

How do your risks stack up?

Checklist: can you answer these key questions?

| Actions to consider | | ✓ |
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| Have you chosen your ultimate destination? | <ul style="list-style-type: none"> • Receive training on options including insurance solutions and consolidators • Understand the views and priorities of the sponsor and trustees • Compare the costs and benefits of each option, taking into account future scheme expenses | |
| What are the key features of the covenant? | <ul style="list-style-type: none"> • Obtain independent professional covenant advice • Consider what is an affordable level of contributions, both now and in the future • Consider the extent to which the covenant can support investment risk now and in future • Understand the extent to which members benefits would be exposed in a sponsor insolvency • Consider ways in which the covenant might be strengthened, and engage with the sponsor | |
| What is an appropriate timeframe for reaching your objective? | <ul style="list-style-type: none"> • Consider the longevity of the sponsor covenant • Quantify what is achievable based on affordable contributions and supportable levels of risk • Consider the risk that members' benefits are not paid in full based on different scenarios • Consider your cashflow profile and how fast the scheme matures | |
| What should your investment strategy be now and how do you expect it to change over time? | <ul style="list-style-type: none"> • Understand the total returns that you need to generate over the period until you reach your goal • Consider when the covenant is best able to support the risk required to target those returns – use this to decide on how investment risk and target return should vary over time • Consider liquidity requirements and how they are expected to develop • Consider all available asset classes and how best to deliver the required returns in a risk-controlled manner • Based on all the above, consider supportable levels of hedging and how best to achieve them • Make sure the ultimate strategy is consistent with your goal eg make sure assets can be sold or transferred to an insurer, if that is your objective | |
| Does your funding strategy reflect the above? | <ul style="list-style-type: none"> • At your next valuation make sure the technical provisions reflect the expected future changes in the investment strategy | |
| What are the key risks that you face en route to your ultimate objective? | <ul style="list-style-type: none"> • Use LCP Sonar to help identify key areas of risk • Consider any risks specific to your sponsor and/or scheme • Consider the external risk environment (eg climate change) and the potential impact upon covenant, investment and funding risks • Capture the key risks in a working risk document | |
| How are those key risks being managed? | <ul style="list-style-type: none"> • Add current controls to the working risk document • Consider holding a risk workshop to identify any additional ways to manage risk • Track resulting actions and update the risk document on a continuous basis • Agree and document a clear contingency planning policy in the event of downside risks materialising | |
| How are those key risks being monitored? | <ul style="list-style-type: none"> • Capture key metrics in an easy to read risk dashboard • Agree an information sharing protocol between the trustee and sponsor • Implement an integrated covenant, investment and funding monitoring framework | |
| Are you confident in your data and benefits? | <ul style="list-style-type: none"> • Identify areas where data is incomplete • Prepare a benefit specification and agree it with your administrators, actuaries and lawyers • Commission a benefit calculation audit • Complete GMP reconciliation, rectification and equalisation processes | |
| Do you have robust and nimble governance structures in place? | <ul style="list-style-type: none"> • Consider how frequently the Trustee board should meet • Review lines of communication with the sponsor, and the level of participation of sponsor representatives in Trustee business • Review the scope and composition of any Trustee sub-committees • Consider diversity of board and implications of group think | |