

Working example business plan for your DB pension plan for the next three years



Introduction

This document is intended to provide an example business plan that trustees and sponsors can use for the next one to three years for their pension scheme.

Our experience has been that many schemes already have a document that is called a “business plan”, but in many cases this is actually a calendar of actions which is largely made up of routine and compliance items and deadlines. Whilst this is a very useful document on its own it is unlikely to help you deliver your long term goals.

We would suggest starting with the long term goals for your pension scheme and from this developing your strategic objectives for the next 1-3 years and then monitor your progress against these to ensure that you make tangible progress in reaching these long term goals.

Our survey into good pension scheme governance (www.aon.com/governancesurvey) highlighted that around one-third of pension schemes have a business plan with SMART* objectives and a strategic focus.

This document provides an initial example business plan that we hope you find useful. It draws on examples that we have seen, and we would appreciate your comments and feedback, so that improved examples can be shared onwards.

*Specific, Measurable, Achievable, Relevant, Time-bounded

The flow that we have used in this document is:

- Vision and Long Term Goals
- Summary of three year high level goals
- Developing the three year goals:
 - More detail about how those goals will be achieved, and what will be the measurement of success
 - The activities underlying these goals, timeplanning and responsibilities
 - Summary activity plan for the first year
- Context and audit trail (referencing the next step of budget preparation)

Contacts

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Example Business Plan (stability/self-sufficiency target)

Vision

A pension scheme that is broadly financially and operationally self-sufficient and is expected to be able to operate without further cash injections from the sponsor and has a high degree of certainty (95% certain) that it can pay members' entitlements in full as they fall due.

Long term goals

To achieve that by being fully funded on a "gilts plus 0.5% p.a. basis" with an additional buffer, and to aim to be in that position within the next 15 years, on the basis that by that point over 80% of the liability is likely to relate to pensions in payment. Also by being confident that all market led opportunities have been assessed and taken where appropriate.

- To reach a position within the next 10 years such that the estimated 1 year 5% VaR is of x% of the funding level or lower.
- To be confident that all market led opportunities that help to achieve the above long term position are assessed and taken where appropriate
- To be providing members with "upper quartile" service, an appropriate range of fit-for-purpose options and with clear communication so they can make informed financial decisions

- To maintain an effective relationship with the Sponsor and the ultimate parent company
- To remain fully compliant at all times
- Underpinned by a governance structure that delivers the above with appropriate running costs

Three year goals (high level summary)

A. Funding

To develop a flight plan, including funding, investment and contribution strategy, which is expected to achieve the long term goals.

B. Investment and Risk

To put in place an integrated risk management approach, which manages the short-term investment risk in the context of the sponsor covenant, as well as dealing with the most significant other risks that the scheme is exposed to.

C. Opportunities

To put in place processes such that all market led opportunities, whether they the investment related or otherwise, are assessed and taken where considered appropriate.

D. Member experience

To provide DB and DC members with reliable, accurate and timely service, an appropriate range of fit-for-purpose options and with clear communication so they can make informed financial decisions. Focus to be on paying members' their entitled benefits with options being offered where they enhance rather than distract from that.

E. Sponsor relationship

To maintain an effective relationship with the Sponsor and the ultimate parent company, including support for the strategy that the scheme is run.

F. Costs

To identify and manage the running costs of the scheme.

G. Compliance

To remain fully compliant at all times

H. Governance

To have a governance structure that delivers the above.

Three year goals (actions, detail & measurement)

A. Funding

To develop a flight plan, including funding, investment and contribution strategy, which is expected to achieve the long term goals

1. To develop, within three years of the 2015 valuation, a flight plan which captures contributions, investment strategy, hedging approach, target funding level, timescales, and chances of success
2. To negotiate appropriate contributions and sponsor support at the next valuation to facilitate the flightplan

B. Investment and Risk

To put in place an integrated risk management approach, which manages the short-term investment risk in the context of the sponsor covenant, as well as dealing with the most significant other risks that the scheme is exposed to.

