Run On 4 Good

- The One Key Question
- The 2% a Year of Assets Upside
- The New Government Mindset

Pension Funding Strategy for 2024

New Government Mindset : One Key Question : Run On 4 Good

C-Suite Pension Strategies

Make 2% per annum of assets available to benefit all stakeholders

Government led by HM Treasury has a new mindset on pensions. Out goes "reckless prudence" and "the safest graveyard" in favour of productive assets and intergenerational fairness. Pension consultants and trustees addicted to risk transfers to life insurers are starting to see virtue in "run on".

Shareholders, bankers, City Institutions, ESG/ financial rating agencies and past and present employees should all ask this **one key question** which is so telling about trustees and sponsor.

"What is the DB scheme's long term investment return target?"

Answer A: Stable at over gilts plus 1.5%

- Scheme can align with productive asset and pro ESG asset allocations.
- Expect 2% per annum to become available in time to benefit the sponsor and past and present employees.

Answer B: Tapering down towards gilts flat

- Get rid ASAP to the benefit of life insurers is the endgame. Legacy problem.
- Going through the motions on environmental and societal factors.

Respond positively. Trustees and sponsor can get stuck in so all stakeholders benefit. Rewrite the Statement of Investment Principles to add into the plan to **Run On 4 Good**.

These papers highlight 2% p.a of assets upside opportunity and the new Government / Regulator led approach

C-Suite Pension Strategies

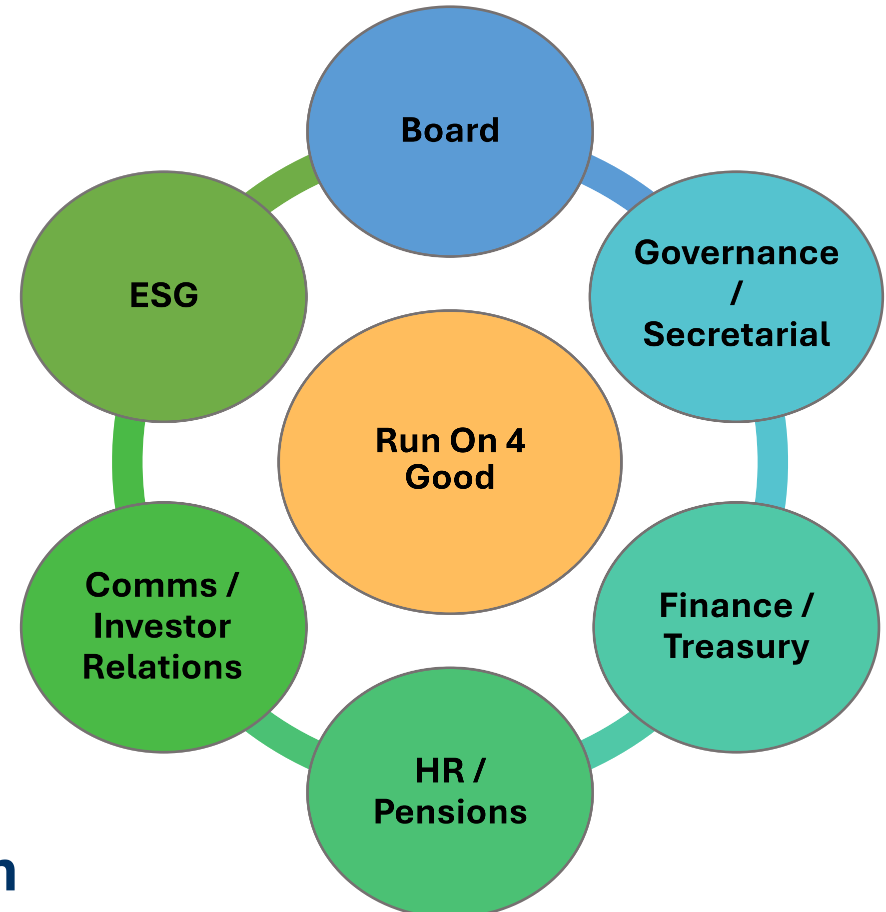
A Head Office opportunity to embrace the scheme as a Corporate Wealth Fund

"Get rid ASAP" has been the unchallenged objective for most DB schemes.

However, the pension scheme is an asset.
With the right strategy, c2% of the assets in the scheme can become available each year to provide benefits to current and existing employees.

It is time for a rethink and reset at head office.

