

# De-Risking

How will this market evolve?

Nick Griggs FIA

# Agenda

- What is the pension risk for UK plc?
- What is the impact of de-risking?
- Setting a de-risking Strategy
- How will de-risking tools develop

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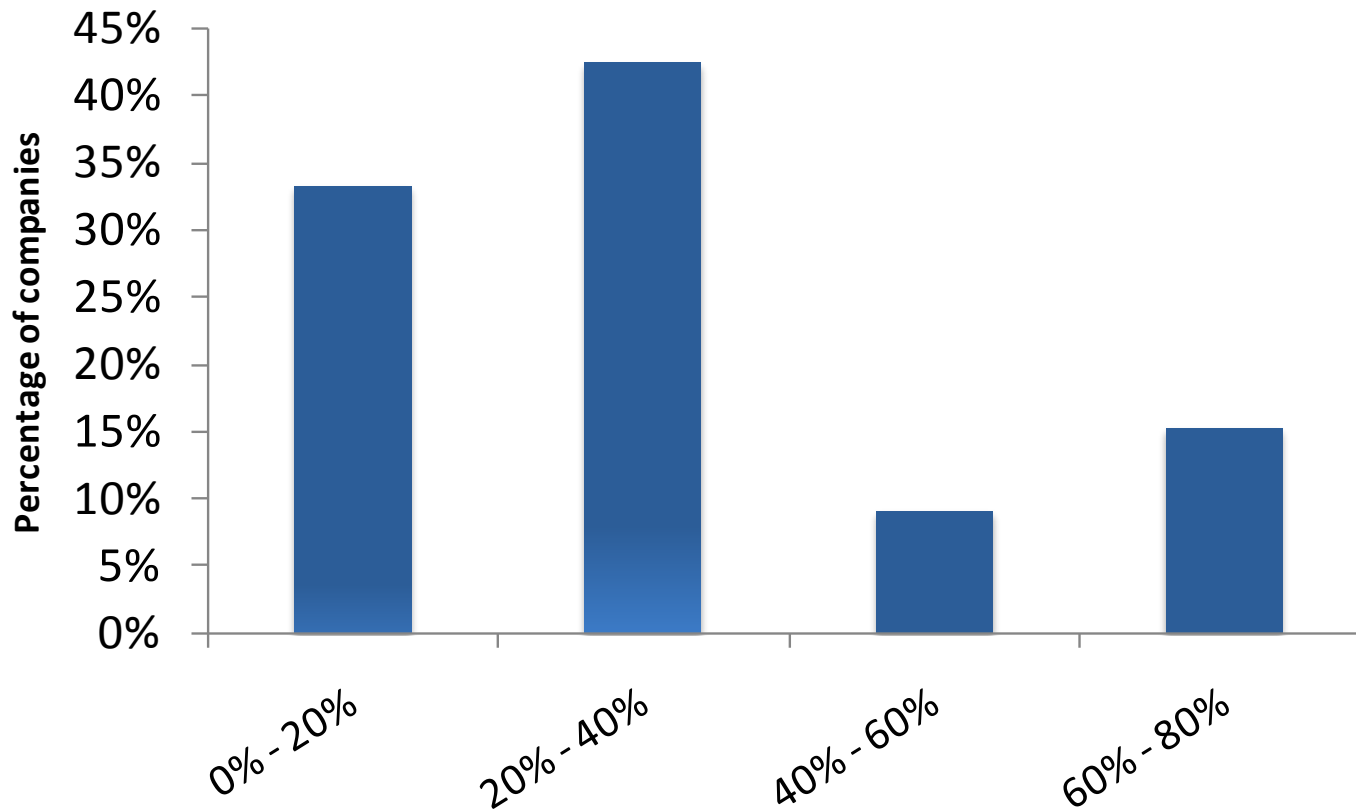
# Equity analyst - Overview

How does an Equity Analyst look at a DB Scheme?

- Does not like uncertainty
- Size of Pension Scheme
- Size of Deficit
- Investment Strategy

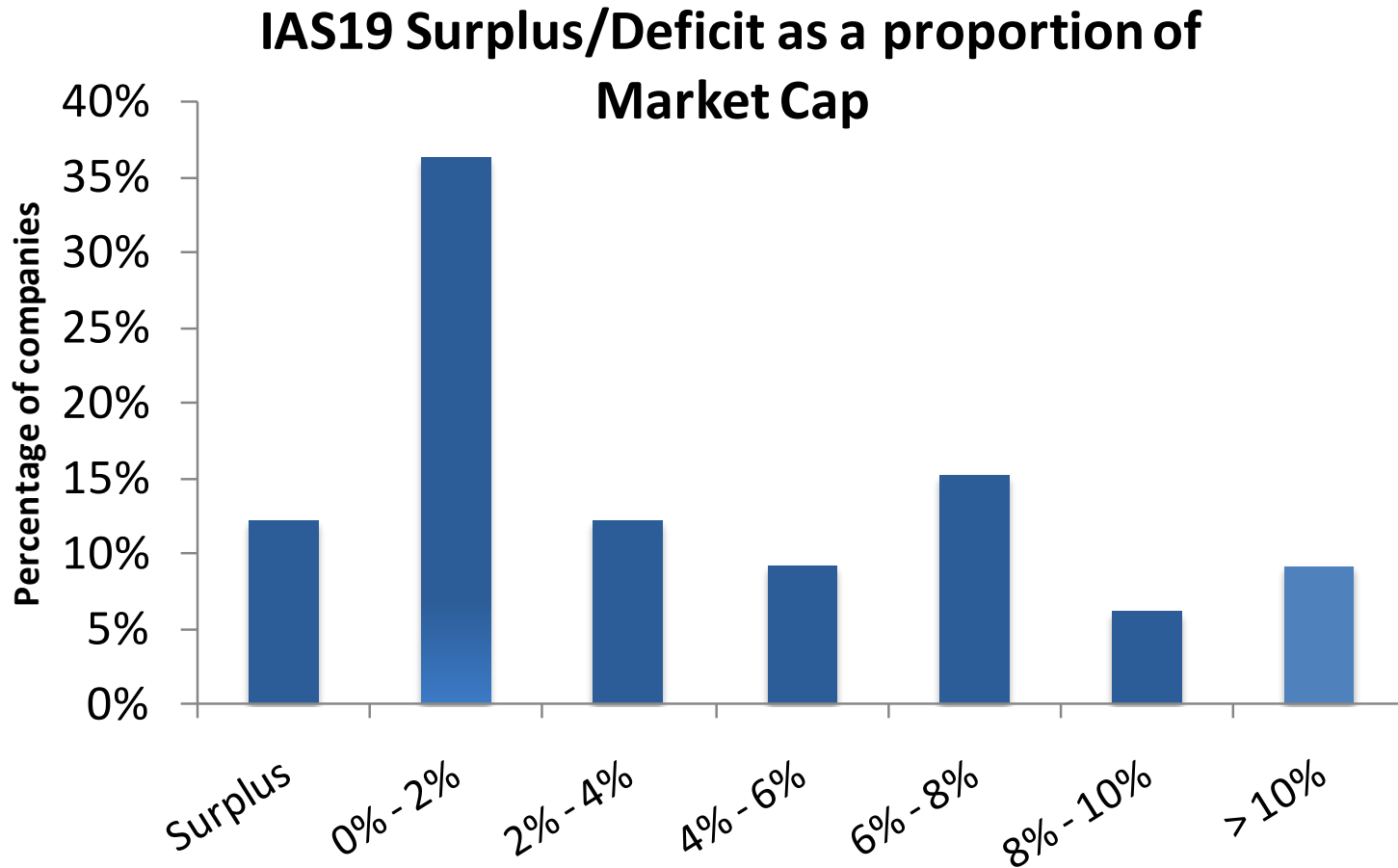
# Equity analyst – What will they find?