1. To establish and document an appropriate IRM approach, within 12 months of the 2015 valuation
2. To review that the investment strategy is being optimally managed, with no greater risk than is necessary to achieve the expected return
3. To improve the security provided by the sponsor covenant over the next three years, through whatever actions are determined to be appropriate and viable, with particular reference to backing the growth asset exposure being maintained
4. To close out the top 10 Risk Register priorities within 12 months of the 2015 valuation, and review them at least annually thereafter

C. Opportunities

To put in place processes such that all market led opportunities, whether they the investment related or otherwise, are assessed and taken where considered appropriate.

1. Improve membership data and benefits specification capture, such that within three years the scheme is confident that data or benefit specifications could be issued to an insurer or the sponsor within a week if necessary, and that the underlying data is as accurate as possible. To specifically include GMP reconciliation by 31 December 2018
2. Maintain a register of opportunities, which covers liability management as well as investment and other opportunities, and ensure that register remains up to date with latest ideas, and is progressed/reviewed at each meeting
3. To put in place within 12 months some formal triggers and appropriate monitoring of funding levels and bulk annuity pricing, so that market opportunities can be captured

D. Member experience

To provide DB and DC members with reliable and accurate service, an appropriate range of fit-for-purpose options and with clear communication so they can make informed financial decisions. Focus to be on paying members' their entitled benefits with options being offered where they enhance rather than distract from that.

1. To achieve X% of member events within the agreed SLA, with X% right first time, measured over six month periods
2. To enable members to have self-service on the web, and also therefore enable other options to be provided, with 95% of members are able to self-service for retirement, early retirement and transfer values within three years
3. To automatically offer full options at retirement ie including CETVs, total commutation and Pension increase exchange, with a these options being available within 18 months of the 2015 valuation for all standard retirements
4. To review the approach to DC AVCs such that members have a more up to date range of investments and communications, within 18 months of the 2015 valuation
5. Have a communications plan and member feedback process before the end of 2016. Understand what "good service" looks like to members

E. Sponsor relationship

To maintain an effective relationship with the Sponsor and the ultimate parent company, including support for the strategy that the scheme is run.

1. To put in place a formal review programme, within 12 months, which allows for the trustees and sponsor to provide feedback on the experience of working with the other
2. Arrange company attendance at the investment subcommittee and also expert resource iro communications, project management etc
3. To put in place arrangements, within 12 months, whereby plans for all major projects (excluding those where there are conflicts to be dealt with) are drawn up together with the sponsor to ensure that both parties can ensure that resources and approvals are available when needed

F. Costs

To manage the long term running cost of the scheme

1. To understand and document by 31 December 2016, the total full "costs" of running the scheme including cost of company representatives
2. Create annual budget for each scheme year, at least three months in advance of that year. Aim to not increase total core costs year on year
3. Ensure costs are aligned with and appropriate for achieving results for the scheme
4. Establish a cost-benefit approach for approval of non-core costs by 31 December 2016

G. Compliance:

To be fully compliant at all times

1. Be fully compliant with all existing requirements throughout, with no significant breaches of during the period
2. Have an up to date calendar of events at all times which includes all compliance items, and which always covers at least the next 12 months
3. Add requirements emanating from tPR's IRM guidance and new accounting standards

H. Governance:

To have a governance structure that delivers the above.

