



Institute  
and Faculty  
of Actuaries

# Pension superfunds: the beginning of the end for bulks?

Jamie Logie and Lizzie Waghorn

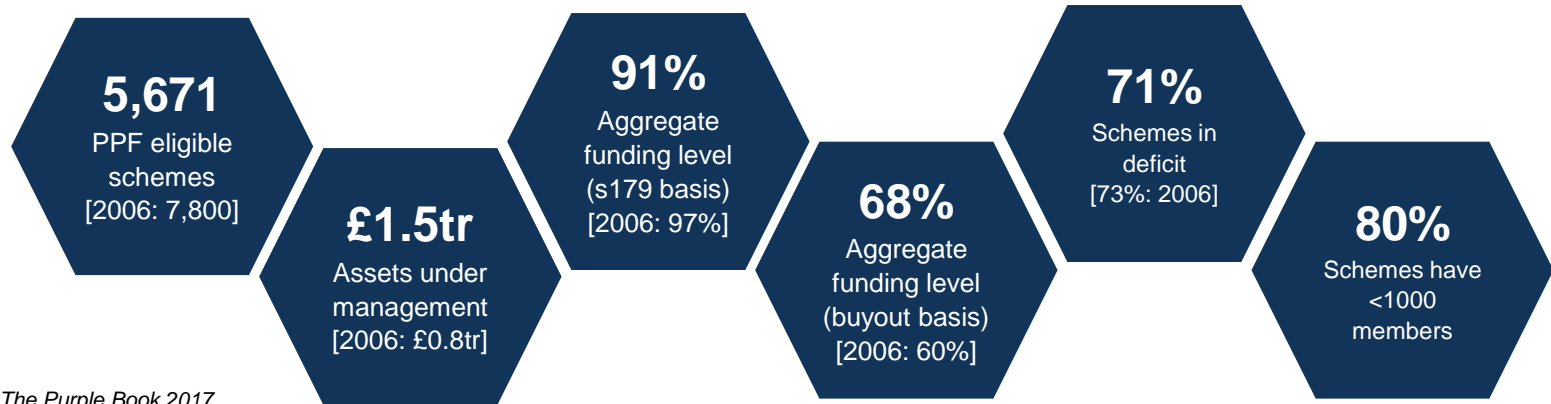


# Agenda

- Introduction to the defined benefit (DB) and bulk annuity markets
- Options for de-risking DB schemes
- What are pension superfunds?
- Comparison of pension superfunds with buy-in/outs
- Overview of considerations for trustees and regulators
- Conclusion
- Questions



