



Setting the scene – where are we in 2010?

Danny Wilding, FIA
2 November 2010

From **DB** to **DC**...



The fall of
Dunfermline's
Brown

The rise of
David
Cameron



Agenda

Where are we in 2010?

- Current market statistics
- Asset allocation trends
- Scheme status trends
- Funding trends
- PPF & TPR
- Current issues

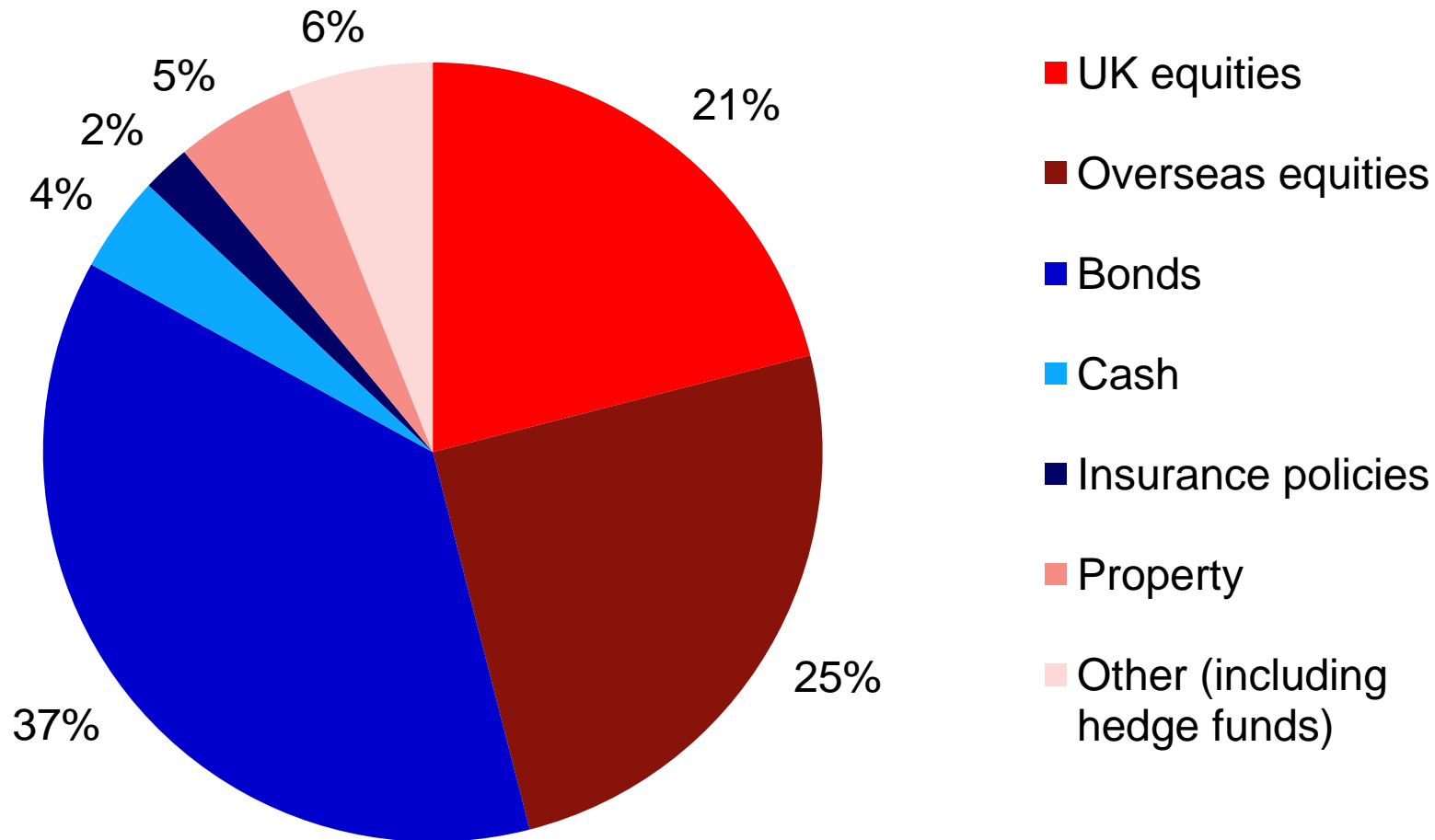
UK defined benefit market

Source: TPR Purple Book as at 31/3/2009

- Around 7,100 DB schemes
- 13 million members
- £800 billion assets
- Accounting deficits £50 bn
- Funding deficits £300 bn
- Solvency deficits £600 bn
- Over 70% closed to new entrants