1. To identify the governance structure and support tools to apply in long term, the journey to that state, and have that agreed with the sponsor
2. Tangibly link all actions and costs to the 3 years business plan. Trustee agendas to show similar explicit links
3. Put in place Individual (non standard) training plans for each individual, with a review process. The trustee skills/training should be aligned to the governance structure and the business plan
4. Have updated systems for monitoring and reporting performance, including an agreed approach to reporting and a dashboard that covers all ongoing tasks
5. Each year produce a "Chairman's statement" about the governance and progress of the scheme

[Optional

Our top five priorities, which we will prioritise above either items, for the next three years are:

- *Agree 3 year business plan*
- *Establish a flightplan*
- *GMP reconciliation and rectification*
- *Update DC AVC facility*
- *Sponsor and Trustee preparation for 2018 valuation]*

Key activities

Key activities to be undertaken in the next three years - maximum of [36] items planned to be completed in the three year period

No	Category	Task	Target Completion Date	Responsibility*
1.	Funding & Risk	Establish and document Trustees' points of view/philosophies/beliefs around funding, investment, risk. From these carry out investigations to then establish and document an IRM approach. So that the Trustees could answer all of the questions contained in tPRs IRM guidance	Q3'16	CoT to lead Decisions: Trustees
2.	Funding & Risk	Work with the company so that there is common understanding of the company's long term objectives for the scheme, its beliefs, risk tolerances and its ability to underpin risk. Test the Trustees' objectives against this.(Background of 2015 valuation completed Q4'15)	Q3'16	CoT to lead plus ISC
3.	Funding	Understand the company's preferences regarding cash contributions, timing and level.	Q4'17	Accountability: ISC
4.	Funding & Risk	Together with the company consider/reconsider all forms of possible security which could help to enable achievement of goals and short term growth asset risk. Prioritise and progress. In conjunction with the company. Set up a review mechanism for this to occur periodically.	Q3'16 and Q4'17	Establish parameters: Trustees Progress: ISC
5.	Funding & Risk	Design flightplan, company agreement, documentation, implementation	Q3'16	Establish parameters: Trustees Accountability: ISC Implementation: XYZ Advisers
6.	Funding & Risk	Recalibrate initial asset allocation to best risk:return scenario	Q4'16	Decisions: ISC Advice: XYZ Advisers
7.	Risk	Document/extend current covenant information protocols and processes with the employer	Q4'16	Accountability: ISC Advice: XYZ Advisers
8.	Risk	Refresh risk register, assign responsibility, schedule consideration of risks: 3 per annum.	Q2'16	Accountability: ISC Advice: XYZ Advisers
9.	Opportunities	Establish an opportunities register and review process	Q2'16	Accountability: CoT and Sec

No	Category	Task	Target Completion Date	Responsibility*
10.	Opportunities	Establish on-demand web based funding estimates	Q3'16	Establish parameters: ISC Implementation: delegated to XYZ advisers
11.	Opportunities	Review the cost:benefit of the range of liability options shown on the opportunities register, undertake feasibility study for the two most valuable, implement and update register	Q1'17	Establish parameters: Trustees Accountability: ISC Advice: XYZ Advisers
12.	Opportunities & Members & Compliance	Clarify benefits. Capture by producing a “consolidated” trust deed & rules. Undertake remediation process for any issues uncovered. draw up a benefit specification that could be used issued to 3rd parties for tactical opportunities eg longevity hedging	Q4'17	Accountability: ASC Advice: XYZ Advisers
13.	Opportunities & Members & Compliance	Improve member data – insured pension reconciliation	Q2'16	Establish parameters: ASC Implementation: delegated to in-house pensions team*
14.	Opportunities & Members	Improve member data – GMP reconciliation	Q4'17	Establish parameters: ASC Implementation: delegated to in-house pensions team
15.	Opportunities & Members	Improve member data – resolve nil recorded pensions/deferred pensions, unclaimed benefits	Q4'17	Strategy: ASC Implementation: delegated to in-house pensions team
16.	Opportunities & Members	Improve member data - clarify contingent spouses’ pension amounts and transfers in. Update members’ electronic records.	Q4'17	Establish parameters: ASC Implementation: delegated to in-house pensions team
17.	Opportunities & Members	Clarify benefits – in respect of part-timers/XYZ section, revisit any subsequent incorrect benefit statements	Q4'17	Establish parameters: ASC Implementation: delegated to in-house pensions team
18.	Members	Achieve automation of calculations for all sections with the exception of XXX and YYY	Q2'18	Establish parameters: ASC Implementation: delegated to XYZ Advisers

