Reduce the cost of your DB pension scheme

Save £137,500 per annum on an average scheme*
The complete solution for smaller Defined Benefit pension schemes

Is this you?
You have a defined benefit (DB) scheme which you or your predecessors originally established with the best of intentions. But most of the members don’t work for you any more and the hassle and costs of dealing with the legacy feel out of proportion.

Funding the benefits
You’re still keen to do the right thing and accept your responsibility to the membership but times have changed. The cost of providing the benefits promised has increased exponentially because of:
- Improvements in life expectancy
- Legislative complexity
- Reduced investment returns
- Lower gilt yields

Management and advice costs
Even if you’re able to fund your deficit, your governance and advice costs feel out of control. And there’s the additional hassle factor.

Innovative solutions out of reach?
Your advisers are not short of ideas on de-risking but the time, effort and expense involved is disproportionate to the benefit.

It no longer makes sense.

Is this how you view the pensions industry?
You realise you need help and go looking for it. However, your advisers are not sensitive to your needs. You wish there was an adviser out there who understood your world.

Advisers
Typically, those you go to for help are either:
- More focused on larger schemes with different priorities, or
- Don’t have sufficient expertise to help.
The wider industry realises there is an issue but no readily available solution. The PLSA DB Task Force1 highlighted that there are too many small schemes and has invited trustees and the industry to look for a solution.

Economies of scale
These schemes also struggle to leverage economies of scale. The DWP Green Paper2 refers to the difficulties smaller schemes face in being able to secure discounts from asset managers.

Consolidation
The PLSA refer to the potential benefits of consolidation. If schemes’ assets are consolidated into a single pool with governance, administration and back office functions also combined, estimated aggregate savings could reach £1.2 billion per year. In short: consolidation is common sense, yet you can’t see how this is possible in your world.

DB sense is a revolutionary approach that will deliver

- Lower direct costs
- Greater chance of meeting your benefit promises
- More effective decisions made faster
- Lower management costs
- Less risk

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1 The PLSA DB Task Force Report: The Case for Consolidation, 9 March 2017
2 DWP Green Paper: DB pension schemes: security and sustainability consultation, 20 February 2017
Reduce the cost, governance burden and hassle of your DB pension legacy

Lower direct costs
You’ll benefit from us negotiating investment costs with leading asset manager, LGIM, which reflect the overall pooled value of assets of schemes participating in DB Sense. **You will get the purchasing power of a large scheme.**

You’ll receive world class consulting advice and administration that is paid for entirely by the reduction in LGIM’s fund manager charges – delivered efficiently through economies of scale.

Greater chance of meeting your benefit promise
We’ll provide you with access to suitable funds that are appropriate for your situation – **a bespoke strategy designed specifically for your scheme**, with the optimum combination of return seeking and matching assets.

Your chances of meeting your objectives are improved through having better assets to invest in – assets previously available only to large schemes.

More effective decisions made in less time
In the background you’ll have access to leading edge technology. We’ll allow you to **monitor your funding and investment position in real time**, all year round using our RADAR software.

Lower management costs
You’ll benefit from simply having less hassle. You’ll be able to free up your people who currently act as trustees and give them more time in the business. **Your governance costs will reduce**, whilst at the same time...

Less risk
...**you’ll have higher levels of governance**. You’ll have a professional trustee, proactively managing the scheme for the benefit of members and the employer.

You’ll also have access to **proactive risk management** and future liability management will be carried out on an ‘opt in’ basis. You can select from a menu style approach. Exercises that would not make sense for you on your own will deliver benefit for you and for members when carried out collectively.