# The Defined Benefit Market



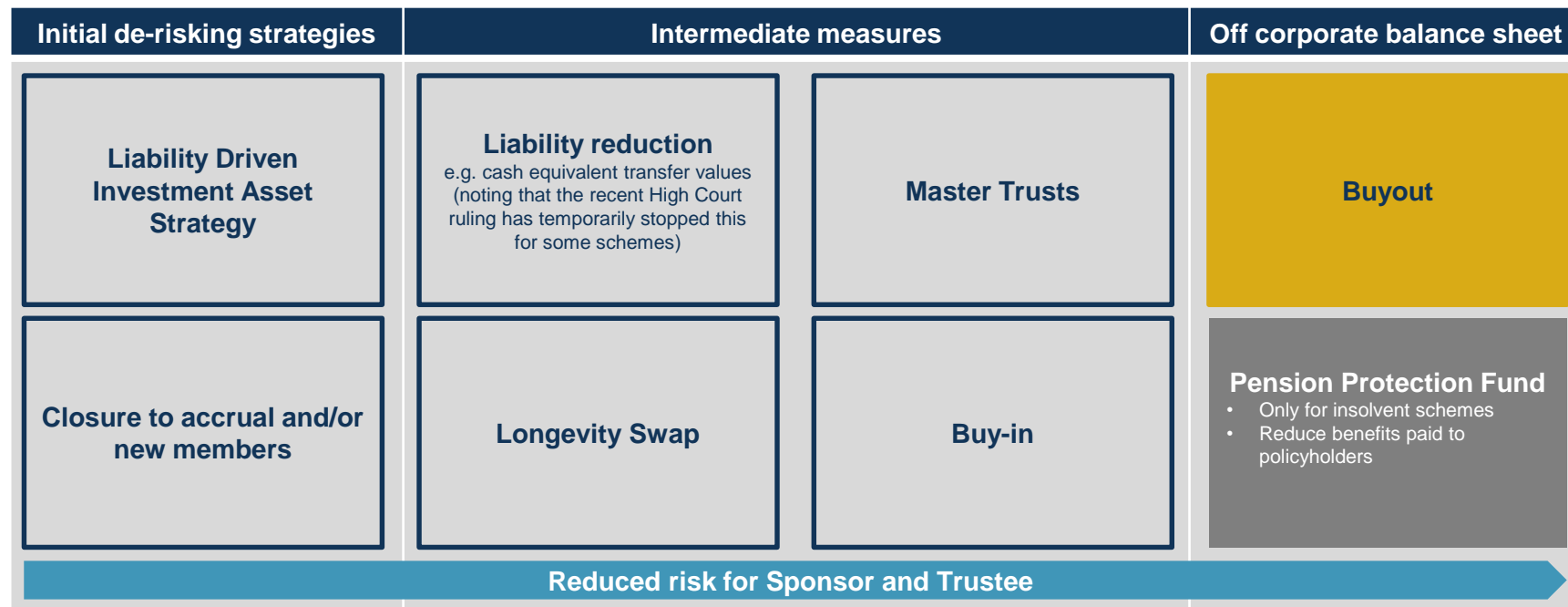
Source: The Purple Book 2017

- The “DB promise” was initially never expected to get to these levels
- A number of factors have impacted the funding levels over the years:
  - Deterioration of market conditions
  - Improved longevity
  - Disproportionate concentration of DB schemes in sectors that are no longer as robust as they used to be

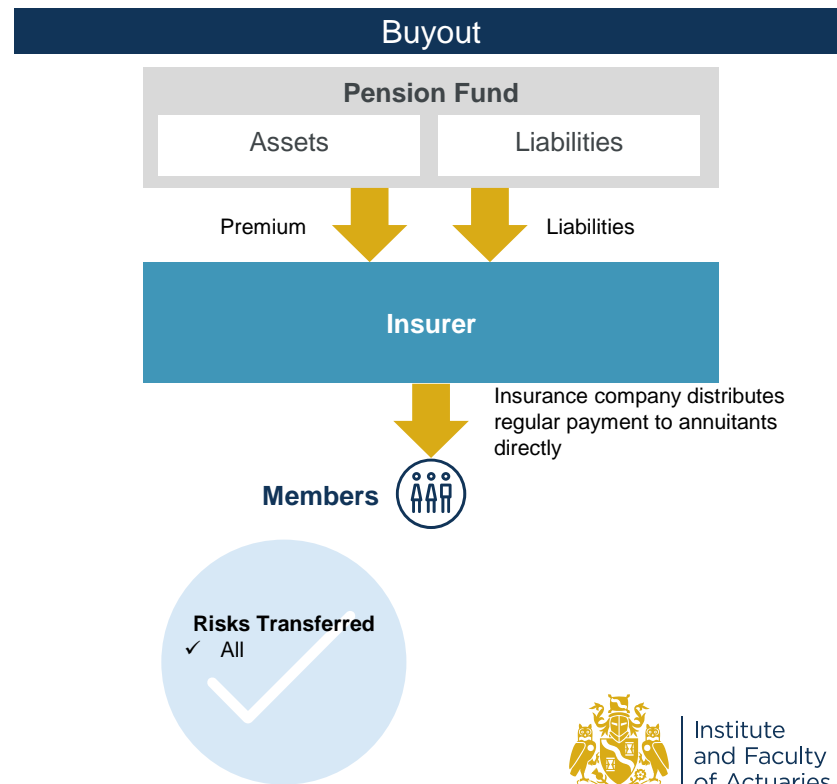
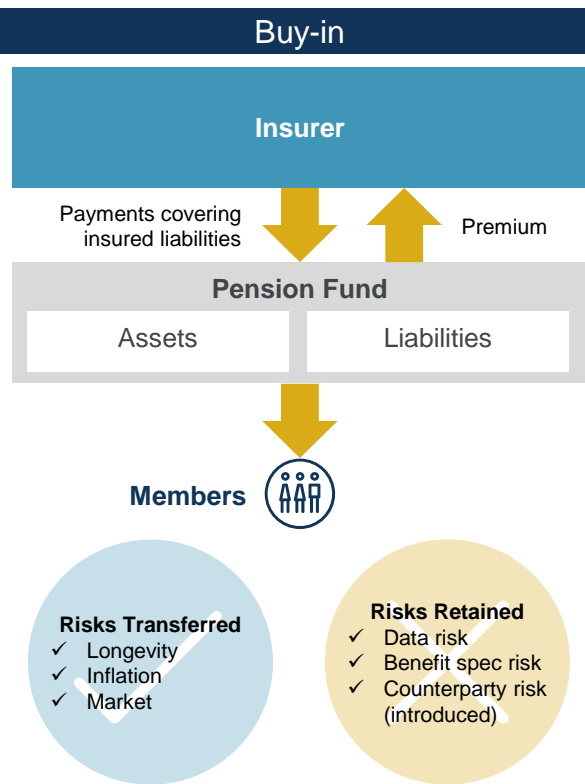


