



C-Suite
Pension Strategies

Run On 4 Good

**Run On Upside vs PPF Downside
Risk-Benefit Analytics**

C-Suiteps Analytics

A new pension scheme Risk-Benefit Appraisal by sponsor and trustees of DB pension schemes is needed, covering bulk transfers and “Run On 4 Good” strategies. The background is:

- Interest and inflation rates and life expectancy numbers have moved.
- Government wants to see running on with focus on productive assets and are ready to discuss the use of surpluses.
- Sponsors have well developed ESG strategies in which pension schemes should be a part.
- The merits and limitation of the FSCS and PPF safety nets are both up for examination and change.
- Scheme members and current employees should both press the case for benefit improvement and for discretion to be exercised.

Trustees and sponsors: Time to consider next steps in joint exercises.

The risk transfer market has overheated and has too much business. It may be best to avoid at present.

Risk-Benefit Appraisals : Use C-Suite Analytics models

Surpluses collapse the case for bulk transfers

C-Suite and its partners have developed C-Suiteps Analytics to support trustees and sponsors considering “run on” strategies. The financial models are central to updated risk / benefit analyses. They can be incorporated in Integrated Risk Management exercises. They support the new TAS300 version 2.0 requirement for comparisons of bulk transfer and run on. They can be part of work for Funding and Investment Strategies under new 2024 regulations.

The models support an overhaul of journey planning. They lead to a switch from a funding to buyout assumption to a Run On 4 Good expectation.

To assess the run on opportunity you need from C-Suite:

- PFocus: The run on surplus planner
- Discretionary step up calculator
- FSCS v PPF analyser
- FM+ long term asset allocator

The modelling provides a framework to the Run On 4 Good strategy with upside and downside analysed from member and sponsor perspectives.

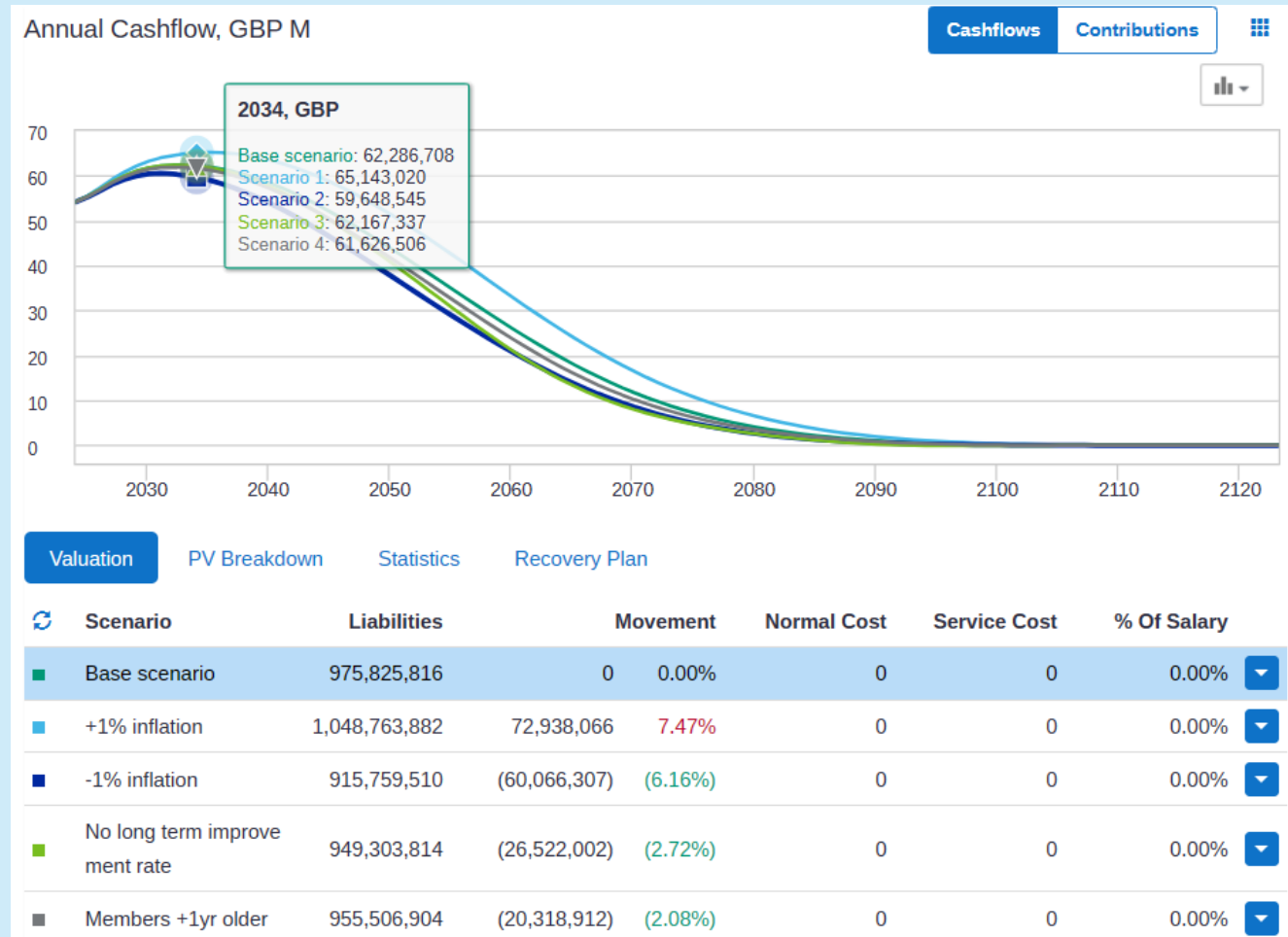
1. Moody's Analytics PFaroe : Scheme cash flows

