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Winning the pensions endgame

More pension schemes are approaching their endgame – which for many means securing benefits with an insurance company. Tony Baily, investment partner at Aon, explores how fiduciary management can play a vital role

2019 was a record year for UK pension scheme buyouts. The market was dominated by ten large transactions, six of which Aon advised on. The impact of current market conditions on scheme funding levels means this momentum could slow down in 2020. However, we believe it's still as important a time as any to remain focused on the end-goal, so that trustees are in a strong position to move forward when markets bounce back. Schemes using fiduciary management will have benefitted from the protection it provides in today's volatile markets, so many will be well-placed to continue their journey as planned. For schemes yet to adopt fiduciary management, we explore how it can help you to achieve your long-term goals.

LOTS TO PREPARE FOR

There is a lot to think about when it comes to preparing your scheme for a successful buyout. Well-timed actions, across both assets and liabilities, could shave years off your journey. Liability management exercises such as pension increase exchanges, enhanced transfer value and data audits can make buyouts more affordable. For assets, the priorities are to generate stable returns, while keeping risk as low as possible, and holding suitable assets to ensure a smooth transition to the insurer. Managing all these can be a challenge, especially as trustees continue to face time and cost constraints.

USING THE FULL INVESTMENT TOOLKIT

By delegating the investment decisions to a

fiduciary manager, trustees can focus their time on getting the scheme 'buyout ready', including cleansing member data and reviewing benefit specifications. Schemes that are in a good position cannot always afford to take their foot off the gas, so keeping the momentum going is important if trustees want to get across the line. This is where fiduciary management can help; delivering the stable investment returns needed to achieve a steady improvement in the scheme's funding level. A fiduciary manager - who can utilise the full investment toolkit - is better placed to navigate in the current environment. This means proactively managing a diversified portfolio of best-in-class strategies and external managers, rather than having to relying on market returns alone. This gives trustees more confidence about reaching their end-goal; especially as schemes now face greater market volatility and the possibility of a global economic slowdown.

MANAGING STORMY WEATHER

As we have seen in the markets recently, the importance of risk management should not be underestimated. Schemes need to react quicker as their circumstances change. Decisions on de-risking, hedging levels, asset allocation and manager selection should be much more dynamically managed, otherwise trustees may find themselves a lot further from buyout than they envisaged. It is times like these where fiduciary management proves to be most effective. A fiduciary manager will be able to transact quickly and efficiently, meaning trustees are not missing out on opportunities to lock-in gains (or to de-risk).

FINDING THE RIGHT PARTNER

Finding the right provider to partner with on the next stage of your journey is a key consideration. We believe a fiduciary manager who can provide a solution that integrates all aspects of a buyout can make your journey smoother and shorter. This needs a provider with deep expertise, not just of investment strategy alone, but also about risk management, liability management and risk settlement.

In choosing the right fiduciary manager, we think it is helpful for trustees to look for a partner who can build, develop and innovate as their strategy evolves. Equally, finding a provider with a strong performance track record across all market conditions gives schemes the best chance in achieving those steady, predictable returns. Our approach to innovation and our 'strong performance results' were cited as some of the reasons why Aon won 'Fiduciary Management Firm of the Year' at the 2020 Pensions Age Awards.

Clearly there is a lot to juggle when it comes to preparing for the endgame. Time and governance challenges coupled with market uncertainty, will continue to make fiduciary management an attractive way to help trustees succeed on their journey to buyout.

Aon investment partner, Tony Baily



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