Agenda

• Current landscape
• Flavours of consolidation in the UK
• tPR and DWP views
• Lessons from the Netherlands
• What next?
What is driving consolidation?

1. Improve the security of members’ benefits

2. Reduce the running costs of schemes

3. Manage risks more effectively

Total UK DB running costs for 5,500 schemes with 10m members:

- circa £6.5bn - £8.5bn p.a.
- £1.5bn administration and advisory
- £5-7bn asset management fees
Are larger schemes less expensive?

The economic attraction of larger schemes is clear
The consolidation conundrum

• 6000 schemes -
  – 4800 <£100m
  – 400 >£100m<£250m
  – 600 >£250m<£1bn
  – 200 >£1bn

• 1000 in danger of not paying benefits in full
  – 600 to go insolvent
  – 400 only survive with a pension compromise

Source: Cass Business School

Focus on scale alone does not tackle risk management challenge that schemes face
25 years of consolidation

2017
- 5,588 Schemes
- 10.3m Members
- 1.3m Active members
- £1.3bn Assets
- £50.5bn Trustees
- £40.0bn Benefit sections
- £280bn Solvency deficit
- £80p in £ Value to members

2042
- 1,000 Schemes
- 3m Members
- 0.3m Active members
- £11bn Assets
- £700bn Trustees
- £2.3bn Benefit sections
- £4,000 Solvency deficit
- £200bn Value to members
- 97p in £

The future DB universe

- Lower risk for longer strategy halves risk to members
- Data cleansing and benefit simplification halves administration and core actuarial fees
- Sole trusteeship streamlines governance for most schemes
- 1 million members consolidated into insurance or banks through transfers out
- 500,000 members consolidated into the Pension Protection Fund
- 2 million members consolidated into DB master trusts
- Asset pooling reduces investment fees by c£3bn pa
Flavours of consolidation in the UK
Types of consolidation

- Sole trusteeship
- DB master trust
- Investment platform
- Non-insured risk transfer
- Merger and simplification
- Insurance
- Superfunds
Sole trusteeship

- Sponsor
- Asset managers
- Scheme 1
  - Administrator
  - Members
- Scheme 2
- Scheme 3
- Scheme 4
- Sole professional
- Trustee advisors
  - Legal
  - Covenant
  - Actuarial
  - Investment
  - Audit

Governance | Operational costs | Investment | Member security | Cost certainty
---|---|---|---|---
Scheme merger and simplification

Independent schemes

Higher cost; limited alignment

- Advisor consolidation
- Asset consolidation (CIF / manager negotiation)

Lower cost; high alignment

- Trustee consolidation
- Segregated merger

Full merger of assets and liabilities

Merger & simplification

Governance

- Operational costs
  - up front
  - ongoing

Investment

Member security

Cost certainty
DB master trust

- Sponsor
- DB Master trustees
- Governance
- Operational costs
- Investment
- Member security
- Cost certainty
- Asset managers
- Master Trust advisors
- Legal
- Covenant
- Actuarial
- Investment
- Audit
- Administrator
- Members

Section 1 | Section 2 | Section 3 | ..... | Section n

Master trust

Institute and Faculty of Actuaries

5 June 2018
Investment platform

- Sponsor
- Trustees
- Scheme
- Administrator
- Members

Trustee advisors
- Investment strategy
- Legal Covenant
- Actuarial Audit

Governance
Operational costs
Investment
Member security
Cost certainty
Insurance

Before
- Sponsor
- Trustees
- Scheme
- Members

After
- Insurer: Asset management Administration External advice
- Sponsor
- Trustees
- Empty scheme
- Members
- Policyholders

Governance Operational costs Investment Member security Cost certainty
- Upfront ongoing
Superfunds

Before

Sponsor  Trustees

Scheme

Members

After

Sponsor  Trustees

Empty scheme

Members

Management Co  Investors

Non-trading Co

Members

PPF protection? Benefit cutbacks? Legislative change!

Superfunds

Governance  Operational costs  Investment  Member security  Cost certainty

upfront  ongoing
tPR and DWP positions
Policy and regulatory backdrop...

Many types of consolidation already possible, more on the way
Lessons from the Netherlands
Dutch pensions system

Three pillars:

1. Dutch state pension
   (Algemene Ouderdomswet)
2. Occupational pensions
   (Pensioenfonds)
3. Individual private pensions

Different types:

- Company pension funds
- Industry-wide pension funds
- Occupation-based pension funds
- General pension funds
- Insurer arrangements
- Premium pension institution

- Dutch second pillar one of best developed systems in Europe
- Sector-wide schemes often compulsory with company plans needing to be at least equivalent
- Still mostly DB with risk-sharing – hybrids, CDC and increasingly DC
- Regulated by De Nederlandsche Bank (Dutch central bank)
Number of schemes

1997 = 1,060

2017 = 268

Source: DNB Statistics

5 June 2018
Drivers for consolidation

- DNB raising the (regulatory) bar – increasing statutory requirements
- Increased running costs
- Pressure on board member resource & suitability
- Search for economies of scale
- Focus on costs per participant

**Key driver: active role played by supervisory authority**
25 years of consolidation

2017
- Schemes: 5,588
- Members: 10.5m
- Active members: 1.5m
- Assets: £1.3bn
- Trustees: £50,000
- Benefit sections: £40,000
- Solvency deficit: c.£800bn
- Value to members: 80p in £

2042
- Schemes: 1,000
- Members: 3m
- Active members: 21.1m
- Assets: £700bn
- Trustees: £22,000
- Benefit sections: £44,000
- Solvency deficit: c.£200bn
- Value to members: 97p in £

The future DB universe

Lower risk for longer strategy halves risk to members

Data cleansing and benefit simplification halves administration and core actuarial fees

Asset pooling reduces investment fees by c.£2bn pa

1 million members consolidated into insurance or banks through transfers out

2 million members consolidated into insurance through buy-out

500,000 members consolidated into the Pension Protection Fund

Sole trusteeship streamlines governance for most schemes

1 million members consolidated into DB master trusts
Any questions?