C-Suite's Risk-Benefit Analytics use Moody's PFaroe to provide the base cash flows for a DB scheme, using available sources, primarily the sponsor's financial statements.

The financial position of the scheme can be assessed for various valuation assumptions.

The core comparator used is "low dependency" at gilts plus 50 basis points.

The base scheme cash flow can be sensitised for inflation and life expectancy.



2. PFocus 2023 : Run On 4 Good

C-Suite has developed PFocus to provide a long term cash flow surplus / deficit assessment tool. It assumes the scheme runs on, aiming to achieve selected investment returns – either stable or adjusted annually

The model addresses the development of “surpluses”. It shows how they can be calculated against actuarial liability assumptions. Variables for scheme cash flows and investment return rates and resulting impact on scheme position can be assessed. Surpluses can then be managed and allocated.

Select payment schedule no LTR

Select liabilities valuation Base cashflow

no LTR

Mem +1yr older

Mem -1yr younger

Select investment strategy Flat line

Set flatline % rate here gilts +2%

Invest. Base Gilts rate % 4.45%

		Payment schedules					Liabilities		
		Base cashflow	no LTR	Mem +1yr older	Mem -1yr younger	+1% inflation	Gilts+50	Gilts+50 1yr less life exp	Gilts flat
		£m	£m	£m	£m	£m	£m	£m	
52.95	52.95	53.00	52.91	53.00	1000.7	979.9	1068.9		
54.44	54.44	54.52	54.36	54.63	998.4	976.6	1065.0		
55.77	55.77	55.88	55.65	56.13	990.8	968.0	1055.4		
57.31	57.30	57.46	57.15	57.88	979.0	955.3	1041.4		
58.86	58.85	59.07	58.65	59.70	963.7	939.1	1023.8		
60.15	60.14	60.40	59.89	61.28	945.4	920.0	1003.2		
61.16	61.15	61.48	60.85	62.62	925.4	899.1	980.8		
61.90	61.88	62.28	61.52	63.70	904.7	877.6	957.9		
62.36	62.32	62.81	61.91	64.52	884.3	856.2	935.3		
62.62	62.56	63.14	62.10	65.16	864.5	835.5	913.6		
62.75	62.66	63.36	62.15	65.70	845.5	815.5	892.7		
62.73	62.60	63.42	62.05	66.09	826.9	795.9	872.3		
62.56	62.37	63.34	61.78	66.33	808.4	776.4	852.1		
62.23	61.96	63.10	61.36	66.43	789.7	756.7	831.8		
61.75	61.38	62.73	60.78	66.38	770.6	736.6	811.1		
61.13	60.64	62.22	60.06	66.18	750.9	716.0	789.8		
60.38	59.74	61.58	59.21	65.84	730.5	694.7	767.8		
59.51	58.69	60.83	58.22	65.37	709.3	672.7	745.0		
58.51	57.49	59.96	57.11	64.76	687.4	650.0	721.4		