**IAS19 liability as a proportion of Market Cap**



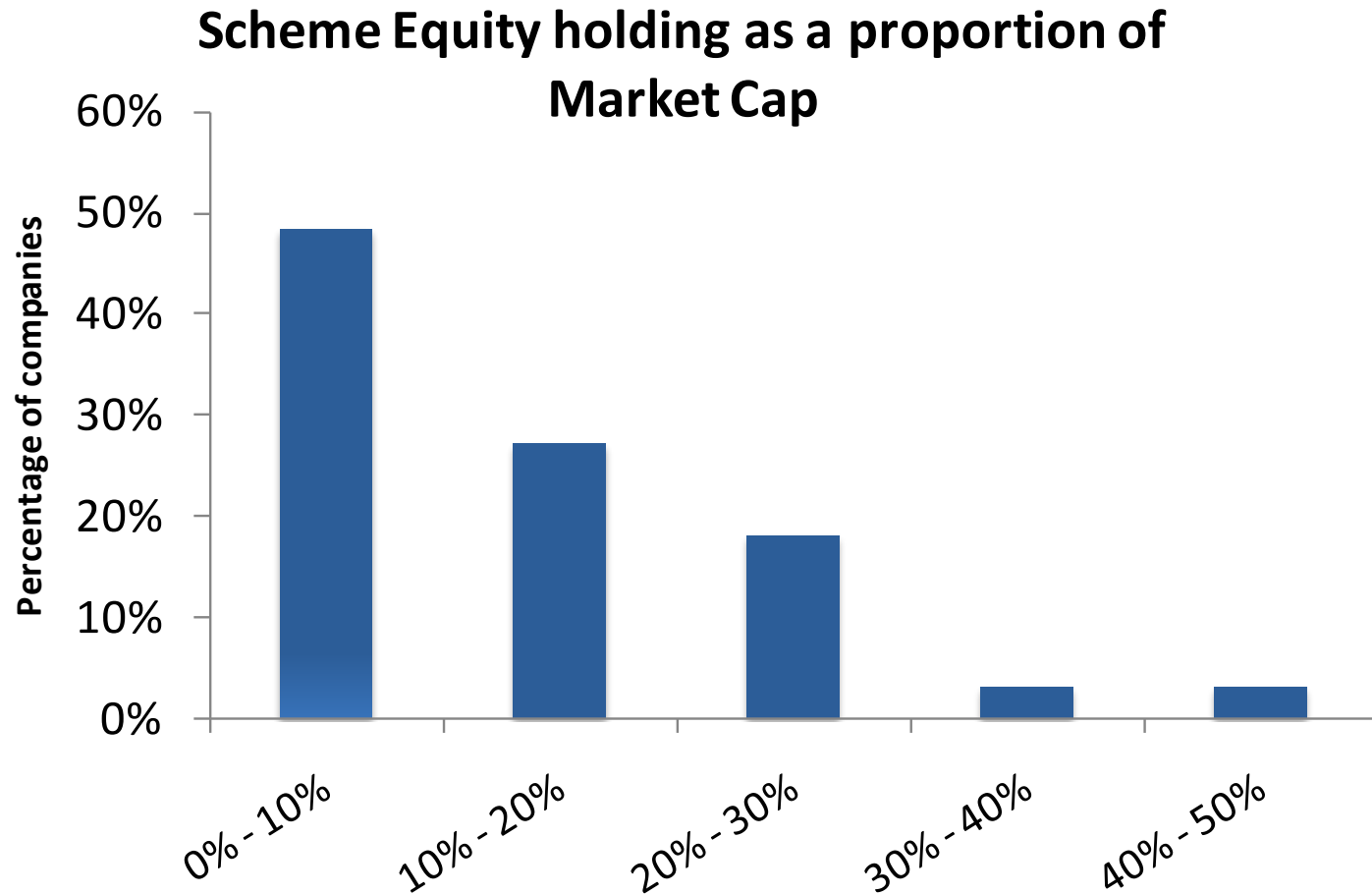
Source: BW Survey

# Equity analyst – What will they find?



Source: BW Survey

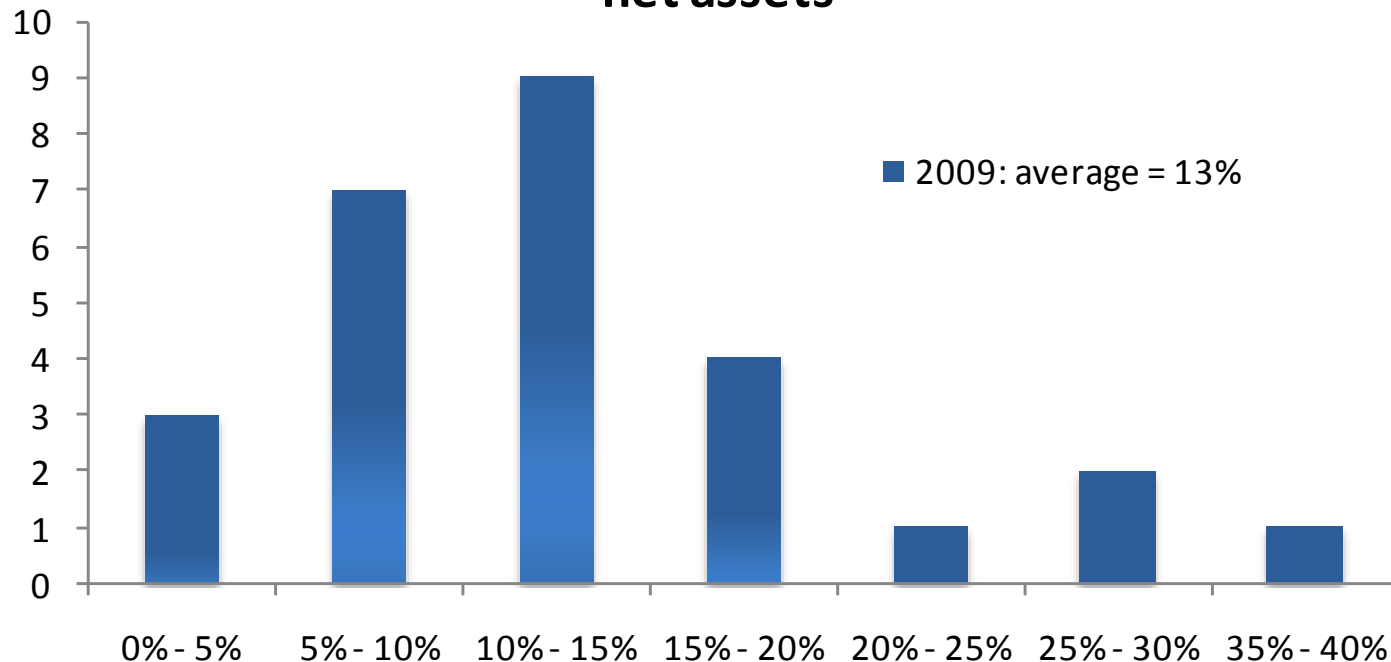
# Equity analyst – What will they find?



Source: BW Survey

# University Sector

**SAT pension deficit as a proportion of university  
net assets**



Source: BW Survey

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## How do shareholders view de-risking?

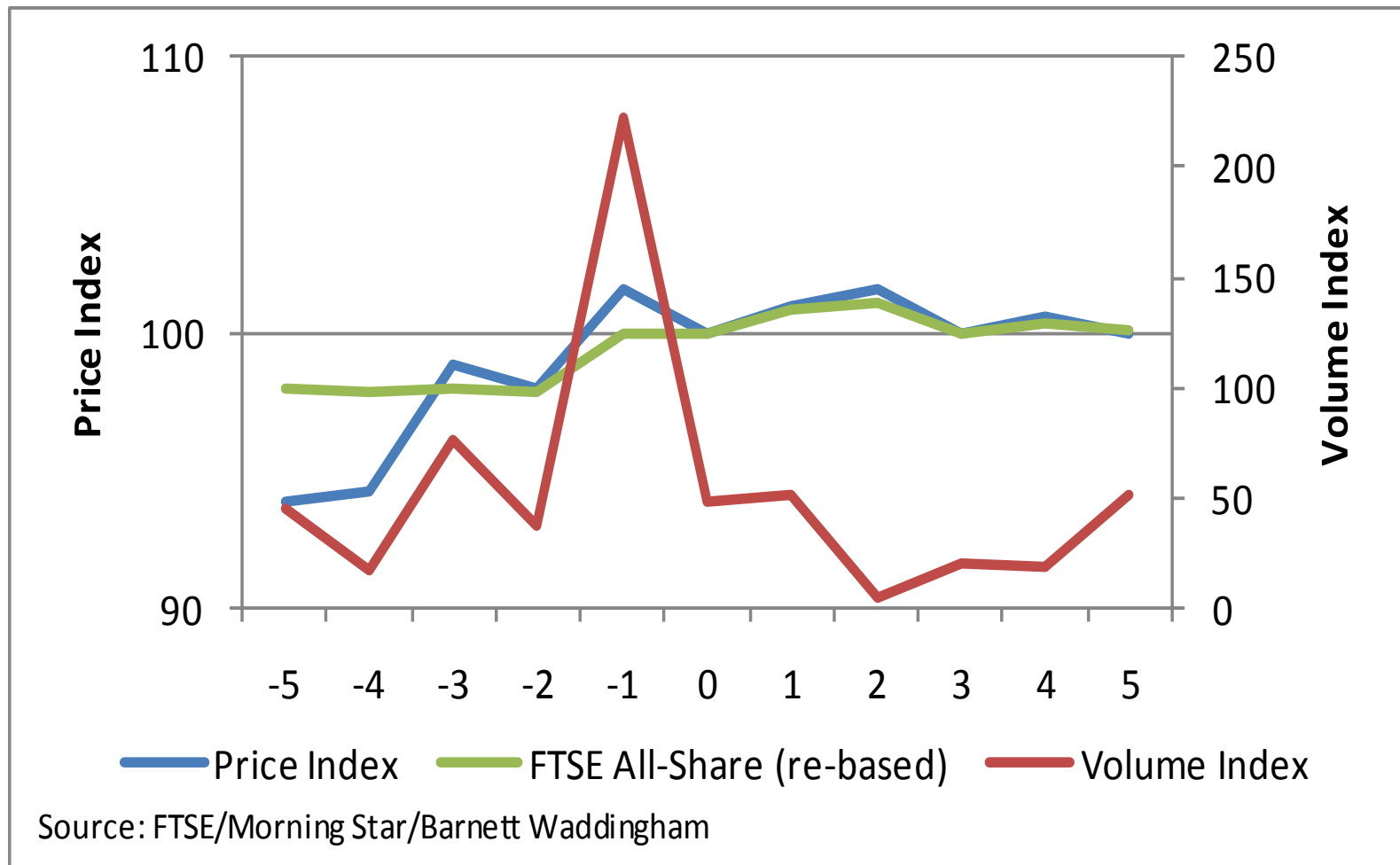
- Complicated!
- Other issues can dominate
- How quickly do investors react?