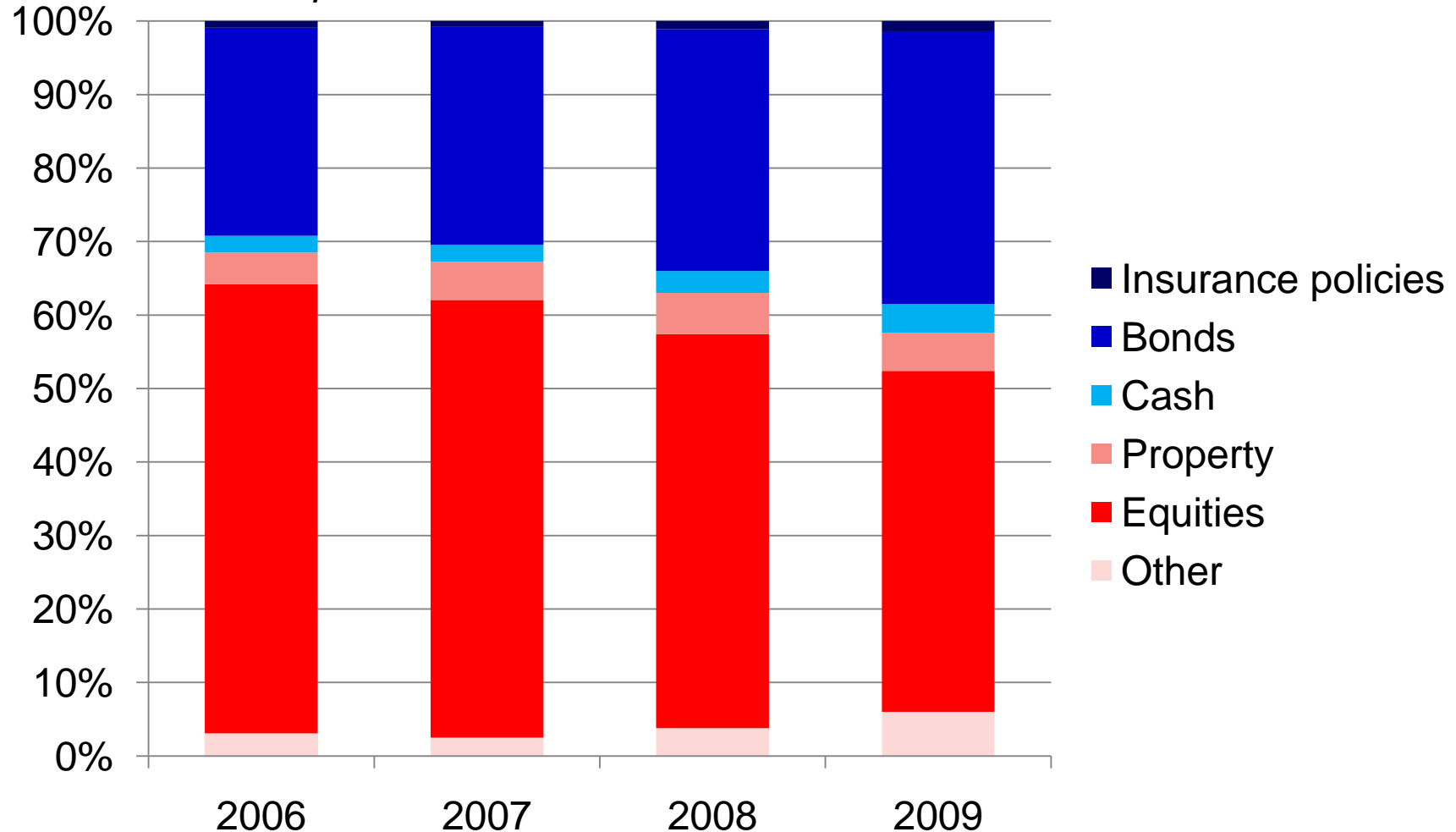
Typical asset allocation

Source: TPR Purple Book as at 31/3/2009



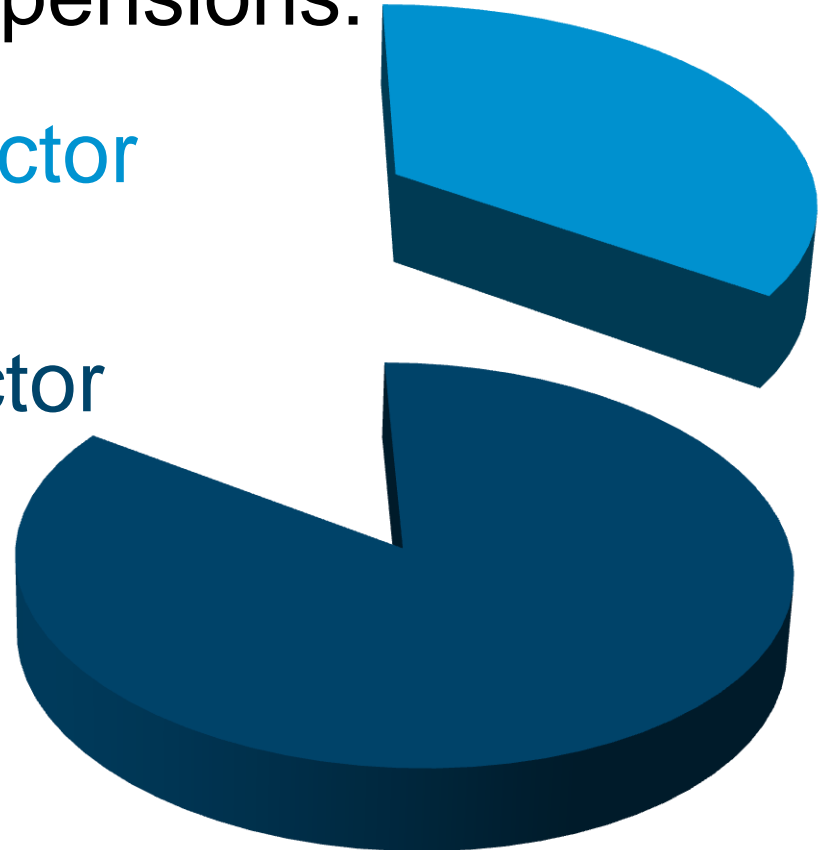
Asset allocation trends

Source: TPR Purple Book as at 31/3/2009



Employer pensions

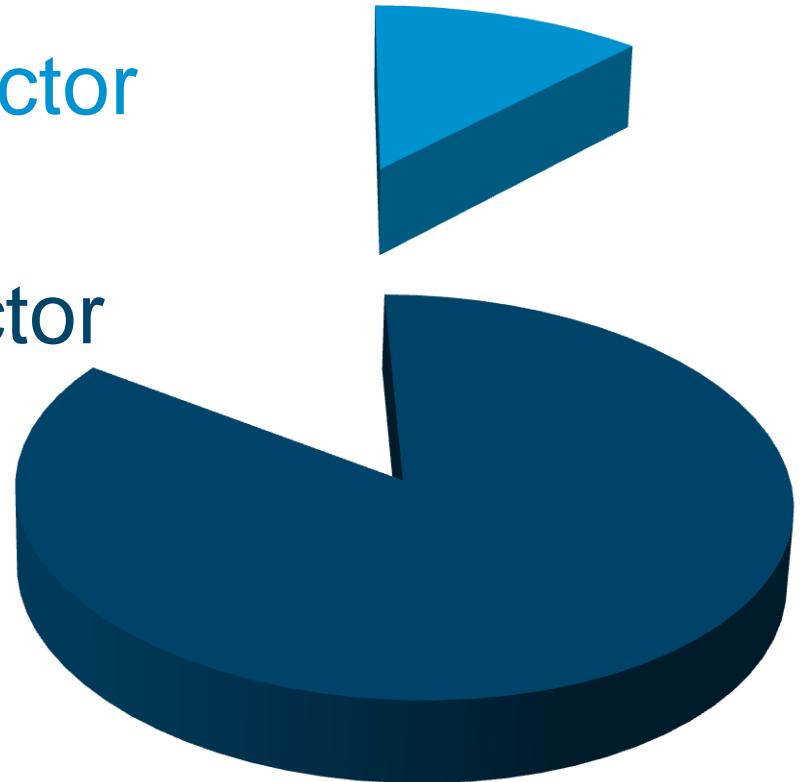
- Proportion of 2010 employees offered employer-sponsored pensions:
- **35% in the private sector**
(compared to 45% 10 years ago)
- **85% in the public sector**
(compared to 80% 10 years ago)



