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DB scheme consolidation

Martin Potter
Graham Jones



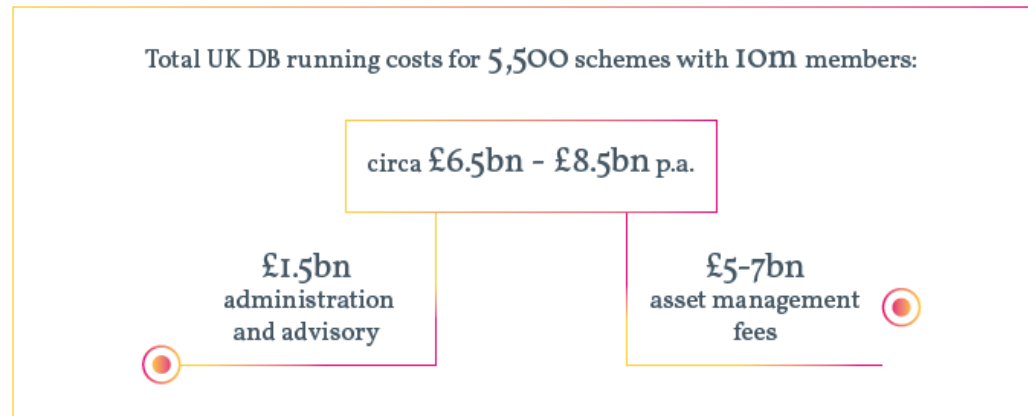
Agenda

- Current landscape
- Flavours of consolidation in the UK
- tPR and DWP views
- Lessons from the Netherlands
- What next?

What is driving consolidation?

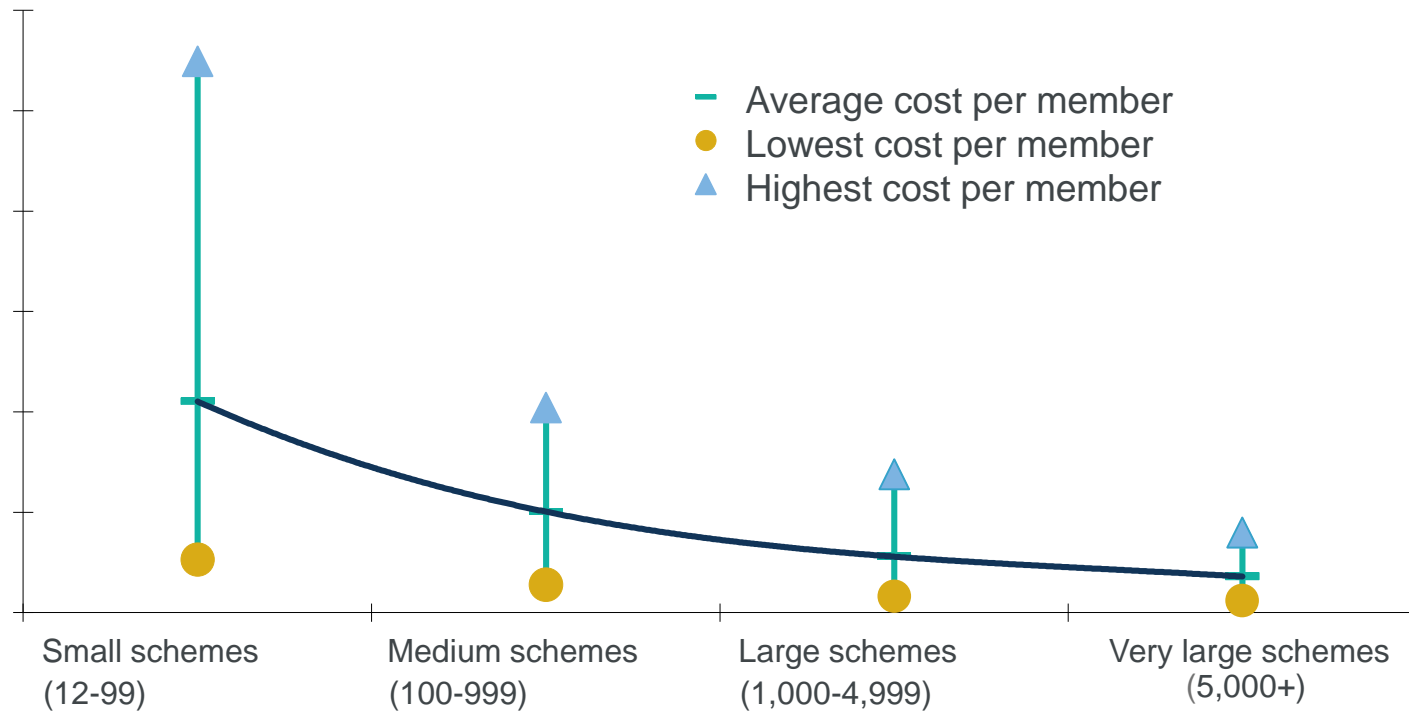
1 Improve the security of members' benefits

2 Reduce the running costs of schemes



3 Manage risks more effectively

Are larger schemes less expensive?