Work collaboratively with the trustees to ensure all stakeholders benefit.



Be The 2% Team

Run On 4 Good : All stakeholders benefit

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Run On Long Term
Asset management contract targeting stable returns above gilts (FM+) with increasing allocation to ESG investments.

Grow a surplus
Make temporary affordable payments made to boost pensions with inflation in mind. (Discretionary Step Up)

Reactivate
Create new DC tier within DB scheme to be partly funded by DB surpluses.

EPS and Cash Enhancing
Scheme pays all costs. Credits on growing accounting surplus. Reduced DC pension contribution costs. Improves market ratings.

Trustees' Anxieties
Provide third party, risk diversifying surety back up, if required, as part of holistic risk management.

Governance Upgrade
Ensure processes, structures and rules are fit for a long-term purpose. Avoid 'hassle and admin ' being a strategy determinant.

Public Policy
Government have a growth agenda with more productive assets. They want risk to be managed not eliminated. Comply.

ESG Aligned
Pension fund investment and corporate ESG strategies can work together given time. Creates commercial opportunities.

Volatile: Really?
Accounting and actuarial methodologies pre-agreed for long term.. Matching has reduced volatility.

Demographic Wait
Take time to see demographic actuarial prudence true up reducing liabilities.

HR Planning
See pension provision as a major competitive advantage in recruitment and retention.

Shareholder and Commercial Partners Impressed
Corporate ethos will resonate in presentations and pitches.

2% a year of DB scheme assets to be recycled for today's businesses, current employees and pensioners

Tough regulation, high cash contributions, demographic trend changes and the rise of interest rates have left UK DB pension schemes well-funded. The hard yards are completed.

Now corporate sponsors should shift (as Government is) away from "derisk and get rid" in bulk transfers to Run On 4 Good – investing in people and productive assets.

Stable investment returns, above the discount rate, combined with the truing up of actuarial prudence, generates surpluses. That can mean 2% of the assets of the scheme can each year be used with discretion to support scheme members and today's business.

Boards of sponsoring companies and their head office teams need to get stuck in. Working entirely within existing legal and regulatory frameworks, major benefits arise:

- Pensioners: Existing DB pensioners enjoy discretionary increases in their pensions
- Employees: Enjoy enhanced pension provision or perhaps a "pension holiday"
- Board: Aligns the pension scheme strategies with Group ESG commitments to the environment and people. Enjoy EPS and cash upside of repositioning the scheme as a Corporate Wealth Fund.

Founder of C-Suite Pension Strategies, William McGrath, said,

"2% a year of scheme assets become available to better pension provision once a new, long term, productive strategy is in place to benefit all stakeholders. Boards and their head office teams should make it happen collaboratively with trustees. Past and present employees can encourage them. Small adjustments at a scheme level bring big benefits today."

William McGrath is an ex-City banker, CFO and CEO of industrial groups, notably Aga Rangemaster. He has made DB pension funding a specialism – seen in C-Suiteps Analytics.

From April 2024: **Technical Actuarial Standard 300 2.0 means C-Suite style "run on with surety back up" has to be considered ahead of bulk transfers. Surpluses make the case for bulk transfers collapse.**

Government Now Encouraging the C-Suite Pension Strategies Approach

C-Suite
Pension Strategies

C-Suite has worked on run on ideas for 5 years and knows how to implement them within existing regulatory and legal frameworks. **The action Government wants can start now.**

Commenting on the Autumn Statement and related letters, C-Suite's CEO William McGrath said "'Derisk and get rid asap' now runs against public policy for strong DB scheme sponsors. 'Run On 4 Good' replaces the endgame."

The letter to Nausicaa Delfas, Chief Executive of The Pensions Regulator is overleaf.

The same letter was sent to Nikhil Rathi, Chief Executive of the Financial Conduct Authority. The letters add to paragraph 4.34 in the Autumn Statement on investment in productive assets and the sharing surpluses and tax reductions.

> "4.34 To increase opportunities for defined benefit schemes to invest in productive finance while fully protecting member benefits, the government will consult this winter on how the Pension Protection Fund can act as a consolidator for schemes unattractive to commercial providers and whether changes to rules around when surpluses can be repaid, including new mechanisms to protect members, could incentivise investment by well-funded schemes in assets with higher returns. The authorised surplus repayment charge will also be reduced from 35% to 25% from 6 April 2024."