## Delta – June 2008

- £451m buy-out of pensioners with Pension Insurance Corporation
- Liabilities transferred away from the scheme and off company balance sheet

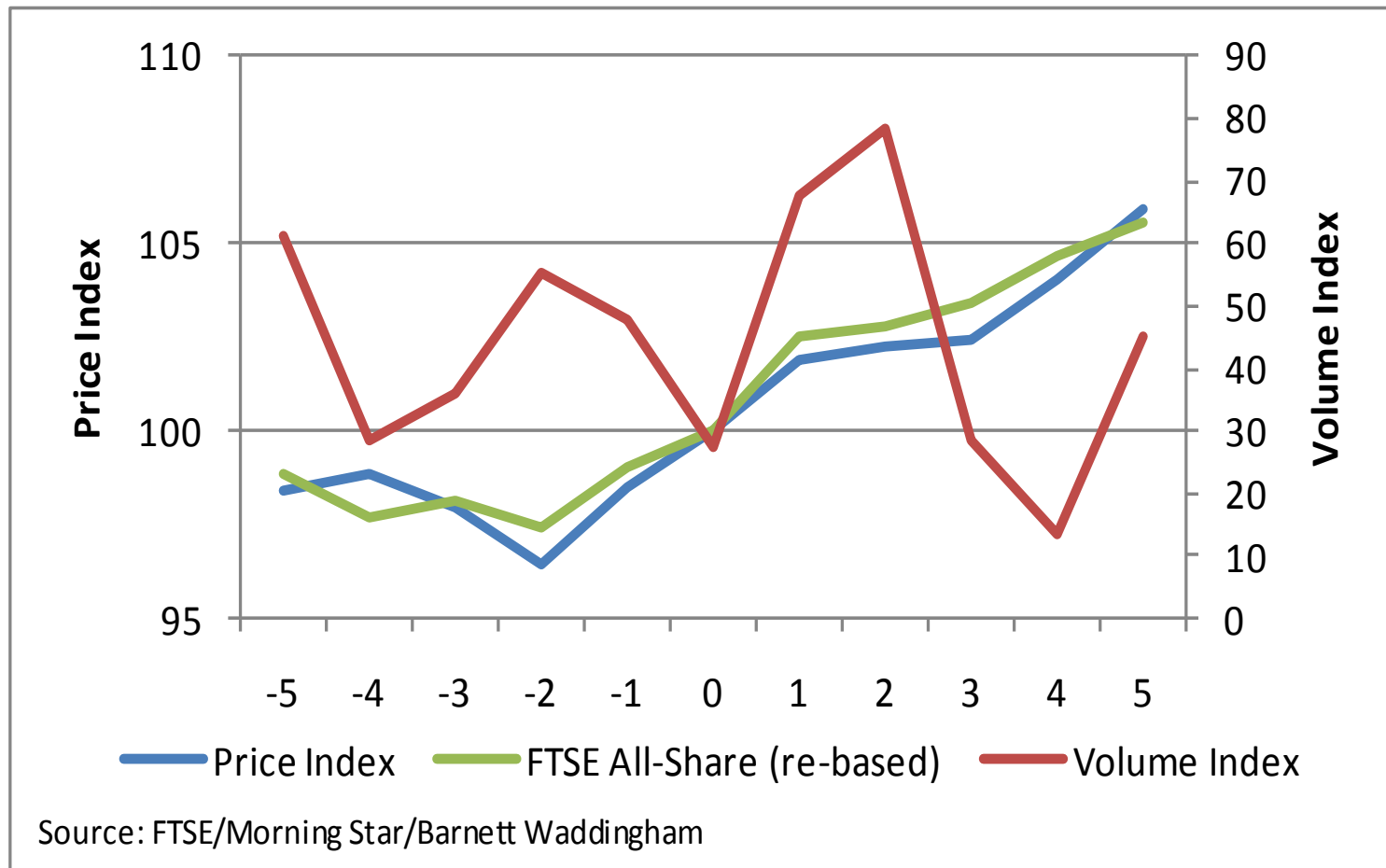
# Delta – June 2008



## RSA – July 2009

- Joint longevity, inflation and asset swap with Rothesay Life for £1.9bn of liabilities
- Scheme retains assets

