

The Actuarial Profession
making financial sense of the future

Pensions, benefits and social security colloquium 2011
Alan Rubenstein



Managing the Pension Protection Fund

25-27 September 2011

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Lessons from the Lifeboat

- Origins
- Levy
- Funding



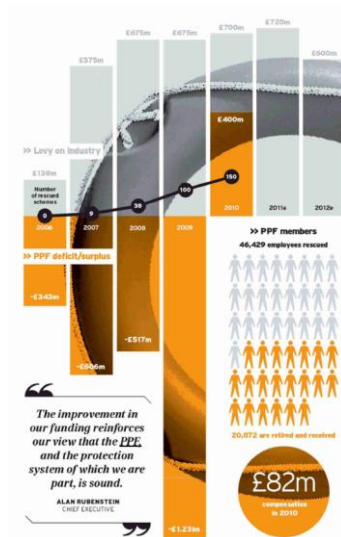
Origins of the PPF: lessons from the PBGC

- Needs as much financial freedom as possible within legislative constraints
- Only insolvent employers' schemes covered
- Flexible process for Levy changes
 - Need for Risk-based levy
- Strong funding regime required
- Importance of few large claims
- Moral hazard mitigation on compensation and operations
 - Compensation should be lower than full benefits
 - Moral hazard should be tackled on both scheme benefit and employer manipulation

A good listener is not only popular everywhere, but after a while he gets to know something (Wilson Mizner)

	PBGC	PPF
Created	1974	2005
Board	Secretaries of Labor, Commerce & Treasury	Independent
Levy basis	Flat rate \$35 per member single-employer \$9 per member multi-employer Variable rate \$9 per \$1000 underfunded	Risk-based Levy
Funding position	-\$23bn (30/9/10)	£394m (30/3/10)
Expected membership at end of year	1,470,000 (30/09/10)	505,500 (30/03/12)

The PPF today



Graphic: Daily Telegraph, 2010

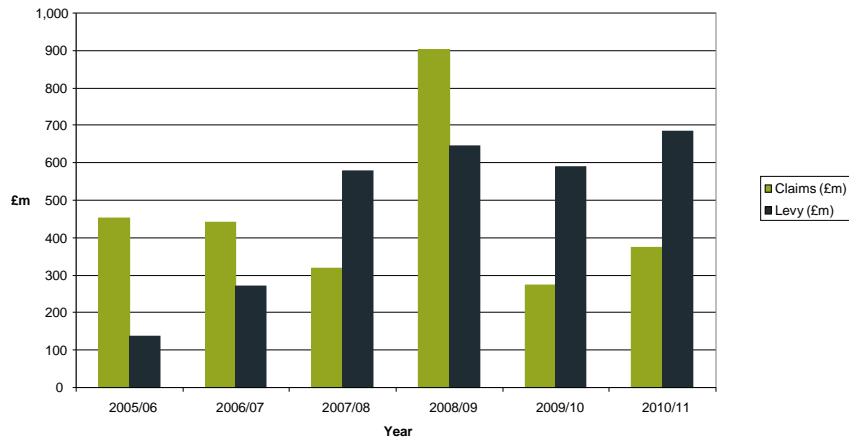
- 110,000 members protected (PPF & FAS)
- A further 215,000 PPF members from around 350 cases in assessment
- 196,000 members covered by the Financial Assistance Scheme
- £312m compensation paid
- £14bn balance sheet and £7.4bn investment portfolio

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Total PPF claims and levies



New Levy Framework: background

Messages from the Steering Group

- More predictability in individual bills
- Stability of levy bills also a priority
- Levy should focus more on things schemes can actually control:
 - Funding position
 - Potentially investment strategy
 - i.e Levy reflects their own risk, not others.
- More transparency on cross-subsidy
- Stronger link to commercial charging – market consistency