Government Now Encouraging the C-Suite Pension Strategies Approach

C-Suite Pension Strategies

Government has written to tell the CEOs of The Pensions Regulator and Financial Conduct Authority to "encourage alternatives to derisking and buyout". C-Suite's theme that "Run On Pays Off for all stakeholders" aligns with public policy.

Jeremy Hunt, the Chancellor of the Exchequer and Mel Stride, Secretary of State for Work and Pensions, write in their letters that:

- We collectively believe there is an opportunity for savers to get better outcomes from their pension arrangements. The time to take action to improve outcomes is now.
- Encouraging alternatives to DB de-risking and buyout, where schemes are well-funded with a strong employer covenant - making their assets work harder and enabling continued investment in a broad range of assets, through clearer funding standards in Regulations, a Code of practice and guidance, and making it easier to share investment returns between sponsors and scheme members.
- This is a long-term agenda and will need all parts of the pensions delivery and regulatory system to operate in alignment with this vision.

In September C-Suite Pension Strategies wrote to DWP in the Call for Evidence on DB pensions and stated that one sentence from Government would be transformational for the allocation to productive assets and pension provision for past and present employees :

> "The Government encourage sound sponsors and trustees of well financed DB schemes to run on and modernise them to be ESG Flagships in all stakeholders' interests."

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Department for Work & Pensions

Department for Work and Pension, Caxton House, Tothill Street, London, SW1H 9NA

Nausicaa Delfas
Chief Executive
The Pensions Regulator
Telecom House
125-135 Preston Road
Brighton
BN1 6AF

22 November 2023

Dear Nausicaa,

At today's Autumn Statement, we set out a series of measures to improve pension saver returns, increase opportunities for investment and boost growth in the UK's capital markets and high-growth companies. This package progresses the pension reforms set out at Mansion House in July and is informed by the three golden rules: to secure the best possible outcomes for pension savers; to prioritise a strong and diversified gilt market; and to strengthen the UK's competitive position as a leading global financial centre.

We collectively believe there is an opportunity for savers to get better outcomes from their pension arrangements. The time to take action to improve outcomes is now. Any delay would be first and foremost damaging to savers in relation to being able to expect security in retirement. It would also have negative consequences for the UK economy where pension fund investment decisions are driven by an excessive focus on lower costs rather than long-term value for savers, with this value produced through returns from investment in companies and projects which drive economic growth. A strong economy benefits savers through the returns on investment it provides as well as the public services funded through tax receipts.

At Mansion House, the government set out a bold intention to deliver a programme of reforms, following industry consultation, to enable pension funds to provide a better offer to the nation's pension savers. Today, we set out a vision for the pensions market in 2030 that ensures there are suitable retirement options for savers supported by a streamlined pension provider market that is continually challenged to deliver value for every member:

Providing better saver outcomes;

- **Higher transparency of individuals' pension provision, investments, and options at retirement**, by successfully implementing the pensions dashboard to show total pension entitlement across a number of schemes and requiring pension scheme trustees to provide solutions to savers on their options for access and consolidation at retirement.
- **Exploration of a Lifetime Provider Model**, enabling individuals to have one pension pot for life, reducing the barriers to engagement and increasing their control over their pension pots
- **A strong emphasis on investing for overall long-term returns**, delivering the best value for members and supported by the implementation of a strong regulatory regime and Value for Money Framework.

A more consolidated market;

- **Fewer, larger, well-run, Defined Contribution schemes** delivering value for their members, including automatic consolidation of deferred, small pots and through diversified investment strategies – with consolidation of those that cannot offer this and a greater regulatory focus on member outcomes.
- **More scope for Defined Benefit schemes to invest in productive finance** through a legislative framework for Defined Benefit Superfunds, and new consolidation vehicles.
- **A handful of Local Government Pension Scheme pools**, increasing the scale and opportunity to invest in a larger diversity of high return assets
- **Creating the environment for collective defined contribution schemes**, offering more predictability of income in retirement.

Enabling pension schemes to invest in a diverse portfolio;

- **Encouraging alternatives to DB de-risking and buyout**, where schemes are well-funded with a strong employer covenant - making their assets work harder and enabling continued investment in a broad range of assets, through clearer funding standards in Regulations, a Code of practice and guidance, and making it easier to share investment returns between sponsors and scheme members
- **Increasing the standards of investment expertise and trustee skills,** enabling pension funds to create diversified investment strategies and build stronger links with specialist UK investors.
- **Expanding the range of quality investment vehicles**, ensuring a sufficient range of opportunities for pension scheme investment in high-growth UK companies
- **Prioritising a system that ensures long-term value of pension schemes over short-term cost**, supporting employers along with trustees and managers to make decisions that are in the best interests of members when they reach retirement.

