Launch event Q&As

1. Why would small schemes want to join Stoneport?

Stoneport has been specifically designed for and is targeted at small schemes, those with less than 1,000 members, who face the biggest challenges from running alone and therefore stand to benefit the most from the economies of scale and risk reduction that consolidation can bring.

By joining Stoneport the trustees, members and employer to a small scheme can:

- Increase the likelihood of all members receiving their benefits in full to 99%, meaning members can relax in the knowledge their retirements are safeguarded.

- Reduce running costs by as much as 80%, with further significant savings on top (for example, the risk-based PPF levy is expected to reduce by 90% or more).

- Expect the highest standards of governance at the lowest cost, previously only available to the largest schemes or at a significant cost where borne individually.

2. Are you effectively a totally outsourced FM provider?

Stoneport does not have a fiduciary investment management approach. The Trustees are responsible for ensuring the investments are managed in accordance with the Trust Deed & Rules and Statement of Investment Principles (both of which are available on the Stoneport website). In fulfilling these obligations, they are independently advised by Barnett Waddingham, the appointed investment consultants of the Trustees.

Stoneport is as noted, a fully outsourced solution. The administration, actuarial and investment consulting services are provided by market leading firm Barnett Waddingham, with further services (such as legal, audit and so forth) provided by other established firms.

Stoneport's objective, and reason for establishing, is to solve the significant problems faced by small schemes - problems that were faced by Punter Southall with its own small defined benefit scheme – the first scheme to join Stoneport. Services will be delivered by the best providers in the market, independently chosen by the Trustee to the Stoneport Pension Scheme.

3. What is meant by "pooling covenants"? Does this mean that employers will be on the hook for liabilities relating to members associated with other employers? / Post 2022, are you a multiple independent employer DB scheme with joint & several liability for employers?

Stoneport's strength and its transformational cost savings both stem from employers coming together to deliver the pension promises they originally made individually to their members. This does mean the provision of ongoing *contingent* support for the other employers' obligations. However, it is unlikely to result in the payment of additional (cash) contributions given the safeguards that have been put in place to guard against such a risk, most notably:

- First, there is the Covenant Test, which is applied on entry and again at the point of centralisation, along with the Combined Covenant Test. These tests are designed to ensure that the employers who join Stoneport are able to look after their share of its obligations both individually and as a collective.

- Second, whether it is the granting of funding or investment flexibilities to employers, any risks that employers are allowed to take in Stoneport are always measured, monitored and managed - from the point of being admitted to join Stoneport - right through its operational life, to the eventual buy-out.

Together with the appropriate funding of their share of Stoneport's obligations, these help ensure that if and where an employer was to become insolvent, the risks to the remaining employers are, and can be expected to remain, low.

Further detail on the safeguards in place to protect employers can be found in the document Protecting against affordability risk, available on the Stoneport website.

4. What is the difference between Stoneport and a DB master trust?

Stoneport starts life operating like a DB Master Trust but its goal is to centralise, to pool together the assets, liabilities and covenants of the schemes who join. In doing so, it completely transforms the cost and risk experience of schemes who join. From centralisation on 31 December 2022:

- Running costs will reduce by as much as 80% with further significant savings on top (for example, the risk-based PPF levy is expected to reduce by 90% or more).

- The likelihood of all members receiving their benefits in full increases to 99%, meaning members can relax in the knowledge their retirements are safeguarded.

- Stoneport can offer the highest standards of governance to all the schemes who join at the lowest level of costs previously only available to the largest schemes from the economies of scale its unique structure brings.

5. How do you plan to address the risks associated with exit payments for employers? / Can you leave the scheme? At what cost? / Can an employer or scheme exit Stoneport in the future, post centralisation i.e. is a joining decision reversible?

It is Stoneport's unique structure, coupled with the economies of scale that are only achievable by bringing many schemes together, that enables it to achieve transformational reductions in cost and risk.

Schemes joining Stoneport will have done so in full knowledge of its long-term funding target to be fully funded on a buy-out basis and with all the assets invested in a strategy mirroring how insurers invest by the end of 2045. Leaving Stoneport voluntarily would therefore be somewhat counterintuitive given the reasons for joining, and counterproductive given how the transformations are achieved.

All the same, we recognise that with a longer time horizon there may be some circumstances where an employer needs to leave Stoneport, and this is accommodated under the Trust Deed & Rules. To do so, the employer would need to pay its 'exit debt', normally calculated as that employer's buy-out deficit (if any, given its notional assets, and share of Stoneport's liabilities).

More details on the exit debt mechanism and the protections that exist around it can be found in Chapter 8 of the 5th technical guide, *Funding and Investment*, available to download in the '*Explanatory guides*' subsection of the '*How it works*' section of the Stoneport website. (The full Trust Deed, including the exit debt provisions, can also be found on our website in the '*Scheme documents*' section).

