

Scottish Enterprise case study:

Building resilience through a **fresh approach to scheme funding**

Hymans Robertson has a long-standing relationship with the Trustees of the Scottish Enterprise (SE) pension scheme. We have provided actuarial, consultancy and administration services for over 15 years, withstanding the regular and robust re-tendering discipline of the scheme Trustees. An open scheme with a strong sponsor, the Trustees were looking for cost stability and to reduce funding volatility; aiming for increased benefit security whilst keeping benefits affordable to the sponsor.

A clear and robust funding plan

Traditionally the management of pension scheme funding focuses on the level of contributions, or how much money is coming in. Through our 3D Funding approach - which looks at balancing contributions with the risk and reward exposure in the investment strategy and the employer's willingness and ability to meet those costs and risks - we introduced a significant step change in how all parties considered scheme funding, integrating the Trustees' and SE's objectives, contributions, investments, and risk.

The starting point; we brought all parties together, including other advisers to the scheme to; agree objectives, clarify where the focus should be and take more coordinated action. SE and the Trustees had two clear objectives:

1. Take no more risk than was necessary to meet benefit obligations
2. Reduce the risk of large and unexpected increases in contributions

Our 3D funding approach starts with setting clear objectives:



Given their objectives, we encouraged SE to reduce their risk whilst it was affordable rather than wait for anymore 'upside' from their assets; a risky approach that could have turned out badly given the direction of yields in recent years.

Our strategy was twofold: firstly we reduced the allocation of growth assets from 80% to 50% which supported raising their level of interest rate and inflation protection from around 5% to around 50%; this led to a more stable contribution schedule and reduced the chances of the company having to pay in more money by two thirds.

Secondly, we identified the scope to increase their rates of protection to 70% - which has now been implemented. **The Trustees now have a scheme which is much more resilient to risk.** Looking back, this has been particularly beneficial given recent low yields, allowing the scheme to weather the financial storm well with funding levels remaining north of 100%, whilst the average UK scheme's funding position deteriorated significantly. Overall, this has delivered the objectives of avoiding a hike in contributions, whilst reducing risk where it wasn't required.





Looking at all three dimensions – contributions, investments and covenant – provided the Trustees and SE with a transparent and comprehensive view of where their scheme’s funding is heading. It also provided the tools to set a route map and draw up a contingency plan for when the road becomes unsteady. The Trustees were delighted to have achieved such a positive outcome for all stakeholders:

- ◆ Clarity and control over the risks in the scheme through clear objectives and the implementation of a bespoke de-risking and monitoring framework.
- ◆ A structured, affordable, yet adaptable financial management plan, combining stable company contributions with greater than 40% reduction in volatility.
- ◆ Increased member confidence in the security of their benefits and the scheme’s long-term future.

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Hymans Robertson helped us map out clear and straightforward objectives that work for the Trustees and Scottish Enterprise. They bring clarity to the underlying risks in our scheme. In combination this means we have significantly reduced risk. We are also confident that we are taking the right risks and no more risk than required to meet our objectives. Our Hymans Robertson team are a breath of fresh air - clear, confident and engaging communicators - and with a healthy dose of friendly challenge; they helped us make this happen. ”

Sharon West

Senior HR Executive, Scottish Enterprise

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In keeping with our main actuarial guiding principle, we started at the end and worked back. So the time and collective effort was spent on getting SE, the trustees and other advisors aligned behind a common goal. This gave the necessary context and momentum to develop and deliver a genuinely integrated contribution, covenant and investment strategy. The result? Much more resilience to financial risks which is good for members, whilst meeting SE’s affordability requirements too. ”

Calum Cooper

Head of Trustee Consulting

If you’d like to have a chat about strategically managing your scheme’s risks give Calum a call for a chat.



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