Source: Lord Hutton's report

Employer pensions

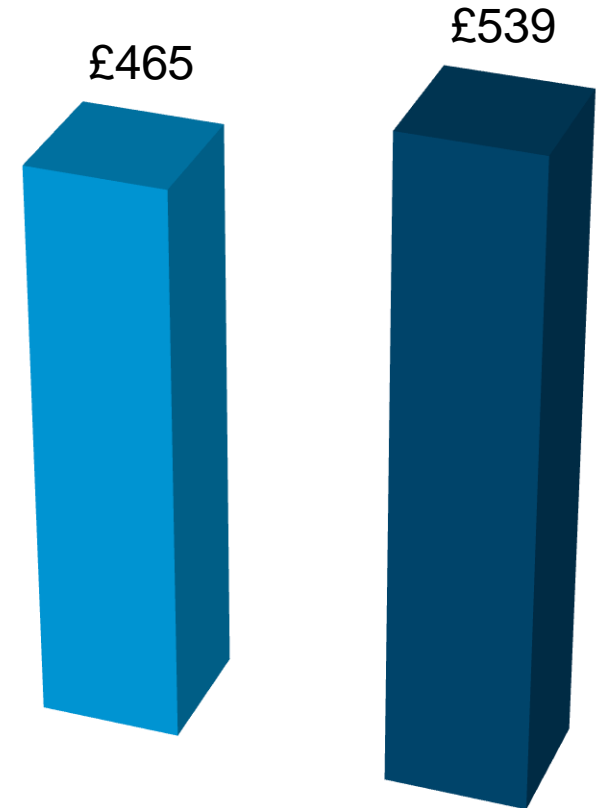
- Proportion of 2010 employees offered DB employer-sponsored pensions:
- **12% in the private sector**
(compared to 30% 10 years ago)
- **85% in the public sector**
(compared to 80% 10 years ago)



Source: Lord Hutton's report

Employer pensions

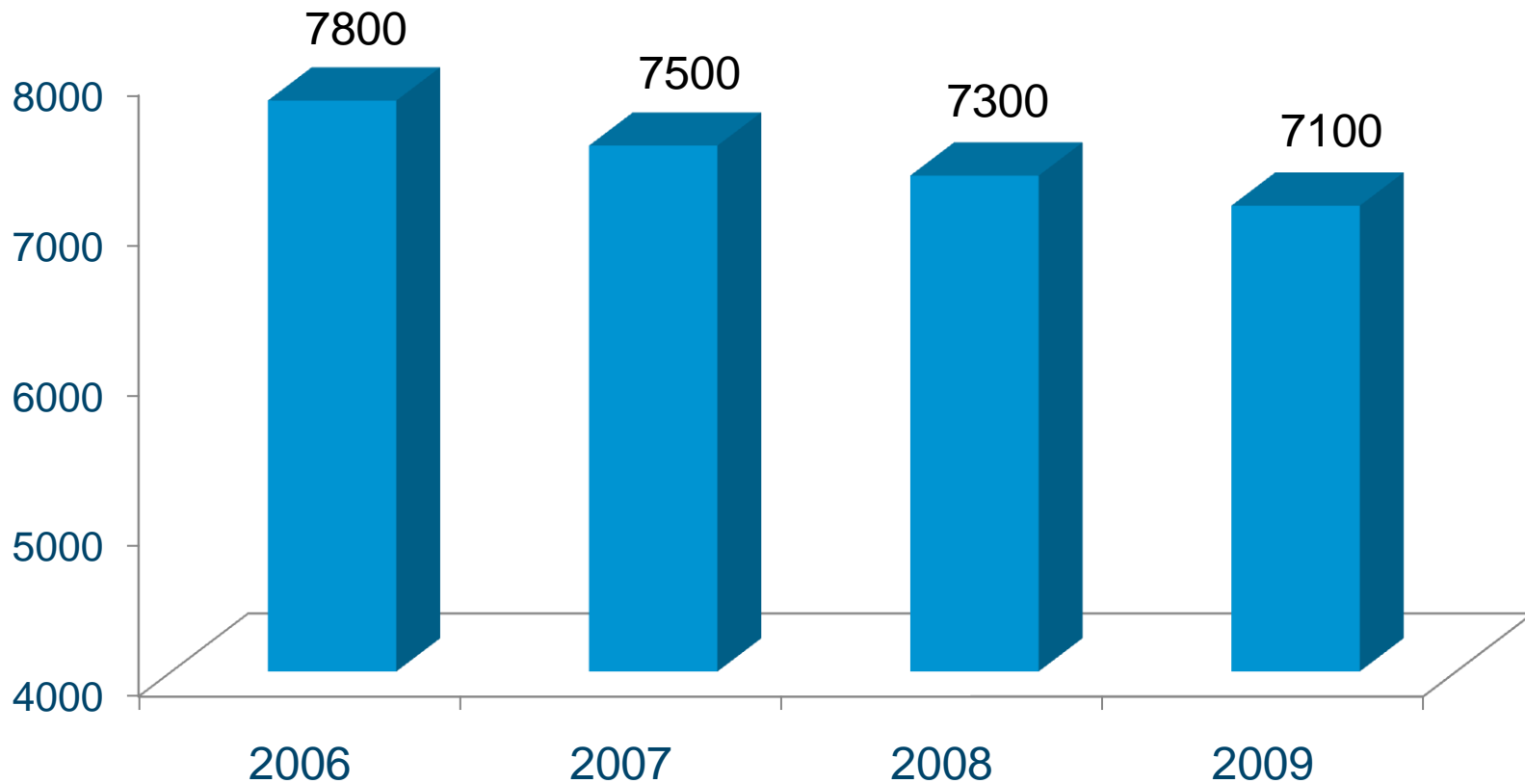
- Median 2009 gross weekly pay:
- £465 in the private sector
- £539 in the public sector