6. Is Stoneport a non-segregated multi-employer scheme?

Yes, or at least, that is what it will become on 31 December 2022 (the centralisation date) when Stoneport completes its consolidation by pooling together the assets and liabilities of all employers to form one larger, stronger scheme. Until centralisation, Stoneport is a fully segregated multi-employer scheme. Thereafter, on its journey to a buy-out at the end of 2045, it is a non-segregated multi-employer scheme.

7. Can you challenge your covenant assessment?

The Trustees of Stoneport encourage employers to be open in sharing information and analysis on the extent of the covenant they provide, to facilitate their understanding. However, like all schemes, it is the Trustees' independent view of the covenant, having taken suitable advice, that will be considered when decisions are made, and those decisions are ultimately theirs.

For Stoneport, that means it is the Trustees who will determine whether the Covenant Test is met, both on the entry of an employer to Stoneport and at the point of centralisation, as well as in making decisions about the appropriateness of each employer's funding and investment approaches through Stoneport's operational lifetime.

8. To achieve the less than 1% default on member benefits, what is your assumed overall covenant credit rating?

The covenant supporting Stoneport after it completes its consolidation on 31 December 2022 and becomes a centralised scheme will be rated as "strong" under the Pension Regulator's grading approach. This strength and the overall equivalent credit rating is garnered from the diverse pool of covenants that together, form the overall covenant strength provided to Stoneport, with an expected overall risk of default lower than that provided by a AAA-rated company.

9. For the key votes, how do you define the majority needed? 50+%, 75% or 90%?

Where a vote of the employers is required under the Trust Deed & Rules, a simple majority will be required, i.e. more than 50% voting in favour. The decisions covered by such a vote include Stoneport's centralisation, any variation to the date of centralisation, any variation to its target date (i.e. when it aims to achieve full funding on a buy-out basis), a decision to buy-out before the target date when full funding has been achieved, and a decision to wind-up the arrangement.

10. How can Stoneport cope where the sponsor is purchased or simply wants to buy out before 2045?

Stoneport has procedures in place to both assess and address the consequences (if any) of an employer being acquired by a third-party firm, or more generally any other corporate event which may be material to the covenant support provided by the employer. Employers are required to notify the Trustees of Stoneport if any agreement in principle is reached to sell their business, so that the Trustees can consider and assess the implications of this, in terms of any change in covenant strength for the funding and investment strategy of that employer.

If an employer wishes to buy-out before 2045 and stop providing covenant support to the scheme, the Trustees would consider this at the relevant time, whether as part of the sale of the business in whole or in part or not. Generally though, the aim is for employers to remain other than in exceptional circumstances, which will be considered by the Trustees on a case-by-case basis as required (see the response to Question 2 for more information in this regard).

11. Will Stoneport accept a scheme which has active members and new members joining?

Stoneport cannot accept a scheme which has either active members or new members still joining it. The reasons for this are complex, but stem from a need to know the liabilities each employer brings to Stoneport, so as to be able to effectively swap those for a share of the much larger and more diverse pool of the scheme as a whole on centralisation, which continued accrual would prevent. There are also complexities around debt regulations for multi-employer arrangements when some but not all employers have active members.

In practice only a relatively small proportion of Stoneport's target market remain open to both future accrual and new members and open schemes may consider closing in order to join, noting the trend remains to DB schemes closing, the cost having continued to rise significantly in recent years.

12. Can you please expand on options for dealing with DC AVCs - did you say there would be a DC trust alongside if needed? Currently some schemes like members to be able to combine their AVCs with DB for the lump sum.

For Stoneport to be able to accept DC benefits such as AVCs, it would have to be authorised and regulated as a DC Master Trust, a significant undertaking given the relatively small benefit this would achieve and the overarching aim to dramatically reduce DB costs.

Any DC AVCs will therefore need to be held in a separate arrangement and it will not be possible for members to combine them with their DB benefits in Stoneport for example, for paying a pension commencement lump sum. Employers and trustees of schemes considering joining Stoneport will need advice to help weight up this issue against the enhancement to benefit security and the other benefits that Stoneport provides to its members.

13. Could you outline what due diligence will be done on schemes that wish to participate in Stoneport and where liability would lie if an employer found (after centralisation) that unanticipated liabilities were arising in relation to other schemes, because something had been missed in the due diligence?

The benefits that Stoneport is responsible for in respect of any employer admitted to join will be set out in a legal document referred to as the Participation Deed. Much like with buy-out, the trustees and the employer of the joining scheme will be responsible for ensuring that data is complete and accurate in listing the members and their benefits (with the help of their advisors). The trustees and the employer may wish to purchase run-off insurance to cover the risk of any errors or omissions.