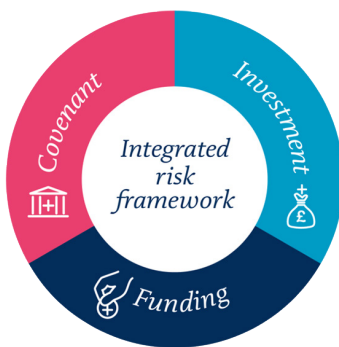


## Will you weather a pension storm?

One of the few certainties in pensions is that the future will not be as you expect. But have you put controls in place so you can nimbly react and still keep on track to achieve your objectives?

February 2018



*Running a pension scheme can involve hoping for the best and preparing for the worst. Because when you hit a bump in the road – and there have been plenty over the years – it's that preparation that will determine whether you succeed or fail. So how well-prepared are you?*

*With an ever increasing emphasis on integrated risk management, here's 10 questions you might want to ask yourself – whether you're a trustee or sponsor of a scheme.*

- 1. Have you got clear objectives to guide you?**  
Unless you know what you're trying to achieve, by when, and what is realistic, it is hard to know what is good news, and importantly, when you should take any action.
- 2. How strong is your employer covenant?**  
And what are the key risks to the covenant in the future – including the things that keep management awake at night? This informs the level of risk you might be prepared to take and what you should watch out for, ideally with some early warning triggers.
- 3. Have you explored what you could do to strengthen the covenant?** Whether this is a charge over assets, inter-group guarantees, or one of many other possible mechanisms, it is helpful to consider what might be possible so it can be discussed between trustees and sponsor.
- 4. Do you know what your key funding and investment risks are?** Longevity can be an increasingly material risk if you are reducing your investment risks, but do you know how significant it is for your scheme? Some simple risk analysis can help focus resource on managing, monitoring and mitigating the key risks.
- 5. Are you comfortable with the level of investment risk you're taking?** The answer to this will depend on your risk appetite, your objectives and the level of risk supported by the covenant. For example, do you know how many years of sponsor profit would be needed to cover your pension Value at Risk?
- 6. Have you looked at some scenarios to see how your scheme and sponsor stack up if key risks materialise?** For example, you might want to look at how your scheme's finances and covenant would change in response to some simple future economic scenarios. It's helpful to quantify the impact – eg how much you'd need to increase contributions to get you back on track, or how much further achieving your objectives is pushed into the future.

**7. What contingency plans have you got in place to deal with future bad, or good, news?**

The Pensions Regulator encourages all schemes to have contingency plans in place. This can be a legally binding detailed framework or a simple principles based approach. Around a third of LCP's Scheme Actuary clients have some form of legally binding contingency plan, and this number is only increasing.

**8. Do you monitor the position with an integrated dashboard, pulling together key funding, investment and covenant metrics?**

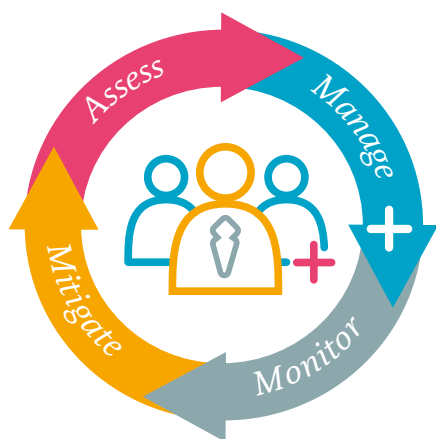
Monitoring how metrics develop over time and taking action when they breach boundaries is a key component of successful risk management.

**9. Do you consider your key risks and risk management plans at every trustee or pension management meeting?**

This can be a quick conversation that focuses on areas that have changed. A short key risk document can be very useful in setting the agenda when it is kept as a "living" document.

**10. Do you work together as trustees and the scheme's sponsor to agree your risk management plan?**

Managing pension risks can be of critical importance to both trustees and sponsors and any plan is most effective when it is developed together.



## Want to find out more?

If you would like further information, please contact your usual LCP adviser or one of the people below.



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