

Pensions endgame

LCP Elevate: a flexible active run-on strategy framework helping our clients turn DB pension schemes into real assets

March 2024

Regulations and the pensions market are changing, with the latest DWP consultation on options for DB schemes promising further changes to support schemes looking to invest for growth. LCP Elevate is our strategic framework designed to help clients challenge what is possible in the new world of better funded pension schemes and enable schemes to run on securely, whether for a defined period or over the long-term.

Now is the right time to embrace the opportunities so that members benefit from improved experiences and outcomes, and pension schemes become an asset for sponsors and society. LCP Elevate brings together our unique blend of expertise and strong industry position so that our clients can identify and implement the best strategy for them, balancing risk and enhancing value.

LCP Elevate governs how we work together to determine the optimal strategy for each client's specific situation

The combination of our market leading pension risk transfer team, unique insights into longevity trends, and our influential regulatory and government connections mean we can quickly and efficiently identify and implement the best strategy, tailored for your specific circumstances.

Step 1

Develop understanding of scheme position, rules, and stakeholder objectives and priorities.

Step 2

Use our market-leading insights on longevity trends and insurance pricing to assess the full range of options and potential outcomes against your objectives.

Step 3

Agree preferred endgame target and timeline - this could include running-off the scheme over the long term, or deferring another chosen endgame beyond the point of affordability.

Step 4

Work with LCP's innovative team backed with unparalleled regulatory insight, to derive a robust, efficient and future-proof strategy that delivers on your aims with a flexible approach, making use of contingent funding solutions, to support the journey.

Step 5

Monitor strategy holistically and regularly reassess options, opportunities and risks.

If relevant, at point of insurance, work with LCP's market leading pension risk transfer team to ensure a successful risk transfer transaction.

Using LCP Elevate benefits our clients and leads to improved outcomes

Access to unique insight from longevity, regulatory and risk transfer specialists to apply to the specific situation and enable us to tailor the best strategy and manage ongoing risk.

1. Efficient use of sponsor resources to ensure security of member benefits is maintained.
2. Retain control of the full member experience, including application of discretions, potential for increases, and use of online member tools.
3. Retain control over investment strategy, which could include smart use of illiquid assets, cashflow matching, and climate-driven portfolios.
4. Value creation which can support a pension scheme sponsor's growth objectives.

**A £1bn scheme could expect
£100m - £150m released over 10 years
which could be used for:**

DC contributions

Enhance DB scheme benefits

Refund to employer

Fund alternative benefits

Long term investments

Risk buffer

Why use LCP Elevate

We have a track record for innovating and developing industry-leading solutions, with expertise in a full suite of integrated pensions services covering, in-house, all aspects of actuarial, investment, administration, and covenant, as well as contingent funding, longevity, pension risk transfer, data services, technology and governance. This means we can quickly identify and optimise the appropriate package and level of security to protect members based on what resources the sponsor has available and put in place the framework which will ensure the strategy is appropriately monitored and adapts to emerging opportunities and risks.

Unique to LCP, former pensions minister, **Steve Webb**, and former Executive Director of Regulatory Policy at the Pensions Regulator, **David Fairs**, provide the highest level of industry and political insight. Strategies developed using LCP Elevate stand up to Regulator scrutiny and conform to evolving regulatory requirements.

Expertise from LCP's **Health Analytics** practice is fully integrated into our pensions work. In an environment where longevity risk is one of the key remaining risks facing schemes that run-on, we provide clients with a unique insight into mortality and evolving data trends. This means they have a clear understanding on the level of risk they retain when choosing to run-on and, the additional support required (for example if taking actions that reduce surplus to benefit the sponsor and members), and can make better decisions on the value-for-money of any insurance or longevity swap transactions.

We are also unique in the industry that we can synthesise our **energy expertise** with our **investment expertise** to help our clients understand and make better informed investment decisions around the future asset risks and opportunities associated with the green energy transition when running-on.

Case study: How one client used LCP Elevate to fund DC contributions

LCP advised the sponsor of a UK DB pension plan with assets of c£2bn. The Trustees were initially focussed on insurance.

With the insight from LCP's market-leading risk transfer team and unique longevity expertise, we were able to:

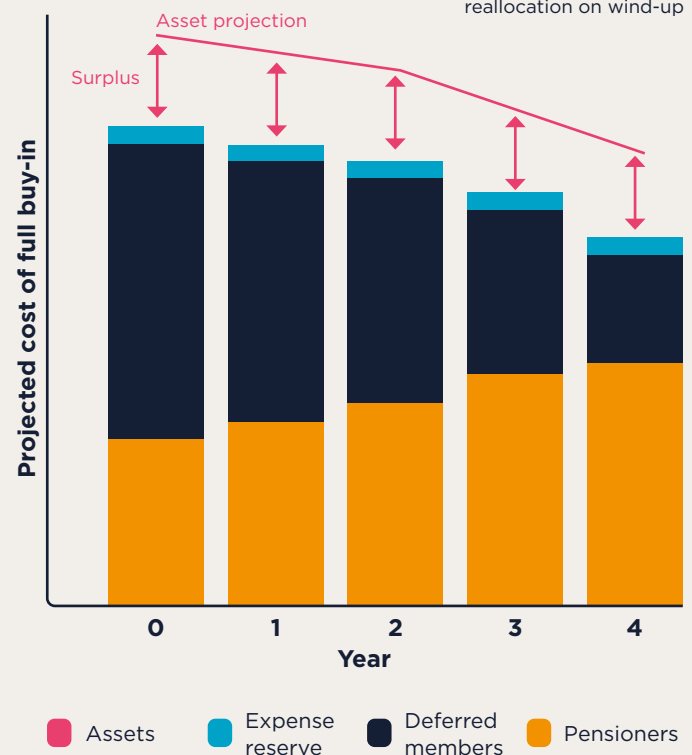
- Refine the estimate of the cost to insure the Scheme
- Recommend data and benefit actions to improve pricing
- Help the Trustees and sponsor make informed decisions on the value-for-money of insurance buy-ins compared to retaining the risk as part of a value creation run-on strategy.

The Trustee advised that the recommended data and benefit preparatory work could take up to four years. LCP analysis showed that:

- the surplus is expected to grow by c.£40m pa over this period (after allowing for risk management steps)
- some of this emerging surplus could be extracted whilst still leaving a significant risk buffer.

The LCP Elevate framework meant we could establish and implement a tax efficient route to access the surplus with immediate cashflow benefits for the sponsor and a risk buffer for member protection.

Following full buy-in, any surplus would only typically be available for reallocation on wind-up



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