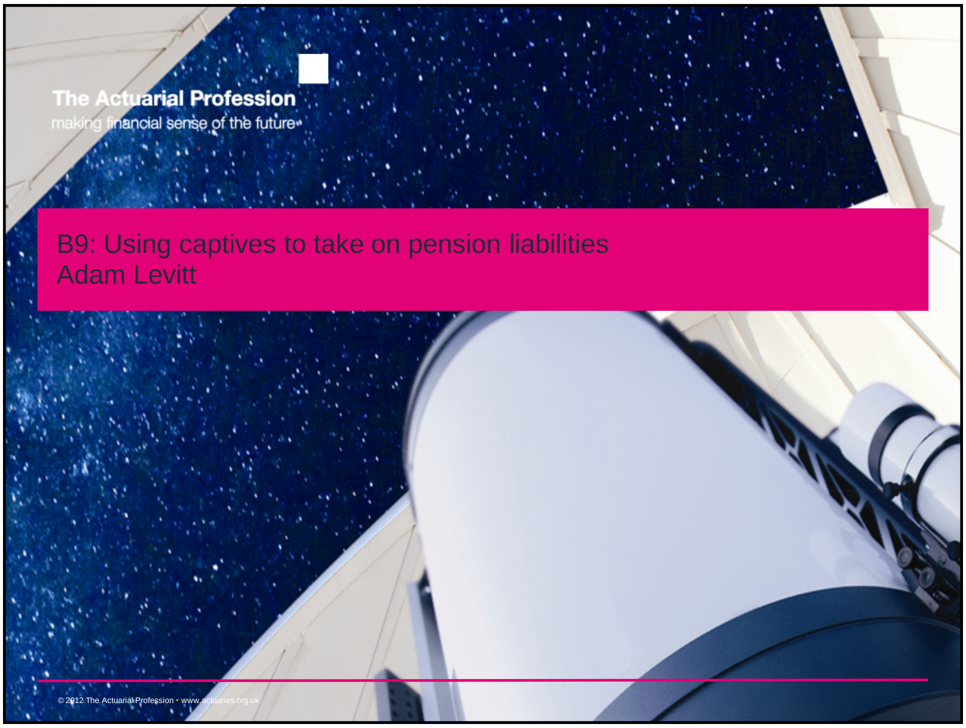
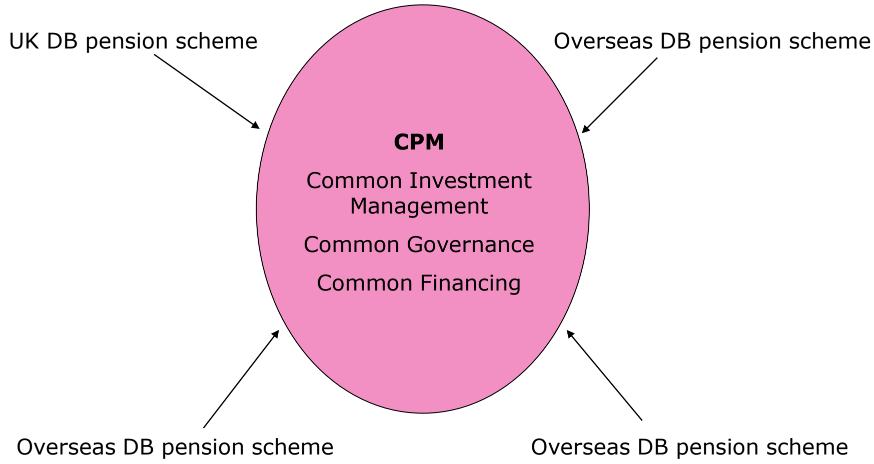