Institute  
and Faculty  
of Actuaries

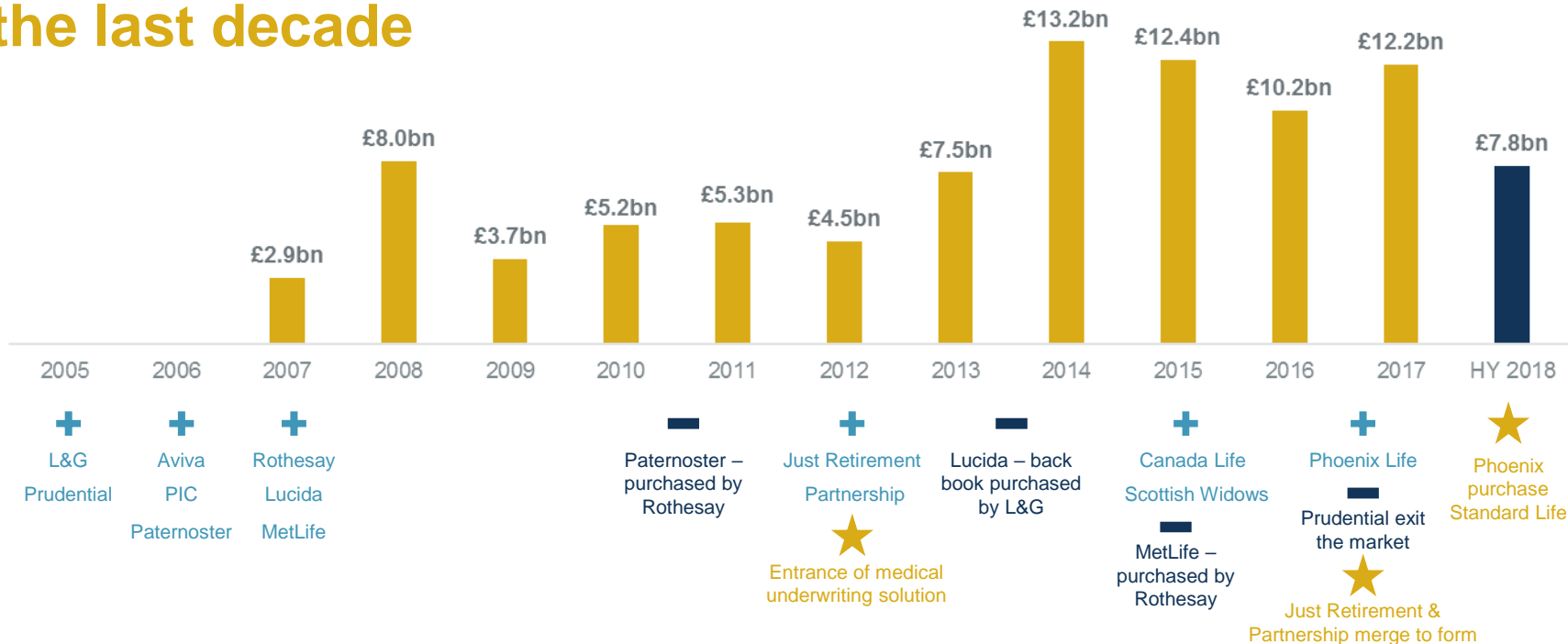
# Options for de-risking DB schemes



# Buy-in vs. Buyout



# The bulk annuity market has grown significantly over the last decade

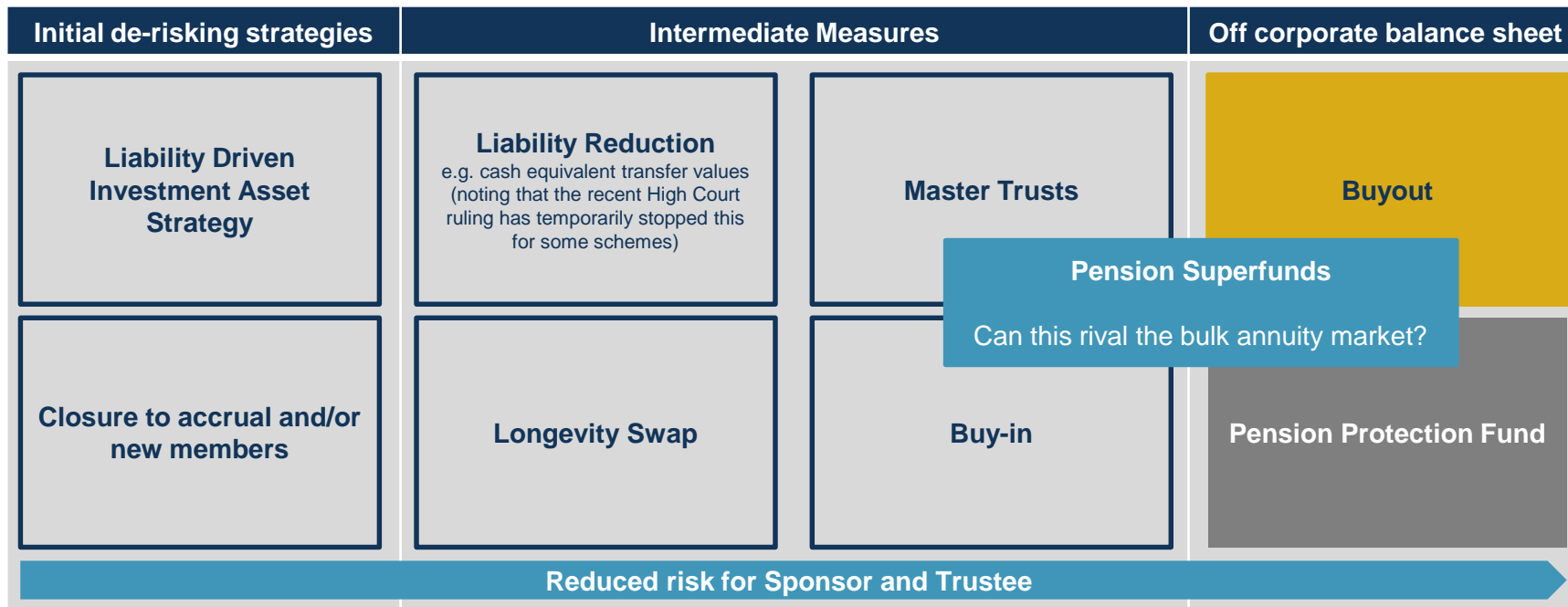


Source: Public Information



Institute  
and Faculty  
of Actuaries

# A new tool: pension superfunds?



# It's been getting quite a lot of attention

## The Pension SuperFund: Benevolent disruptor or danger to members?

Pensions Expert, 22 March 2018

Pension consolidation: is it all good news?

