HYMANS ROBERTSON

The corporate pension viewpoint

While companies never seem to get a break from new pension regulation, evolving pension solutions or volatile financial markets, it really does feel that we are currently in an unprecedented period of change in the pensions world. Whether it is the impact of rising UK gilt yields, innovation in the provider market or a possible new direction in government policy towards retirement provision, there are multiple moving parts for employers to contend with.

So, what do companies think about all of this and how are they responding?

To answer this question, we conducted a wide-ranging survey of 250 finance and pension decision-makers in UK companies . In our survey we covered a wide range of topics including:

- respondents' strategic pension priorities over the next few years
- respondents' views on defined benefit (DB) endgame strategies
- the impact of the Pension Schemes Act 2021 on company planning and financial activity
- respondents' views on future retirement provision and government policy
- corporate and trustee governance

Over the coming weeks we will be sharing insights from this research. In this paper we look at the first two areas: **strategic priorities** and **DB endgame strategies**.

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[i]Research conducted by Censuswide July 2023

Big picture – strategic company priorities for the next three years

We asked companies to name their priorities and biggest challenges in the pension space over the next three years. Some very clear themes emerged.

THEME 1:
Keeping on top of regulation and compliance with the Pension Schemes Act 2021

It's unsurprising that this came up so often in the responses – it highlights the additional pressures on management time that this has created for companies. We'll look at this in more detail in a later publication in this series, but respondents are clearly concerned that their DB pension commitments do not become a blocker to corporate strategic planning, eg M&A activity, refinancing or restructuring plans.

THEME 2:
Endgame planning

Endgame planning and the strategy around future de-risking was another key theme. We look at this in more detail below. It's clear that many companies will have a clear sense of their direction of travel, but most are unclear on how developments over the next few years may impact the detail of their pension strategy.

THEME 3:
And finally – GMP equalisation

It's not all about big picture strategy. There was a large response making it clear that the implementation of GMP equalisation remains a challenge and priority, which isn't surprising, given the planning, resource and cost involved for many schemes.

So where are companies on endgame planning?

Of the 250 companies we surveyed:

48% | are aiming for an eventual whole-scheme buy-out, compared with

44% | aiming at a long-term run-off strategy.

7% | of respondents said they were still undecided.

Of the respondents focused on a buy-out endgame, 89% manage schemes that are projected to be 5–10 years from being fully funded on a buy-out basis, so are very much viewing this as a medium-term strategy. We asked this group if they had any concerns around delivering their strategy. The following themes came through strongly:

1. **Lack of insurer capacity**
2. **Lack of adviser capacity**
3. **Company accounting implications**
4. **Implementation costs**

Given the concerns around lack of capacity and accounting implications, it's no surprise that, of these respondents, 49% said they would run off and 43% said they would transfer to a superfund if they can't buy out. The superfund market is an emerging area, and it's clear a significant proportion of companies are looking at developments in the provider space with great interest. Furthermore, there is increased interest in run-off and the potential corporate value generation that may be possible if the forthcoming Mansion House reforms lower the funding bar for extracting surplus and/or reduce the 35% tax charge on surplus refunds.

Turning to companies already focused on run-off, when asked why it was appealing, financial benefits to the company was the main theme – specifically, subsidising DB and DC costs, meeting running costs and perceived accounting benefits. These financial benefits may improve further with the Mansion House reforms. Other themes were the opportunity to share surplus with members to augment benefits and a corporate belief that an insurance solution such as buy-out would mean passing 'profit' to the insurer.

Interestingly, less than a third (31%) of companies focused on run-off believe they need to offer their trustees additional forms of security to support a longer-term horizon or any investment risk that will be taken. With rising yields shrinking schemes relative to the supporting covenant and improving funding levels, this is perhaps not surprising from a corporate perspective.

Key takeaways

1. Companies are focused on and concerned about the impact of their pension commitments on longer-term corporate strategy, especially through the lens of the Pension Schemes Act 2021.
2. Rising yields and improvements in funding levels are increasing the focus on endgame strategies, and it's clear there is a wide spectrum of strategies evolving.
3. There is uncertainty as to what the pension landscape will look like over the next few years, but also opportunity in relation to new solutions coming to market and evolving government policy incentivising run-off strategies.
4. Companies intending to pursue an irreversible insurance buy-out transaction in the short to medium term may wish to consider keeping their options open, given that the Mansion House reforms could open up new value creation opportunities.

Interesting times indeed! In our next two papers we'll look more closely at what companies are saying about the impact of the Pension Schemes Act 2021 and future retirement provision strategies.

If you have any questions or would like to discuss your own corporate pension strategy please do get in touch.

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