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The PLSA DB Taskforce

Kevin Wesbroom

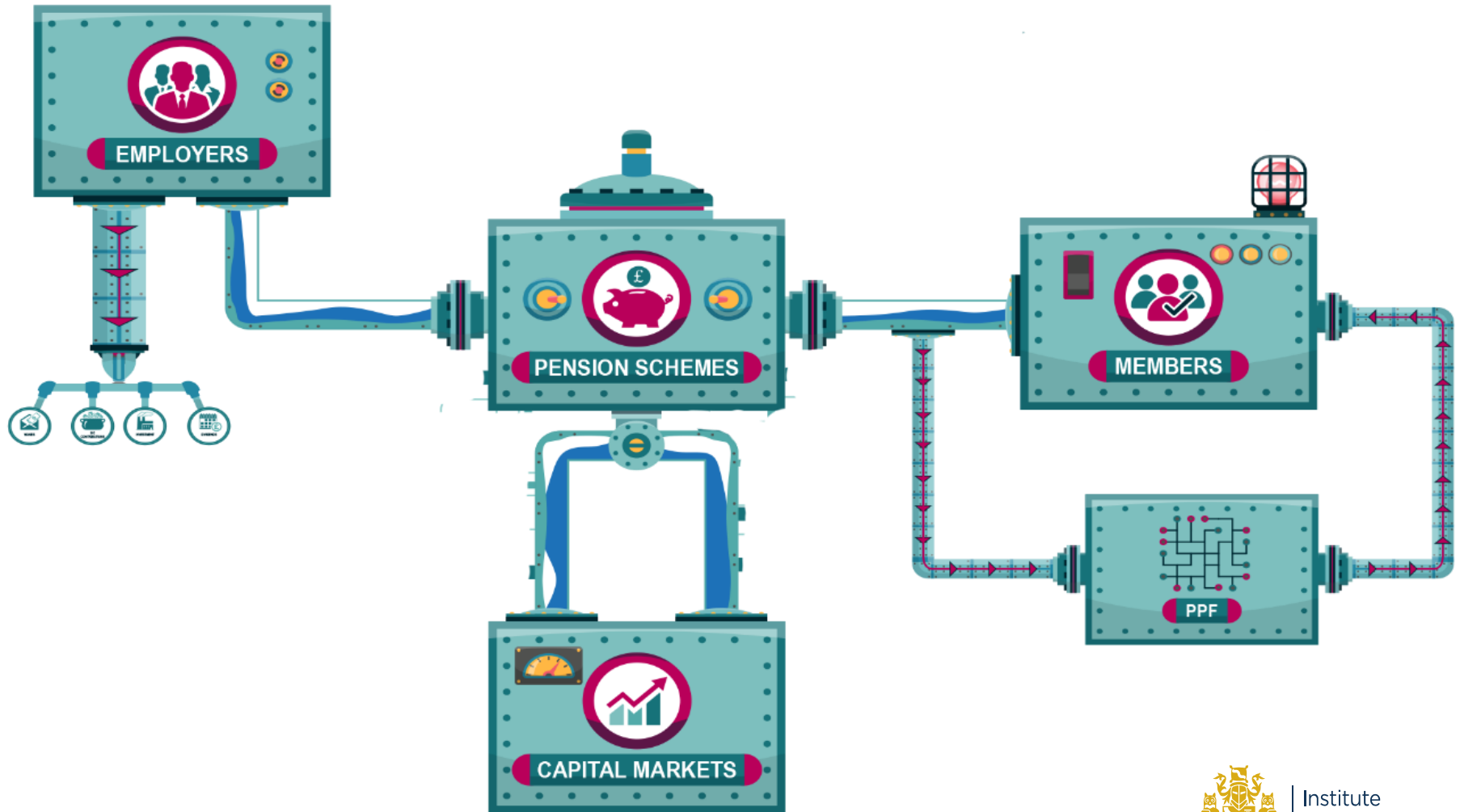