Source: ONS

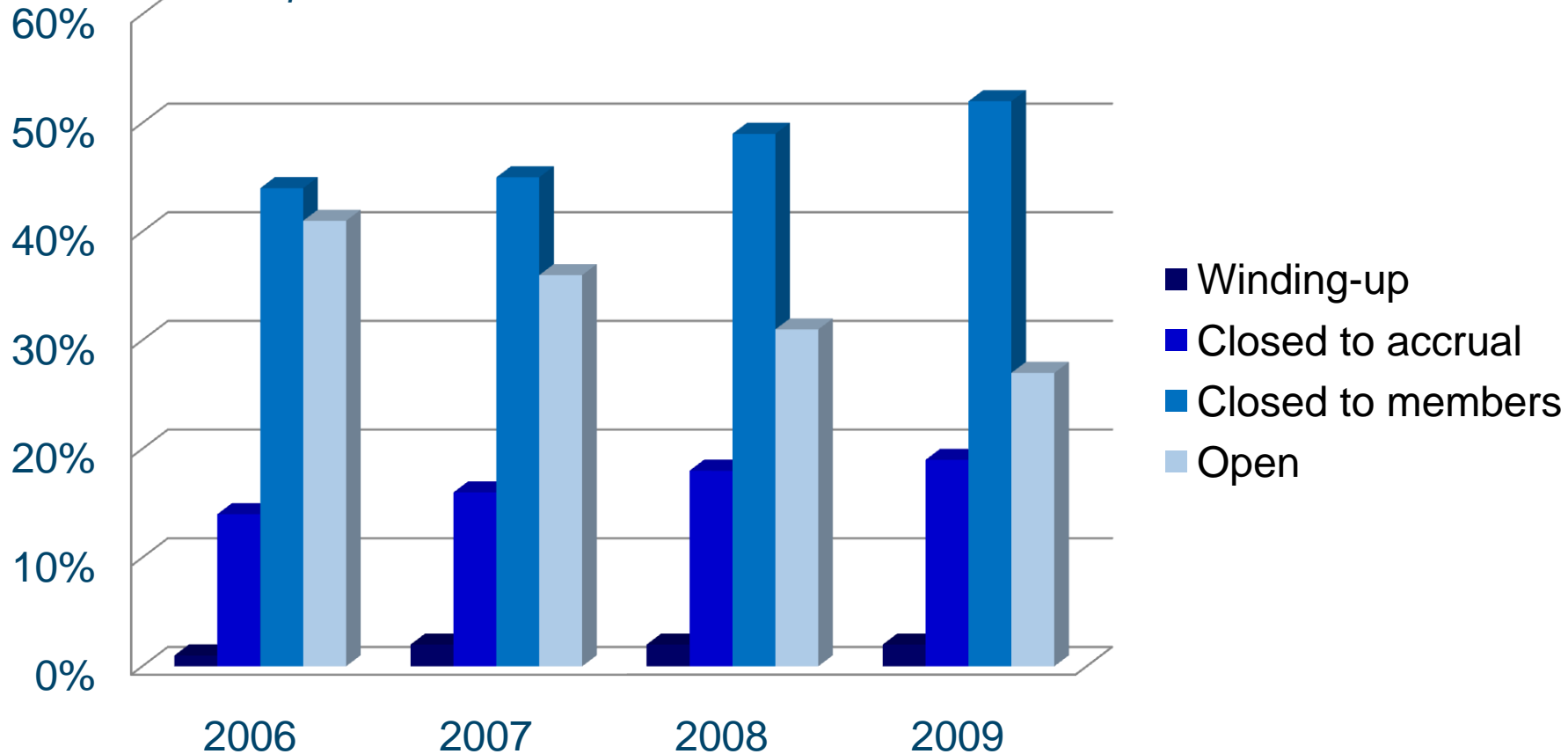
Estimated DB universe

Source: TPR Purple Book as at 31/3/2009



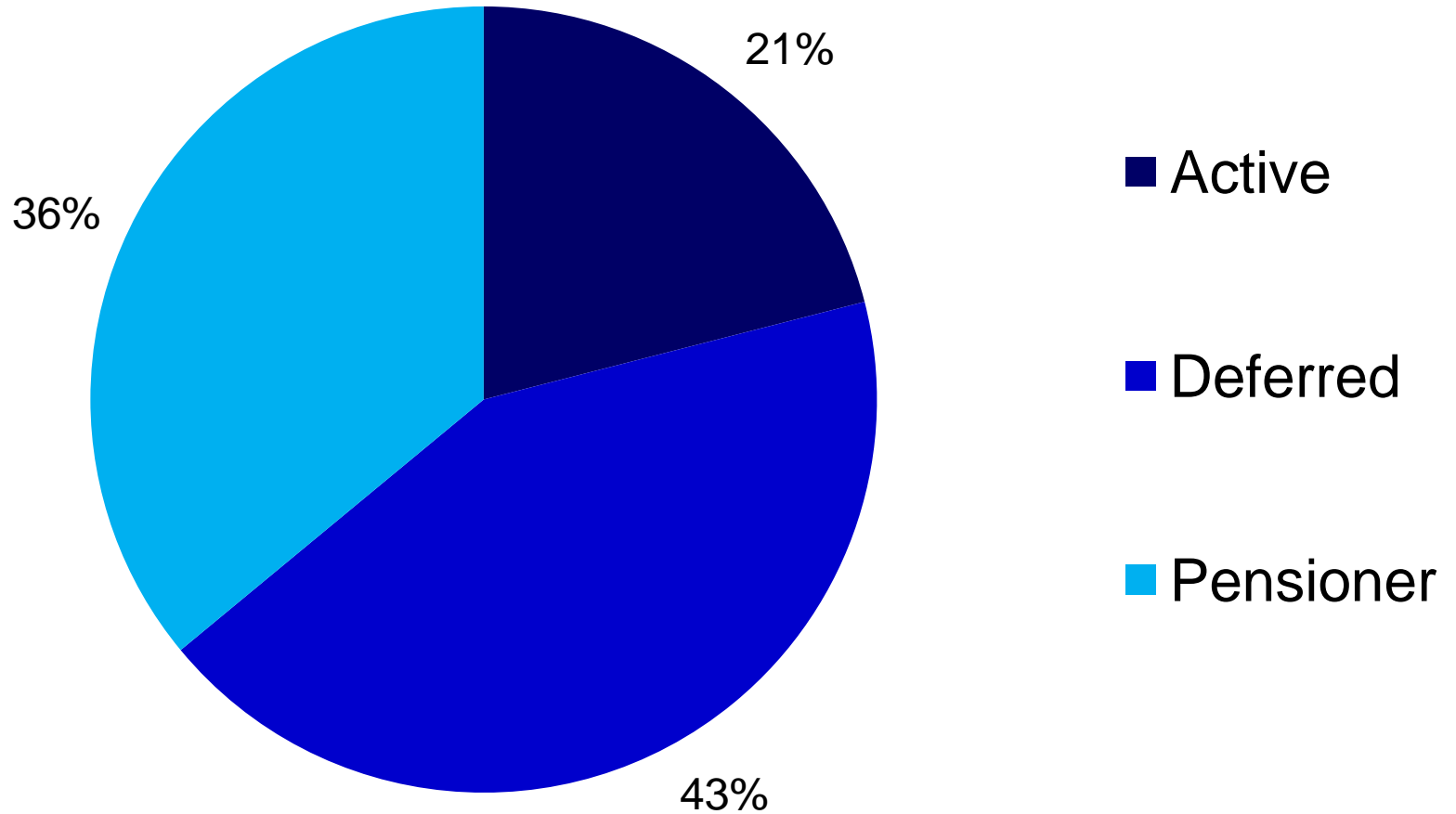
DB scheme status

Source: TPR Purple Book as at 31/3/2009



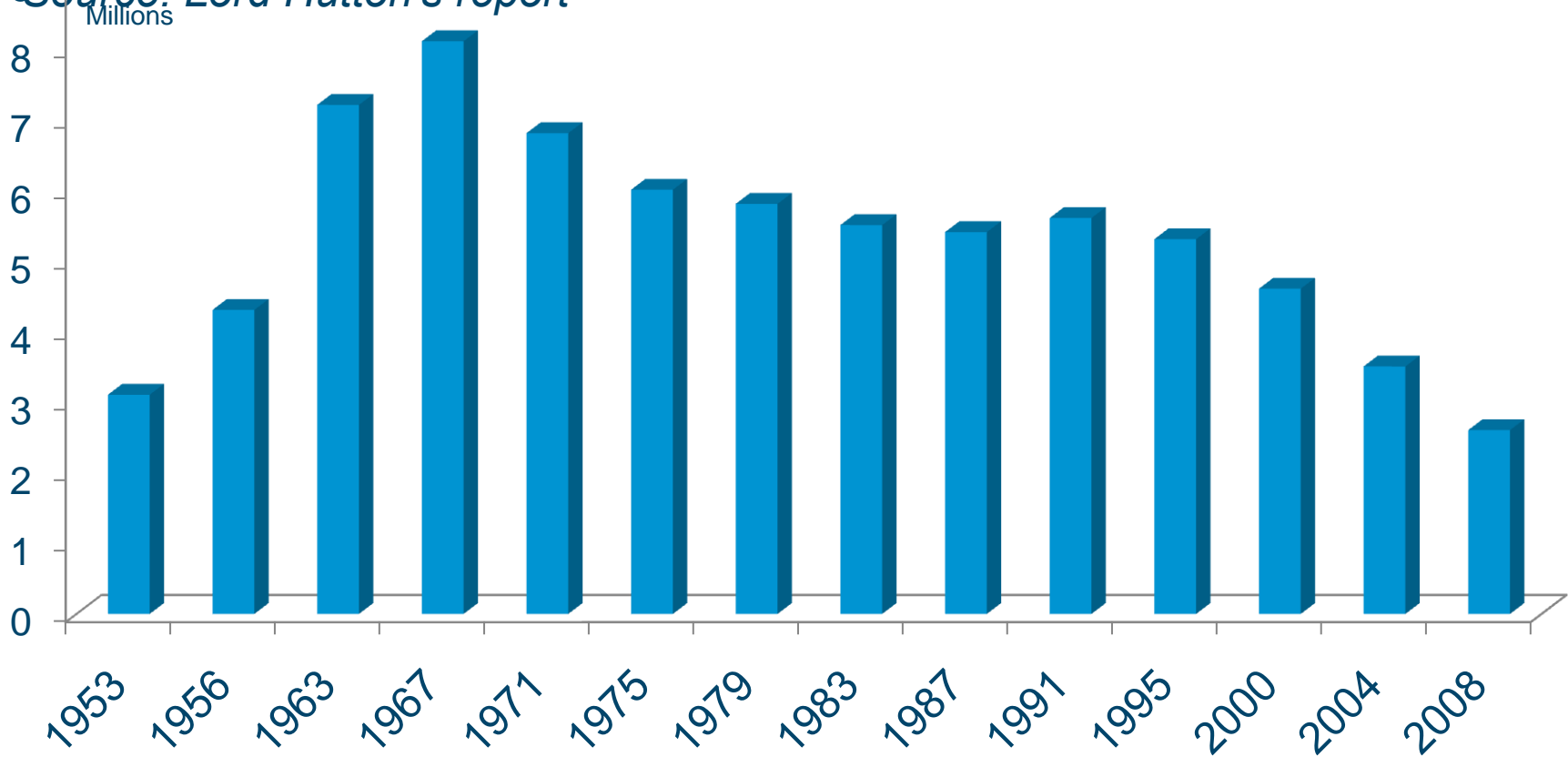
Membership categories

