Welcome to the Broadstone Sirius Index

The Broadstone Sirius Index

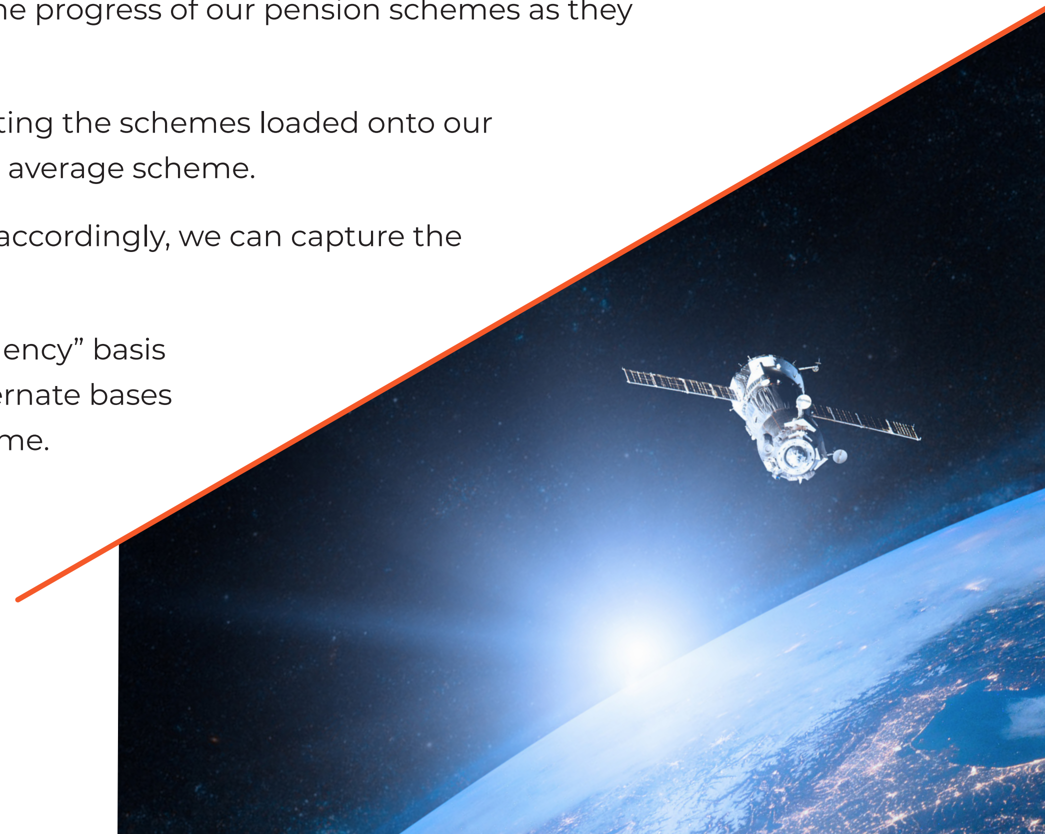
Low dependency funding is a fundamental part of the new funding code that will be coming in 2023. Trustees and sponsors will need to understand the progress of their schemes' funding on the low dependency basis as they head towards their date of significant maturity.

We have therefore created the Broadstone Sirius Index to understand the progress of our pension schemes as they proceed on their journey.

The index will be published monthly and has been derived by interrogating the schemes loaded onto our Sirius integrated actuarial and investment platform thereby creating an average scheme.

Using this average scheme as our barometer, and tracking its progress accordingly, we can capture the key issues that schemes face on their journey to low dependency.

