# Journey to settlement

**Aon partner, John Baines, and associate partner, Michael Walker, consider how to optimise outcomes for members, trustees and sponsors**

New legislation, the latest investment ideas, GMP equalisation and ESG reporting are just some of the day-to-day items on any defined benefit trustee board's agenda. Trusteeship can feel like constant firefighting, making it difficult to take a step back and plan for the long-term scheme strategy.

Planning for settlement, whether buyout or consolidation, requires a streamlined journey plan. Dedicating time to preparation work will help trustees to understand the scale of work involved and identify key processes that will equip them to respond quickly, if they should have the opportunity to carry out a settlement transaction earlier than expected.

Grouping actions into five key workstreams provides a structured, manageable approach that matches the priorities of the scheme and its members, identifies any risks to the funding position and leads to the best price for settlement. This also avoids rushing crucial stages of preparation immediately before a transaction. This can add significant cost and introduce errors.

**Strategy:** Schemes need to decide what their settlement goal will be, and the actions needed to achieve it over the course of five or more years. For example, buyout could involve a single transaction, or a series of phased buy-ins. So potential opportunities are not missed, the strategy should also identify how trustees will react if the scheme reaches full funding sooner than expected and is in a strong position to transact.

**Member experience:** Trustees have a wealth of knowledge about their scheme members, which shines through in bespoke communication strategies and any additional member options services, such as 'at retirement' financial advice. An insurer will operate a less tailored approach and taking a staged approach to transitioning any added services or options will help ensure a smooth member experience.

**Investment strategy:** With a clear plan towards settlement, trustees can give timely thought to the assets they hold and build a portfolio that will match insurers' requirements for buyout. Planning an exit strategy for illiquid holdings and moving into assets such as bonds that will be easier to transfer to a provider, can be a long-term process that may need to start five to 10 years before buyout.

**Data and benefits** (two workstreams): All schemes need clean data and clear documentation of member benefits ahead of buyout or consolidation, in order to provide certainty over the ultimate target. Trustees may decide to carry out data cleansing early to help with other activities, such as GMP equalisation, alongside settlement preparation.

Every trustee board will need to address all five workstreams in parallel, but the emphasis for each scheme will be different. With careful planning, it should be possible to complete all the workstreams over a five to 10 year period at a comfortable pace, alongside the day-to-day work involved in running a scheme.

Even with a plan in place, trustees must be flexible about their timescales for settlement. Financial markets, supply and demand, and legislation may change over time, affecting buyout or consolidation costs and a scheme's ability to transact. While trustees might have a five-year timeframe in mind, thinking about how they would react to opportunities between, say, two and eight years should be a part of their planning. That includes prioritising essential tasks to enable early settlement, as well as considering how the scheme's strategy will change if transacting takes years longer than expected.

Consolidation into a superfund is another option for scheme settlement. It is lower-cost than buyout, so many schemes may be able to consider it sooner. Some activities, such as GMP equalisation, can continue after consolidation, which can also be factored into trustees' workstream planning.

Having a structured plan helps trustees and companies work through settlement preparation while also managing the intense workload of running their scheme. By taking a staged approach, schemes can fit preparation into their everyday workflow, be ready to transact quickly, offer a better member experience and enable a comfortable, confident journey towards a clear end-goal.

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