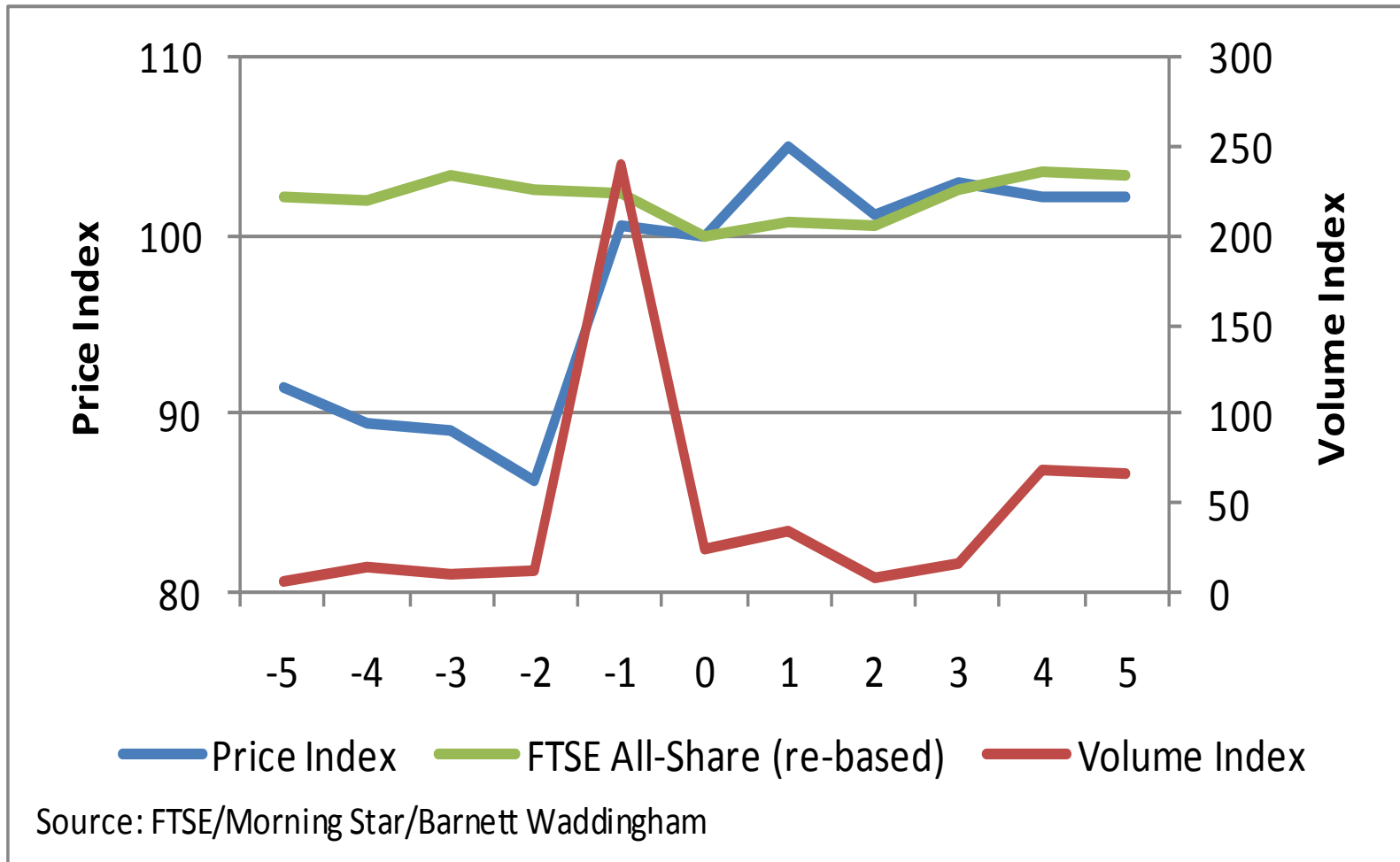
# RSA – July 2009



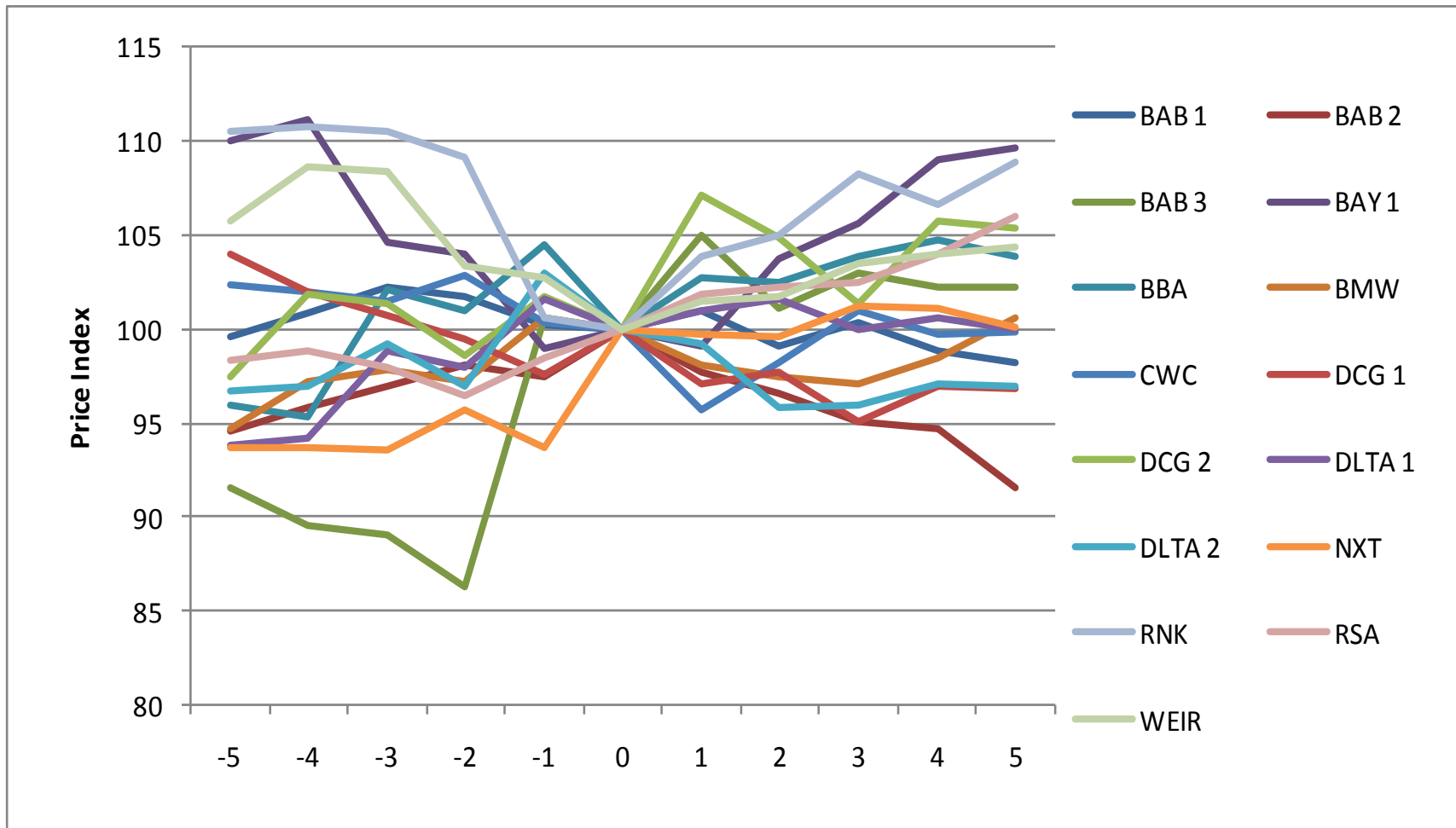
## Babcock – May 2009

- Three longevity swaps with Credit Suisse totalling £1.2bn

# Babcock – May 2009



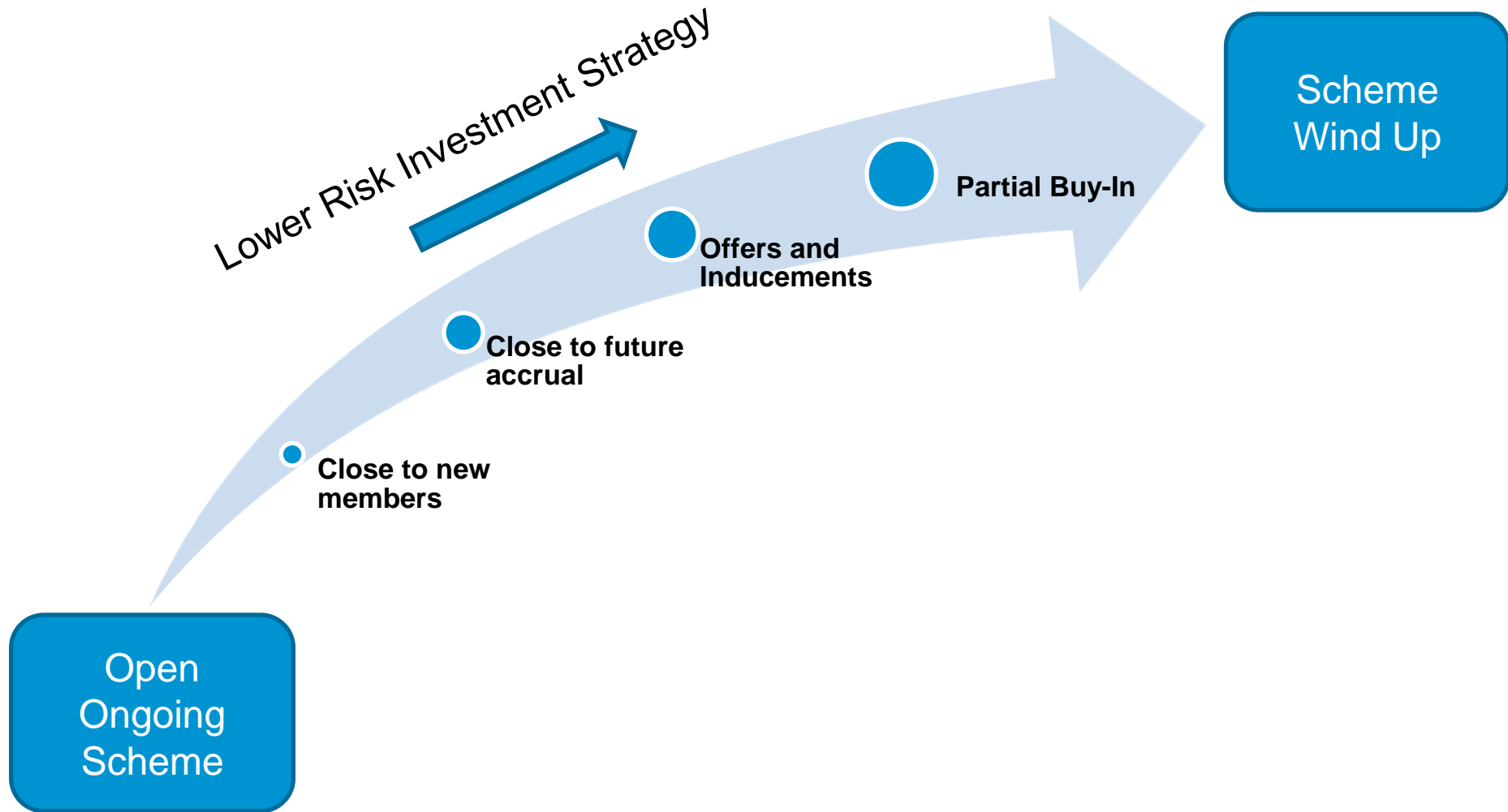
# No correlation!?



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# De-Risking Strategy



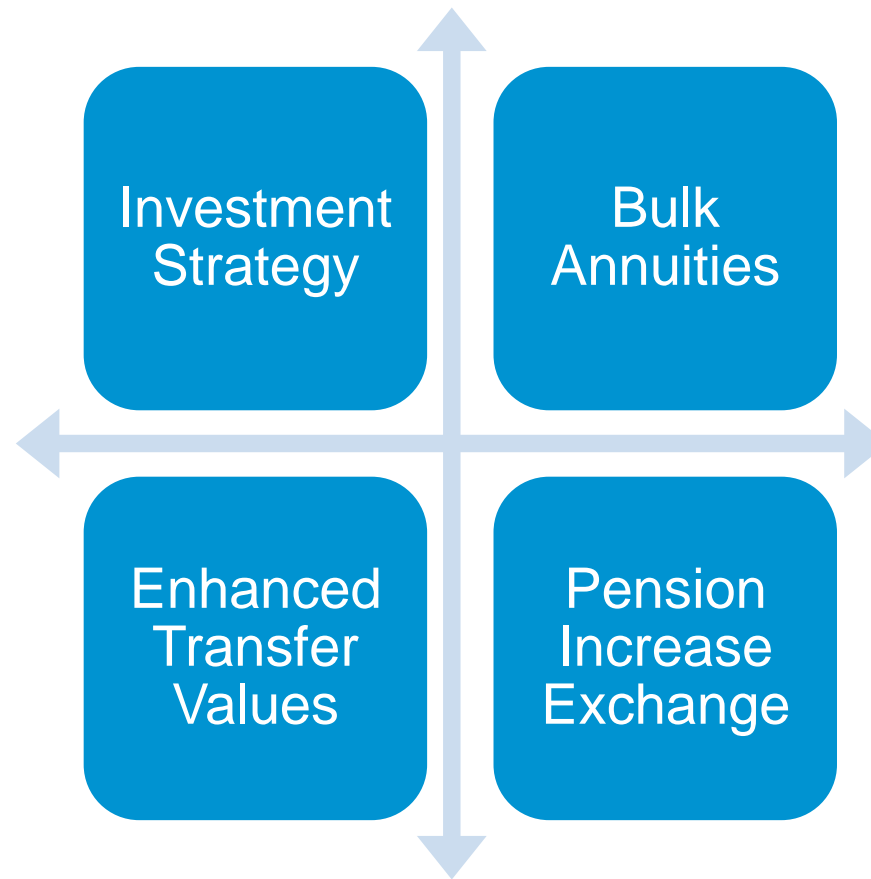
# De-risking Strategy

- Setting Objectives
  - Trustees/Employer agree
- Understand Risks
  - What are implications if a risk materialises
- Coordinated Approach
  - All options are linked

# De-risking Strategy

- Target Sections
  - Not all members are equal
- Be ready to act
  - Triggers
  - Much more sophisticated

# De-risking Strategy



# Agenda

- What is the pension risk for UK plc?
- What is the impact of de-risking?
- Setting a de-risking Strategy
- **How will de-risking tools develop**
  - **Bulk Annuities**
  - Mortality Risk
  - Investment Risk

