

De-risking your pension scheme

Many employers have taken the first step to limit pension exposure by closing their scheme to new entrants and/or future accrual. This still leaves them with a legacy liability that needs to be managed. Winding up their scheme immediately will not be viable for most employers but a coordinated de-risking strategy should be established to exploit opportunities as they arise.

Employers should consider the following issues when setting a coordinated de-risking strategy

Setting objectives

The employer's overall objectives for the pension scheme are central to any de-risking review. Generally the Trustees may be happy to run the scheme on until the last pensioner dies, with investment and funding strategy set accordingly. The employer may have different objectives that require a different approach.

EXAMPLE: The employer maybe looking to wind-up the scheme more quickly which requires an investment strategy that specifically targets buyout.

Understanding risks

It is important that employers understand the risks inherent in their scheme and the possible impact of these as they are responsible for funding deficits in the scheme as they arise.

EXAMPLE: Employers may be prepared to commit to a higher level of contributions if future volatility can be reduced.

Coordinated approach

By establishing higher level objectives the de-risking options available to an employer can be coordinated which will often alter the relative attractiveness of various options and make the process more efficient.

EXAMPLE: A pension increase exchange exercise on "cost neutral terms" can make a subsequent buy-in more attractive due to the way insurance companies price annuity policies.

Target sections

Many de-risking options may not be appropriate or affordable for the scheme as a whole. However, when considered for specific sections they may become viable. Whilst this approach may only reduce the risk gradually, over time each step takes the employer nearer to meeting its overall objective.

EXAMPLE: An enhanced transfer value exercise, targeted at specific groups, allows the costs of paying the enhancement to be spread.

Be ready to act

An employer looking to de-risk its scheme must be ready to take advantage of opportunities as they arise. The Trustees' support and consent will generally be required to achieve success. Proper preparation and a robust decision making structure are vital, meaning that the employer needs to engage with the Trustees.

EXAMPLE: Many of the largest schemes have established investment triggers to ensure they identify and capture opportunities as they arise.

De-risking tools

The main options for de-risking a scheme are set out in more detail below. The extent to which each of these is used will depend on the employer's objectives and available resources.



Barnett Waddingham advises on the full range of de-risking options and manages the processes involved. We also advise on the funding strategies appropriate to meet the objectives. Arguably of most importance is developing the objectives and overall plans in the wider business context and this is where our innovative, practical approach adds most value.

Further information

For more information please speak to your normal Barnett Waddingham consultant or email corporateconsulting@barnett-waddingham.co.uk

AUGUST 2010

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