What I will cover today

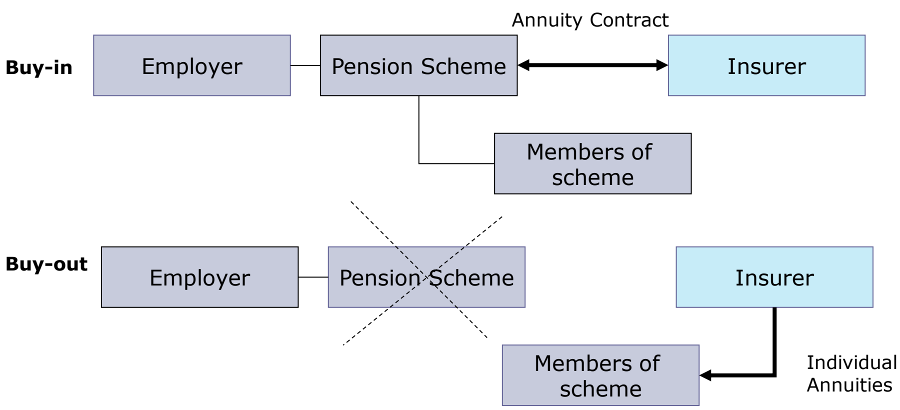
- The purpose of centralised pensions management (CPM)
- How CPM was achieved
- How the parties benefited
- The challenges

1

What does CPM entail?



Building on pension buy-in/buy-out technology



Buy-in/buy-out differences (UK)

Buy-in

- Employer covenant continues
- Bulk annuity for trustees
- PPF levy continues

Buy-out

- End of trust/employer covenant
- Individual annuities for members
- End of PPF levy

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Case Study

Builds on buy-in structure

→ Employer covenant continues
→ Pension scheme continues
→ Members should not notice a difference
→ PPF levy continues
→ FSCS cover in case of insurer failure

Good for scheme members!

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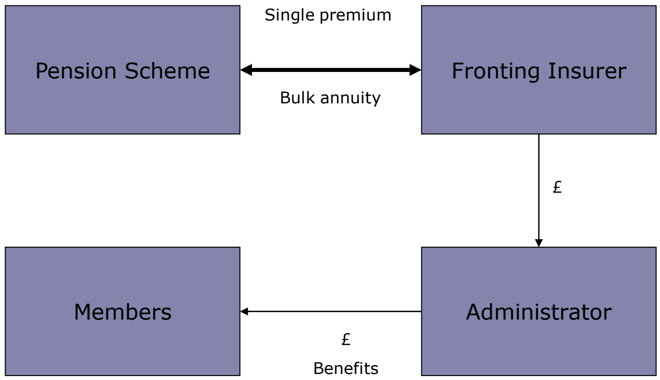
Structure – Stage 1



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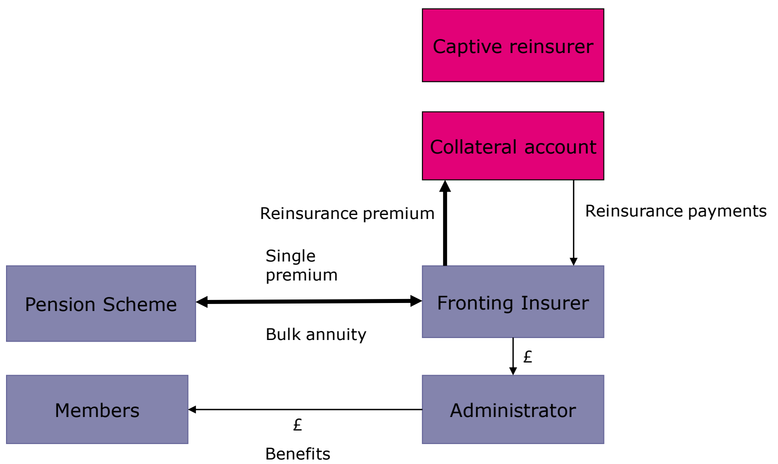
Structure – Stage 2



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Security

Builds on bulk annuity reinsurance

- Top-up obligations on reinsurer captive
- Regular liability/asset assessments
- Extraction from collateral limited to excess value
- Extraction limits could depend on strength of reinsurer captive's group
- Reserving requirements cover?
- Investment management by reinsurer captive subject to restrictions

Fronter comfort (+ commission payments)

