

BROADSTONE

DEFINED BENEFIT SCHEME DE-RISKING

PLANNING YOUR STRATEGY FOR THE 'END GAME'



Despite significant amounts being paid into Defined Benefit (DB) schemes, deficits have remained stubbornly high. The funding pressures created by volatile market conditions, improving life expectancies and continual changes to DB scheme legislation has led to a marked increase in time and resource spent managing DB scheme issues.

Most DB schemes are now closed (either to new members or to future accrual). As a result, they are increasingly being treated as a legacy management issue. Although closing schemes has been a useful first step in stemming the continued growth of DB liabilities, it does not address the risks posed by liabilities that have already built up.

As a result, many Trustees and Scheme Sponsors are now much more focused on the “end-game” for their DB schemes, and there is an increasing trend to look for opportunities to de-risk. There are a variety of de-risking options available, ranging from the relatively simple option of reallocating scheme assets to more complex options, such as liability management exercises.

BROADSTONE’S VIEW ON DE-RISKING

The array of different de-risking options can, at first seem daunting. However, they are all effective tools that can be used to better manage risk and to help navigate a DB scheme along a chosen funding path. In some circumstances, they may also help to reduce scheme liabilities. A key issue for many Trustees and Scheme Sponsors is therefore knowing which de-risking options to use in their DB scheme.

The first steps of an effective de-risking plan can start with relatively simple steps, such as commutation and early retirement exercises. Individually, these may have a relatively low impact on a scheme but combining lots of small “marginal gains” can still be powerful,

and such options should not be overlooked. They can then be followed by more complex de-risking options.

Key to any successful de-risking plan is for the Trustees and Scheme Sponsor to collaborate on their objectives. Once this has been done, scheme risks can be analysed and suitable de-risking options properly investigated to assess their potential impact on the scheme and the associated implementation costs. Informed decisions can be made on what de-risking actions to take now, and what actions to take at a later date when conditions may be more favourable.

HOW CAN BROADSTONE HELP?



Broadstone has a team of experienced consultants who help clients implement de-risking solutions. When advising clients, we look at the full range of de-risking options available to come up with an effective and efficient approach.

We can advise on the full spectrum of de-risking options, including:

- **First steps**
e.g commutation and early retirement exercises, factor reviews, scheme design options etc.
- **Investment strategy changes**
Range of services including the reallocation of current asset holdings to the use of swops and LDI structures.
- **Liability management exercise**
e.g Enhanced Transfer Value (ETV) exercises and Pension Increase Exchanges (PIE).
- **Buy-in / Buy out transactions**
Use of different payment structures and medical underwriting.
- **Implementing long term de-risking plans**
e.g integrated flight plans to buy-out or self-sufficiency.
- **Design and monitoring of de-risking triggers**

If you are interested in finding out more about de-risking for your DB scheme, or would simply like to discuss de-risking ideas and how they could be used in your DB scheme, please contact us for a complimentary meeting.



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