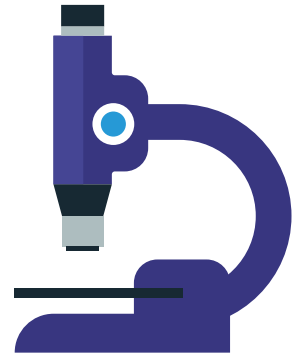


Are you planning for your endgame? You might want to put your scheme governance under the microscope...



Almost every day brings another announcement in the pensions press where a pension scheme has insured some, or all, of its benefits. There are quotes about the effort that has gone into securing the deal, along with a long list of advisers involved in making it happen. Whilst it's not talked about in the laudatory and congratulatory press releases, governance is key to making sure that a pension scheme is successful in achieving its endgame.

But why - what governance considerations are there when a scheme has set, say, a buyout endgame?

With an endgame journey, trustees are condensing what would have been 20-30+ years of self-sufficiency into a much shorter timeframe.

Trustees of schemes targeting a buyout transaction and wind-up may recognise that their needs are changing, that their governance structure needs to be more dynamic, and the people in the room making, advising and supporting on decisions need to have specific, up-to-date expertise to enable progress on their journey.

As you approach your endgame, the pace of change is quicker, the decisions are critical and the dependencies across the remaining work are material. There is a need to plan ahead, set milestones, understand the implications of decisions taken, the timing of these and to make sure people and activities are aligned so that objectives can be achieved within agreed timescales.

Nimbleness is important: situations can change rapidly as market opportunities present themselves.

It is vital that there is alignment across trustees, sponsors and their advisers as any disconnect can negatively impact both timescales and the costs.

How will we know if we need to evaluate our governance for the endgame?

- We have the right experience in the Trustee Board for the final stages of our journey*
- Our Board and Committee structure, and the fees we are paying, feel proportionate for the amount of activity and financial risk remaining*
- Our adviser roles have evolved to reflect what we need now, and all advisers are clear on their responsibilities*
- We have a designated role who is responsible for bringing all the stages of our journey together through to wind-up*
- Our material-risk profile reflects those things that keep us up at night*
- We have identified those things that could slow us down, and how we will manage them.*



Evolving roles and responsibilities to manage the changing activities required

Roles and responsibilities of all parties need to be clear, with thought given as to how these might evolve through the journey. The skills you need in your board and from your advisers and the capacity of your providers and trustee support may change too, as you undertake activities that are new for your scheme.

As the pace of change steps up, don't be afraid to challenge your status quo. You may find you need to move nimbly in intense periods and will want to know that, as a board, you can all do that.

You also want your service providers to be able to support you, e.g. provide you with the right data when you need it and drive progress behind the scenes. ***It's about being forward-looking – recognising the skills and resources you need to get to your endgame, rather than doing what you've always done. If needed, you should reshape roles to support your changing journey.***

Some boards move to a sole-trustee model as the scheme moves towards its endgame, believing that having a professional trustee as the sole representative brings professionalism, market knowledge, key contacts and lived experience to the exercise, as well as the ability to move quickly and nimbly when time pressures arise.

Whilst there are benefits to this approach, the depth of knowledge, experience of the scheme and long-term relationships that many trustee boards bring to the table should never be underestimated. Inevitably, the work involved in exercises of this nature results in questions about the scheme's history, sometimes going back many years. Long-standing trustees have extensive historical scheme knowledge that may be lost in the move to a sole-trustee arrangement.

There will be a number of member communications required along the way and having familiar faces on a trustee board can help reassure members and allay concerns.



Bringing it all together

A pension scheme's funding position and its investment portfolio are key to reaching the end of its journey; but a fundamental element of that journey, which is often overlooked until later in the process, is data. The more accurate and comprehensive a scheme's data, the tighter the pricing will be when the scheme goes to market. Where there are gaps, inconsistencies and uncertainties, insurers will add margins to their pricing to account for this. It will also mean that additional work is needed post-transaction, and it could have a significant impact on any true-up premium.