Source: TPR Purple Book as at 31/3/2009



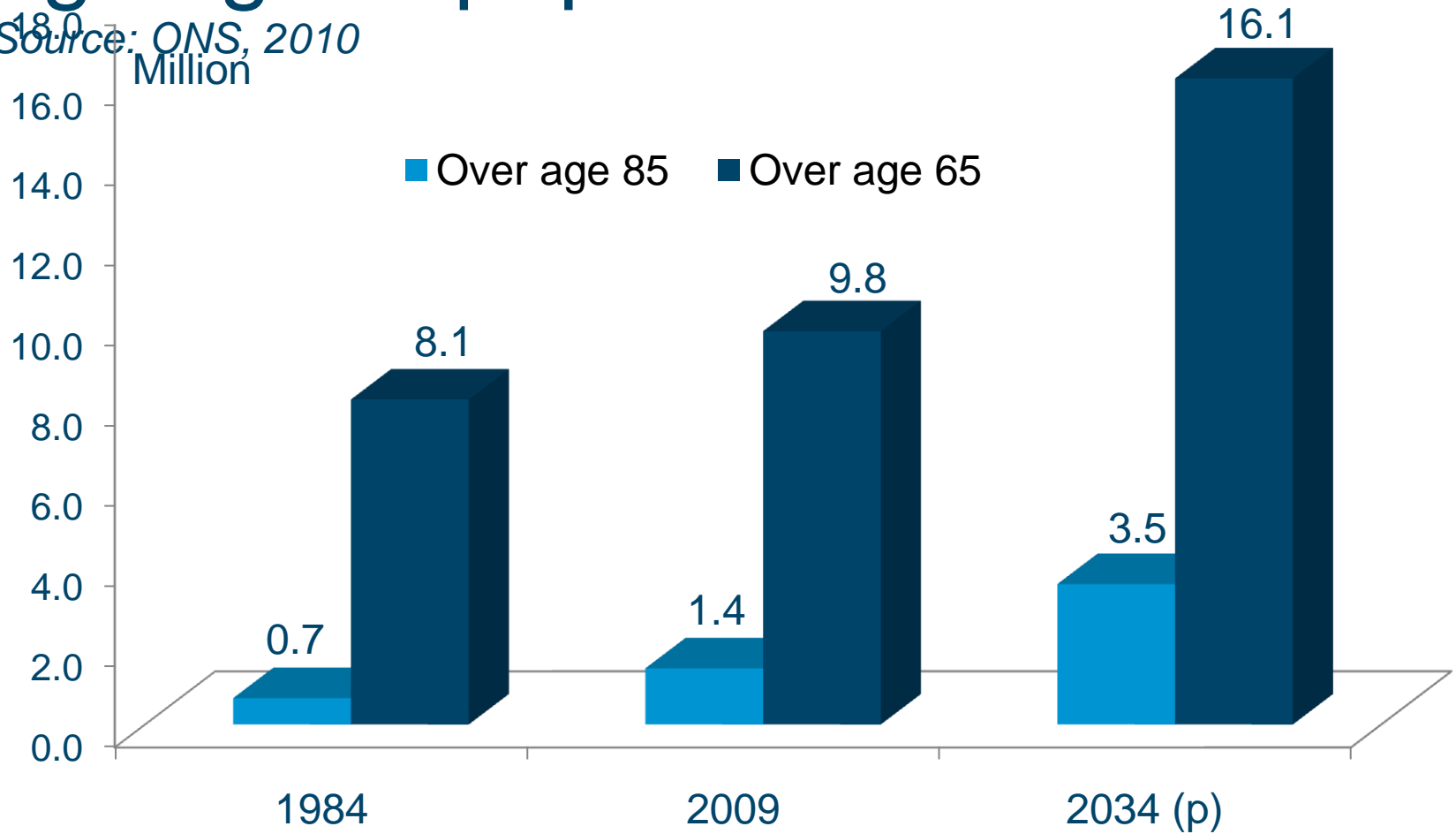
Active DB membership

Source: Lord Hutton's report



Ageing UK population

Source: ONS, 2010
Million

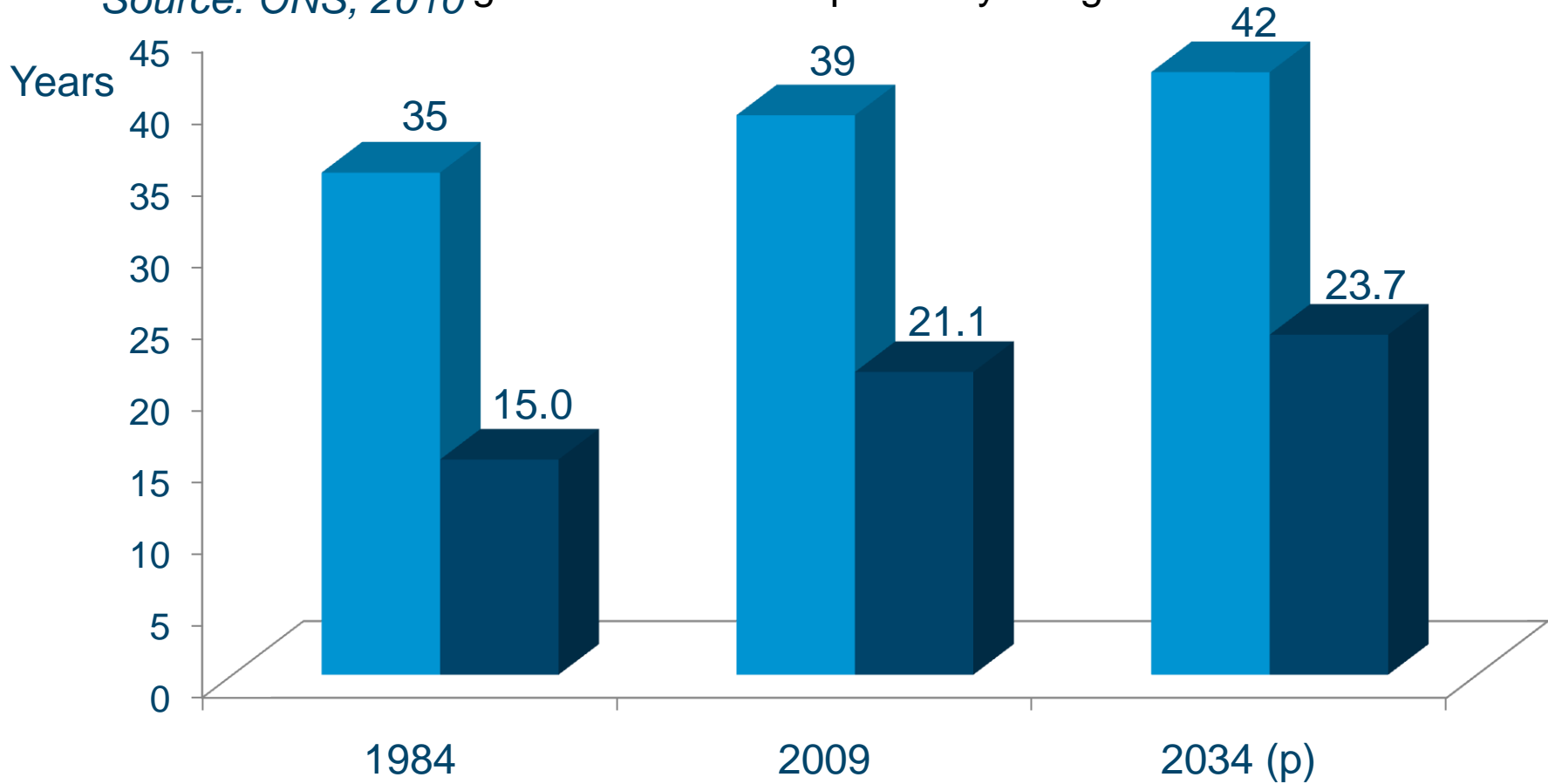


Ageing UK population

Source: ONS, 2010

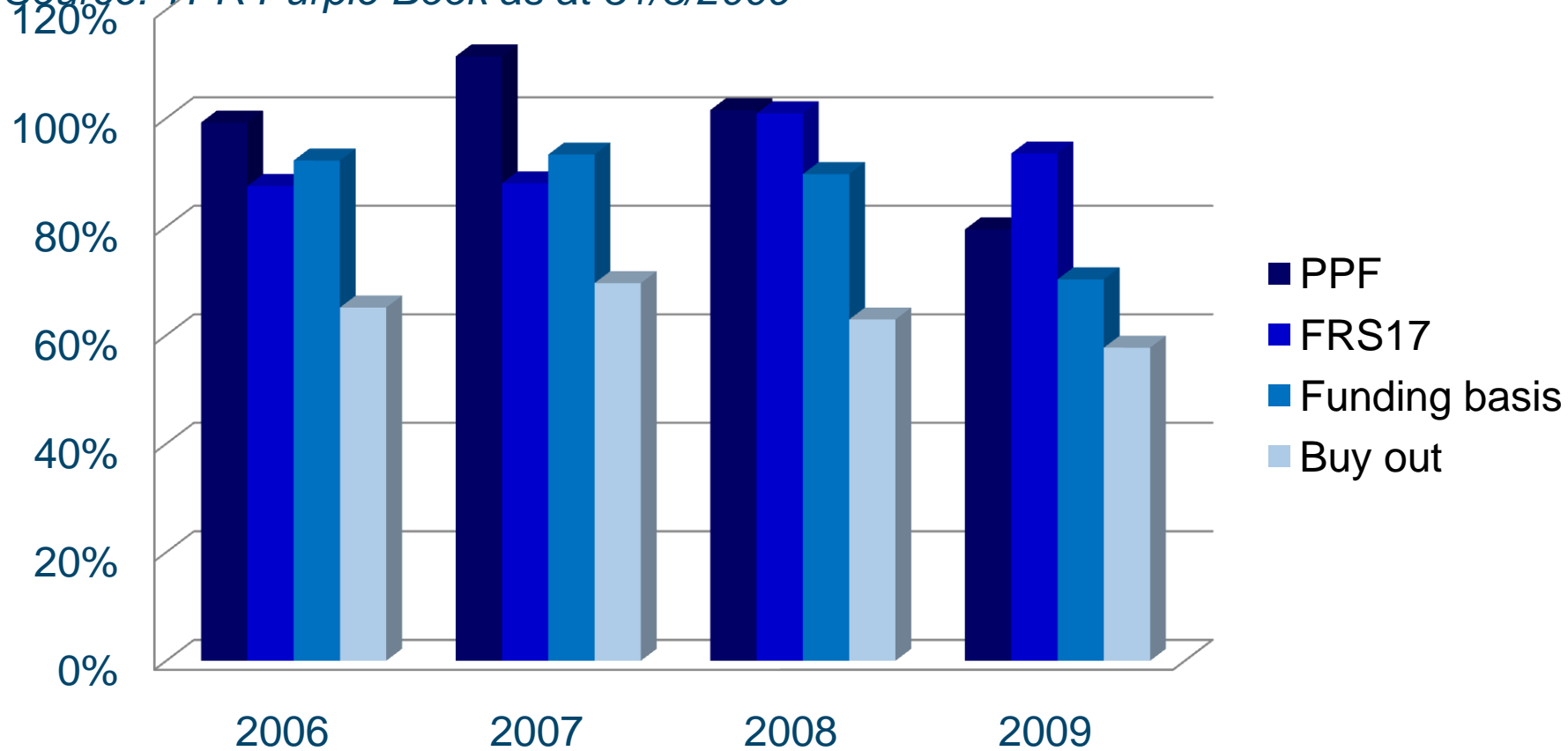
■ Median age