IPE, April 2018

Unions question emergence of UK pension superfunds

Financial Times, 7 May 2018

## 'Was I right to swap my pension for £1m?'

Telegraph, 16 April 2017

**Exclusive: Alan Pickering appointed chair of Clara trustee board**

Professional Pensions, 12 September 2018

Bust-up increases pressure on Pension SuperFund

Consolidator looks to rebound from loss of top executives and backer

Financial Times, 15 September 2018

**Ex-PPF chief launches defined benefit pension 'superfund'**

FT Advisor, 21 March 2018

Just one-quarter of trustees confident in consolidating DB pension schemes

The Actuary, 28 June 2018

UK's first pension consolidator prepares debut deal

SuperFund set for £10m transfer despite concerns over lack of regulatory framework

Financial Times, 11 June 2018

**Rubenstein quits The Pension Superfund as first deal looms**

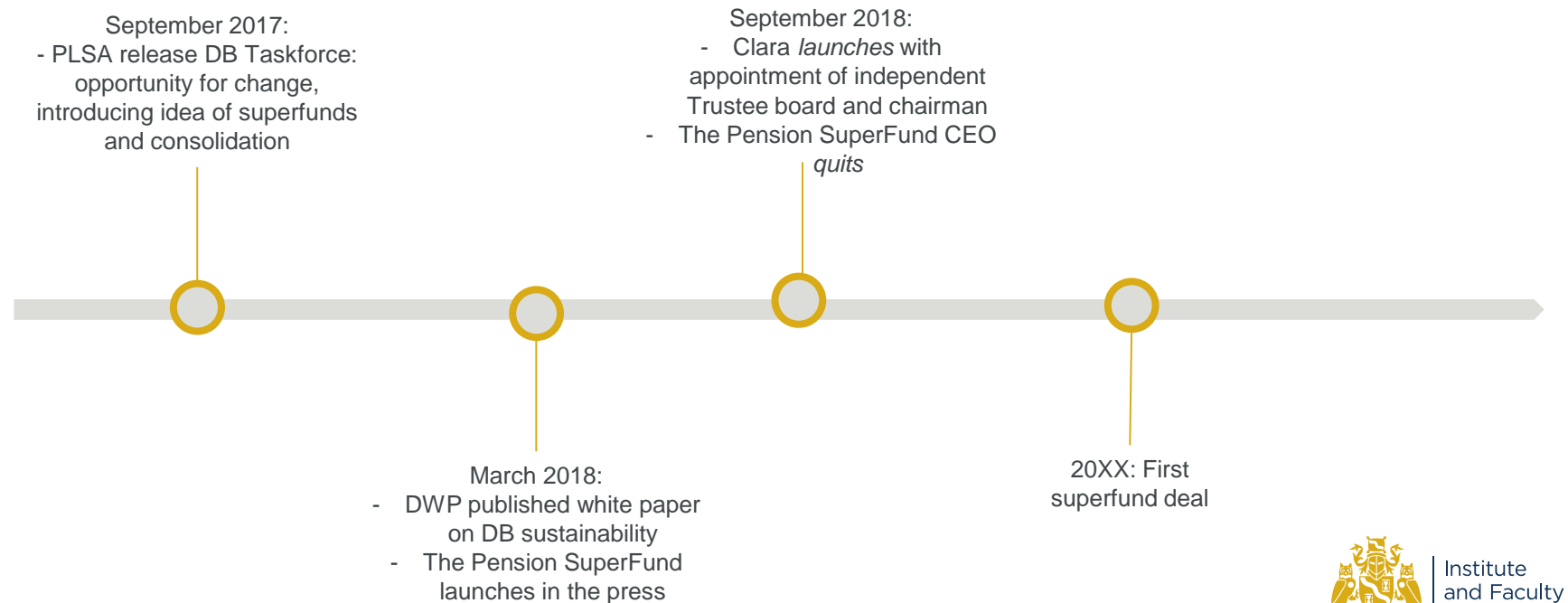
Professional Pensions, 10 September 2018