The interim report of the DB Taskforce

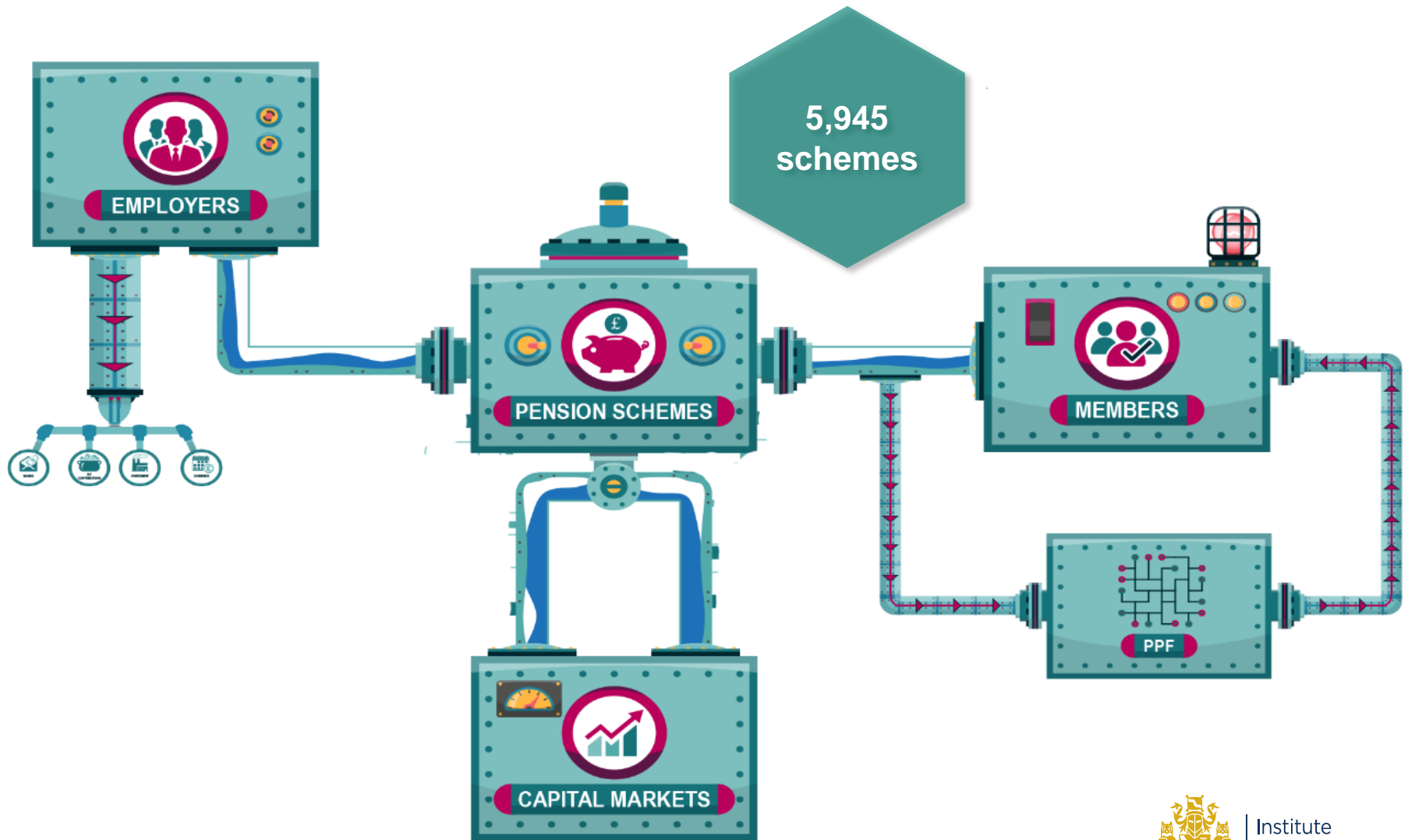


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Defined Benefit schemes are important