■ Male life expectancy at age 65



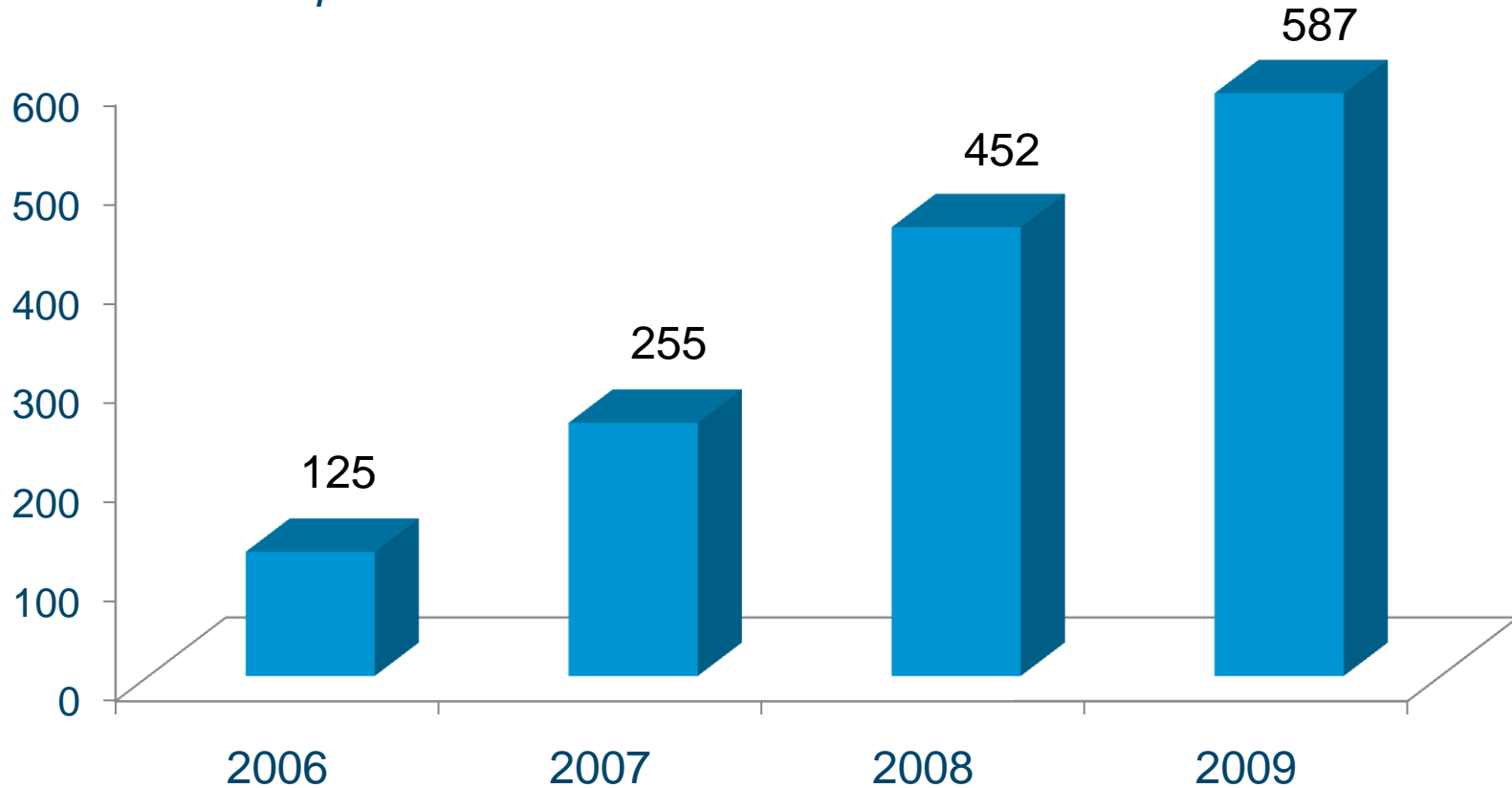
Funding status

Source: TPR Purple Book as at 31/3/2009



Use of contingent assets

Source: TPR Purple Book as at 31/3/2009



UK defined benefit market

Source: TPR Purple Book as at 31/3/2009

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Risk measures

Source: TPR Purple Book as at 31/3/2009

- Aggregate deficit volatility of £375 bn
(June 2007 to March 2009)
- One year of life expectancy adds £25 bn
- 0.1% higher inflation adds £9 bn
- 0.1% lower gilts yields adds £16 bn (net)
- 10% equity market fall adds £26 bn