The economic attraction of larger schemes is clear

The consolidation conundrum

- 6000 schemes -
 - 4800 <£100m
 - 400 >£100m<£250m
 - 600 >£250m<£1bn
 - 200 >£1bn
- 1000 in danger of not paying benefits in full
 - 600 to go insolvent
 - 400 only survive with a pension compromise

Source: Cass Business School

Focus on scale alone does not tackle risk management challenge that schemes face

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25 years of consolidation

2017

5,588
10.5m
1.3m
£1.5tn
c30,000
c40,000
c£800bn
80p in £

Schemes
Members
Active members
Assets
Trustees
Benefit sections
Solvency deficit
Value to members

1,000
3m
<0.1m
£700bn
c2,000
c4,000
c£200bn
97p in £

2042

The future DB universe

Lower risk for longer
strategy halves risk
to members

Data cleansing and
benefit simplification
halves administration
and core actuarial fees

Asset pooling
reduces investment
fees by c£3bn pa

1 million members
consolidated into
insurance or banks
through transfers out

2 million members
consolidated into insurance
through buy-out

500,000 members
consolidated into the
Pension Protection Fund

1 million members
consolidated into
DB master trusts

Sole trusteeship
streamlines governance
for most schemes



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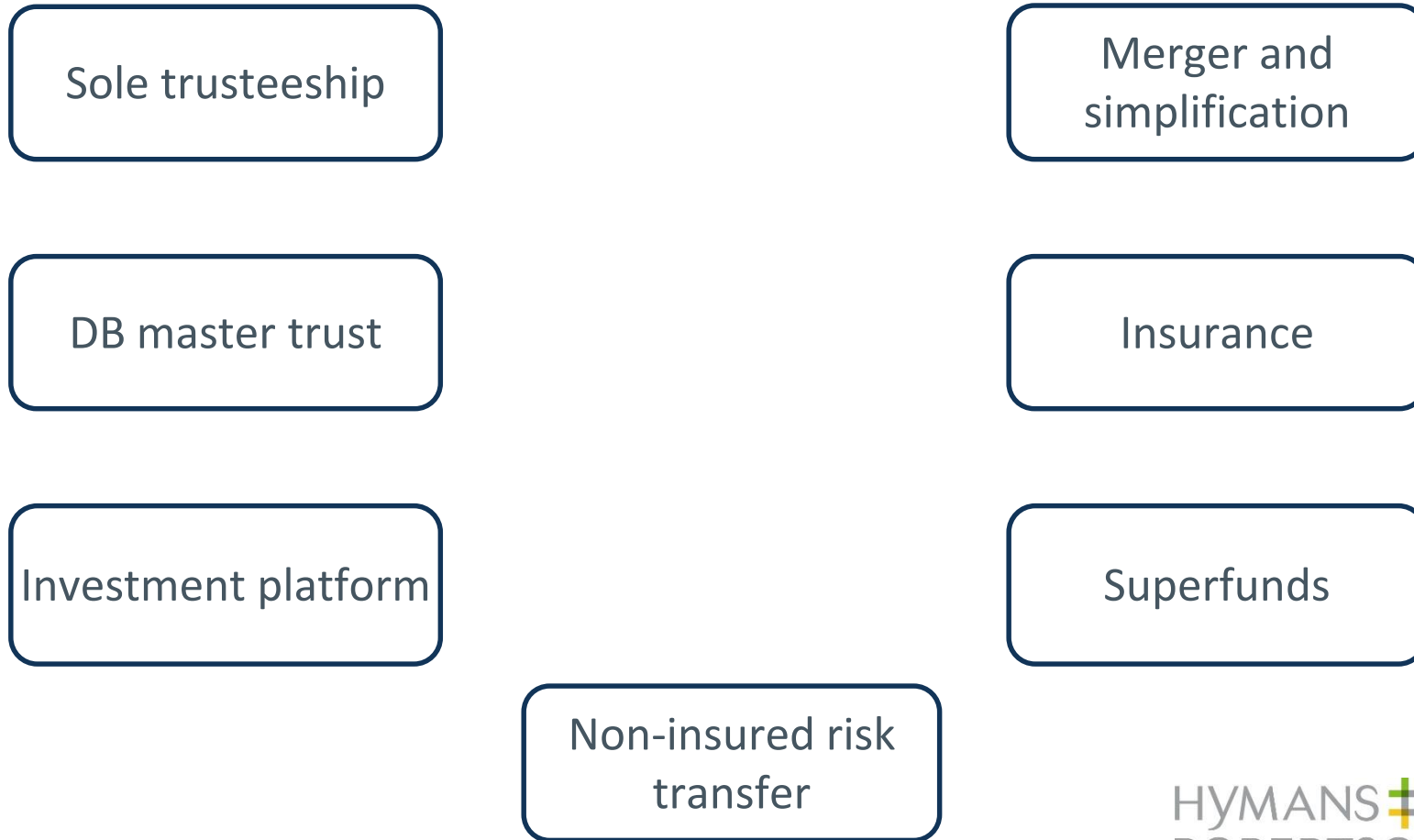
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Flavours of consolidation in the UK