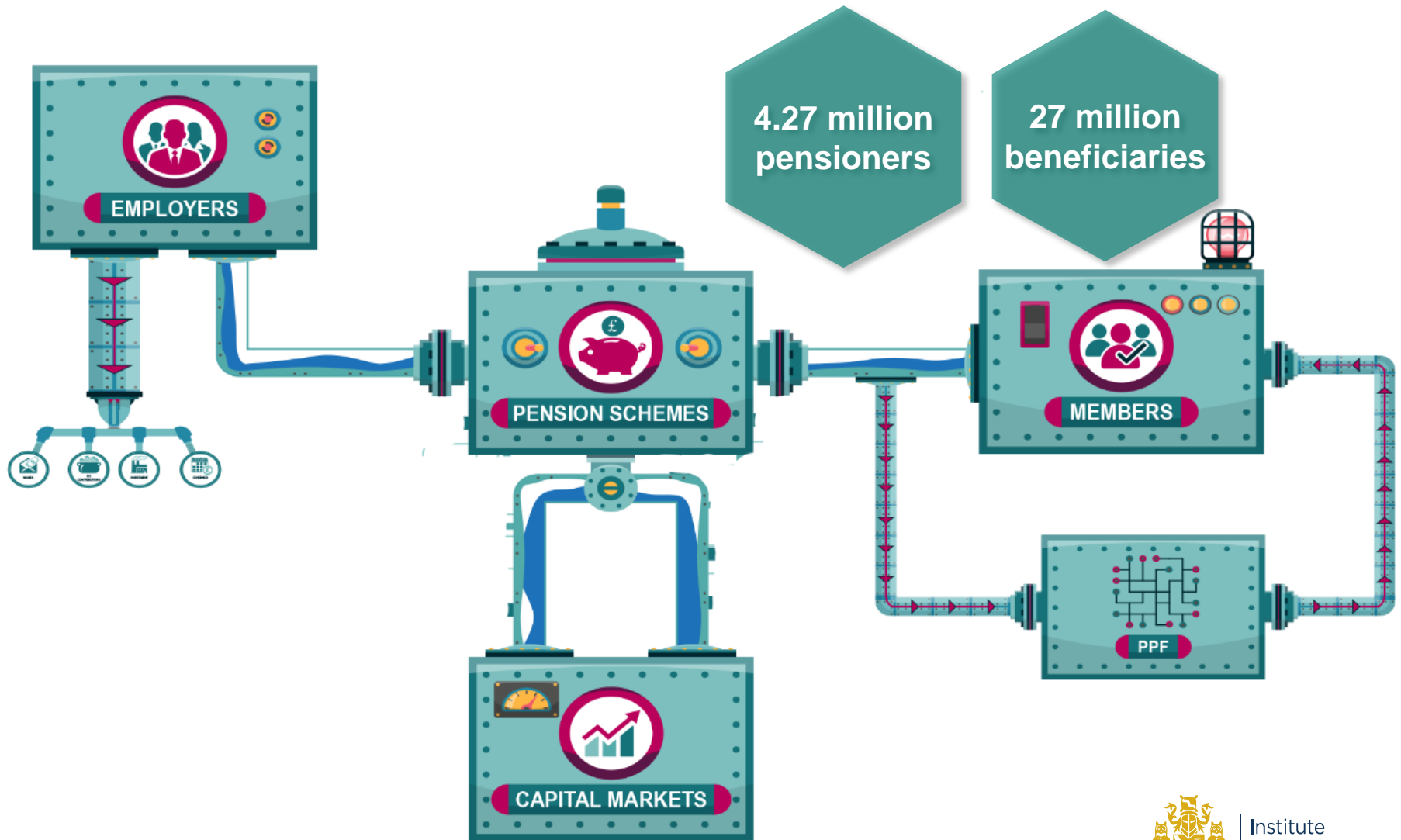


Defined Benefit schemes are important