Pension Scheme Position									
Year	Start of yr Assets £m	Net Investment return %	Return on assets (net of fees) £m	(Select) Sponsor Contributions £m	(Selected) Payment schedule £m	End of yr assets balance £m	(Selected) Liabilities valuation £m	End of Yr Position (against selected liabilities) £m	
2024	1000.0	6.45%	64.50	0.00	52.95	1011.5	1000.7	10.9	
2025	1011.5	6.45%	65.24	0.00	54.44	1022.4	998.4	24.0	
2026	1022.4	6.45%	65.94	0.00	55.77	1032.5	990.8	41.8	
2027	1032.5	6.45%	66.60	0.00	57.30	1041.8	979.0	62.8	
2028	1022.3	6.45%	65.94	0.00	58.85	1029.4	963.7	65.7	
2029	1020.7	6.45%	65.84	0.00	60.14	1026.4	945.4	81.0	
2030	1008.5	6.45%	65.05	0.00	61.15	1012.4	925.4	87.0	
2031	988.7	6.45%	63.77	0.00	61.88	990.6	904.7	85.9	
2032	967.5	6.45%	62.41	0.00	62.32	967.6	884.3	83.3	
2033	945.7	6.45%	61.00		62.56	944.1	864.5	79.6	
2034	924.5	6.45%	59.63		62.66	921.5	845.5	76.0	
2035	904.1	6.45%	58.31		62.60	899.8	826.9	72.9	
2036	884.1	6.45%	57.03		62.37	878.8	808.4	70.4	
2037	864.4	6.45%	55.75		61.96	858.1	789.7	68.4	
2038	844.4	6.45%	54.46		61.38	837.5	770.6	66.8	

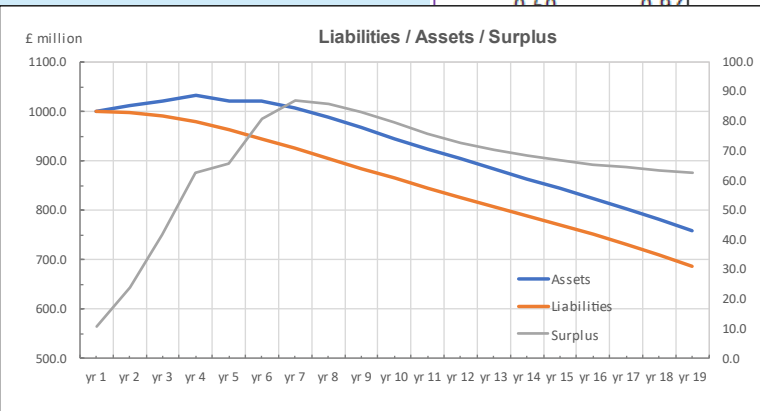
2. PFocus 2023 : Run On 4 Good

Surpluses can accrue to past and present employees or to the sponsor. Sums can be paid when thresholds set are reached.

The model also incorporates the idea that an on demand guarantee is available. It ensures that the scheme always achieves “Sustainable Low Dependency” before any surpluses are paid as cash.

