



Institute
and Faculty
of Actuaries

The future of de-risking and journey planning

Ruth Ward & Tiziana Perrella

30 May 2013



Institute
and Faculty
of Actuaries

Agenda

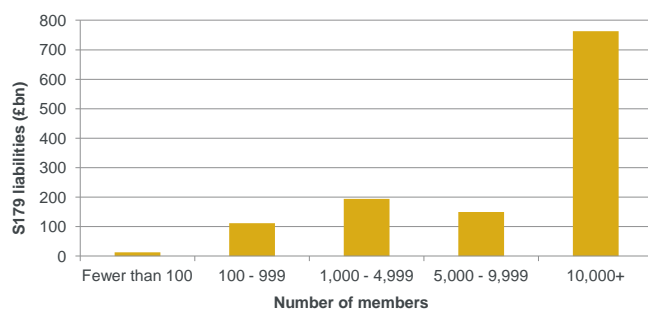
- Where are we now?
- Current appetite for de-risking
- End-game planning – how and when to get out
- Why do strategies fail?
- Future developments

erlise
 onsorship
 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
 Support

30 May 2013

Current DB universe

- Purple Book 2012:
 - Total assets: £1,026.8bn
 - Total s179 liabilities: £1,231.0bn
 - Total buyout liabilities: £1,702.6bn



Distribution of s179 liabilities as at 31 March 2012

Source: The Purple Book 2012, PPF & TPR



Institute
and Faculty
of Actuaries

30 May 2013

3

Where are we now?

Trigger type	Examples of variable(s) monitored
Market-based / single-factor	Market indices, e.g. FSTE100, FTSE A 15-year Gilts
Proxy funding level	Ratios of market indices, e.g. FTSE AW TR / [50% * FTSE A 15-yr Gilts + 50% * FTSE A >5-yr Gilts]
Actual funding level	Daily funding level updates
Internal rate of return / required return	Required return x% is yield such that scheme needs to generate Gilts + x% p.a. on invested assets to achieve, for example, self-sufficiency full funding by 30 June 2025
Relative value	15-year Gilt spot rate vs. 15-year nominal swap rate
Relative funding level	Buyout liability vs. technical provisions, e.g. for pensioner members

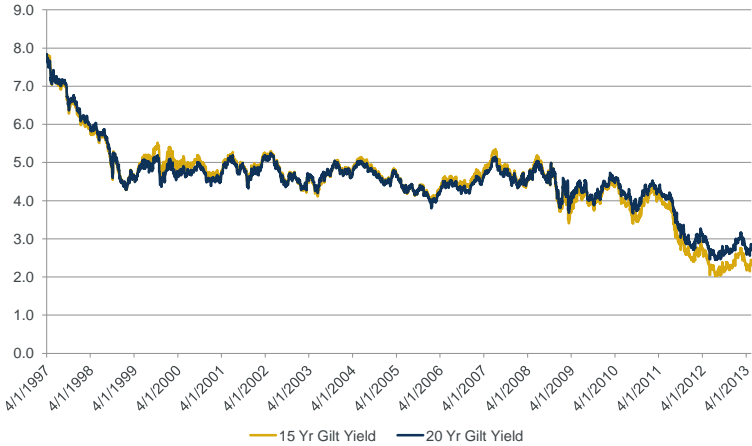


Institute
and Faculty
of Actuaries

30 May 2013

4

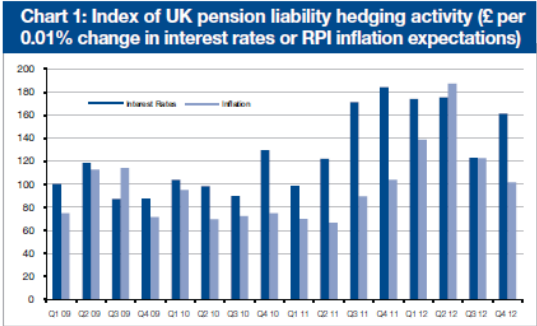
Historical Gilt yields



30 May 2013

5

Current appetite for liability hedging



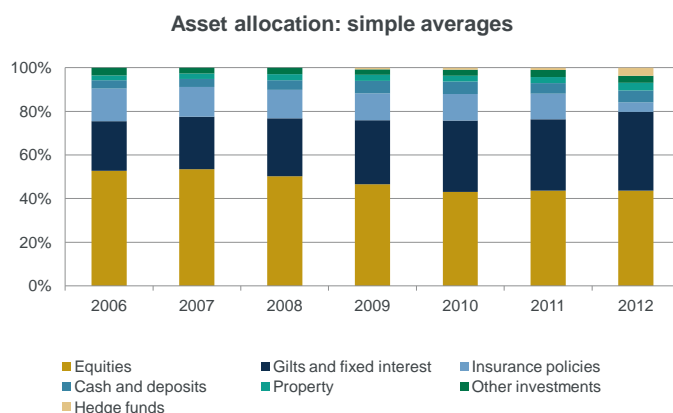
Source: F&C



30 May 2013

6

Pension funds' changing asset allocations



Source: The Purple Book 2012, PPF & TPR



30 May 2013

7

Pension funds' changing bond preferences

Year	Government fixed interest securities	Corporate fixed interest securities	Index-linked securities
2008	33.2%	32.6%	33.9%
2009	29.0%	38.3%	32.6%
2010	24.6%	42.2%	33.1%
2011	19.6%	44.3%	36.1%
2012	17.7%	44.8%	37.5%