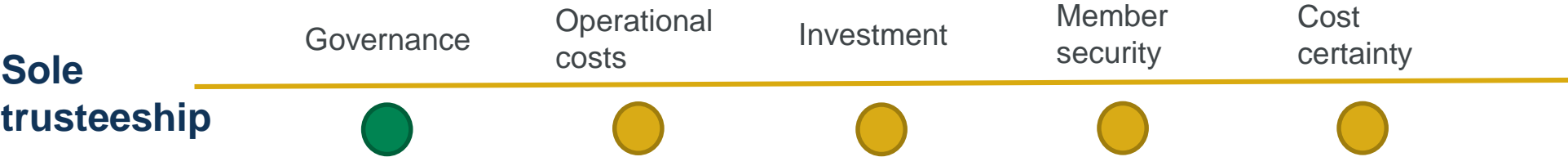
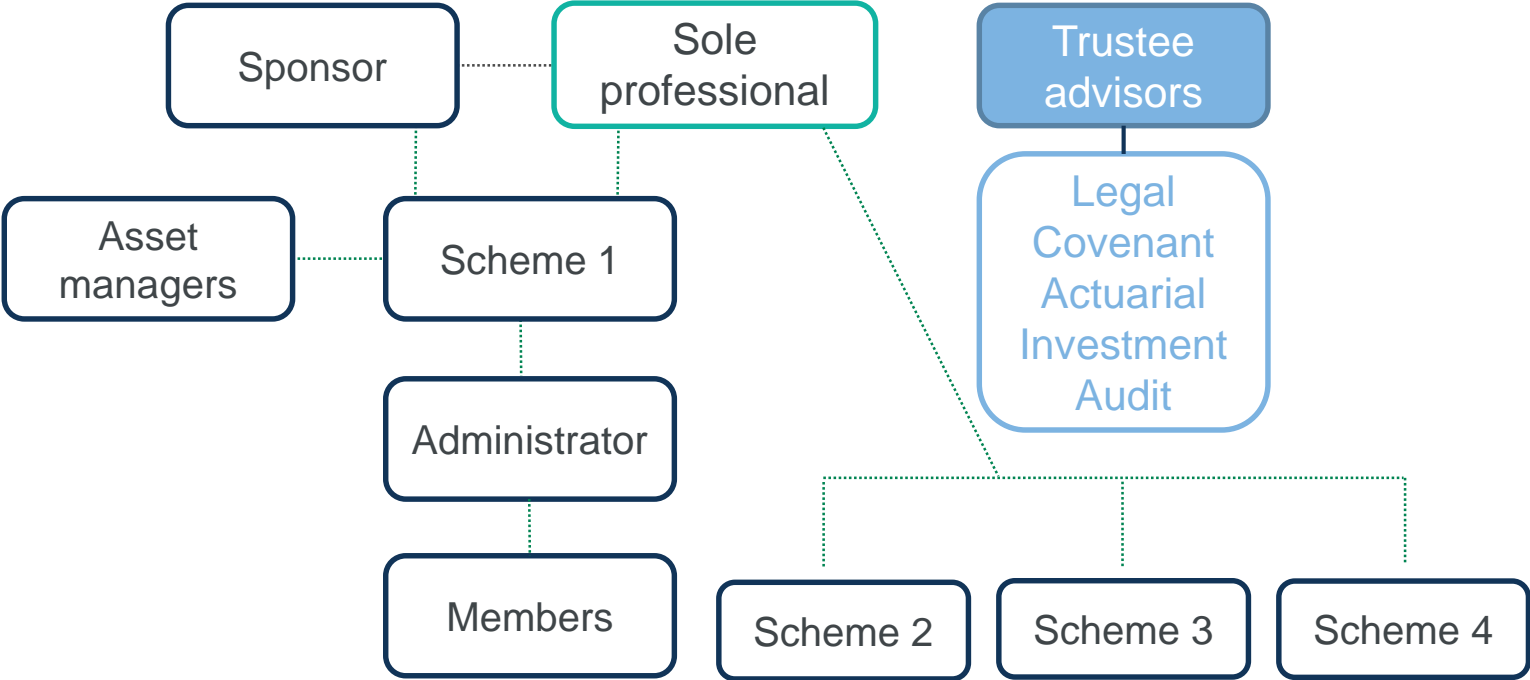
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Expertise
Sponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Supporting