This is a long-term agenda and will need all parts of the pensions delivery and regulatory system to operate in alignment with this vision. We recognise the significant work both regulators are already undertaking in this space to drive forward such initiatives as VFM, decumulation, ensuring effective trusteeship, new guidance to trustees and advisers about investing in private markets and the cooperative approach that has been evident in doing so. The future decisions we take will be informed by the vision we set out here.

The Autumn Statement package announced today is the first step to making this vision a reality. We welcome your continued support, working with government on implementing policy initiatives, to achieve this.

Best wishes,

RT HON JEREMY HUNT MP
Chancellor of the Exchequer

RT HON MEL STRIDE MP
Secretary of State for Work and Pensions

TAS300 version 2.0 has written C-Suite's “run on” strategies into regulation.

The revised Technical Actuarial Standard 300 says that ahead of bulk transfers actuaries must consider “retaining liabilities in the existing pension scheme potentially with additional funding and / or security”. That’s what C-Suite has been advocating for 5 years and developed with Van Lanschot Kempen into FM+.

TAS300 2.0 should mean trustees and members can expect less presumption and more analysis about what is in their best interests from their actuaries. Is run on a better option when there is third party back up? How much of my pension is covered by the PPF? Is the chance for discretionary increases being sold for nothing? What is the track record of risk transfer transactions? How good are disclosure levels? Are exclusive deals with life insurers a good idea?

Perhaps now actuarial consultants should be less squeamish about providing data on deals they have enthusiastically supported. And the idea that any price which beats actuarial model assumptions and is affordable is a good price will come under scrutiny.

TAS300 was an excellent standard when introduced in 2017. Its weakness was that many actuaries ignored the substance and glossed over it. Now with Government setting a new agenda, scheme members and trustees should be more demanding and question what is best. The Risk Transfer industry should be more specific about how many carats the Gold Standard provides. But will actuaries help the revised TAS300 stick?

TAS300 version 2.0: Section 5

5 Bulk transfers

P5.1. Practitioners providing advice to a **governing body** or an employer which is considering a **bulk transfer** must consider the following:

a. credible alternatives to the potential transaction for the long-term provision of members' benefits. Practitioners must consider whether the following alternatives are credible: a **bulk transfer** to a **superfund** or an **insurer** and retaining the liabilities within the existing **pension scheme** potentially with additional funding and/or security;

b. any **material** impact on the protection provided for members' benefits in the event that the benefits are unable to be paid as intended;

c. any changes in the **material** risks to the benefits of the different classes of members; and

d. any changes to the **governing body's** ability to make decisions which affect the level of members' benefits.

P5.2. Practitioners providing advice to a **governing body** or an employer which is considering a **bulk transfer** must use as much relevant information as is sufficient and must make use of support from third parties where they judge it necessary in order to obtain sufficient relevant information. Practitioners who have relied on input from a third party should understand how the input affects the output of their **technical actuarial work**.

C-Suite Commentary

- (a) FM+: Run on long term with third party security.
- (b) Provide surety bonds: Readily available. Does buy-in concentrate risk?
- (c) How does the gap between PPF and FSCS change over time by member class?
- (d) Is the value of discretionary increases being sold for nothing? Ask for Discretionary Step Ups.
- (P5.2) What is the record of risk transfer deals over recent years? Database needed from the Risk Transfer Industry.

P5.3. Practitioners providing advice to a **governing body** or an employer which is considering a **bulk transfer** to a **superfund** must, when advising on the affordability of a buyout of the **pension scheme,** at the time of providing the advice and in the foreseeable future, use assumptions in relation to buyout pricing which reflect current and anticipated future market conditions and **insurers'** practice.

When will Solvency II revisions impact? Are the PRA still concerned about life insurers' gluttony? Will PPF cover more liabilities in future?

P5.4. Practitioners providing advice to a **governing body** or an employer which is considering a **bulk transfer** to a **superfund** must ensure that **models** used are calibrated appropriately to reflect the time horizon of projections.

Do you have a run on model? C-Suite has PFocus 2023.