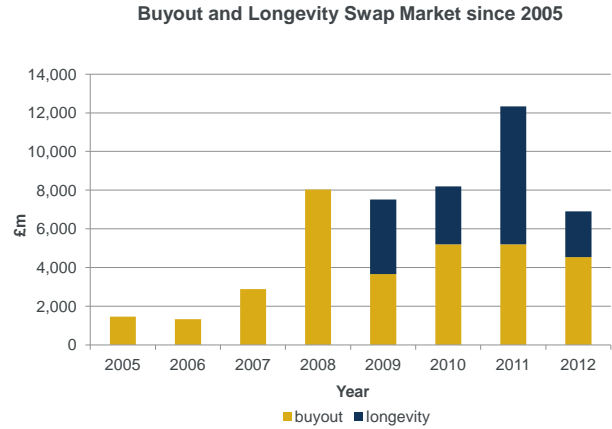
Weighted average share; values may not add up due to rounding
Source: The Purple Book 2012, PPF & TPR



30 May 2013

8

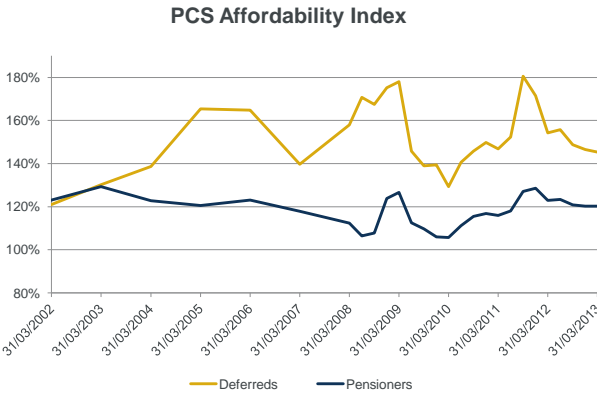
Insurance market trends



30 May 2013

9

Buyout affordability index



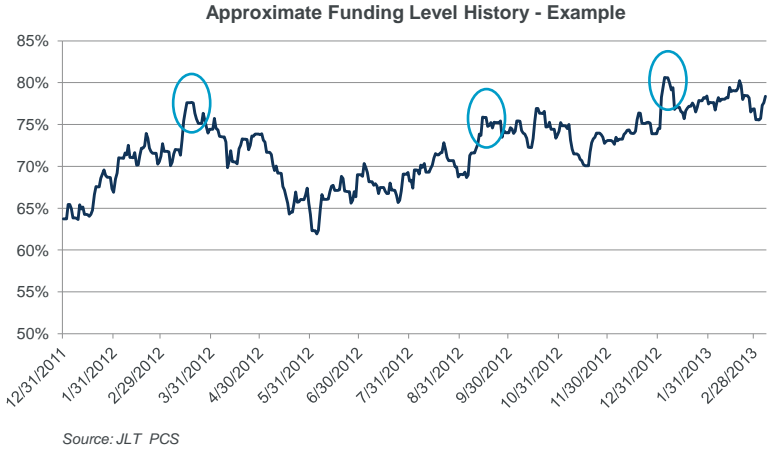
Historical relationship between buyout prices and accounting liabilities
Source: JLT PCS



30 May 2013

10

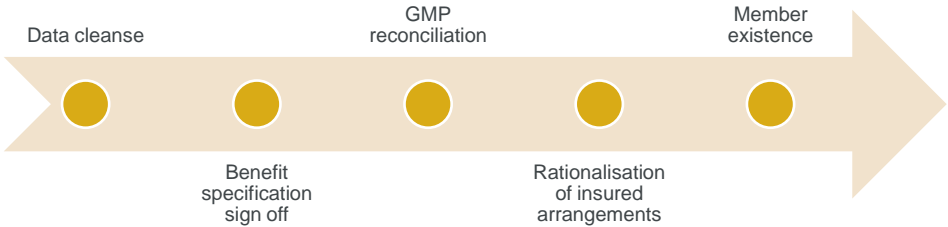
Capturing opportunities



30 May 2013

11

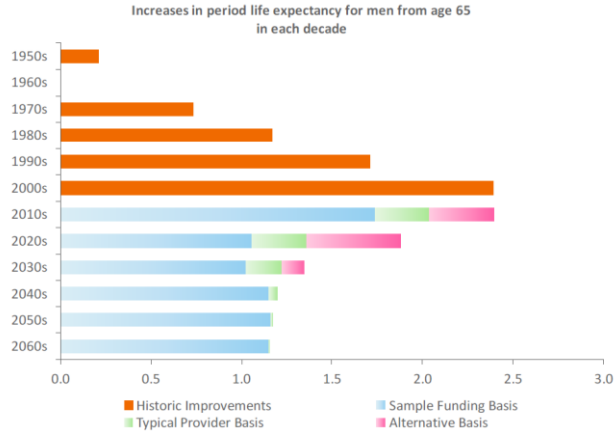
Getting a scheme ready for transaction



30 May 2013

12

Future improvements in life expectancy



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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