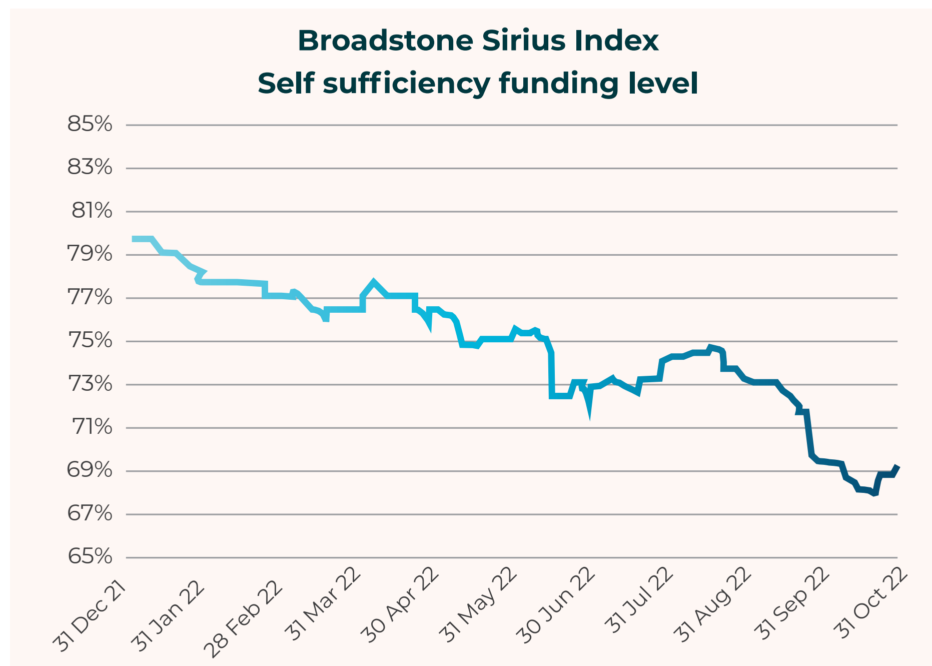
Therefore, the Broadstone Sirius Index specifically, tracks a "low-dependency" basis as its key metric. However, we can also interrogate the data to show alternate bases and we may also use these when discussing the experience of our scheme.



2022 year to date – Funding improvement depends on hedging approach

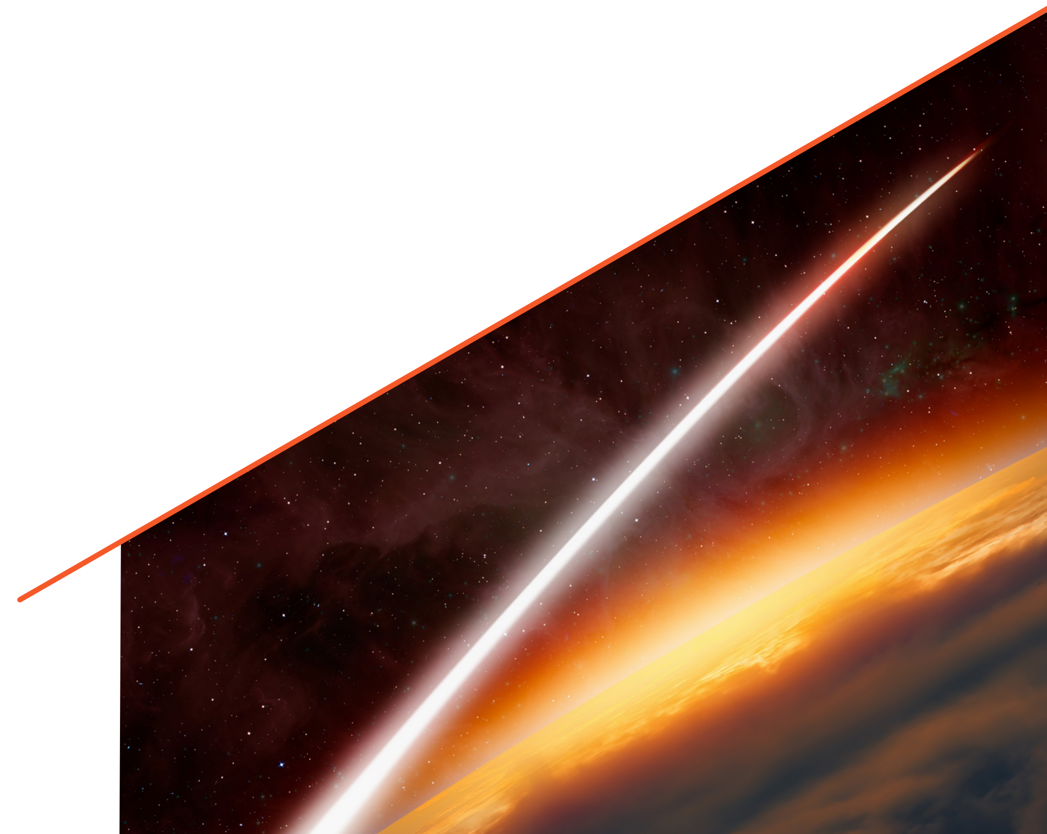
The Sirius Index has started November at 69%, compared to 80% at the start of the year.