No	Category	Task	Target Completion Date	Responsibility*
19.	Members	Web access to members wishing to view/update their data, benefits and to request quotations	Q2'18	Establish parameters: ASC Implementation: delegated to XYZ Advisers
20.	Members & Funding & Risk & Opportunities	Review CETV and other factors in light of 2014 budget flexibilities and changes to patters of member behaviours. Install systems for capturing any behavioural changes.	Q3'16	Establish parameters: Trustees Implementation: delegated to XYZ Advisers
21.	Members & Funding & Risk & Opportunities	Review whether to offer partial CETVs	Q3'16	Establish parameters: ASC Implementation: delegated to XYZ Advisers
22.	Members	Determine factors and communication for offering PIE at retirement. Update calculation routines/communications etc.	Q3'16	Establish parameters: ASC Implementation: delegated to XYZ Advisers
23.	Members	Agree appropriate SLAs and measurement process	Q3'17	Accountability: ASC
24.	Members	Member feedback – understand “what success” would look like for members, balancing with reality. Feed into comms strategy. Set appropriate measurements for strategy.	Q4'16	Accountability: ASC
25.	Members	Communication strategy to be agreed and put into effect	Q3'17	Accountability: ASC
26.	Members	DC AVC fund choices/communication: consider options, carry out feasibility on preferred options, deliver. (followed by member feedback)	Q4'16	Accountability: DCSC Advice from: XYZ Advisers
27.	Sponsor	Agree a programme of interaction with the employer including sharing/agreement of business plans and results	Q4'16	Accountability: CoT
28.	Sponsor	Get a sponsor representative as an active member of ISC	Q2'16	Accountability: CoT
29.	Sponsor & Cost	Agree a process for reviewing feasibility of projects with sponsor more efficiently.	Q1'16	Accountability: CoT

No	Category	Task	Target Completion Date	Responsibility*
30.	Cost	Identify and quantify current time/cost spent by Trustees, Sponsor and advisers. Review how best to spend this budget – given the 3 year goals set by the Trustees. Carry out in conjunction with the Sponsor.	Q4'16	Accountability: CoT & Sec
31.	Cost	Capture immediate cost savings - move to electronic meeting packs, web-library. Review which trustees don't have ipads, and provide funding. Two hours of training.	Q3'16	Implementation: delegated to inhouse pensions team
32.	Cost	Establish a cost: benefit mentality and framework – which forms part of all adviser contracts/ reviews.	Q4'16	Accountability: Sec
33.	Governance	Determine overview of long term governance structure. In more detail, outline the structure that you want at the end of the next three years (ie before entering the next valuation, or another convenient staging point) – considering work to be carried out, resources, budgets, current trustee and keyman longevity. Carry out gap analysis and a plan for achieving the structure.	Q4'16	Accountability: Sec
34.	Governance & Compliance	Review all the items which are carried out which are not directly aligned to the three year goals (eg the compliance items) and ensure assigned accountability. Consider resourcing and different models for handling these (from Get Busy, Get Simple to Get Help) to ensure that Trustee time is spent on the key priorities	Q2'16	Accountability: Sec
35.	Governance	Align Trustee agendas to achieving the business plan. Use technology, dashboards and by-exception reporting to achieve focus. Establish measurement loop eg end of meeting review. Review training programme against skills needed to be a “21st Century Trustee”	Q3'16	Accountability: CoT & Sec
36.	Governance	End of year review progress against objectives and refresh 3 year plan – document in a notional “Chairman’s statement”.	Q1'17	Accountability: CoT

* Where no in-house team exists, these items may be undertaken by others such as Secretary, Advisers

CoT – Chair of Trustees
 ISC – Investment Sub-Committee
 ASC – Administration Sub-Committee

DCSC – DC Sub-Committee
 Sec – Secretary to Trustees

Time planning Year 1 (2016)