Communications

P5.5. Practitioners' **communications** must include sufficient **actuarial information** to enable the **governing body** or other decision-making entity to understand the range of options available for the long-term provision of members' benefits, and how different classes of members might be affected by a **bulk transfer.** The information provided must include the items listed in P5.1 where **material**.

How costly have longevity swaps and buy-ins been for schemes? Show what might have been and could be. Run on beats buyout for all stakeholders.

P5.6. Practitioners' **communications** should state any third-party assumptions, **data** or methodology on which they have relied.

Has the involvement of insurers and reinsurers with the CMI been brough to all parties' attention? How good us the scheme's membership data?

New Government Regulations for Occupational Pension Schemes 2023: Key Points

C-Suite Pension Strategies

The 2004 Pensions Act was updated in 2021 on the need for schemes to have funding and investment strategies. The new Regulations provide detail on what is required to be covered.
Following consultation during 2023, the Department for Work and Pensions issued on 29 January 2024 new "Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2023"

Extract from Foreword to the Regulations by Minister for Pensions, Paul Maynard –

"It was never our intention to bear down on risk taking across the board. Rather it was to make funding standards clearer and to promote planning for the long term. By listening to stakeholders, we've learned that it is easy to inadvertently drive reckless prudence and inappropriate risk aversion."
"These Regulations demonstrate the clear scope for most schemes to take more investment risk, while keeping members' benefits safe."

New Government Regulations for Occupational Pension Schemes 2023: Key Points

C-Suite
Pension Strategies

The new Regulations reflect a new attitude in Government. They make the following key points:

- The Regulations do not constrain actual investments and even mature schemes can invest in a wide range of assets
- Provide assurance that the investment in the sustainable growth of sponsoring employers' businesses is a matter to consider alongside the affordability principle
- Schemes are clear that they can invest a reasonable amount in a wide range of assets beyond government and corporate bonds after significant maturity,
- In assessing corporate covenant strength guarantees by third parties are explicitly included.

The strength of the employer covenant is defined under 7(1) of the regulations as:

a) Financial ability of the employer to support the scheme

b) The expected level of support for the scheme from any contingent assets to the extent the trustees or managers of the scheme could reasonably expect the contingent assets to be:

   – Legally enforceable

   – Sufficient to provide the support

The suggestions made by C-Suite in the Consultation are wholly compatible with the revised Regulations.

C-Suite's idea was to define sustainable low dependency to include third party guarantees. Once a scheme achieves that funding level it is in a position to adjust its asset allocations over time and to consider greater use of discretion to make positive use of surpluses.

Department for Work and Pensions launched an open consultation on "Options for Defined Benefit Pension Schemes" in February 2024

Ministerial Foreword by Paul Maynard, Minister for Pension and Mel Stride, Secretary of State for Work and Pensions and Consultation: Extracts:

> *"At Autumn Statement 2023, we committed to a bold range of measures. We will ensure the assets held in UK pension scheme can work harder for scheme members, provide a secure retirement and support the growth of the wider economy "*
>
> *"We will ensure that employers and savers alike can take advantage of strong investment returns, supported by the revised scheme funding regime, which makes the headroom for more productive investment explicit whilst keeping members' benefits safe."*
>
> *"We will ensure that the assets held in UK pension schemes can work harder for scheme members, provide a secure retirement and support the growth of the wider economy."*

Key Points from session report:

- Final report of Select Committee showed concerns about financial data inconsistencies and **emphasises the need for run on options and discretionary benefit payments**.

  "New questions relating to how DB scheme funding is regulated, how to treat any surplus and how to ensure scheme members feel their interests are represented in these discussion"

- TPR approach has been driven by its objective to protect the Pension Protection Fund. Given that PPF now has £12bn in reserves, this objective is no longer needed.
- It is important that trustees and employees are able to run the scheme on as an attractive and meaningful alternative. This has potential advantages for: scheme members (of, for example allowing them to continue to receive discretionary increases; the sponsoring employer (able to see well funded schemes as an asset) for the UK economy (enabling trustees to take a longer term view and increase their investment in return-seeking assets) and financial stability (as more scheme would be working towards different long term objectives).
- TPR should consider requiring schemes to set out why they have pursued a particular approach and why it is in the best interests for scheme members.
- Two decades of regulatory policy caution have almost entirely destroyed the UK's DB system.
- TPR should have "a new objective to protect future as well as past service benefits"

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