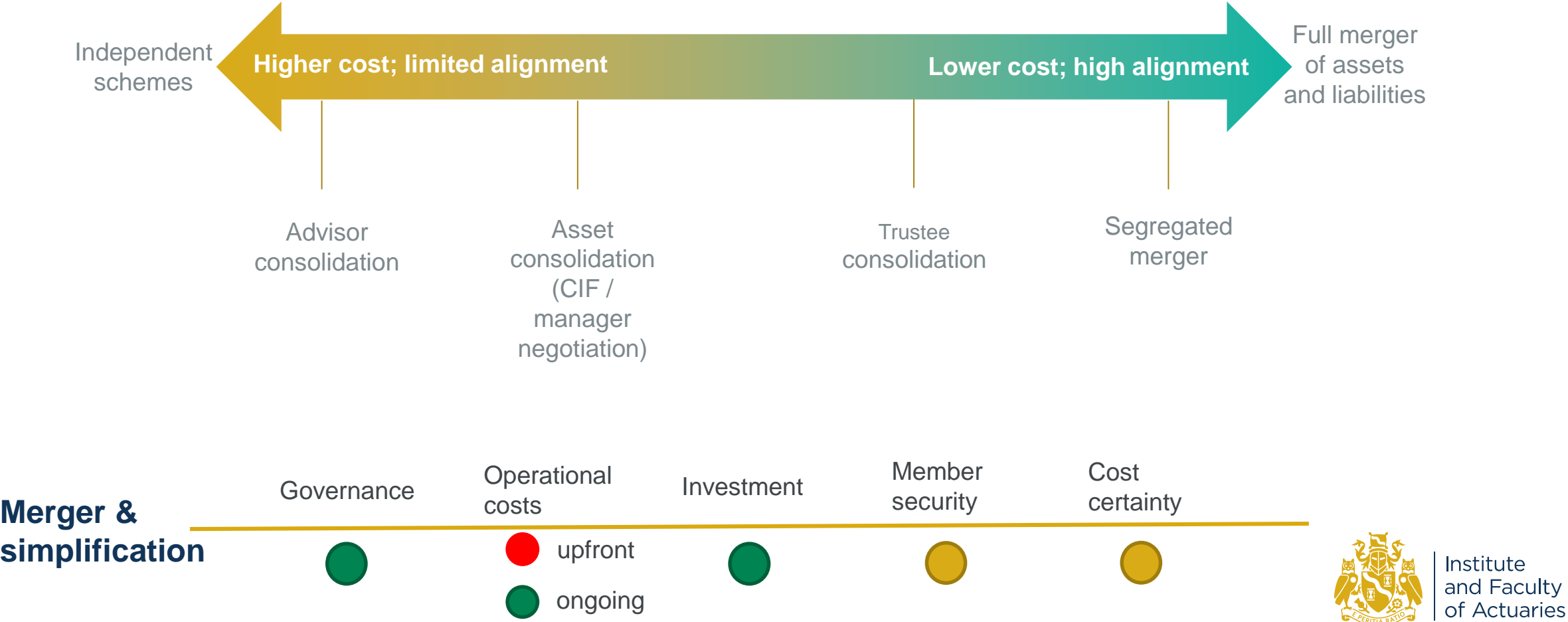
Types of consolidation



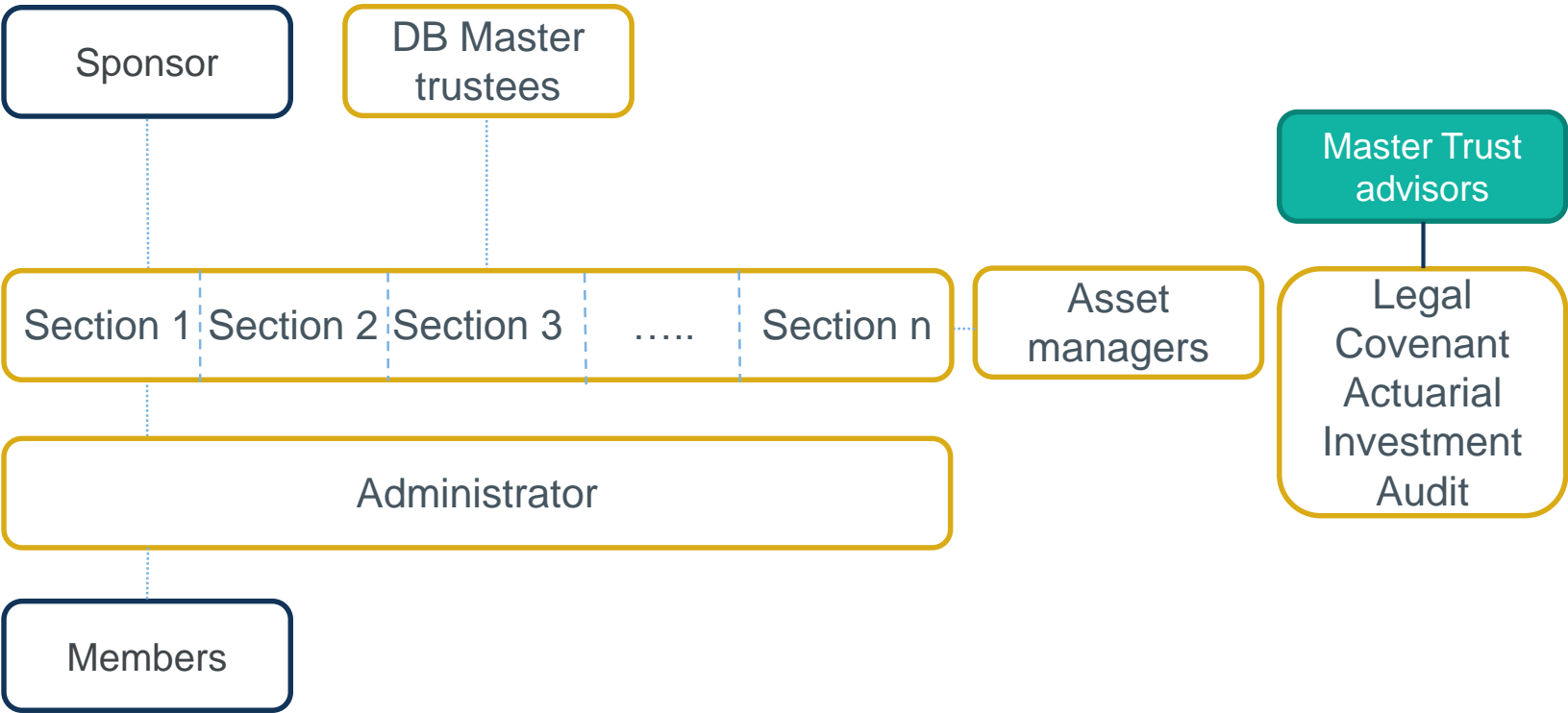
Sole trusteeship



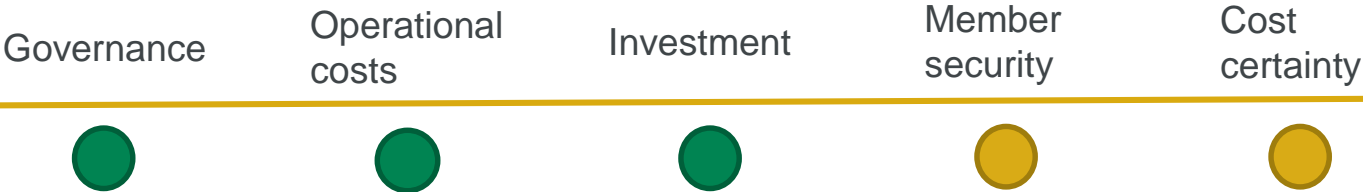