# Bulk Annuities

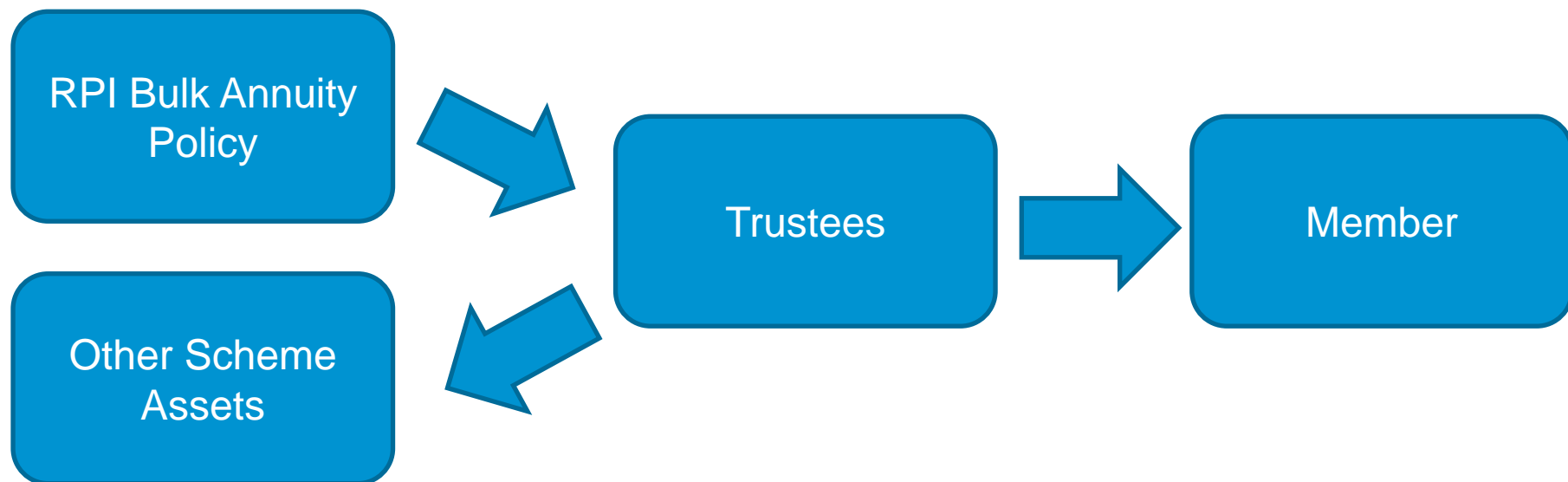
Barnett  
Waddingham



P A T E R N O S T E R

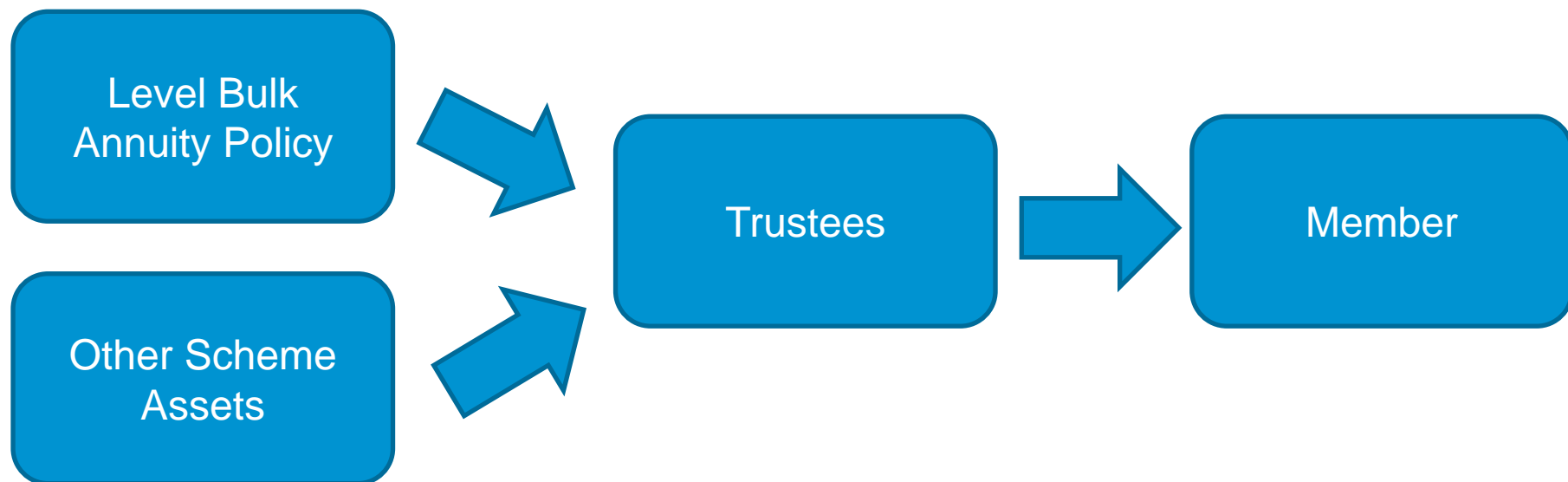


# Bulk Annuities – CPI/RPI



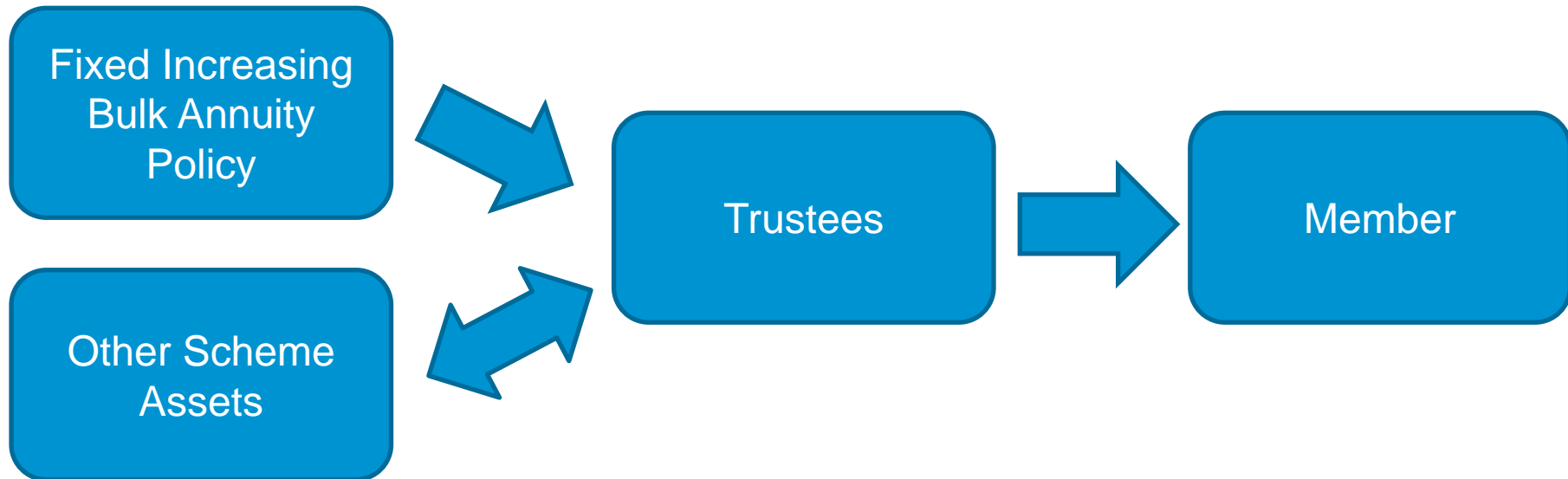
**Purchase an RPI Annuity**

# Bulk Annuities – CPI/RPI



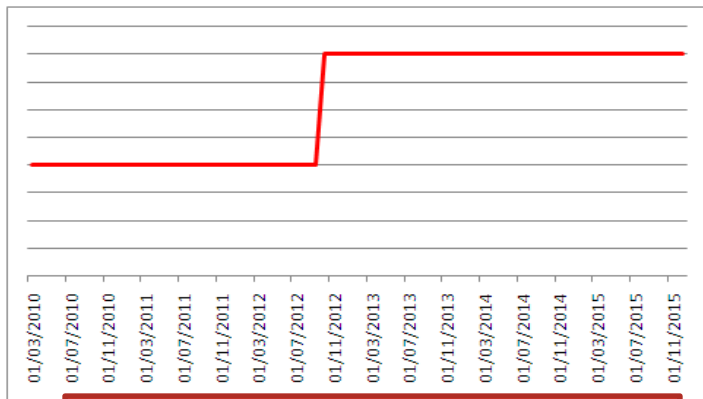
Purchase an level annuity

# Bulk Annuities – CPI/RPI

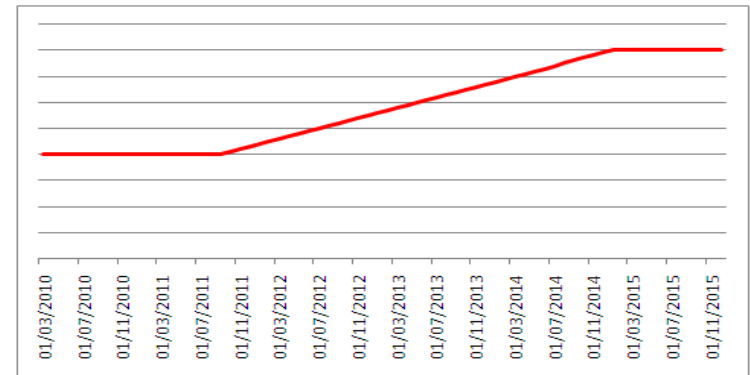


Purchase a fixed increasing annuity

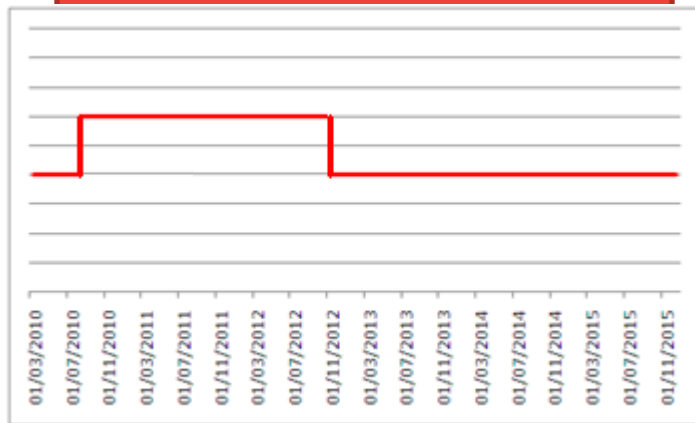
# Solvency II – effect on pricing?