Institute  
and Faculty  
of Actuaries



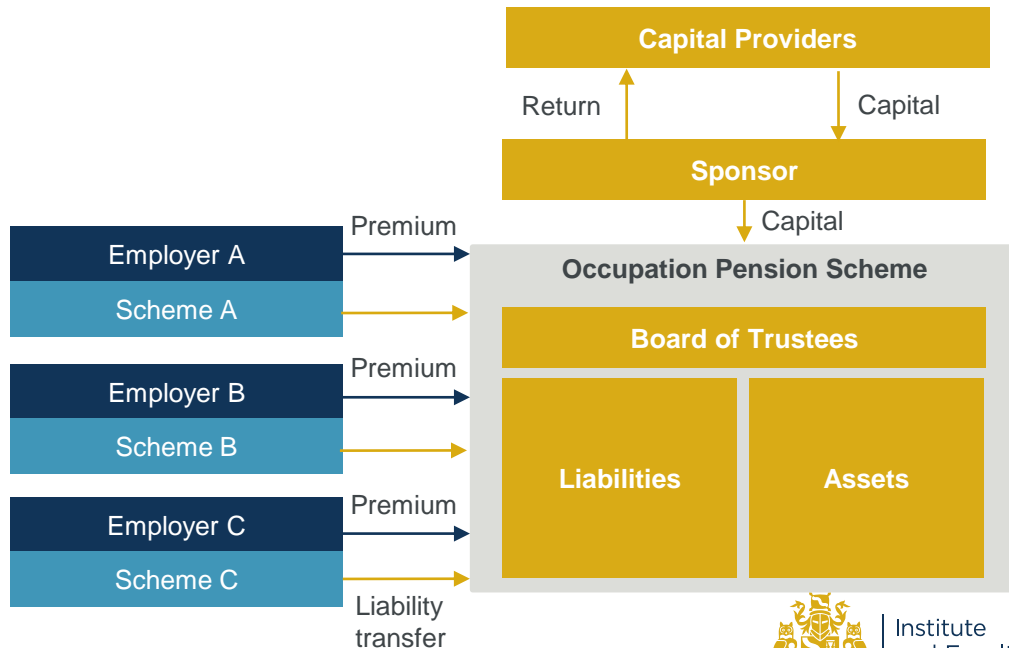
# Evolution of the superfund concept



# What is a “superfund”?

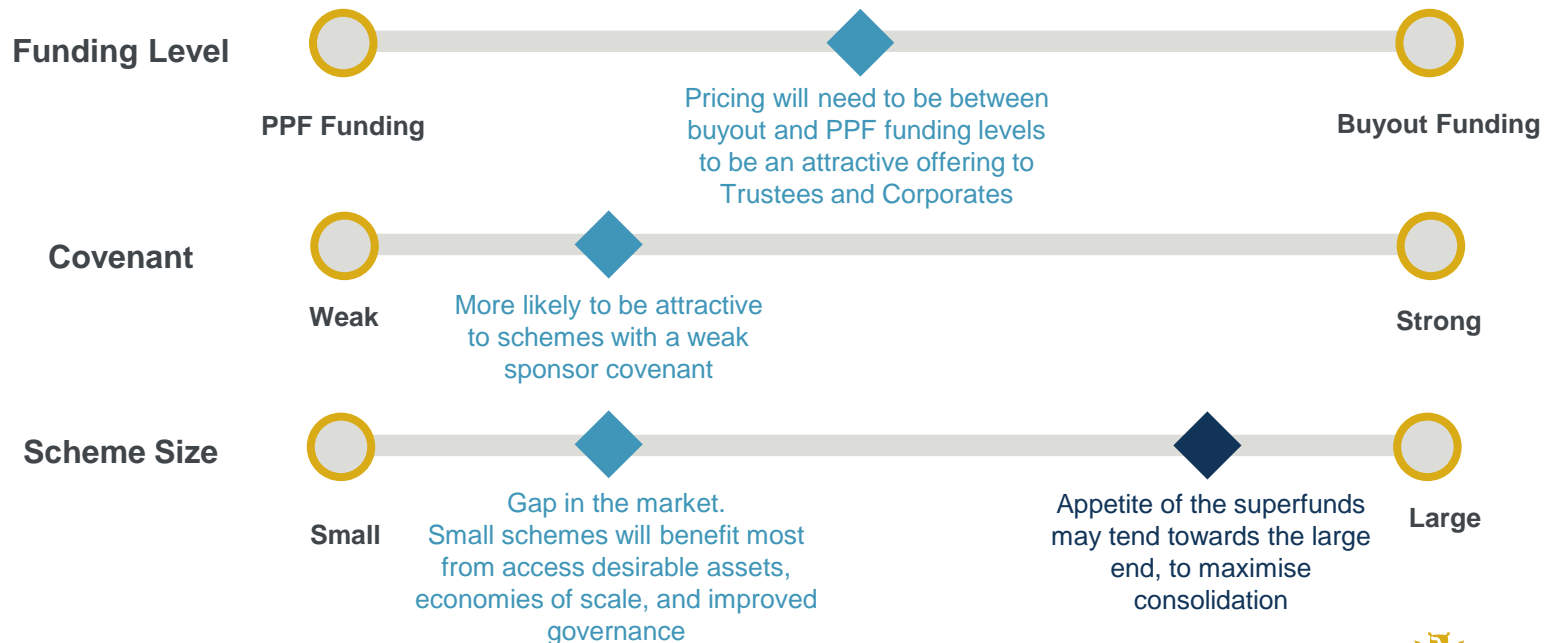
A form of consolidation which allows employers to remove pension liabilities from their balance sheet without paying an insurer to secure the benefits

- Occupational Pension Scheme
- Regulated by the Pensions Regulator (tPR)
- Eligible for the PPF
- Three exist:
  - The PPF
  - The Pension Superfund
  - Clara Pension
- Removes all ties with the original sponsor and trustee
- Driving return from investment return on consolidated asset portfolio
- No change to existing member benefits




























Institute  
and Faculty  
of Actuaries

# Which schemes might be interested?



# Consolidation is not a new concept

	UNCONSOLIDATED	SHARED SERVICES	ASSET POOLING	SINGLE GOVERNANCE	SUPERFUNDS & INSURERS
	Multiple sponsors, trustee boards & providers	Use one set of admin functions – achieve economies of scale	Manage asset pools centrally on behalf of schemes	Maintain sponsor link with single governance model	Fully removed from the company's balance sheet
<b>Sponsors</b>					
<b>Trustees</b>					
<b>Asset Managers</b>					
<b>Advisors</b>					
<b>Administrators</b>					




# How does this compare to a bulk annuity?

Stakeholder	Buy-in	Buyout	Superfunds
<b>DB scheme members</b>	Some scheme members received the protection of having their benefits insured	Offers the highest level of protection, with insurance policies issued to members	Protection of benefits is increase due to pooling of costs
<b>Trustees</b>	Still required to monitor the buy-in contract and any remaining scheme liabilities	Trustees are no longer required	Becomes part of the pension superfund, with an independent Trustee Board
<b>Corporate Sponsor</b>	Cheaper alternative to a full buyout but still reduces the risk of the scheme	No further risk to the sponsor but can come at a high cost	No further risk to the sponsor, since scheme is now off the balance sheet. However, the sponsor is now open to reputational damage if the superfund fails
<b>Government / Regulator</b>	Part of the scheme will now be regulated by the PRA and the remaining section by the pensions regulator.	Fully regulated by the PRA	Regulated by The Pensions Regulator