Scheme merger and simplification



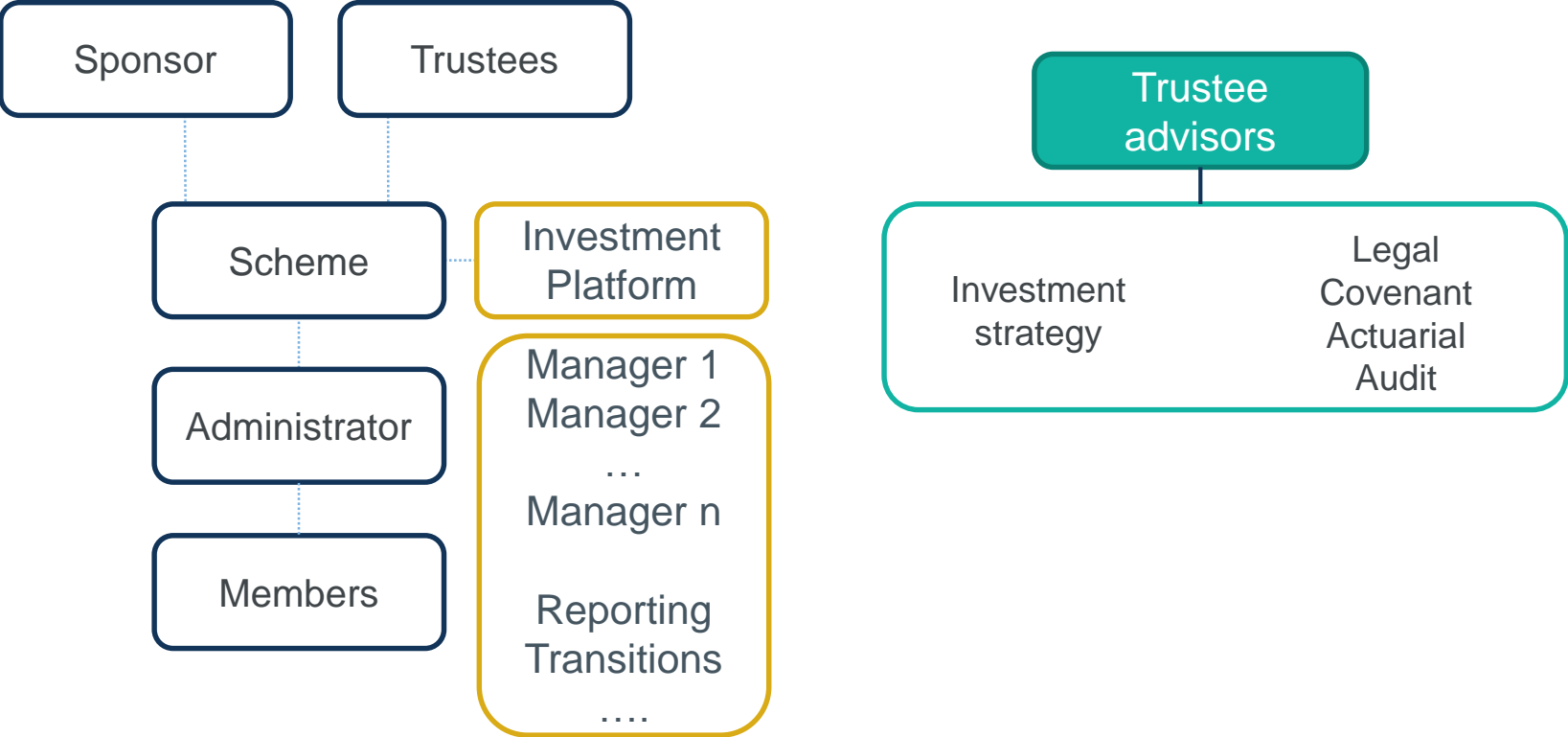
DB master trust



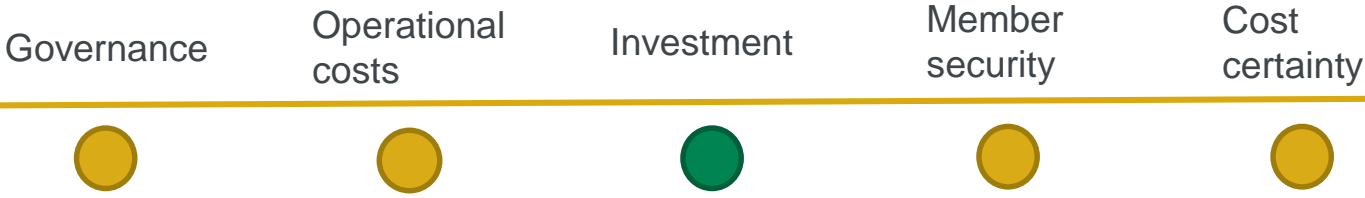
Master trust



Investment platform



