



## Talking Heads Podcast Episode 3: Delivering on a mission impossible – a visionary expedition by MNOFF

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**SPEAKER 1:** You're listening to Talking Heads, a Willis Towers Watson podcast series, featuring interviews with senior leaders on the most pressing human capital and benefit related topics.

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**SHELLY BEARD:** For this session, I'm delighted to be joined by Rory Murphy, the Trustee Chair of the Merchant Navy Officers Pension Fund. The MNOFF has a long and successful history of de-risking transactions. And in fact, they've been my client for a decade, during which time I'd advice them on six transactions covering more than \$3 billion of liabilities. Welcome, Rory. Thank you for joining us today. Perhaps you could start by introducing yourself and the MNOFF.

**RORY MURPHY:** Hi. So as you said, my name's Rory Murphy, chair of the MNOFF. We're a DB scheme, closed to new members and closed to future accrual, with some 350 participating employers. So an important scheme for maritime industry and an important scheme for a lot of employers, as well, who are global in their makeup.

**SHELLY BEARD:** Thanks, Rory. And perhaps you could share with us the de-risking transactions that the fund has completed over the recent years.

**RORY MURPHY:** Sure. What's really important to bear in mind is that we've always had a very well defined journey plan. That's been absolutely critical. And that's helped the trustee to reduce risk at the right time and to achieve good pricing from the insurance market. Our aim is to be 103% funded, on a gilts basis by 2025.

So back in 2012, we completed a successful buyout for the old section. For the remaining DB section transaction-- they began in 2014-- a very innovative longevity swap. I believe we were the first in the-- we were the first guild to use a ready made Guernsey captive to access the re-insurance market. And then more recently, positive progress on our journey plan-- thanks to Willis Towers Watson-- has allowed us to start annuitizing parts of the scheme.

And in 2017, we completed a 490 million pound buy-in with L&G. And more recently-- earlier this year-- we novated our longevity swap into a 1.6 billion pound buy-in with PIC.

SHELLY BEARD: Excellent. It's certainly been an exciting journey to be alongside MNOPF for. And I know that working closely with the trustee throughout that period, how carefully considered each of those transactions to ensure it was really the right time to do the transaction in terms of your overall investment strategy, and also, that you were getting the best possible outcome for members at all points.

RORY MURPHY: Yes. And I think that's been an important element of it. I'm a great believer that you have to have good chemistry and good connection with your advisors, and be in control of the situation that you as a trustee [INAUDIBLE]. And it's probably giving a plug that you don't need, but Willis Towers Watson have been a very important element to our success. We've very pleased to have worked so closely with you all, and with your team, in particular, recently.

SHELLY BEARD: Thank you very much, Rory. That was definitely off script. Well, my next question is around your ultimate destination, which is hopefully a buyout to the scheme, as you said, around 2025. Now you are a very large and sophisticated pension scheme, as you said. You've got a very sophisticated set of advisors. So why is it that you've chosen buyout as the ultimate destination for the MNOPF, and have you considered other destinations?

RORY MURPHY: Well, we are considering all destinations now. So although it looks likely that a buyout will be the final destination, that decision hasn't been finally taken yet. And I think that's an important element, as well. We want to be fleet of foot to be able to respond to events. But we've also got a clear aim of where we would like to be if things continue along the path that we expect.

Even if the fund achieves self-sufficiency, there's still risks within the fund. So buyout means all the risk are gone. So why keep it going? It's that kind of-- we don't have a vested interest in keeping it going. And of course, the insurers offer a stronger covenant, particularly in these really difficult times at the moment.

So we have considered other options, as you know, and many, many people listening will know. The MNOPF has not been afraid to innovate. We have innovated in the past. We're very happy to do that. In fact, it's almost a little bit of a trademark of us that we do look to innovate.

But of course, we need to be insured that the tried and tested roots are there, as well. And that's why the buy-in looks to be the best option, leading us to wind up. And of course, it's important for our participating employees, as well. It's something that they would take the risk off the table for them.

SHELLY BEARD: Yeah. I absolutely agree that the tried and tested route of the buyout is certainly one that's very advantageous for a scheme like yours, that can afford it, and where the employers are supportive of moving to buyout.

RORY MURPHY: Yes. And it's really important that communication channels have been open with all stakeholders, all participating employers, and the members, as well, to ensure that we don't do anything all of a sudden. We try to anticipate what's going to happen two or three years down the line, working closely with our advisors to help us with that. And set scenarios to understand that if things do go wrong or things change, that we can react very quickly to them.

