistic approach, such as Aon's Journey to Settlement, to endgame planning

UK pension schemes are increasingly focused on their ultimate destination – be that self-sufficiency, consolidation or buyout. A key consideration for schemes is when they will reach that destination and what steps need to be carried out along the way. Effective planning and preparation give better outcomes for members, trustees and sponsors.

Time horizons

Aon's recent Journey to Settlement survey of 120 pension schemes showed that 77 per cent of schemes are currently over 80 per cent funded on their endgame target, but only 26 per cent of schemes expect to reach their endgame in less than five years. In our experience, the actual time horizon can be shorter than expected, so trustees and sponsors may have less time than they anticipate to complete the steps required to give a smooth endgame landing.

Journey to settlement

Aon's Journey to Settlement approach moves schemes away from carrying out individual projects in isolation, or just focusing on the financial aspects of their

journey, and towards a detailed strategic plan that brings together all workstreams and projects to target their ultimate objective. This means all decisions on the journey are taken with the endgame target in mind, increasing efficiency, reducing costs and spreading workloads smoothly over the journey period. This also ensures that strategic opportunities are not missed.

Setting your strategy

Our approach begins with setting strategic principles and objectives for the journey towards your endgame. Key focuses are:

- Structuring your journey to achieve eventual full settlement while improving benefit security and funding levels via strategic de-risking actions
- Establishing a Joint Working Group with delegated responsibility to set the detailed strategy at outset and to ensure all scheme decisions are made with your ultimate endgame in mind
- Prioritising workstreams to give schemes the ability to accelerate a settlement process if funding levels improve faster than expected

The ability to accelerate is crucial and

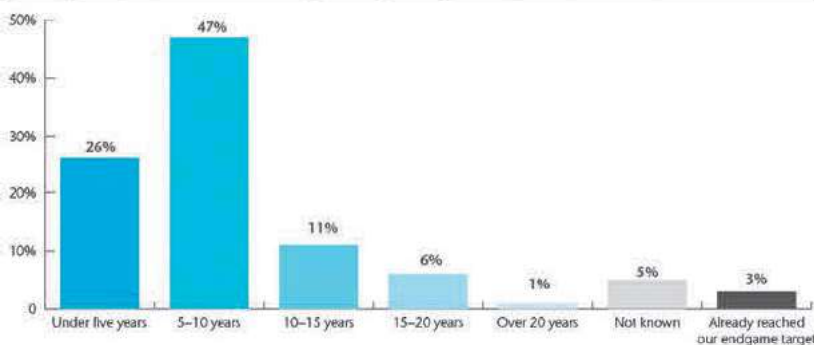
avoids trustees and sponsors being left in the challenging position where they have reached full funding on their endgame target but have not carried out planned interim steps such as running member options exercises. In this situation, trustees and sponsors potentially have to address the difficult question of whether to secure benefits now or to delay settlement to give time to provide increased member flexibility (which may not be available post buyout) while running the risk that the scheme's funding position worsens.

Documenting your plan

Our plan documenting the interaction of the workstreams typically covers five key areas – strategy/governance, member experience, investments, benefits and data. Ensuring joined-up planning across all workstreams enables all parties to identify the barriers and opportunities to achieving the endgame target. For example, the timing of investment de-risking and any required transitions out of illiquid assets need to be linked to requirements for liquid funds to finance member options exercises and phased buy-ins.

In summary, our survey found that many pension schemes are closer to their endgame than they expect and early strategic planning, via Aon's Journey to Settlement approach, will deliver savings, efficiencies and a smoother journey to the endgame for all parties.

What is your expected timescale to reach your endgame target?



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