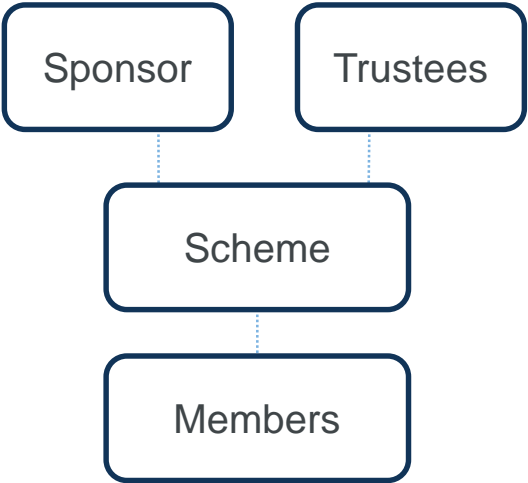
Investment platform



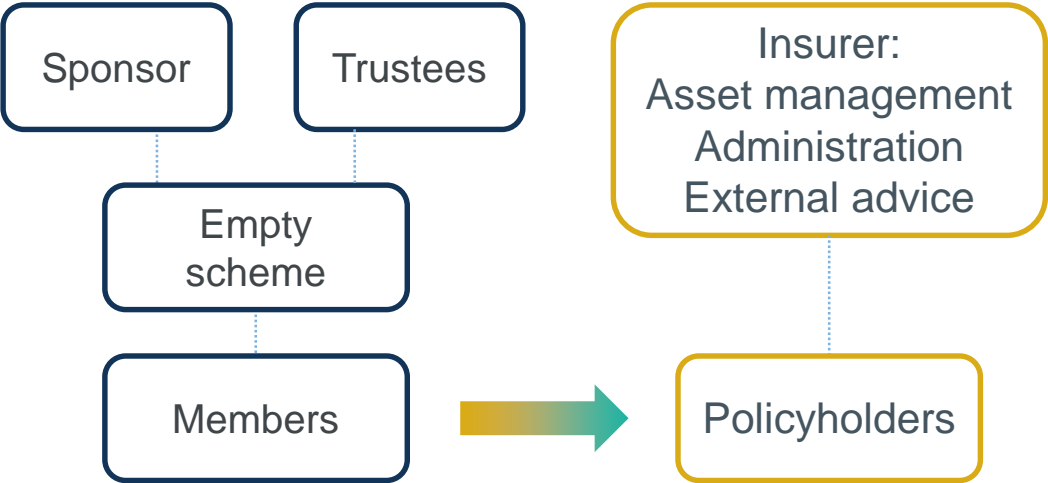
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Insurance