Pension Protection Fund

- Scheme based levy
- Risk based levy based on
 - Funding level of scheme
 - Likelihood of failure of employer
 - NOT investment strategy (yet)
- Total annual levies around £675 m
- 120 schemes transferred (as at March 2010)
- Average compensation £3,700 pa
- 3% of DB schemes in PPF assessment
(250+ schemes, 200,000 members, as at March 2010)

PPF projections

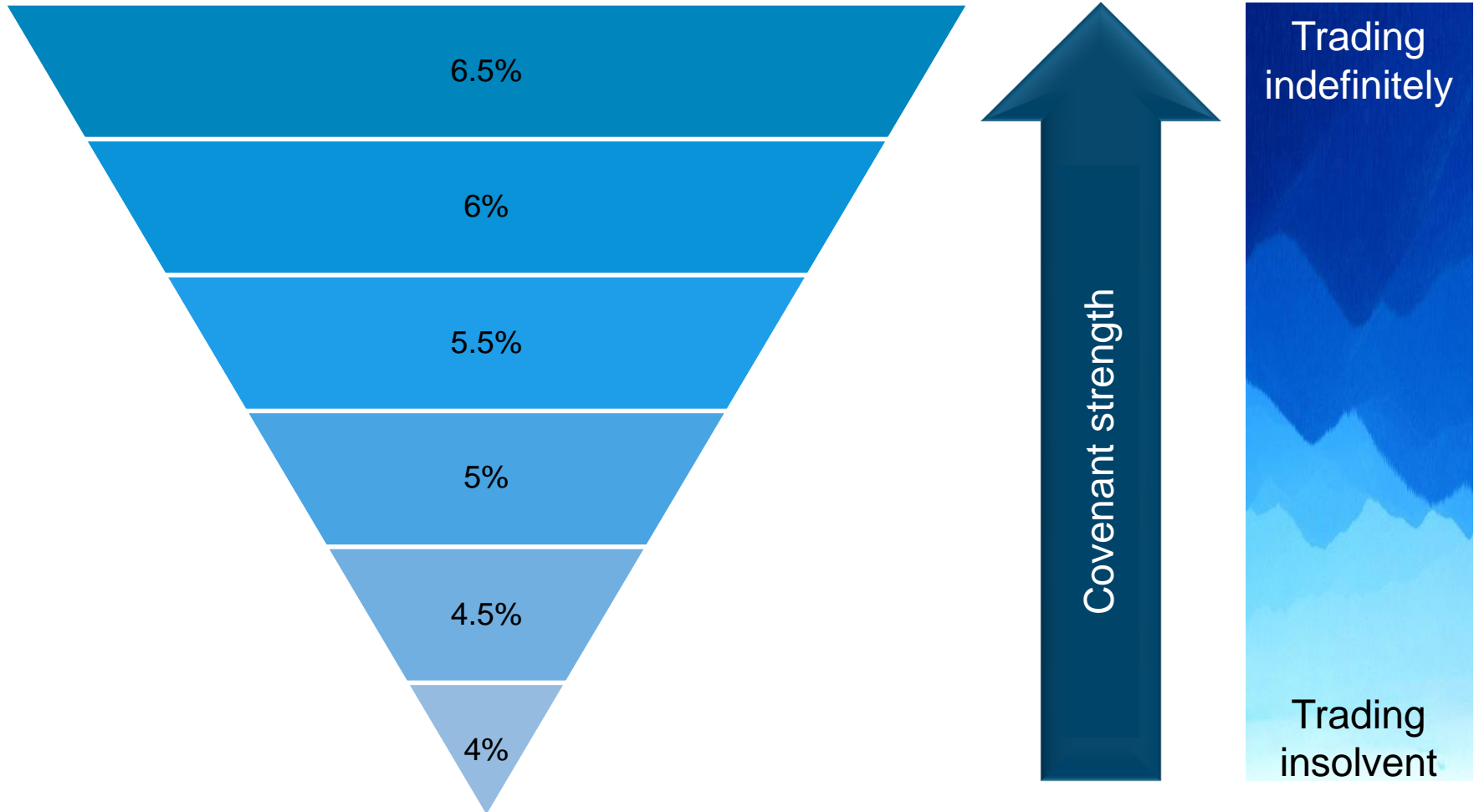
- More mature membership in 10 or 20 years time
- Insolvency risk reduced dramatically relative to liabilities
- Trend toward insolvency probability of 0.8/0.9% pa
- Target 10% solvency margin
- High probability of reaching targets by 2030

The Pensions Regulator

- Strengthening funding targets
 - Assumptions
 - Deficit recovery
- Extended powers to intervene
 - First FSDs & CNs
 - Resolving funding disputes (EMI)

Discount rate

(pre-retirement %pa, based on gilt yield of 4%)



Dealing with deficits

- Deficit should be treated as debt on employer
 - Trustees should act as a creditor
 - Investigate financial strength of employer
 - Pay off as quickly as employer can afford
- Obtain security for “loan”
 - Charge on company assets (including intangible?)
 - Escrow arrangement
 - Parent company guarantee
- Restrictions on corporate activity
 - Dividends or other shareholder distributions
 - Restructuring
 - Priority or equal-ranking creditors

Other current issues

- “Liability management”
 - Buy-out
 - Longevity swaps
 - Enhanced transfer values
- Sex equalisation of benefits

State & public sector

- State Pension Age – accelerated increases?
- Increased public sector contributions?
- Reduced/capped benefits?
- Career average?
- Increase retirement age with life expectancy?

Auto-enrolment & NEST

- The Pensions Act 2007 established PADA
- Pensions Act 2008 made changes to workplace pensions due to take effect from 2012
- Automatic-enrolment requirement for all Employers
- Minimum Employer Contribution
 - All employers must offer a pension scheme that meets certain criteria
 - Duties fall on largest employers first
- All eligible jobholders must be automatically enrolled into a qualifying workplace pension scheme (QWPS) that meets certain quality criteria or else the National Employment Savings Trust (NEST, formerly Personal Accounts Scheme)

CPI v RPI

- Some differences in basket of goods
 - RPI includes property
- Key differences in calculation
 - RPI is arithmetic (assumes buying habits are fixed)
 - CPI is geometric (assumes buying habits adjust as prices change)
 - Typically CPI would be 0.5% to 0.75% per annum lower
 - Might reduce liabilities by 5% to 10%

Solvency II

- Illiquidity premium for annuity providers
- Solvency Capital Requirements
- More complex calculations, governance and reporting
- Direct application to pension schemes?



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