FiduciaryPlus Management													Start of Yr Assets/ Selected Liabilites	Accrue / Payout / Annual
Credit risk guarantee costs (sponsor or third party) £m	Fund guarantee costs £m	FM+ asset mgt' fees £m	FM+ Surplus bonus £m	Total FM+ manager income £m	Discretionary DB pension payment £m	Company/ members annual share £m	Company/ members accumulat ing share £m	Company/ members remaining surplus £m	Total Company / Members surplus share £m					
0.50	1.00	1.00	0.00	1.00	2.16	0.00	0.00	0.00	2.16	100%	Accrue			
0.50	1.01	1.01	0.00	2.01	0.81	0.00	0.00	0.00	0.81	101%	Accrue			
0.50	1.02	1.02	0.00	3.03	0.00	0.00	7.67	0.00	7.67	103%	Accrue			
0.50	1.03	1.03	0.00	4.07	0.00	0.00	15.41	0.00	15.41	105%	Lump sum			
0.50	1.02	1.02	0.00	1.02	0.00	7.67	0.00	0.00	7.67	106%	Annual			
0.50	1.02	1.02	0.30	1.02	2.44	0.00	0.00	14.52	16.97	108%	Annual			
0.50	1.01	1.01	0.44	1.01	0.92	0.00	0.00	21.74	22.65	109%	Annual			
0.50	0.99	0.99	0.45	0.99	0.00	0.00	0.00	22.07	22.07	109%	Annual			
0.50	0.97	0.97	0.43	0.97	0.00	0.00	0.00	20.98	20.98	109%	Annual			
0.50	0.95	0.95	0.38	0.95	0.00	0.00	0.00	18.66	18.66	109%	Annual			
0.50	0.92	0.92	0.34	0.92	0.00	0.00	0.00	16.45	16.45	109%	Annual			
0.50	0.90	0.90	0.30	0.90	0.00	0.00	0.00	14.74	14.74	109%	Annual			
0.50	0.88	0.88	0.28	0.88	0.00	0.00	0.00	13.57	13.57	109%	Annual			
0.50	0.86	0.86	0.26	0.86	0.00	0.00	0.00	12.90	12.90	109%	Annual			
0.50	0.84	0.84	0.26	0.84	0.00	0.00	0.00	12.65	12.65	110%	Annual			
0.50	0.82	0.82	0.26	0.82	0.00	0.00	0.00	12.73	12.73	110%	Annual			
0.50	0.80	0.80	0.27	0.80	0.00	0.00	0.00	13.06	13.06	110%	Annual			
0.50	0.78	0.78	0.28	0.78	0.00	0.00	0.00	13.55	13.55	110%	Annual			

Start accrue threshold	90%
End accrue threshold	105%
Fix surplus	Yes
End of Yr funding level	107.0%