Nobody wants a nasty surprise when the final invoices are received. Even if you're a few years away from transacting, starting this work early is important. Administrators are busy managing GMP and dashboard-readiness projects, so building time in to identify your gaps and have resources lined up when you need them is critical. ***When was the last time you properly looked at your data other than for the purposes of your annual scheme return?***

Schemes also need a benefit specification to approach the insurance market. This sets out the details of the scheme, its benefits, its complexities and its historic anomalies. This is a key document and needs careful drafting and input from your actuarial, administration and legal advisers as well as the scheme's sponsor. Sometimes, the preparation of this document can identify inconsistencies in practices, which need to be reviewed and potentially resolved before any transaction, e.g. discretionary benefits.

Having this prepared, reviewed, signed off and ready to be issued when market conditions are right for you will save you time and secure better pricing. It's worth investing the time and effort in this at an early stage, so that it is not rushed and any areas where practice diverges from your governing documents can be identified and the issues resolved and codified without the panic of time pressures.

Preparing and agreeing this specification always takes longer than you think it will. And, if it is prepared early, other projects could also benefit from having this specification in place, such as GMP equalisation activities or an appointment of an independent financial adviser.

Other areas which you may need to manage as part of your endgame journey might include:

- legal codifications in the Rules, for example around discretionary increases or trapped surplus
- the management of any money purchase underpins, DC or AVC benefits attached to the scheme
- member options exercises
- communication with your scheme members
- management of residual risk
- the impact of legislation changes or any court rulings
- other discretionary benefits, ombudsman cases, locating lost members, the list goes on....

These are all important areas, often managed by different working groups or committees, who are not always joining up their thinking. Missed pricing opportunities can arise, e.g. where a funding committee wants to go to market, without discussing the data requirements with their administration committee, only to find that glaring holes in the data led to months of delay. Some of this data needed to be captured from members in a way that didn't set hares running (as no communications had yet been planned), and the data work needed to be managed so as not to increase the burden on an already stretched administration team.

The changing risk landscape

We've found that when setting an endgame strategy, many trustees haven't reconsidered their risks in light of their endgame journey. A targeted endgame necessitates an understanding of the pitfalls, obstacles and opportunities on the journey, particularly if the timeframe is inflexible.

Some examples of how risks might evolve during your endgame journey include:

- increase in liquidity risk
- reduction to investment risk, as you get closer to transacting
- a new risk to manage trapped surplus, whilst ensuring appropriate funding is available to transact
- risk of new court rulings changing how you treat your benefits (for example the Virgin Media Limited vs NTL Pension Trustees II case)
- the risk of unresolved ombudsman cases resulting in unexpected costs and/or delaying wind-up formalities, etc.

You may want to you apply a risk lens when thinking about your endgame.

Your material risks will continually evolve en route to endgame. You will want to make sure your plans aren't inadvertently derailed by something that could have been avoided or mitigated. Or, equally, that where you do find yourself ahead of plan, you're already set up to maximise the opportunity that may offer.

With so many moving parts, planning ahead, avoiding duplication and wasted effort, and managing the interdependencies will bring about efficiency, enabling synergies and cost control (that's not the same as reducing costs but making sure you're incurring the right costs).

It can feel a bit like spinning plates at times. Having someone who sees the whole plan, and identifies what needs to happen and when, can ease the pressure. ***It may help to identify one party who will co-ordinate all of your journey planning activities into an overall programme.***

For many schemes, this will be a role in addition to the pensions manager, as many pension managers don't have the bandwidth or the experience in these niche areas.

However the journey to endgame is managed, if the governance isn't set up well, you may find you're managing unnecessary risks, wasting time, energy and money on detail that should have been previously addressed, unpicking decisions that are having knock-on consequences and not enjoying the process.

Is it time to put your scheme governance under the microscope?

Are you preparing for your endgame journey?

Do you want a health check of your current governance structure and your agility to meet your future needs?

Would you like someone to help bring it all together?

Contact Jo, Rosanne and Daniel for practical help and independent advice at
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Enjoyed this article? **Coming soon....**

Just how many things do you need to consider when setting your endgame objectives? Hint: It's more than you think!