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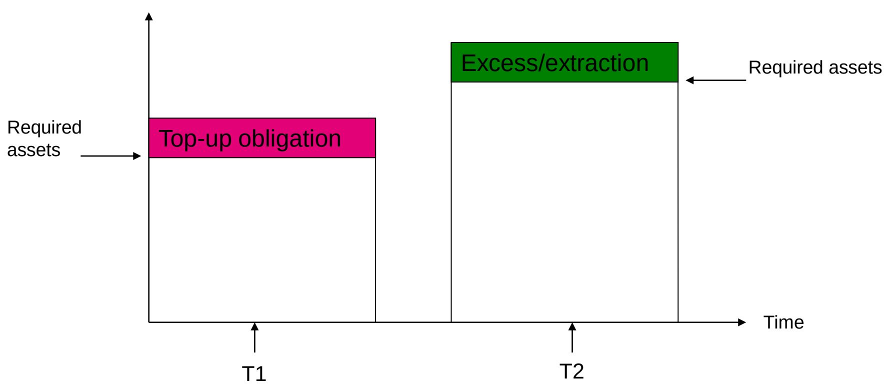
Collateral/top-up

Collateral £



If captive reinsures more than one scheme, it could end up with various collateral accounts (specific to each scheme)

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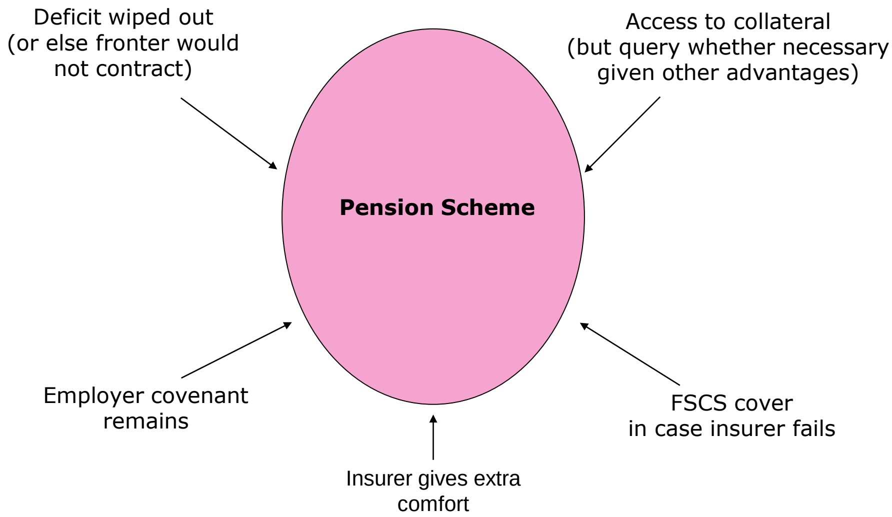
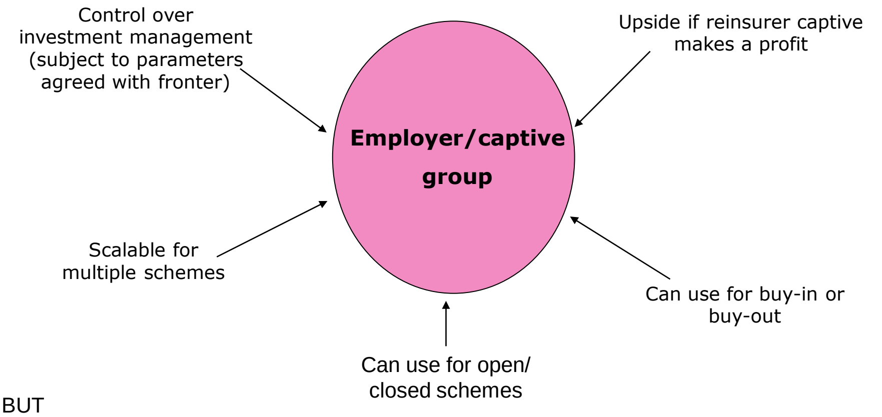
Pension scheme’s position



Employer’s position



BUT

- employer must be able to wipe out any scheme deficit
- need to establish captive
- need to manage assets

Open Schemes

- Pricing parameters to crystallise fronter's obligation to provide cover?
- Apply bulk annuity reinsurance approach?
- Assessing longevity could follow the approach to measuring sufficiency of collateral

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Termination

- Structure should last for decades
- Employer will not want fronter terminating annuity contract easily
  - Start up costs
  - Fronter's real exposure is under the reinsurance
- On termination
  - Fronter should be neutral (loss of profit?)
  - Scheme should get collateral

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Challenges

- Communications with trustees
- Fronter competitive tension
- Complexity of contracts/collateral arrangements
- Regulators
- International aspects (e.g. restrictions on scheme contracting internationally)
- Sophistication of employer treasury department
- Accounting treatment/collateral

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.