Key Features of New Framework

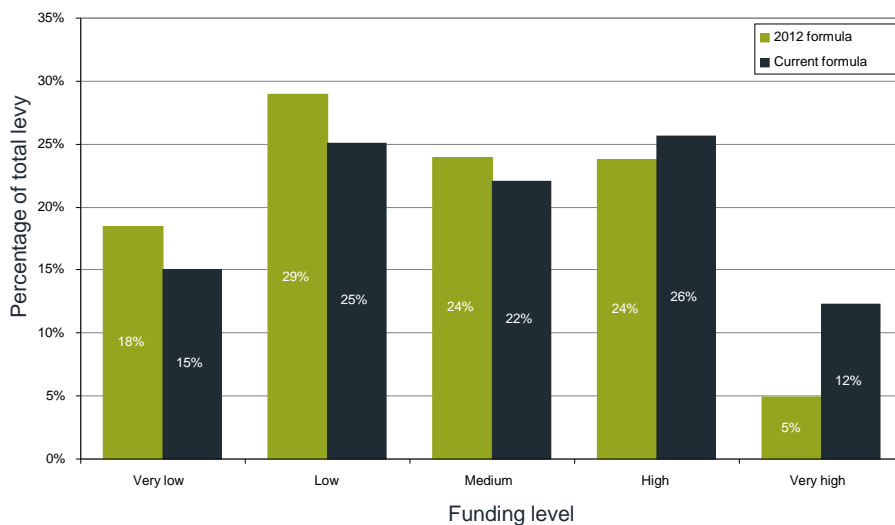
Bottom-up approach

- Fixed scaling factor for three years, only adjusted in limited circumstances
- Total levy not set – will be sum of individual levies.
- More predictable levy bills at ‘consumer’ level

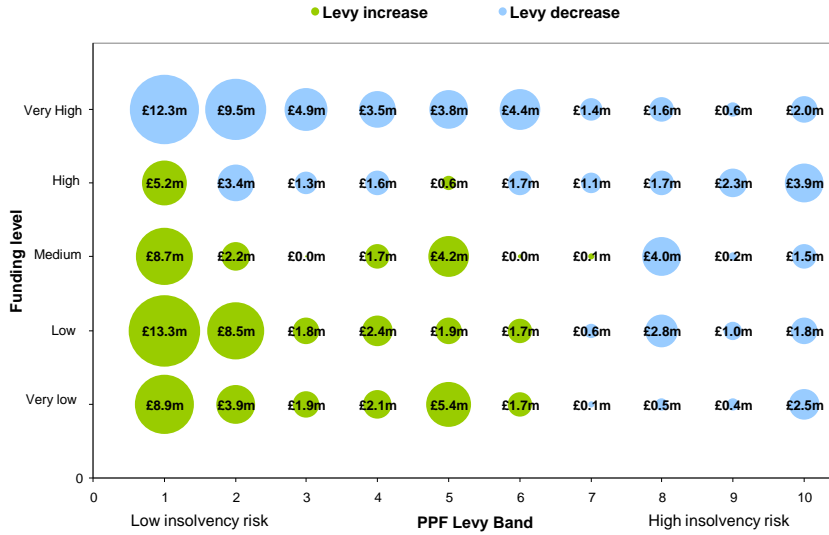
New approach to insolvency and underfunding risk measurement

- Changes smoothed by using average values, so more levy bills more stable
- Market-consistent rates for insolvency
- Takes account of investment risk for the first time

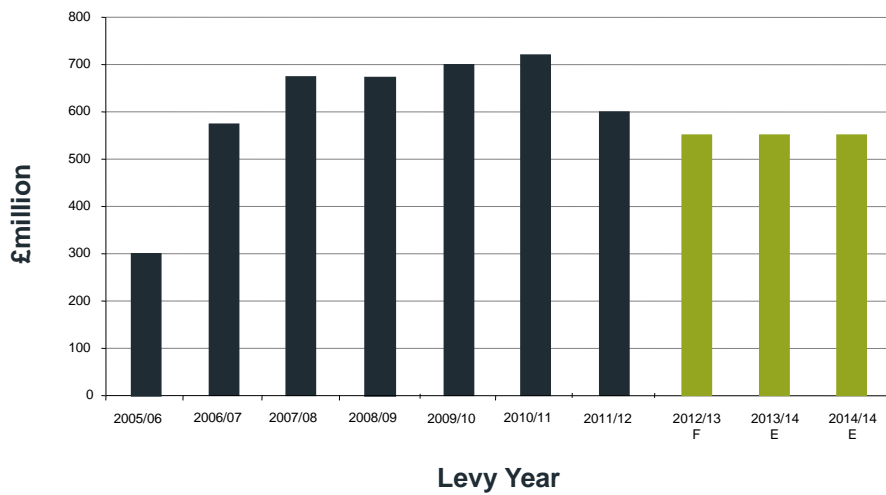
Impact analysis: Levy will focus more on funding