The model
We’ll provide the means by which you can move towards the consolidation model that the government and the industry are striving for. It effectively allows you to:

- Reduce risk
- Minimise the hassle factor
- Improve your governance
- Reduce costs

Group procurement
Third-party administration and advisory functions

Adapted from: The PLSA DB Task Force Report: The Case for Consolidation, 9 March 2017

“Good governance could add up to 1% to a scheme’s assets in a year” PLSA Green Paper
DB Sense – financial sense

<table>
<thead>
<tr>
<th>Fees</th>
<th>Current situation (tPR data)</th>
<th>DB Sense</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial</td>
<td>Approx. £80,000 pa</td>
<td>Zero</td>
<td>DB Sense fees paid from the annual management charge (AMC) on assets</td>
</tr>
<tr>
<td>Investment consulting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
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<tr>
<td>Covenant advice</td>
<td></td>
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<tr>
<td>AMC on assets</td>
<td>Approx. 1.0%, which is approx. £250,000 pa</td>
<td>0.77%, which is approx. £192,500 pa</td>
<td>This represents a combination of: The now-reduced asset management charge, Actuarial, investment consulting and administration costs, The costs of covenant advice</td>
</tr>
<tr>
<td>Total costs</td>
<td>£330,000 pa</td>
<td>£192,500 pa</td>
<td>A SAVING OF £137,500 PA</td>
</tr>
</tbody>
</table>

*If you are an ‘average’ scheme, WE WILL SAVE YOU £137,500 PA*

Consider this example of a £25m DB scheme. The table assumes investment of assets in a mixture of pooled funds

<table>
<thead>
<tr>
<th>Trustees</th>
<th>Appointed by the employer and the members</th>
<th>Sole professional trustee appointed from our panel</th>
<th>Allowing your people to spend more time in the business and reducing the ‘hassle factor’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service quality</td>
<td>Delivery typically via small firms or IFAs. Access to resource is limited, resulting in mixed quality.</td>
<td>World class ideas and delivery from a high quality, publicly owned consulting business</td>
<td>Access to best ideas, economies of scale and solutions previously only open to larger schemes</td>
</tr>
<tr>
<td>Outcome</td>
<td>Deficit and drain on the sponsor</td>
<td>Improved outcomes for all stakeholders</td>
<td>Better expectation of meeting benefit promise, reduced deficit, lower risk to the business</td>
</tr>
</tbody>
</table>

This table is based on Pensions Regulator (tPR) data and shows the expected outcome based on the current scenario and what would happen if the scheme chose DB Sense. Figures extrapolated from: www.thepensionsregulator.gov.uk/docs/db-scheme-costs-research-2014.pdf

“In general, small schemes tend to have less effective governance and trusteeship”

PLSA Green Paper
The structure might work for us now, but not in the future. Am I stuck with it?

No. DB Sense is specifically designed to allow you to move to a fuller service if needs change. An example might be if there is corporate activity at the sponsoring employer – it is easy to flex up or down the support provided at any time.

How is this different to a master trust?

Because you retain your own trust and thereby greater control over your destiny. You will have a higher level of flexibility than with a master trust and not be constrained by the other participants, with whom you may have little in common.

Will I be exposed to other people’s deficits?

No, you will not.

Do I have to change the trustees?

A key advantage of DB Sense is that it frees up time for the current trustees and lightens the governance burden that falls on the company. If you have a professional trustee already, we will be happy to work with them using the DB Sense structure. If you have a larger trustee board we will be happy to discuss with you whether they are retained or not. We appreciate that in some cases people will wish to retain their board and this is something we can be flexible on.

Can I retain one of my existing advisers?

DB Sense works because we can work very efficiently as one team working closely together. If you wish to discuss using only one part of the solution – for example replacing the scheme actuary – that is something we would be happy to discuss, but we would not be able to provide our services on the DB Sense structure.

What is the take-on process?

We will handle all of the transition of administration and the trustee will oversee the change in advisors. There will be a ‘light touch’ legal oversight from a leading law firm to provide reassurance to the trustee.

What if the service deteriorates?

We are answerable to the scheme trustees. We need to provide a good service to be retained, and could be replaced if we do not provide an excellent service and good value for money.