The deterioration in funding level comes from falls in the growth assets more than offsetting recovery plan contributions.



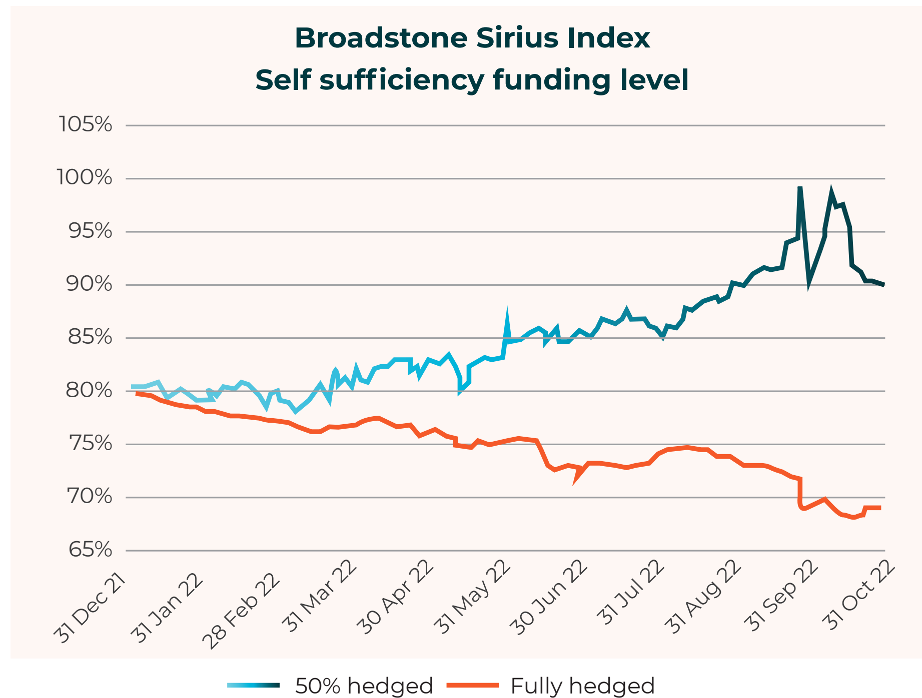
However, the funding level only tells part of the story. It is well publicised that liabilities have fallen significantly this year as long-term interest rates have risen. This means everything is smaller.

So while the funding level has fallen by just over 10%, the deficit has remained similar at £10m.



What about underhedged schemes?

A large proportion of our schemes are fully hedged or working towards being fully hedged, but many schemes are yet to get there and the outcome for underhedged schemes has been very different this year.



It has been a more rocky ride, but there has been a significant improvement in the funding level over the last 10 months, especially when compared to a fully hedged scheme.

Assets for the underhedged scheme fell by less than the liabilities.

This improved the funding position relative to the hedged scheme with a funding level of 91% at the start of November compared to 69% for the fully hedged scheme.

In addition, the deficit fell by more, to below £3m.

What does this mean for my scheme?

If your scheme is fully hedged, it certainly does not mean this was the wrong decision. Taking the decision to remove funding level volatility caused by changes to long term interest rate inflation expectations is sensible and has been encouraged by the Regulator. In addition, up until recently underhedged schemes performed comparatively poorly.

But underhedged schemes should:

- Review their hedging in the light of lower asset values and rapidly changing inflationary expectations;
- Consider monitoring the position so that growth asset risk can be reduced as the funding position improves.

If your scheme has been underhedged, your funding level will have improved beyond expectations. Now could be the perfect time to increase the hedging to protect the gains made so far this year.

How about buy-out?

Most schemes don't hedge their full buy-out liabilities so are likely to have seen an improvement in buy-out funding. The 100% hedged scheme saw an improvement from a deficit of £18.5m to £14m and the 50% hedged scheme to £8m. Many schemes may now be closer than they thought to a potential buy-out.