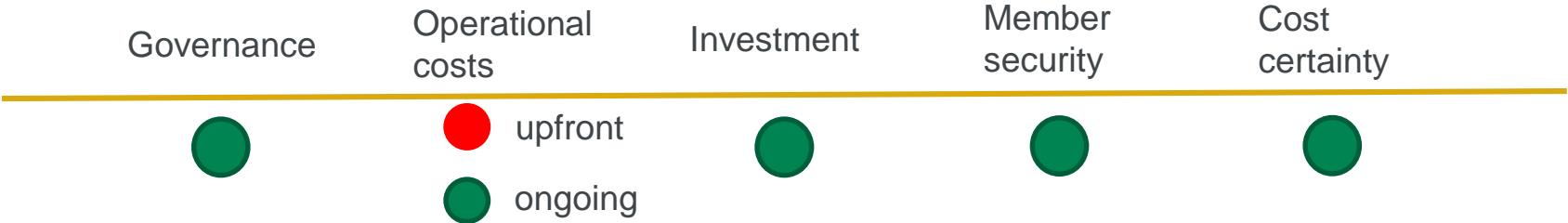
Before



After



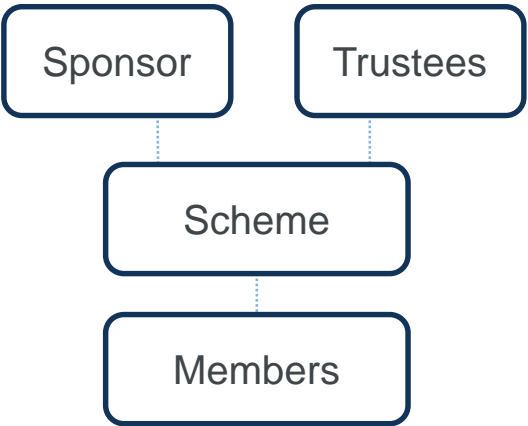
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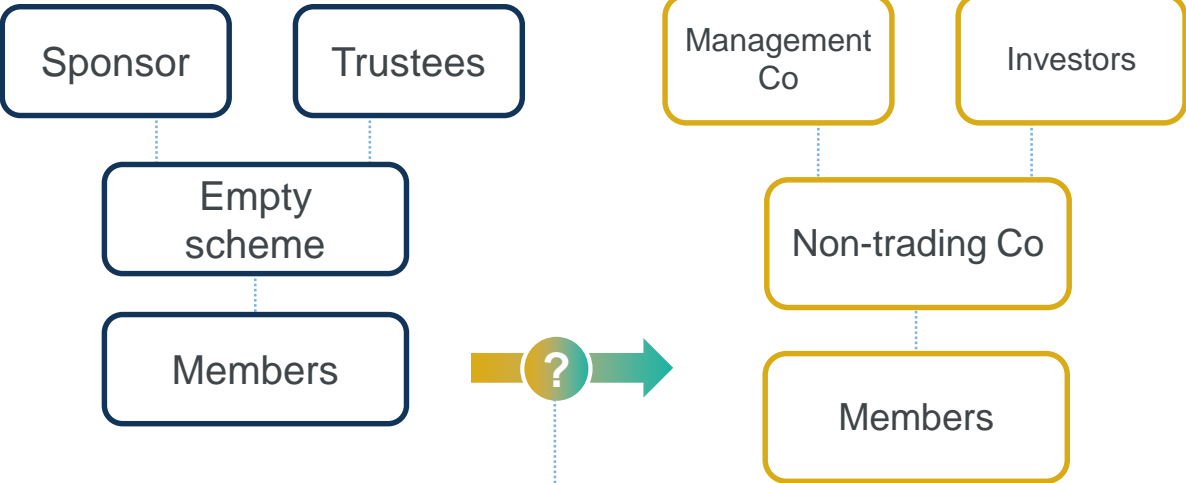
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Superfunds

Before



After



PPF protection?
Benefit cutbacks?
Legislative change!

Superfunds

Governance

Operational costs

Investment

Member security

Cost certainty



upfront



ongoing



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tPR and DWP positions

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Policy and regulatory backdrop...