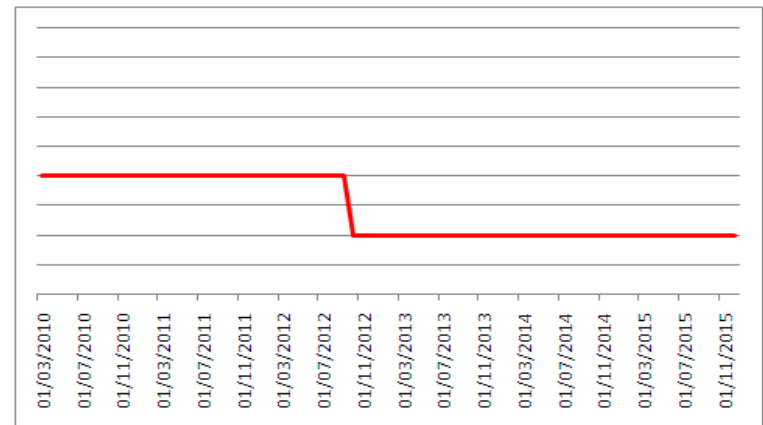
**MAYBE**



**MAYBE**

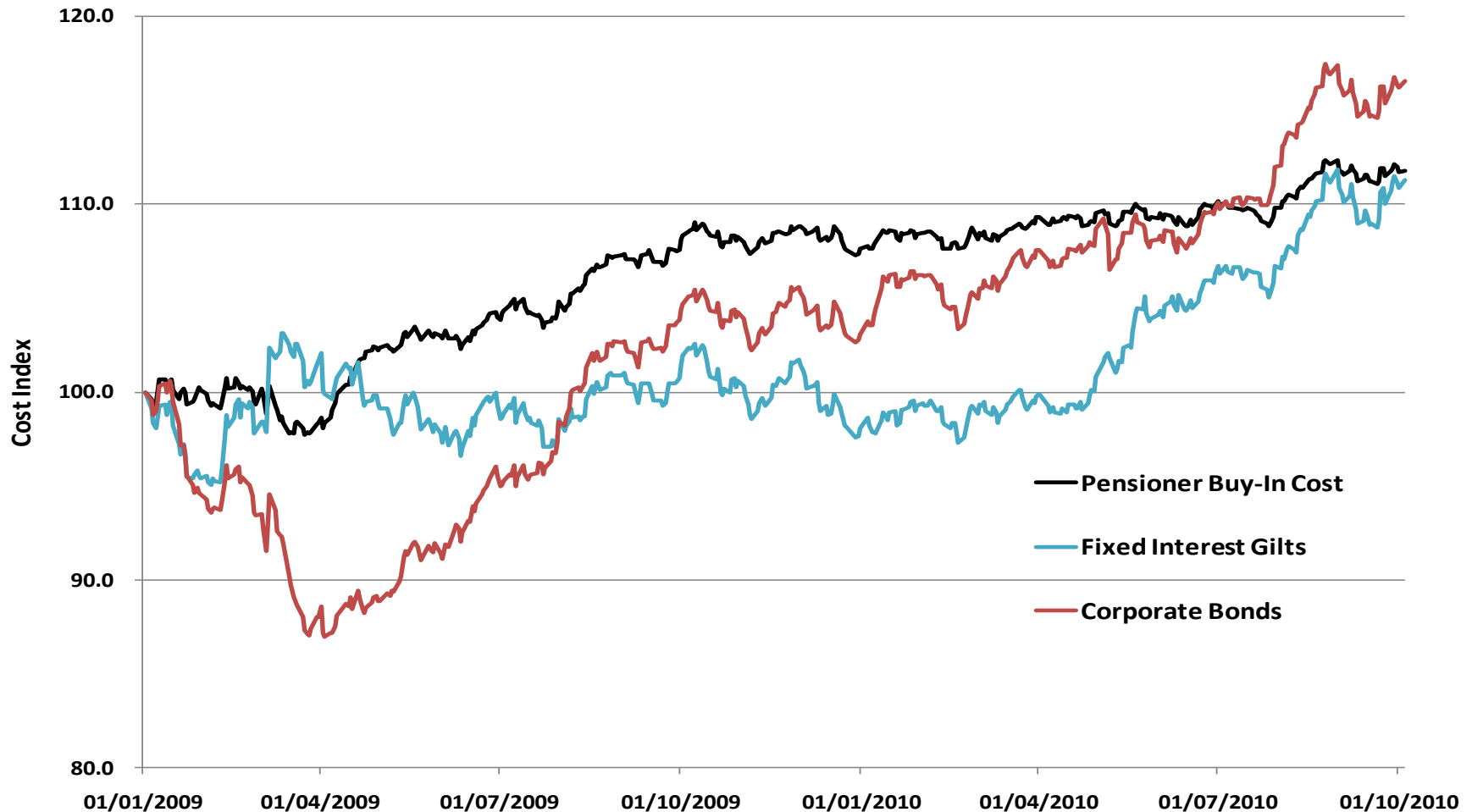


**MAYBE**



**Less LIKELY!**

# Bulk Annuities – Pricing Volatility



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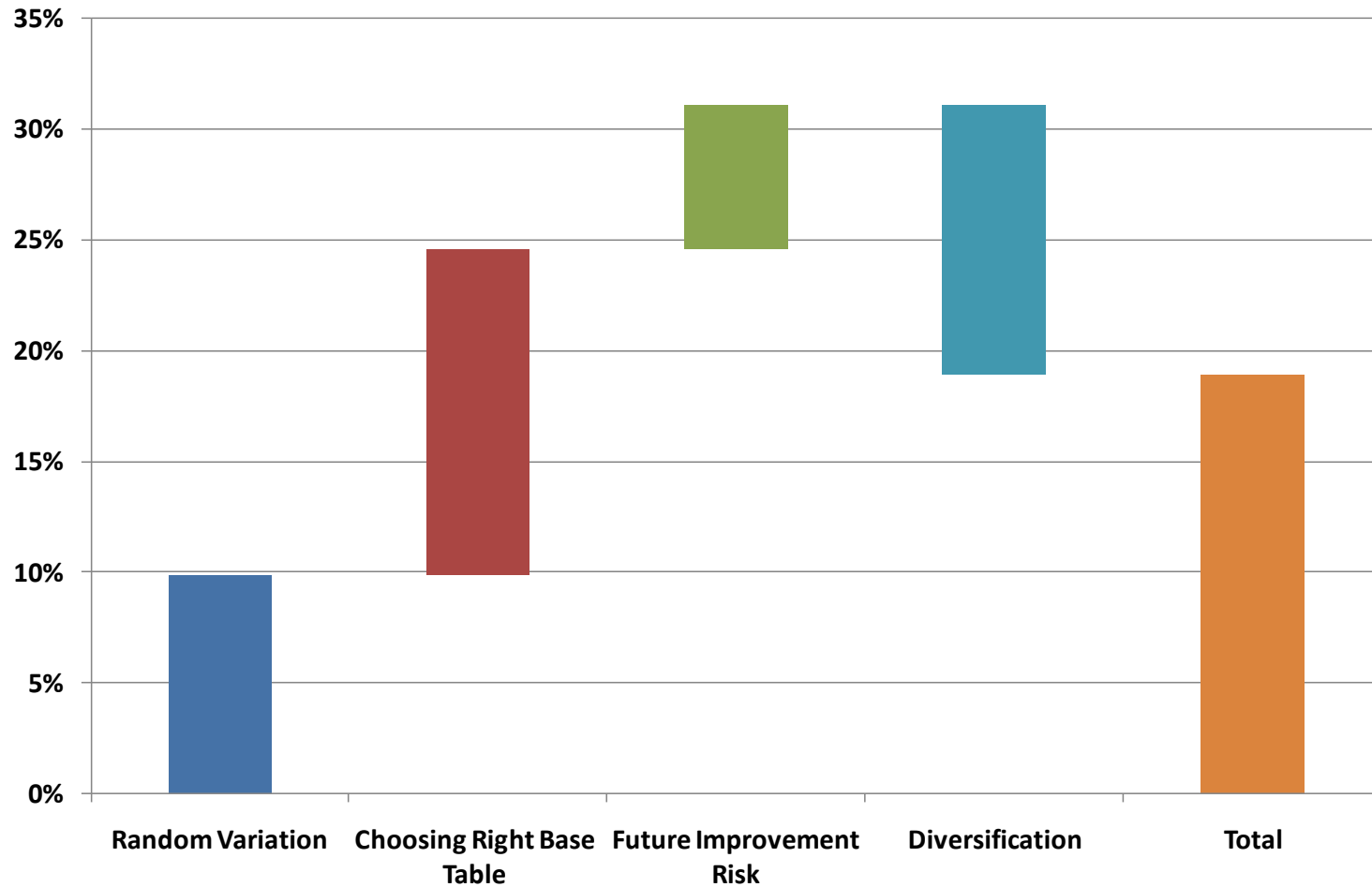
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- **How will de-risking tools develop**
  - Bulk Annuities
  - **Mortality Risk**
  - Investment Risk