SHELLY BEARD: Yeah. I agree. You're a very reactive trustee board. So you've already mentioned the novation that we worked together on earlier this year. So that was a 1.6 billion pound novation of the existing longevity swap into a buy-in with PIC. So the longevity reinsurance stayed in place and PIC took that on.

I just wanted to ask you a little bit more about that, because one of the concerns that I sometimes hear from trustees who are considering longevity swaps is that it might reduce their flexibility in the future, or that novating it to a buyer might be really hard. So I wondered if you had a take on that-- on how it was from your perspective as a trustee.

RORY MURPHY: Well, I think it's a little bit like fiduciary management. Trustees seem to think that somehow you negate your responsibility. And in fact, you don't. If you're in control of the process-- if you know as a trustee board what you want to do and the advisors are aware of that, as well-- then you've got nothing to worry about. You're in control.

And I think that's an important element of our swap deal-- was knowing that we had flexibility if we needed it. We didn't know at the time that we would. We didn't know at the time when it might be needed. But making sure that we had it, as part of the process right from the very beginning, was really important.

And I remember Shelly was talking about some of the wording in the agreement-- that we got the wording right that would allow us to do it if we wanted to. The important thing is we as trustees own the process. The advisors advise. The trustees make the decision. And if we have clear sight of where we want to go, I think that helps you as advisors give us the best advice at an appropriate and timely manner.

SHELLY BEARD: Yeah. I think that's absolutely right, Rory. You were very clear with us-- back in 2014 when we were putting in place a longevity swap-- a very high priority for the trustee was that future flexibility. We ensured that the contract absolutely gave you the abilities that you needed in the future, which, fortunately, because of the progress you made on a journey plan, you were able to undertake earlier this year.

RORY MURPHY: Yes. I should say, it was designed to be flexible. It was future proofed. And it was capable of being converted. And they were really important elements of it, which I'm sure gave you some headaches. But from us as the client, it was important that we made that clear that's what we wanted. And then you go and do your best, and hey, presto. We got the result we wanted.

SHELLY BEARD: I'd like to say it was hey, presto [INAUDIBLE]. There were definitely a few late nights along the process.

RORY MURPHY: Well, it was to me.

SHELLY BEARD: But I'm glad it felt like that.

RORY MURPHY: No, I get that.

SHELLY BEARD: Excellent. So my final question is, obviously, you've been through a number of very interesting transactions as trustee chair. But I'm sure our audience would like

to know what tips you have for other trustees that are considering buy-in, buyout-- all longevity swap transactions. What have you learned and what knowledge can you pass on?

RORY MURPHY: I think what I would suggest is to have clear objectives, both in terms of the overall journey plan and then the success criteria for each individual project. I think that's really important, because it acts as a reference point when you have to make big decisions. So you've got a role to play, as well. You just don't make a decision and then drop it and expect everybody else to fulfill your wish and aspirations.

I think you've got to trust your advisors. Really important you build up that relationship. And be guided by them. Don't be afraid to be guided by your advisors. Because, of course, they the market inside out. That's what we're paying for-- that market knowledge is really important.

And also, I think, consider effective delegation for the trustee board. I think one of the elements of all that we've done is we've been able to make decisions quickly we've needed to, because the full board has been brought on to what the policy and the strategy is. But they've been prepared to delegate that out to the chair and vice chair, or to a smaller subcommittee. And I think that's important.

I think also trustee boards need to be agile in terms of timing. Sometimes you have to say no to a deal. And that's OK. Bide your time. Wait. Wait. And that's an important element of it, as well. And I would also say agree a budget with each advisor-- not necessarily just a project budget, but a budget with each of them-- so you're aware of what's going on and why.

And don't be afraid to innovate. I think it's really, really important to be open to innovation. And I think, finally, it's incumbent on all trustee boards to remember that what we do is for the benefit of the scheme and its members. And they are really the driving force behind what we're doing here. Pensions is a people business. It's not just a money business.

SHELLY BEARD: Thanks, Rory. I agree. It's really important to remember that, at the end of the day, this is all about member security.

RORY MURPHY: Yeah.

SHELLY BEARD: Well, thank you very much for joining us, Rory, and for sharing so many of your fantastic perspectives on this market. I'm sure that everyone found it very useful and insightful. Thank you.

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SPEAKER 1: Thank you for listening to this edition of Talking Heads. For more information, visit our insights page on [willistowerswatson.com](https://willistowerswatson.com).