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**Insured and Other Small DB Schemes
- Are they Different?**

**IAN CAPPER
&
MATTHEW PARKER**



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- What is a small scheme?
- How significant is the market?
- Some characteristics
- Impact of Guidance, Legislation and Regulation



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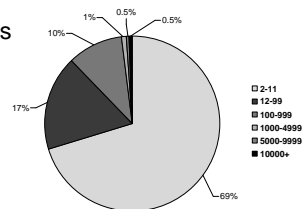
What is a Small Scheme?

- < 10 members?
- < 50?
- <100?
- <500?
- <1000?
- <£1m?
- <£5m?
- <£50m?
- A question of perspective?

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The Market

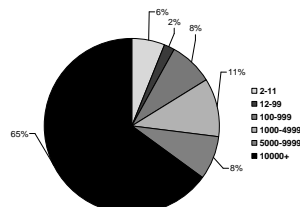
Number of DB schemes
by Membership Band



Small schemes are big business!

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Total Assets by
Membership Band



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Actuarial Hours per
Head by Membership
Band



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Insured Schemes

- Run by an Insurance Company?
- Investment in an "Insurance" Policy?
- With-Profits?
- Inland Revenue Definition?
- SIP Definition?

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Some Characteristics

- Family Firms/Private Companies
- Time-Cost Constraints
- Paternalism
- MNT Opt-Out
- No SIP
- Few Advisers
- IFA Controlled

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Some Characteristics (cont'd/..)

- Significant Individual Liabilities
- Annuity Purchase
- Pooled Investments & With Profits
- Procedure-Based Approach

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Legislation/Regulation/Guidance

- Historic build-up of Legislation has hit small Employers
- Some exemptions available e.g., MNT Opt-Out, SIP
- One size fits all approach increasingly applied
- Valuation process in the Pension Regulator's draft Code of Practice (Project Plan, Pre-Valuation Discussions)
- New GN11 (Default Risks)

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Funding considerations

- Investment
- Assumptions
- Transfer values
- Funding methods

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Investment

- Often "Product" driven
- With Profits Policies
- "Mixed" Managed Funds

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Statement of Investment Principles

- Insured Schemes currently exempt
- 1996 Regulations give wide definition
- Is exemption good or bad?
- Proposed 2005 Regulations much narrower

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Annuity Purchase

- Investment Risk
- Mortality Risk
- Expenses
- Profit Margin
- Winding-Up Issues

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Knowing Our Clients

- Often want simplicity
- Doesn't remove requirement for basic knowledge
- Our Role as Communicators

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Assumptions – Investment Returns

- Fit assumptions to investment strategy
- Understand the investment vehicle
- Balance between sophistication and simplicity

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With Profits Policies

- Every product different
- Expenses
- Guaranteed returns v bonuses
- New monies/payments out
- Face value/MVAs/surrender values
- Asset backing

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Assumptions – Salary Increases

- Salary scale
- Impact of individuals
- Clients' views – but how reliable?

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Assumptions – Demographics

- Consider no allowance for pre-retirement mortality?
- Ignore withdrawals?
- Interaction with salary increases
- Interaction with funding methods
- Revaluation rates

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Assumptions – Demographics (cont'd/...)

- Ill-Health early retirements
- PHI?
- Potentially expensive but "lumpy"
- Is there an answer?

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Assumptions – Post Retirement

- If not annuities, recognise mortality risk
- If annuities, how to allow for higher cost
- Guaranteed annuity rates
- Pension increases

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Assumptions – Commutation

- Allow for?
- Reflect in lighter pension costs?
- Impact of Finance Act 2004

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Transfer Values

- Old GN11 – “Expected cost within the Scheme”
- Is this workable?
- New GN11

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Funding Methods

Case study

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Case study

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Feedback from Case study

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