

Managing Efficiently

October 2014



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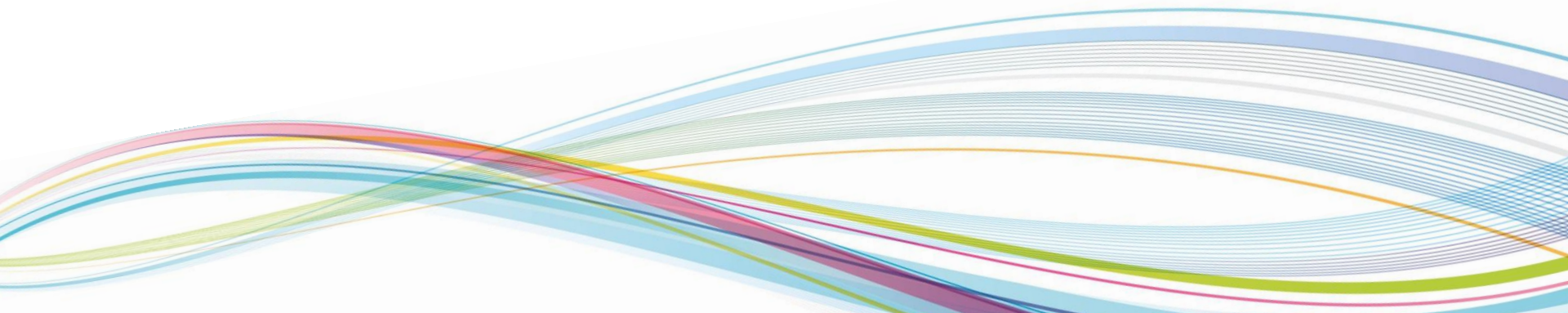


- Employer risk and covenant strength
- Data Quality

Why perform Covenant Checks?



- Reduce the risk of pension liabilities falling on other fund employers
- Improves overall scheme governance & employer monitoring
- Can use to adopt differing valuation strategies based on financial strength of employer (including implementing security)
- Assists in assessing risk on new employer joining the fund



Benefits of employer covenant checks

- Risk identified and actively managed
- Ensures proper documentation in place
- Opportunities to understand and improve security
- Likelihood of employer default reduced
- Costs associated with monitoring covenant relatively low compared to loss to fund in the event of an insolvency
- Appropriate deficit reduction plan in place

Types of employer



- Social Housing
- Charities
- Higher Education Sector
- Further Education sector
- Academies/Schools

Why take additional security?



- Fund takes priority over other creditors
- Reduces uncertainties in any insolvency process
- Ability to mitigate impact of contribution rates increases
- Appropriate balance between risk and security

Types of security



- First charge on assets
- Security of income streams
- ESCROW account
- Parent Company Guarantee

Engagement with employers



- Explaining benefit of covenant checks/reducing risk of cross subsidy
- Annual provision of information for covenant check
- Developing dialogue so the pension fund are made aware of material events affecting an employer
- Ensuring employers understand key differences between IAS19/ongoing & cessation valuations

Engagement with employers



- Cessation valuations provided to all employers at each triennial valuation.
- Annual cessation updates for employers at risk or with few active members
- Regularly monitor membership numbers
- Ensuring admission agreements remain valid

Internal monitoring and processes



- Engagement with Board/Pensions Committee
- Clear process and procedures in place
- Awareness of potential risk
- Regular reporting and monitoring
- Risk register in place
- Funding Strategy Statement

The Importance of Good Quality Data



- Member records
- Liability Management
- Regulation, Guidance and Legislation

Data Quality



- Member Records
 - Missing Records
 - Late notifications
 - Annual Benefit Statements
 - Retirement calculations
 - GMP reconciliation

Data Quality



- Liabilities
 - Triennial Valuation
 - Bulk Transfers
 - Employer cessation
 - Investment allocation

Data Quality



- Regulation, Guidance and Legislation
 - Public Service Pensions (Record Keeping) Regulations
 - The Pensions Regulator Guidance on Governance and Administration

Data Quality



- LPFA's approach to ensure good data quality
 - Performance Administration Strategy
 - On-line notifications from employers
 - Monthly data reconciliation
 - Common & Conditional data monitoring and reporting
 - Data quality checks

Questions



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