# Mortality Risk

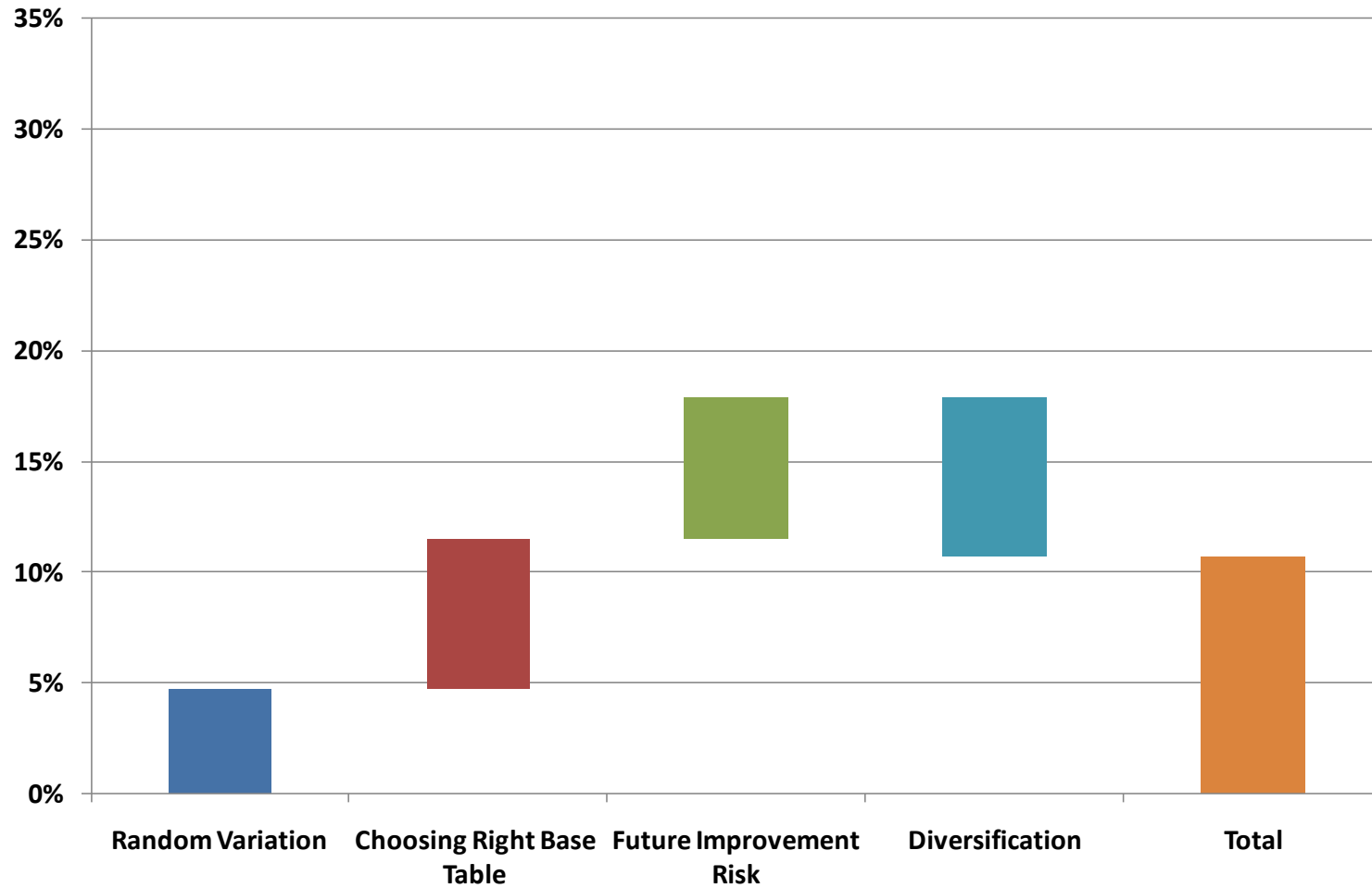
- Mortality SWAPS
- Greater understanding of Mortality Risk
- More sophisticated assessment of Mortality



# Mortality Risk – Small Schemes



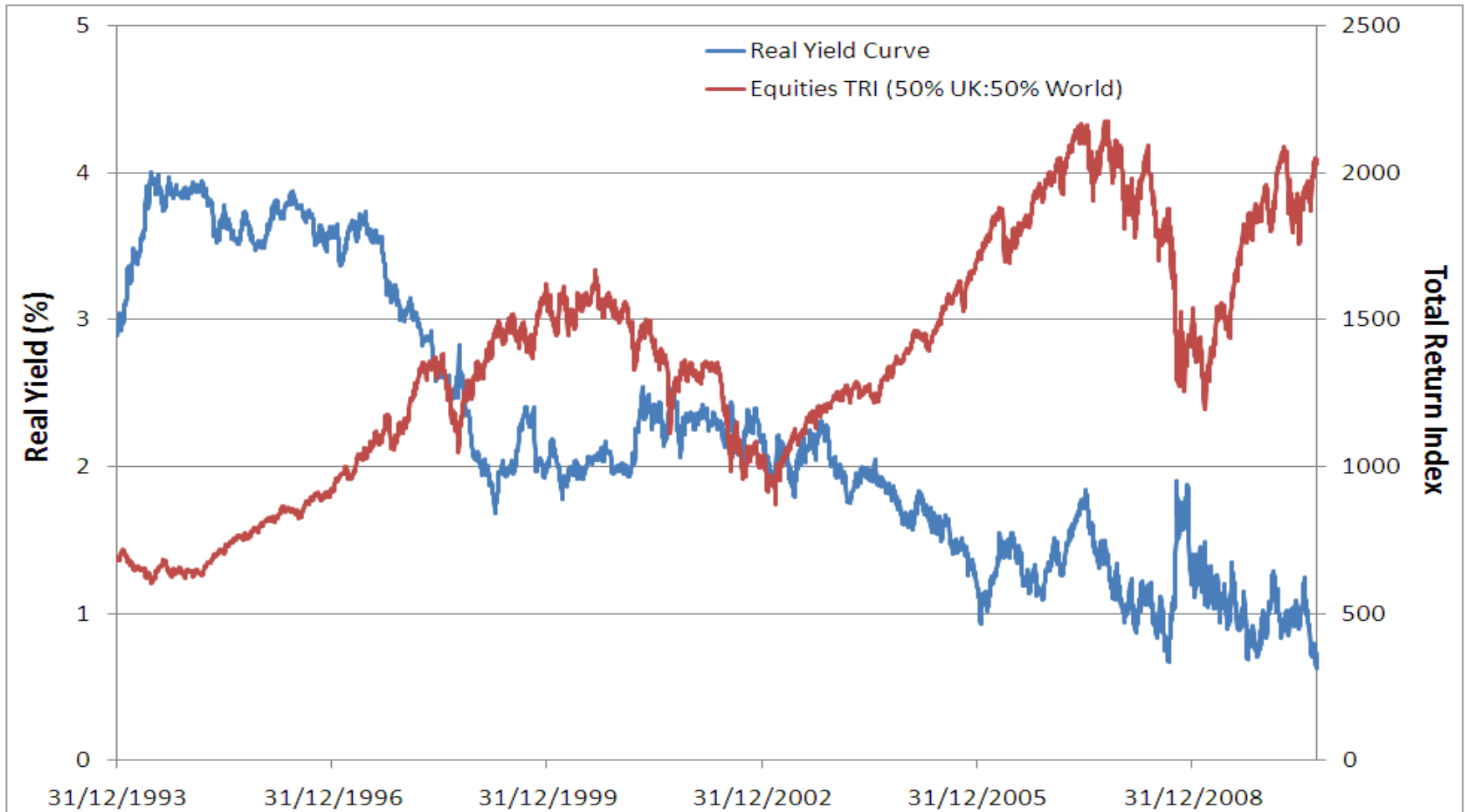
# Mortality Risk



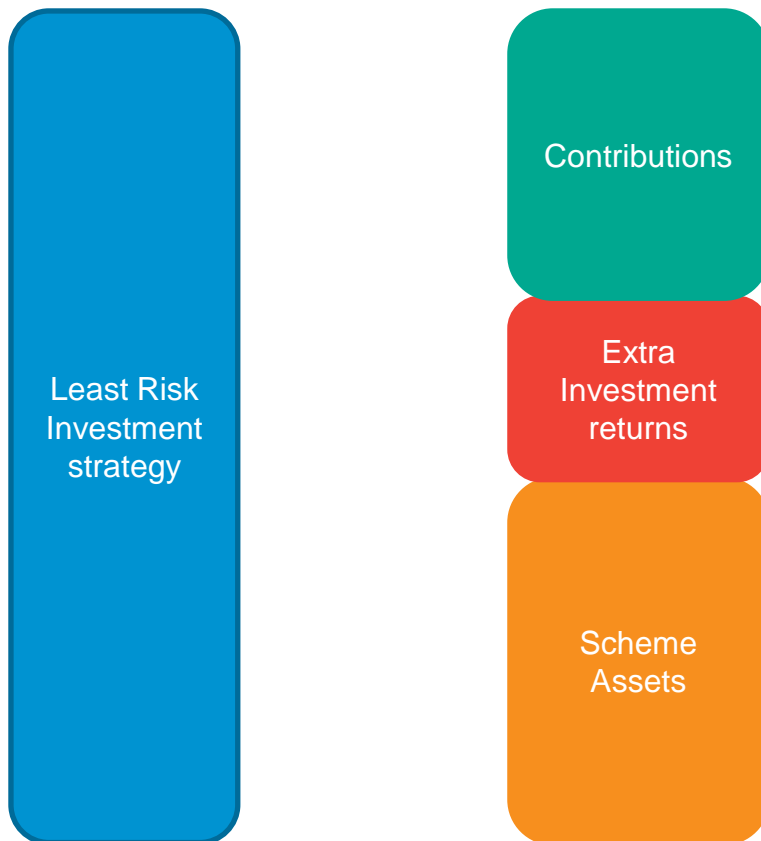
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  - **Investment Risk**