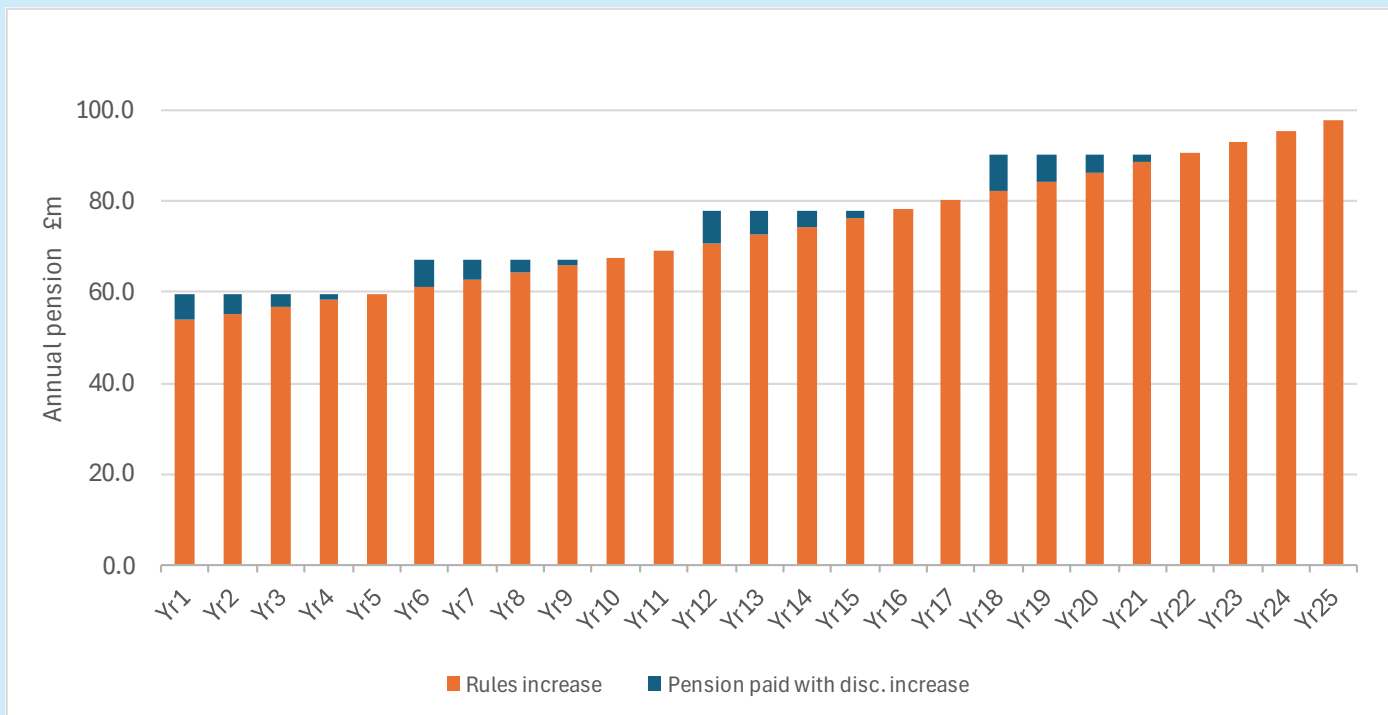
3. Discretionary Step Ups (DSU)

Pension amount: £m	54
Scheme Rules annual increase (std.cap 5%)	3.5%
Discretionary increase 1 - year	Yr1
Discretionary increase 2 - year	Yr6
Discretionary increase 3 - year	Yr12
Discretionary increase 4 - year	Yr18
Discretionary increase 1 - %	10.00%
Discretionary increase 2 - %	10.00%
Discretionary increase 3 - %	10.00%
Discretionary increase 4 - %	10.00%

Model DSU scenarios and input into PFocus management of surplus allocation.

DSUs address a key constraint on the payment of surplus funds to scheme members – that pensions cannot decrease year on year.