Many types of consolidation already possible, more on the way



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Lessons from the Netherlands

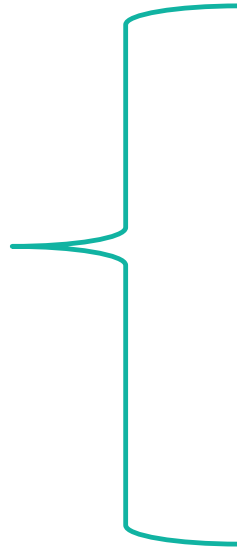
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Dutch pensions system

Three pillars:

1. Dutch state pension
(Algemene Ouderdomswet)
2. Occupational pensions
(Pensioenfondsen)
3. Individual private pensions



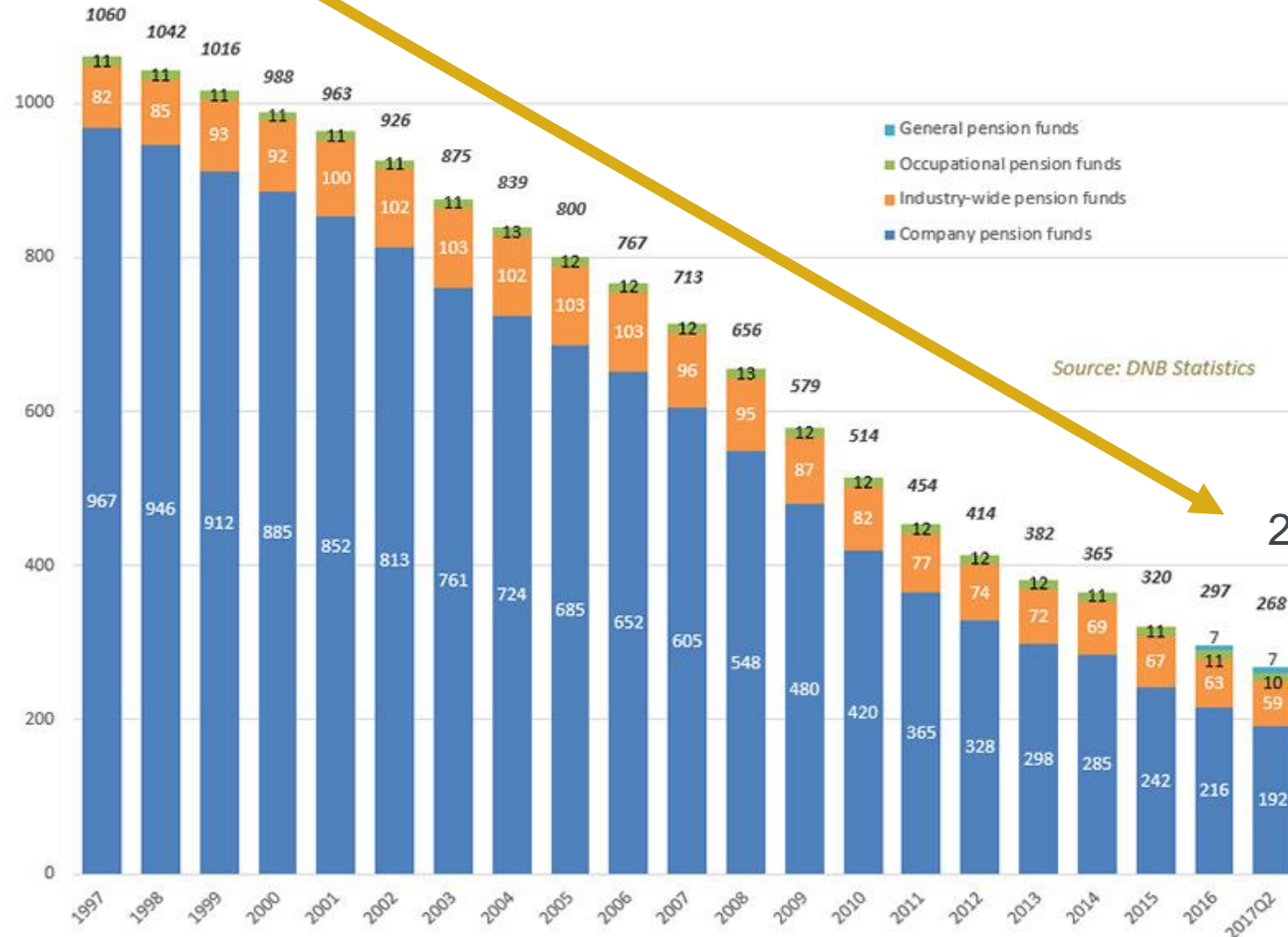
Different types:

- Company pension funds
- Industry-wide pension funds
- Occupation-based pension funds
- General pension funds
- Insurer arrangements
- Premium pension institution

- Dutch second pillar one of best developed systems in Europe
- Sector-wide schemes often compulsory with company plans needing to be at least equivalent
- Still mostly DB with risk-sharing – hybrids, CDC and increasingly DC
- Regulated by De Nederlandsche Bank (Dutch central bank)

Number of schemes

1997 = 1,060



2017 = 268

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Drivers for consolidation

- DNB raising the (regulatory) bar – increasing statutory requirements
- Increased running costs
- Pressure on board member resource & suitability
- Search for economies of scale
- Focus on costs per participant

Key driver: active role played by supervisory authority



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What's next?

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Any questions?