Impact of Proposal - Funding Trumps Covenant



Levy estimate



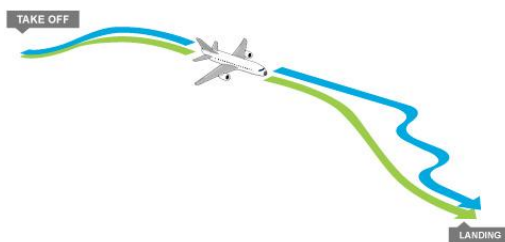
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Funding strategy

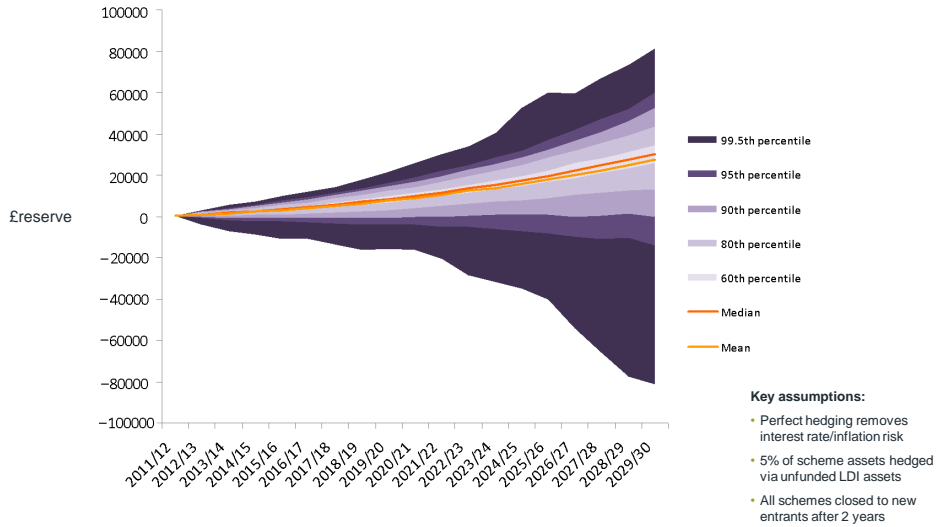
A flight-path to self-sufficiency by 2030:



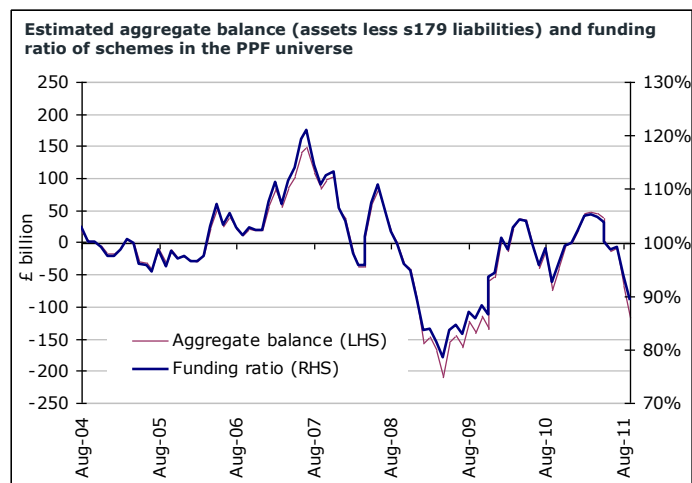
- Zero market risk
- Zero interest rate and inflation exposure
- Reserve (10% of liabilities) to hedge future claims and longevity risk

Measured as *probability of success*

Modeling our funding path



Trends in funding of PPF eligible schemes



Looking to the future

- We expect risk to decline significantly over the next 20 years:
 - Scheme de-risking
 - Liability duration
 - Size of the insured population
- PPF aims to reinforce balance sheet as scope for levy recedes
 - No reliance on levy when aims for 2030 realised

We are not a guarantee fund

- **Protection:**
- 500,000 PPF & FAS members
- £23bn assets by 2015
- **Stability:**
- New Levy Framework delivers predictable levies
- Includes investment risk
- **Resilience:**
- Funding Strategy
- Part of the protection framework

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