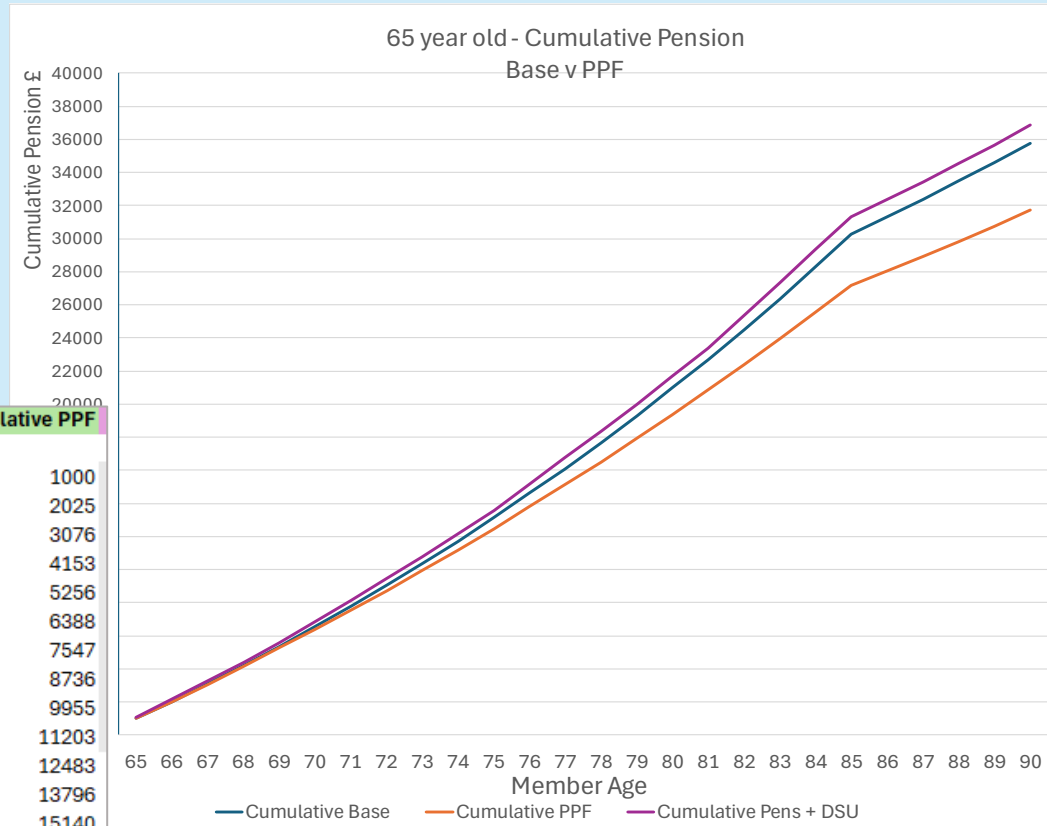
With a DSU, a discretionary payment is made and then remains at that level until the pension that would have been increased by scheme rules inflation reaches the level of the DSU.



DSU payments shown in blue

4. The Value of the Safety Net

What the loss to a member is if the scheme joins PPF is rarely calculated. Once discretionary benefit improvements are likely, the risk benefit assessment has a new perspective. A probability of both outcomes needs to be factored in.