Technical detail:

The starting point of our model scheme at 31 December 2021 is as follows:

Liability details at 31 December 2021	
Buy-out liabilities	£58.5m
Self sufficiency liabilities (gilt curve +0.25% pa)	£50m
Technical Provisions liabilities	£43m
Other details	50% deferreds, 50% pensioners Duration 19 years 60% of pension increases inflation linked Recovery plan £0.44m for 5 years

Asset details at 31 December 2021	Fully hedged	50% hedged
Assets	£40m	£40m
Allocation to diversified growth funds	50%	50%
Allocation to Gilts	-	35%
Allocation to corporate bonds	15%	15%
Allocation to LDI	35%	-

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Find out more

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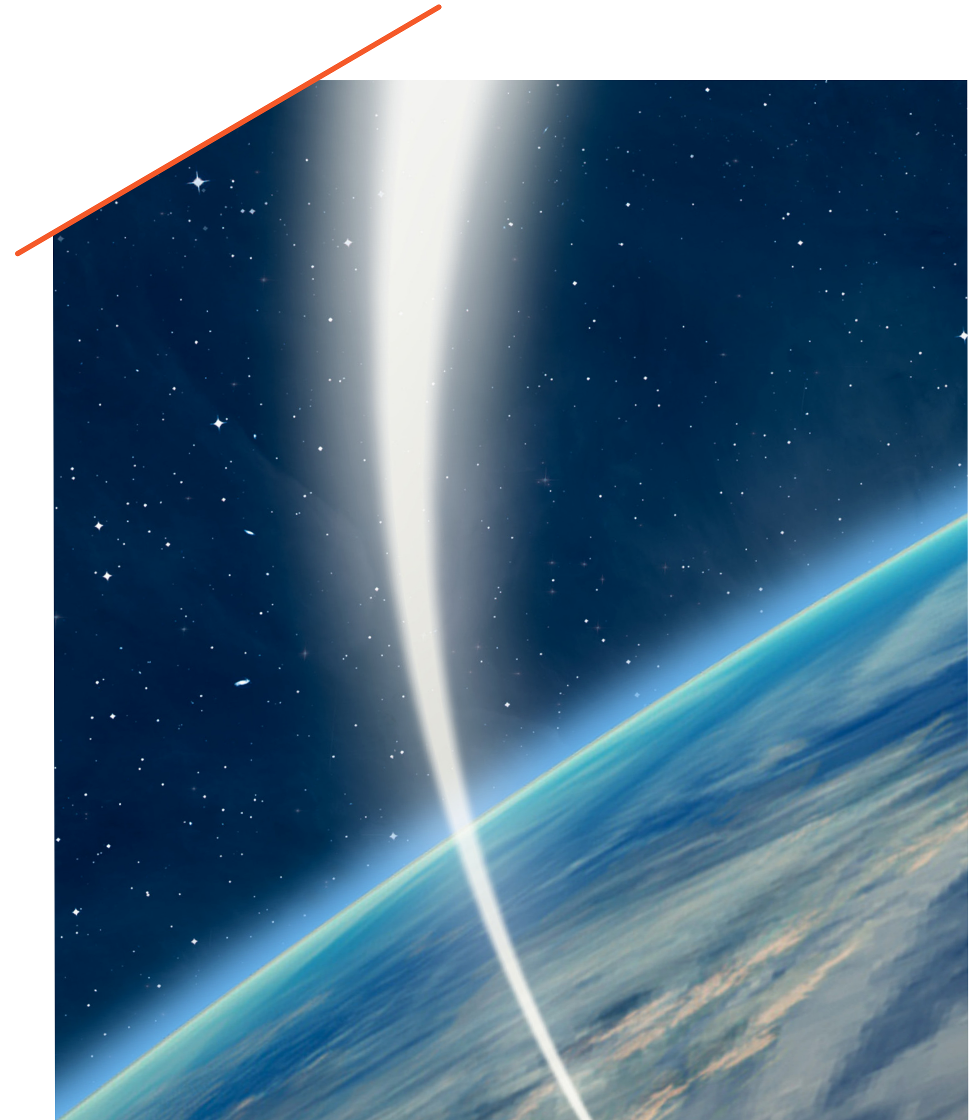

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