XPS Pensions Group

XPS Funding Strategy

January 2023

Fully funded – what now?

Despite the challenges of recent market and fiscal events, most schemes have seen their funding levels improve. Some are now **fully funded** or have **a surplus** relative to the cost of insuring all benefits.

The majority of trustees and sponsors have rightly been focussed on setting and reaching their end goal. But perhaps less consideration has so far been given as to what to do when they get there. **Exploring all options is critical** to getting the best outcome for both members and sponsors, and this can be done quickly.

Over 21% of schemes are now fully funded. Is your scheme one of them?

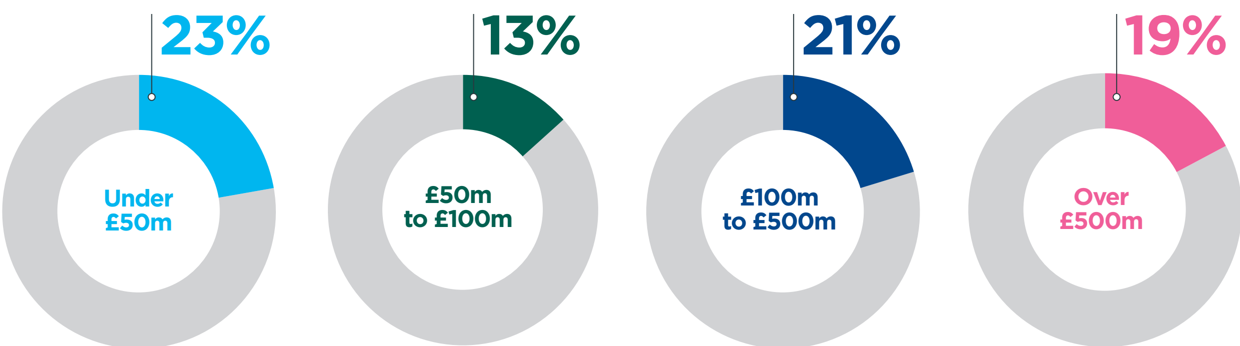
Whether your scheme is in surplus is influenced by several factors such as the proportion of pensioner and non-pensioner members, the asset strategy, past levels of hedging and the complexity of the benefits provided. **Trustees and sponsors should consider** getting an up-to-date picture of the funding position, level of sustainable hedging and asset profile of their schemes to assess the various options available going forward.

Following the recent market volatility **XPS surveyed over 500 pension schemes** to see if they were in surplus. This showed that **21% of all schemes** are likely to be **fully funded** or have a **buyout surplus.**

The highest proportion was small schemes. Small schemes often find it hardest to get on the radar of insurers, making making it important to assess options to gain attention and protect the buyout position.

For the schemes in surplus, the **surplus ranged from very small to 50% of the assets.** The average experienced funding level is highest for those with under £100m in liabilities.

Proportion of schemes in surplus by buyout liability value



Source: XPS Pensions Group

What options do trustees and sponsors have?

The natural inclination will be to move to buyout. This will be the right approach for a number of schemes but it may not always be the right answer, or indeed possible, in the short term. There are three paths sponsors and trustees can take.

Proceed to buyout

Broker insurance and move from buy-in to buyout as soon as feasible.

If you are a small scheme consider

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Consider this option if:

- Removing scheme is critical to managing risk – for some sponsors it may be an existential risk.
- No barriers exist (e.g. no illiquid assests or accounting concerns).

Delayed insurance

Planned journey over medium term to minimise cost and explore opportunities.

If you are small scheme consider a DB mastertrust to manage costs and journey.

Consider this option if:

- There are barriers to insuring (illiquid assets or significant data and benefit issues).
- It can help transition the roles of any in-house team.
- The sponsor has multiple schemes and wants to share surplus.
- Accounting impact prohibits obtaining immediate sponsor agreement.

Run the scheme on

Run scheme for the long term while minimising risk for accrued benefits.

Explore tight and robust governance using agile technology.

Consider this option if:

- The sponsor wants to keep and use surplus within scheme.
- The sponsor wishes to open to accrual or fund DC benefits.
- The sponsor and trustee wish to help current and past employees with the cost of living crisis e.g. by providing discretionary increases or benefits.

Next steps

1. **Assess your schemes funding position**
2. **If close to buyout, or in surplus, review powers and discretions to ensure a clear assessment of possible options**
3. **Set up a joint working party between the sponsor and the trustee to:**
   - **ensure** everyone's objectives are reflected;
   - **acknowledge** the sponsor is a possible beneficiary of the scheme;
   - **agree** the appropriate strategy path to take; and
   - **agree** how to properly use powers and discretions each party may have at this stage.

For further information, please get in touch with **Neil Lalley** or **Zoe Huppert** or speak to your usual XPS Pensions contact.

t 01483 330 166

e neil.lalley@xpsgroup.com

t 0118 214 2841

e zoe.huppert@xpsgroup.com

@xpsgroup

xpspensionsgroup

XPS Pensions Group