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# DB Risk Management and Liability Reduction

**Presented by David St. Cyr, First Actuarial**



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# DB Risk Management and Liability Reduction

## Recent Feasibility Study Results

06 March 2015

# Feasibility Study Results - ETVs

	SFO Basis	Buy-out Basis
	£'m	£'m
Shortfall in Funding Position as at 5 April 2014	(2.54)	(20.67)
Expected Fall in Assets from ETV	(2.48)	(2.48)
Expected Fall in Liabilities from ETV	2.81	5.90
Expected Shortfall in Funding Position after ETV	(2.21)	(17.25)
Change in Funding Position from ETV	0.33	3.42
Expected Capital Injection Required by the Company (to satisfy the IFA critical yield test)	(1.06)	(1.06)
Estimated Fees and Expenses	(0.12)	(0.12)
Net Impact	(0.85)	2.24

# Feasibility Study Results - PIEs

	SFO Basis	Buy-out Basis
	£'m	£'m
Estimated Shortfall in Funding Position as at 5 April 2014	(2.54)	(20.67)
Expected Fall in Assets	-	-
Expected Fall in Liabilities	0.11	0.21
Expected Funding Position after exercise	(2.43)	(20.46)
Net Change in funding positions	0.11	0.21
Expected Capital Injection Required by the Company	0	0
Estimated Fees and Expenses	(0.06)	(0.06)
Net Impact	0.05	0.15

# Feasibility Study Results – Dream ETV!





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# DB Risk Management and Liability Reduction

## Do Liability Management Exercises work?

# Flexible Retirement Options – Do they work?

Scheme	1	2	3	4	5	6	7
Period over which exercise was conducted	Jan - Apr 2013	May - July 2013	Sep 2013 - Jan 2014	Sep - Nov 2013	Feb - May 2014	30/05/2014 - 31/08/2014	Jul 2014 - Sep 2014
Uplift provided on standard CETV (if any)	0	Between 5% - 40%	Dependent on age	0	5%	0	0
Number of members in scope:	374	82	167	58	141	382	337

# Flexible Retirement Options – Do they work?

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Number of members in scope:	374	82	167	58	141	382	337
Contact made	212	61	114	34	74	230	211
Level of engagement							
Contact made/report produced	56%	65%	40%	34%	35%	59%	29%
Contact made/no report produced	0%	10%	28%	24%	18%	1%	34%
No contact made	43%	26%	32%	41%	48%	40%	37%

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No contact made	43%	26%	32%	41%	48%	40%	37%
Reports Produced	211	53	67	20	49	225	97
Advised to accept	16%	79%	39%	10%	73%	23%	27%
Advised not to accept	84%	21%	61%	90%	27%	77%	73%

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Advised not to accept	84%	21%	61%	90%	27%	77%	73%
Acceptances	49	40	33	5	41	35	26
as advised	49%	93%	64%	20%	88%	89%	46%
"insistent"	51%	8%	36%	80%	12%	11%	54%

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as advised	49%	93%	64%	20%	88%	89%	46%
"insistent"	51%	8%	36%	80%	12%	11%	54%
Take up rate	13%	49%	20%	9%	29%	9%	8%

# Pension Increase Exchange – Does it work?

Scheme	1	2	3	4	5	6	7
Period over which exercise was conducted	Feb- Apr 14	Jul- Sep 2014	Mar - June 2014	Dec 13 - Mar 14	Dec 13 - Mar 14	Dec 13 - Mar 14	May - Sep 14
Balanced deal percentage in the offer terms	75%	70%	77%	66%	58%	66%	100%
Number of members in scope:	418	334	301	417	943	148	235

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Number of members in scope:	418	334	301	417	943	148	235
Contact made	249	206	182	345	599	89	87
Level of engagement							
Contact made/report produced	34%	48%	51%	68%	44%	34%	26%
Contact made/no report produced	26%	14%	9%	15%	20%	26%	11%
No contact made	40%	38%	40%	17%	36%	40%	63%

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No contact made	40%	38%	40%	17%	36%	40%	63%
Reports Produced							
Advised to accept	63%	58%	56%	51%	53%	67%	72%
Advised not to accept	37%	43%	44%	49%	47%	33%	28%

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Take up rate	22%	24%	27%	38%	25%	24%	16%



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# DB Risk Management and Liability Reduction

## Common Hurdles & Possible Solutions

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- Engagement
  - Start early!
  - Clean data; e.g. member tracing service
  - Make it easy to respond: Self-addressed envelopes, Email, telephone etc
  - M&S vouchers
- “PPI Syndrome”
  - Clearly identify a known sender
  - Warm-up letters
  - Communications: as simple as possible
  - Plain English!

# Common Hurdles & Possible Solutions

- Benefit Crystallisation Event 3
  - Find 20 similar cases
- Data Protection Act
  - Warm up letters



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# DB Risk Management and Liability Reduction

Code of Good Practice & FCA Thematic  
Review

06 March 2015

# Code of Good Practice

- Reminder of the 7 Principles
  - No cash incentives
  - For transfers, advice given. For modifications, advice or guidance.
  - Clear member communications
  - Proper records maintained, including insistent customers
  - Sufficient time make decision, no undue pressure
  - Over-80's participate on an “opt-in” basis
  - Each party involved clear on their roles and responsibility
- Not compulsory but if it goes to the Ombudsman....
- Small Lump/Trivial Commutation Exercises covered?

# FCA Thematic Review

- Review of Independent Financial Advice given on ETVs
- Sample Exercises carried out between 2008 and 2012
- 300 case files reviewed
- Assessed under 2 main criteria:
  - Suitability
  - Disclosure
- Main Findings:
  - 1 in 3 received inappropriate advice
  - 3 in 4 communicated inappropriately with members
  - 3 in 5 were “insistent customers”

# FCA Thematic Review

- 5 Main Areas of Concern
  - Inappropriate Use of Template Documents
  - Inadequate Risk Analysis
  - Mis-Match between Investment Profile and receiving fund recommended
  - Use of Default Receiving Schemes
  - Limited consideration of tax implications and impact means tested benefits
- FCA to work with IFA firms to award appropriate redress



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# DB Risk Management and Liability Reduction

## Final Thoughts

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# Final Thoughts

- LMEs are legitimate ways of managing DB liabilities
- LMEs can be quite effective once structured correctly
- Manage expectations!
- Work closely with the IFAs
- Loads of possible quirks so watch out!
- Embrace the Code....well the spirit of the Code at least!



# 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.