Adding value

BNP Paribas group pensions manager Lee Sullivan chats to Natalie Tuck about the bank's pension arrangements and why in a digital world, face-to-face communication is still appreciated by members

Can you tell us about BNP Paribas' pension arrangements? What schemes do you have?
We have five final salary schemes, two of which are still open for accrual and three are completely closed, with no new entrants into any of those. We also have a single defined contribution (DC) scheme, which were originally 12 separate DC schemes when I joined the bank. Systematically, we have been consolidating to create a single group-wide DC scheme, which we have achieved over the past couple of years. The DB schemes vary in size from £40 million to £1.3 billion, and our DC scheme is just around £1.1 billion.

What are the investment strategies for the DB schemes? Are they all quite similar?
They are actually very similar because there has been a coordination between all the schemes to set similar objectives around self-sufficiency; irrespective of size they're all expected to become self-sufficient over the next few years, with some closer than others. They're all very well funded and they are very de-risked as well. We've got nearly full interest rate and inflation hedging across all of those schemes using fairly vanilla LDI with LGIM. All of their required return rates are very modest and that is reflected in very prudent discount rates, and very prudent assumptions across all those schemes. That's been a push from the bank, and also working very closely with our trustees as well. We've got common objectives to achieve self-sufficiency, and we've got very little tension between sponsor and trustees on that.

Have the schemes done any buy-ins or buyouts?
That is our next step and we've got longer-term objectives of complete buyout, although there's no timescale on those. The exercises that we are going to be doing in 2019 will be ETV exercises, and then we will be looking at pensioner buy-in; we are also considering buyout for our most well-funded DB scheme, but there are accounting obstacles to get around with regards to that as well. It's not necessarily a straightforward decision, but we are very much planning to be taking those two big de-risking steps in 2019.

What are the main challenges facing the schemes? What steps are you taking to overcome them?
If you take a systematic approach to risk reduction, then you focus in on the biggest risks first, and once you have mitigated those, other risks start to zoom into focus. Now what we look at as our biggest risks is longevity for the schemes, and there is a bit of volatility on the accounting basis as well, to do with the fact we've hedged out our interest rate and inflation on a gilts basis, rather than on an accounting basis, so there's a little bit of a mismatch there. Therefore, shrinking the size of the schemes is a good move for us, and that is our next step. Longevity is the other challenge and insurance is an obvious and effective step for us in managing the longevity risk.

What investment options are available for your DC members? Do you find that many tend to stay within the default option?
We do find that members tend to stay in the default funds, and I think that's a good thing. A few years ago I would meet up with other pensions managers, and you would have bragging rights over how many members have gone self-select in their investments; it was almost like the more the better. I think there has been a shift now that actually that is not optimal for most people. There are 27 funds within our range that members can select from, but I think at the last time I checked, and it varies from company to company within the group, we have around about 90 per cent of members in the default – some parts of the business it is much higher, some parts a bit lower. After pension freedoms came in we did a lot of work to refine our default so that it was a better fit for people going into drawdown; that was our anticipation.

Have you seen many members take advantage of the pension freedoms?
Yes we have, and it is to do with a combination of members transferring out to personal pension schemes, but also members can do drawdown straight

out of our scheme. We use the Fidelity Master Trust as our vehicle, but we have full control over investment strategy and that has been written into the deed. The one caveat I will say though is that we have a very young membership. Our older members who are closer to retirement tend to still be in the final salary schemes, and of our 8,500 employees in the UK, only about 100 are approaching retirement age this year in our DC scheme.

How do you communicate and engage with your pension scheme members?
Fidelity has its standard communications, which covers all of our members, including our deferred members. My job is to think about our active members. That is one reason why we went down the master trust route, so that we could let someone else take responsibility for the deferred population and we could focus our limited resources and time on our employees and adding value for employees.

We have a separate pensions micro-site, which we launched two years ago – we had around 80 per cent of employees visit the site and take some sort of journey through the site. The site has a number of modules on it that cover the main things. It means that if we get questions, we can direct people to the relevant part of the micro-site. It's also useful anytime we do anything new. For example, at the moment we've got concerns about employees who have a tapered annual allowance and are running out of carry forward. We have an exercise coming up targeting those people, and it will all be done through the microsite. We will create a new module and rather than having to email people about it, we just email them a link to the microsite. It also means that we only have to email people that it affects as well; the use of the micro-site means that we can be very targeted in what we send to people.

We also do a lot of personal stuff. In my team it's just my deputy and me and we've done about 300 one-to-one pension surgeries in the past year. We cover everything; obviously we are not giving advice and that is made very clear, both in our email communications and it's the first thing I say when I sit down with them. Generally, you find that people will bring in their old paperwork and say that they don't understand it. I will talk about whatever they want to talk about. We've got 30 minutes, and if I can guide them or point them in the direction then I will do. It is by far the single thing with the most value add for our employees.

What are your goals going forward for your pension arrangements?
There are two things that we're looking at. The first is environmental, social and governance (ESG) issues, and certainly with the millennial group, they are a generation that is very engaged with social issues and environmental issues and perhaps would assume that their pension scheme is investing along those lines too. BNP Paribas is also enormously vocal on ESG issues. However, we've not had any instructions from the bank, this is driven purely by our investment committee, but it does reflect how deeply environmental and social issues are embedded at the bank.

However, my view is that most of our employees would see their pension scheme as this kind of abstract number that's not doing anything, but it can influence things and change things. We are hopeful that by introducing ESG into our default fund through some punchy active, asset managers who are really active in the environmental space, we can actually use that to drive engagement. We can talk to people about what their money is really doing. That in itself becomes a virtuous circle; people start engaging more, and appreciate it and might want to contribute more themselves or feel proud of their pension.

The second focus is pre-retirement. We're holding face-to-face seminars for the population who are approaching retirement, and we've done some trials. I was in a room with a number of people who were in the target range – six to eight years from retirement – sitting with them for two hours and having a really good roundtable discussion with them about their options. It is about finding ways to target the resource that we have to add as much value as we can to the individuals at an individual level. That is the Holy Grail for us.

Written by Natalie Tuck