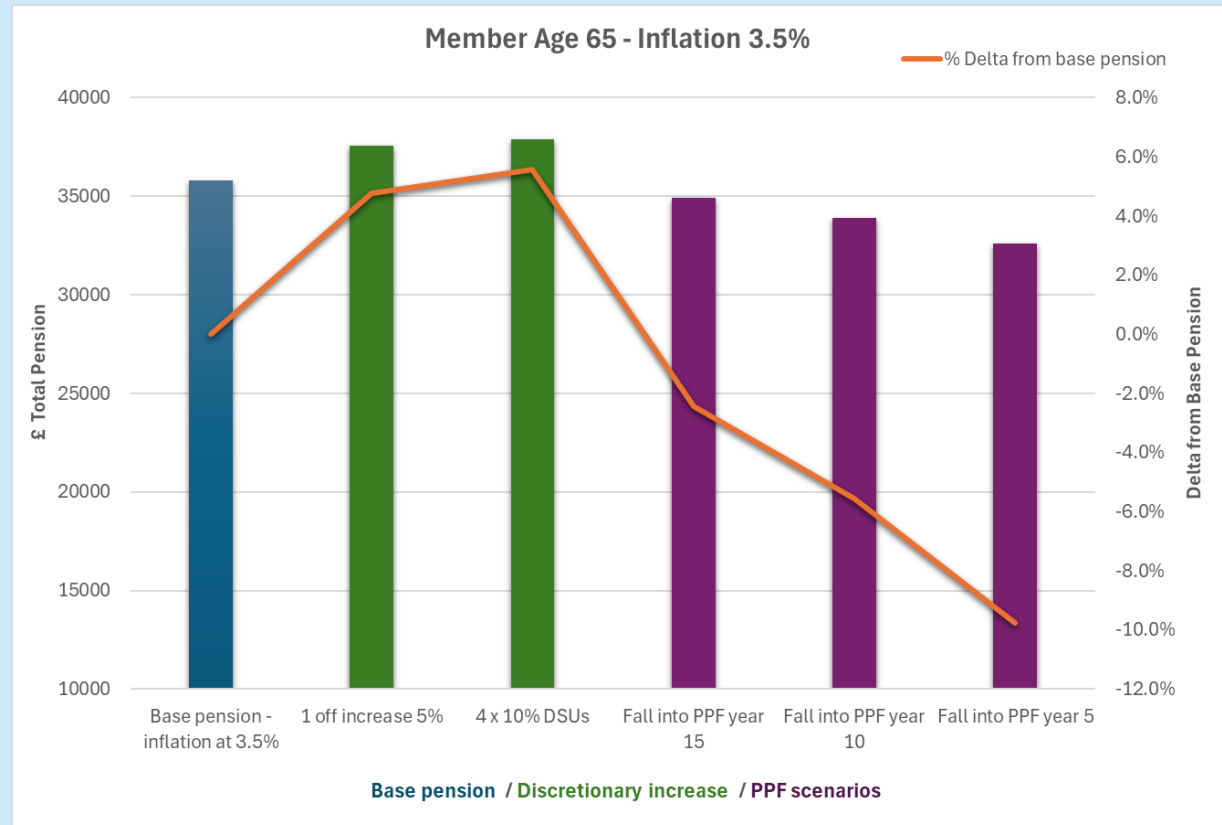
	Member at 65	Base Pension	Cumulative Base	lative Pens + DSU	One off increase	Cumulative PPF
					1000	
yr1	65	1000	1000	1100	1000	1000
yr2	66	1035	2035	2200	1035	2025
yr3	67	1071	3106	3300	1071	3076
yr4	68	1109	4215	4409	1109	4153
yr5	69	1148	5362	5556	1159	5256
yr6	70	1188	6550	6863	1199	6388
yr7	71	1229	7779	8169	1241	7547
yr8	72	1272	9052	9476	1285	8736
yr9	73	1317	10368	10792	1330	9955
yr10	74	1363	11731	12155	1376	11203
yr11	75	1411	13142	13566	1424	12483
yr12	76	1460	14602	15172	1474	13796
yr13	77	1511	16113	16778	1526	15140
yr14	78	1564	17677	18384	1579	16519
yr15	79	1619	19296	20003	1634	17932
yr16	80	1675	20971	21678	1692	19380
yr17	81	1734	22705	23412	1751	20865
yr18	82	1795	24500	25386	1812	22386
yr19	83	1857	26357	27360	1875	23946
yr20	84	1923	28280	29334	1941	25545
yr21	85	1990	30269	31324	2009	27183
yr22	86	1030	31299	32354	1040	28031
yr23	87	1066	32365	33420	1076	28909
yr24	88	1103	33468	34523	1114	29817
yr25	89	1142	34610	35664	1153	30757
yr26	90	1182	35791	36846	1193	31731

4. The Value of the Safety Net

A risk assessment needs to look at age of members, and inflation increase entitlements as these are the key remaining factors impacting PPF coverage.

As a scheme matures the proportion of current total pension commitments already met or to be met by PPF if the sponsor fails goes up. The longer a scheme continues the stronger the case to continue to do so if surpluses can be generated.

	£ Total pension	Upside / downside cf base pension	
Base pension - inflation at 3.5%	35791	baseline	0.0%
1 off increase 5%	37581	1790	4.8%
4 x 10% DSUs	37900	2109	5.6%
Fall into PPF year 15	34935	-856	-2.5%
Fall into PPF year 10	33903	-1888	-5.6%
Fall into PPF year 5	32608	-3183	-9.8%



runon4good@c-suiteps.com

<https://www.c-suiteps.com/>

William McGrath

Chief Executive, C-Suite Pension Strategies

TC Jefferson

Chief Executive The Plenum Group & C-Suite Partner