# How does this compare to a bulk annuity?

Commercial implications	Buy-in	Buyout	Superfunds
<b>Protection</b>	 Some scheme members are protected by insurance companies and their associated regulations	 Offers scheme members the highest level of protection	 Not covered by the same level of regulation as benefits that are insured
<b>Cost</b>	 Cheaper than a full buyout but offers limited protection	 Typically the most expensive solution	 Expect cheaper than a full buyout but leaves scheme members with more risk
<b>Asset Management</b>	 Transfer to insurer, potentially constrained by Trustee requirements	 Transfer to insurer - now part of the in-force back book	 Transfer to superfund
<b>Admin</b>	 Administration still within the pension scheme	 Administration fully integrated with insurer	 Administration fully integrated within superfund
<b>Sponsor balance sheet</b>	 Liability remains on the sponsor balance sheet – matching asset & liability	 Liability removed from sponsor balance sheet	 Liability removed from sponsor balance sheet however, may be a greater reputational risk



# What we know so far about the superfunds available

## The Pension SuperFund

- Pension scheme liability and assets are run-off over the long term
- Non-sectionalised – schemes are transferred into one large scheme
- Taking advantage of scale – achieving higher returns with lower costs and greater stability
- Quoted in the press that it is “eyeing about £20bn of business over the next five years”
- Backed by Disruptive Capital

## Clara

- Does not aim to be an alternative to buyout but to lower the risk of the journey - viewed as a “bridge for members and sponsors to the insured market”
- Sectionalised – each scheme is treated as it’s own scheme within the fund and become a section of the Clara trust. The objective is to buyout each section as early as possible
- Capital can only be removed from Clara once all members of the scheme have been transferred to an insurance company
- Buyout pricing will be a critical element to the success
- Capital providers unknown



# What does the scheme need to consider?

## Potential benefits

- Cheaper route for sponsors to remove pension schemes from their balance sheets
- Improved effectiveness and sophistication of investment strategies
- Stronger covenant where sponsor is weak
- Reduced “per member” costs
- Improved standards of governance and trusteeship
- Reduced administrative burden
- Cheaper and ‘quicker’ solution compared to a bulk annuity

## Potential challenges

- Upfront cost to the sponsor
- Less protection than a buy-in/out
- Reputation risk to sponsor if vehicle fails
- Regulatory requirements
- Other innovative solutions becoming available

## Trustees have to get comfortable with...

- The level of funding and security within the superfund compared to that of the current sponsor
- Swapping corporate covenant risk with scheme default risk within the consolidation vehicle



Institute  
and Faculty  
of Actuaries



# What are the regulators saying?

*“We will be consulting over the coming months on a framework for consolidation, offering industry the opportunity to innovate but ensuring there are robust safeguards in place so members’ benefits are well protected” – Department for Work and Pensions (DWP) White Paper*

- Vehicles will require clearance on transactions
- The DWP is carrying out a consultation to encourage and facilitate consolidation
- TPR are preparing for market entry of further vehicles to solve the DB issue
- TPR recognises the need to strike the balance between commercially-viable and protection of members
- Expect funding requirement to be higher than is typical of schemes with a sponsor link but not at the level required of insurance companies



Institute  
and Faculty  
of Actuaries

# So what will happen to the bulk annuity market?

**Quick answer:** unclear at this stage...but

- Plenty of business to go around: £1.5tn of assets available
- TPR and DWP are encouraging innovation and the creation of different models to meet the individual needs of schemes
- Depends who the superfunds target – if bridging a gap, then it may supplement the existing insurance market rather than be a direct competitor
- If the business model Clara is offering is successful, it may accelerate buyouts
- If the business model The Pension Superfund is successful, it may reduce the number of schemes going to buyout
- However, we note, all these solutions will be competing for the same capital, investment and hedging opportunities



Institute  
and Faculty  
of Actuaries

# Questions

# Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the authors.



Institute  
and Faculty  
of Actuaries