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# A View from the Pensions Lifeboat - an Eight Year Perspective

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18 June 2014

## PPF has experienced rapid growth during its short lifetime – 2005 - 2014

- 6,300 eligible DB plans with £1 trillion liabilities and 12 million members;
- 200,000 members transferred into PPF from 700 plans;
- A further 191,000 members in assessment from around 200 cases;
- Assets including plans in assessment of £21.5 billion

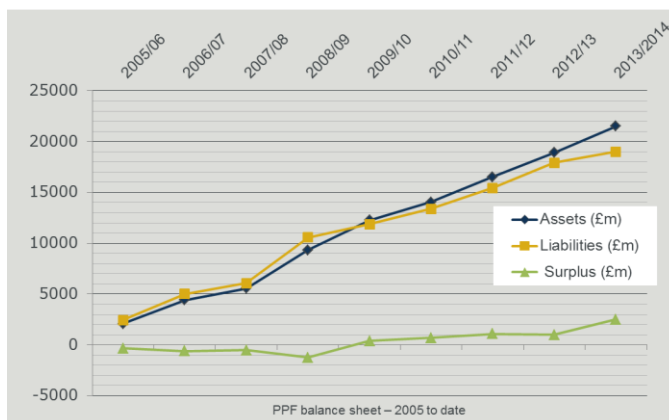


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## PPF assets have kept pace with liabilities despite the volatility in financial markets and decline in bond yields



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## On the face of it pensions risk is actually much worse today compared to 2006

### Purple Book – 2006

- 7,800 private sector DB schemes
- 14.8 million members
- £800 billion liabilities
- 6,200 schemes in deficit (S179)
- 97% S179 funding rate
- £500 million PPF expected claims

### Purple Book - 2013

- 6,200 private sector DB schemes
- 11.4 million members
- £1,300 billion liabilities
- 4,900 schemes in deficit (S179)
- 84% S179 funding rate
- £1,500 million PPF expected claims



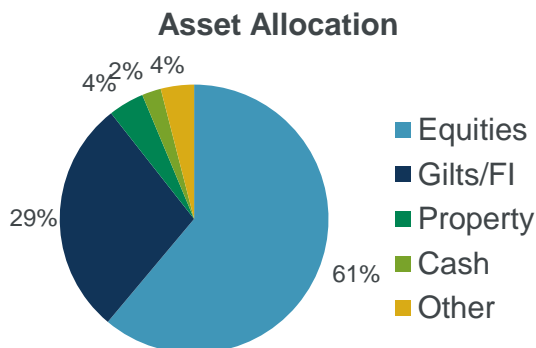
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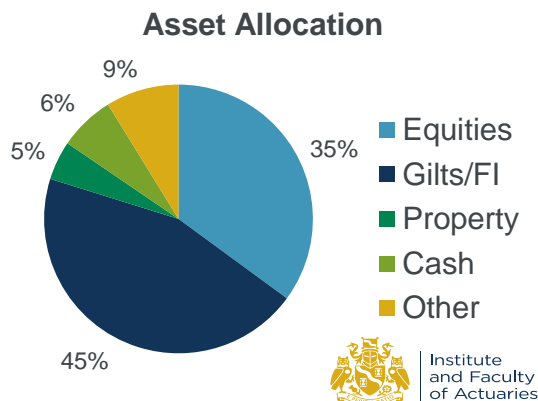
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## Nevertheless there have been significant risk reduction initiatives.... E.g. in asset allocation

Purple Book – 2006



Purple Book – 2013

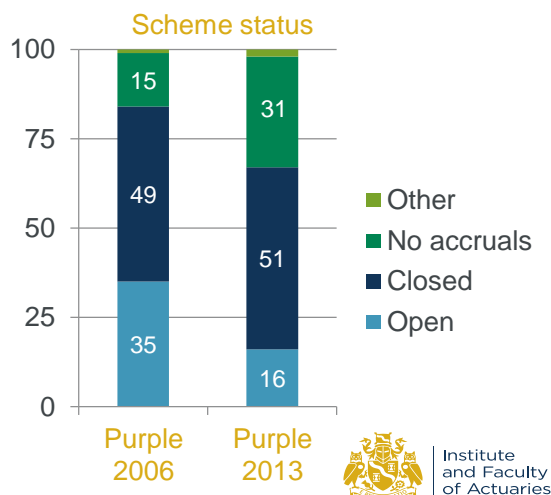


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## ... and in liability management:

- As at March 2013 only 16% of schemes were open with under one million active members.
- Total risk transfer business amounted to £50.5 billion between the end of 2007 and the first quarter of 2013.
- The flow of inflation and interest rate hedging business has increased markedly since Q2 2011.

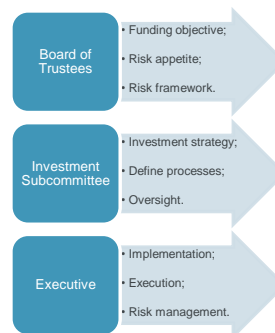


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## Trustee bodies have reset their sights and improved their professionalism

- “Trustees should adopt good governance standards in relation to the scheme’s funding;
- “Trustees should engage with the employer to establish its appetite for risk...;
- “...employer covenant, funding and investment decisions interact so that a material change to one affects the other two;
- “For larger schemes .... a more sophisticated approach involving additional techniques such as stochastic asset and liability modelling (ALM) ... may be appropriate.”



DB Funding Code of Practice (the Pensions Regulator, June 2014)



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## Challenges remain

- **Convergent strategies**
  - There is over £1 trillion of UK private sector DB pension scheme liabilities and only £1.4 trillion UK gilts in total and just £330 billion UK linkers.
- **Latent inefficiencies**
  - Average cost per member of running a small scheme stands at £1,054 per annum – 4X that for a large scheme (£281) and 6X that for a very large scheme (£182).
- **A new normal in nominal and real yields**
  - “Top bond managers say ‘new normal’ rates will average 2-3.5 per cent rather than pre-crisis 4-6 per cent.” (Various February 2014)



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## Pensions policy, the Budget and beyond

- **The risk pendulum is swinging towards the individual**

"Our simple, single-tier pension will provide a decent, solid foundation for new pensioners in an otherwise less certain world, ensuring it pays to save." Steve Webb, January 2013

- **Has defined contribution "won the day"?**

"We will legislate to remove all remaining tax restrictions on how pensioners have access to their pension pots." George Osborne, March 2014

- **And where does this leave public sector pensions?**

"Whereas once public service pensions were the benchmark that the private sector measured itself against....no-one looks to emulate them anymore."

Danny Alexander. June 2011



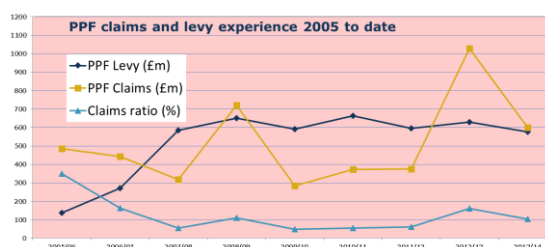
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## And so to the levy... PPF's "Groundhog Day"

- PPF pioneered the world's first risk based pension protection levy
- Its new levy framework increased predictability three years ago
- And for its next levy triennium PPF has constructed its own model of insolvency risk



- **PPF claims ratio has fluctuated between 48% and 350%, averaging 98% over the Fund's lifetime**
- **PPF levy has averaged £500 million to date**



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# 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.



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