# What will drive de-risking? Affordability



# Bank returns?



# Bank returns?



# Bank returns?



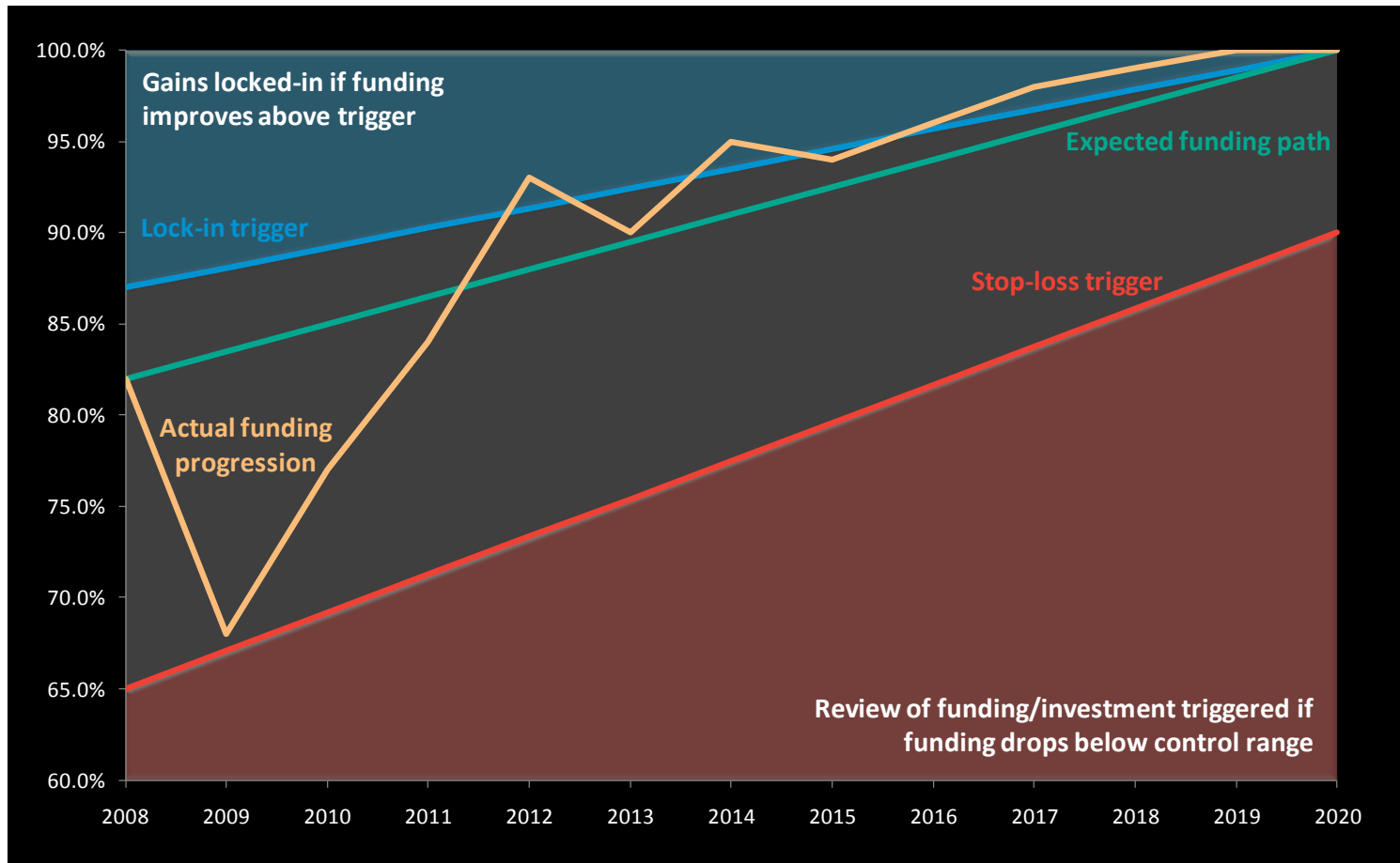
Take less  
investment  
risk

# Bank returns?

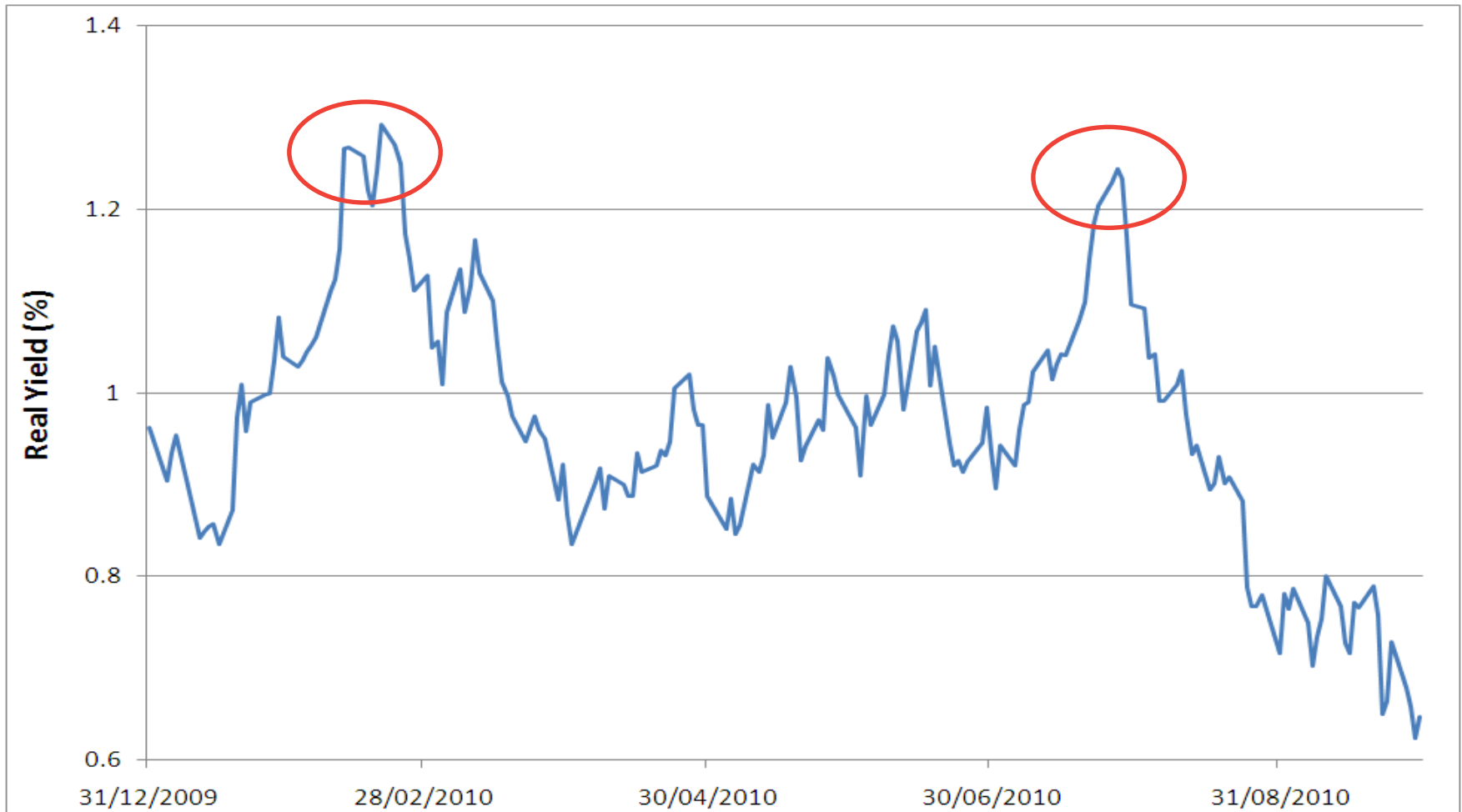


Lower  
Contributions

# Funding Level Triggers



# Investment - Triggers



## Anything that can go wrong....

- Poor asset returns ✓
- Low interest rates ✓
- Increased life expectancy ✓
- Legislative Risk ✓
- High inflation ?

# Summary

- Risk Management will be a key issue
- Driven by market conditions
- Greater level of sophistication in risk management techniques

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