[Years 2 and 3 could also be planned in a “real” situation]

No	Activity Summary	Trustees' input required				Accountability						
		Q1'16	Q2'16	Q3'16	Q4'16	CoT	ISC	ASC	DCSC	Sec	Pens team	Advr
1.	Trustees' points of view on funding, investment, risk. Establish IRM approach											
2.	Common understanding of the company's long term position											
3.	Company's preferences regarding cash contributions, timing and level											
4.	Security – consider, prioritise, progress, review mechanism											
5.	Design flightplan, company agreement, documentation, implementation											
6.	Recalibrate initial asset allocation to best risk:return scenario											
7.	Covenant information protocols and processes with the employer											
8.	Refresh risk register, assign, schedule											
9.	Establish opportunities register and review process											
10.	Establish on-demand web based funding estimates											
11.	Review opportunities register, feasibility study on 2, implement and update											
12.	Clarify benefits in new deed & rules. Undertake remediation. Benefit spec											

No	Activity Summary	Trustees' input required				Accountability						
		Q1'16	Q2'16	Q3'16	Q4'16	CoT	ISC	ASC	DCSC	Sec	Pens team	Advr
13.	Improve member data – insured pension reconciliation											
14.	Improve member data – GMP reconciliation											
15.	Improve member data – resolve nil recorded pensions, unclaimed benefits											
16.	Improve member data - contingent spouses' pension amounts and tvs in											
17.	Clarify benefits – part-timers/XYZ section, remediation.											
18.	Automation of calculations for all sections with the exception of XXX and YYY											
19.	Web access to members to view/update data, benefits and request quotations											
20.	Review CETV. Install systems for capturing any behavioural changes.											
21.	Review whether to offer partial CETVs, and effect											
22.	Factors, communication and processes for offering PIE at retirement											
23.	Agree appropriate SLAs and measurement process											
24.	Member feedback – understand “what success” would look like for members											

No	Activity Summary	Trustees' input required				Accountability						
		Q1'16	Q2'16	Q3'16	Q4'16	CoT	ISC	ASC	DCSC	Sec	Pens team	Advr
25.	Communication strategy to be agreed and put into effect											
26.	DC AVC fund options/communication											
27.	Programme of interaction with the employe											
28.	Sponsor representative as an active member of ISC											
29.	Process for reviewing feasibility of projects with sponsor more efficiently											
30.	Identify and quantify current time/cost spent. Review											
31.	Capture immediate cost savings - electronic meeting packs, web-library											
32.	Establish a cost: benefit mentality and framework											
33.	Determine overview of long term governance structure.											
34.	Review items carried out which are not directly aligned to the 3 year goals											
35.	Align Trustee agendas, dashboard reporting, feedback and training to the business plan.											
36.	End of year review notional "Chairman's statement"											
	AGREE BUSINESS PLAN											

Context

Overview

This strategic business plan for the next 1-3 years has been prepared by representatives of the Trustees of ABC Pension Scheme and XYZ Sponsor Ltd.

The purpose of the business plan is to provide a strategic focus and to complement the existing calendar of actions already in place to manage the routine business as usual items. As such this plan does not provide an exhaustive list of items.

This business plan aims to drive the key objectives over the next 1-3 years to support the delivery of the scheme's long term goals.

An annual budget and resource plan will also be prepared and considered as the next part of this process as well as a wider cost/benefit analysis for key strategic projects.

The business plan will be reviewed as part of a regular cycle of plan, implement, monitor and evaluate.

Parties involved

- Chairman of the Trustees
(Company appointed Trustee)
- Chair of Investment Subcommittee
(Company appointed Trustee)
- Chair of the governance Subcommittee
(Member nominated Trustee)
- Finance Director (Corporate)
- Head of Risk and Compliance (Corporate)
- Legal Director (Corporate)
- Scheme Actuary (Adviser)
- Pensions Consultant (Adviser)

Shared with

Trustees, advisers, sponsor

Next review

[insert date]

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