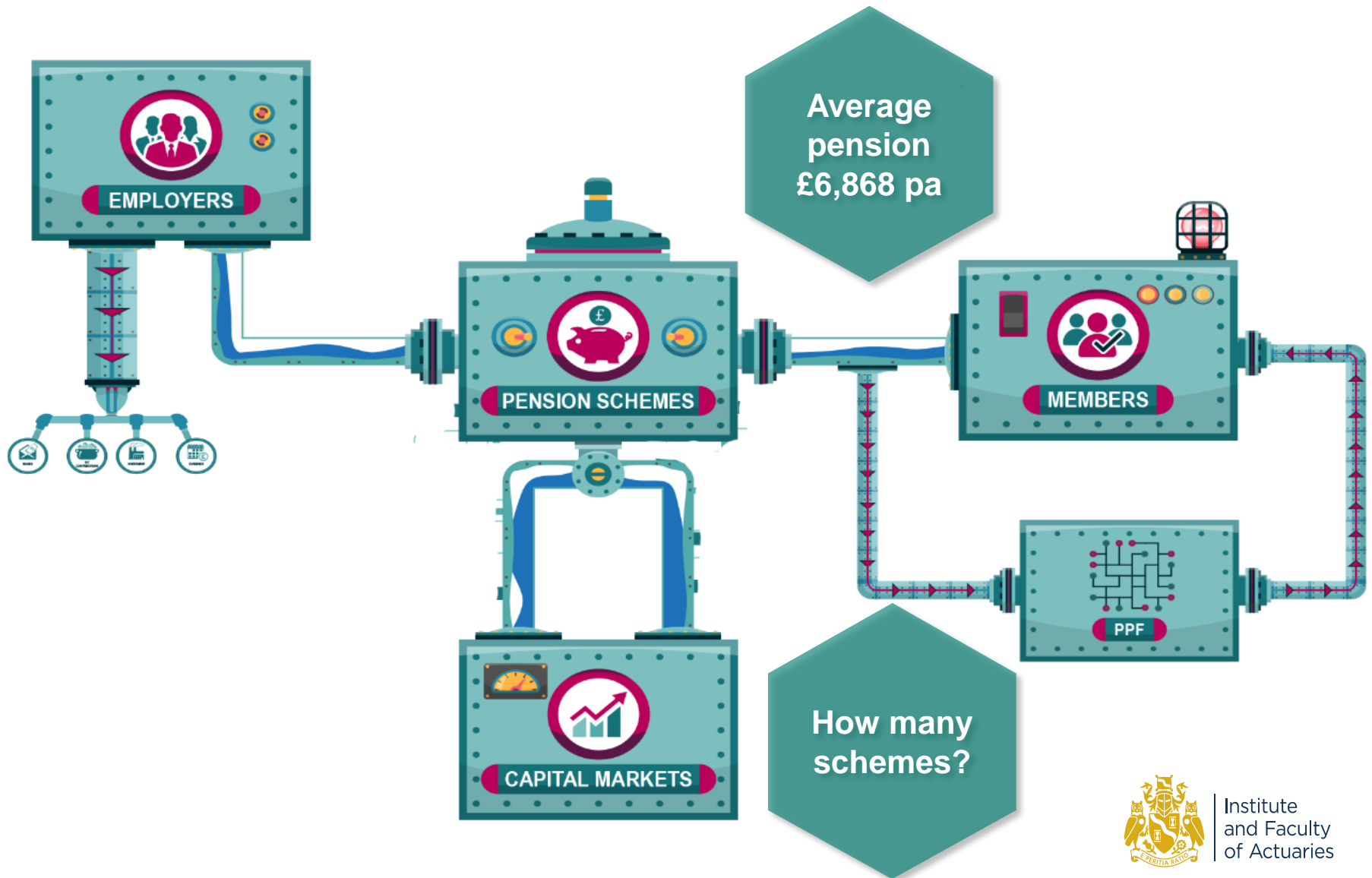


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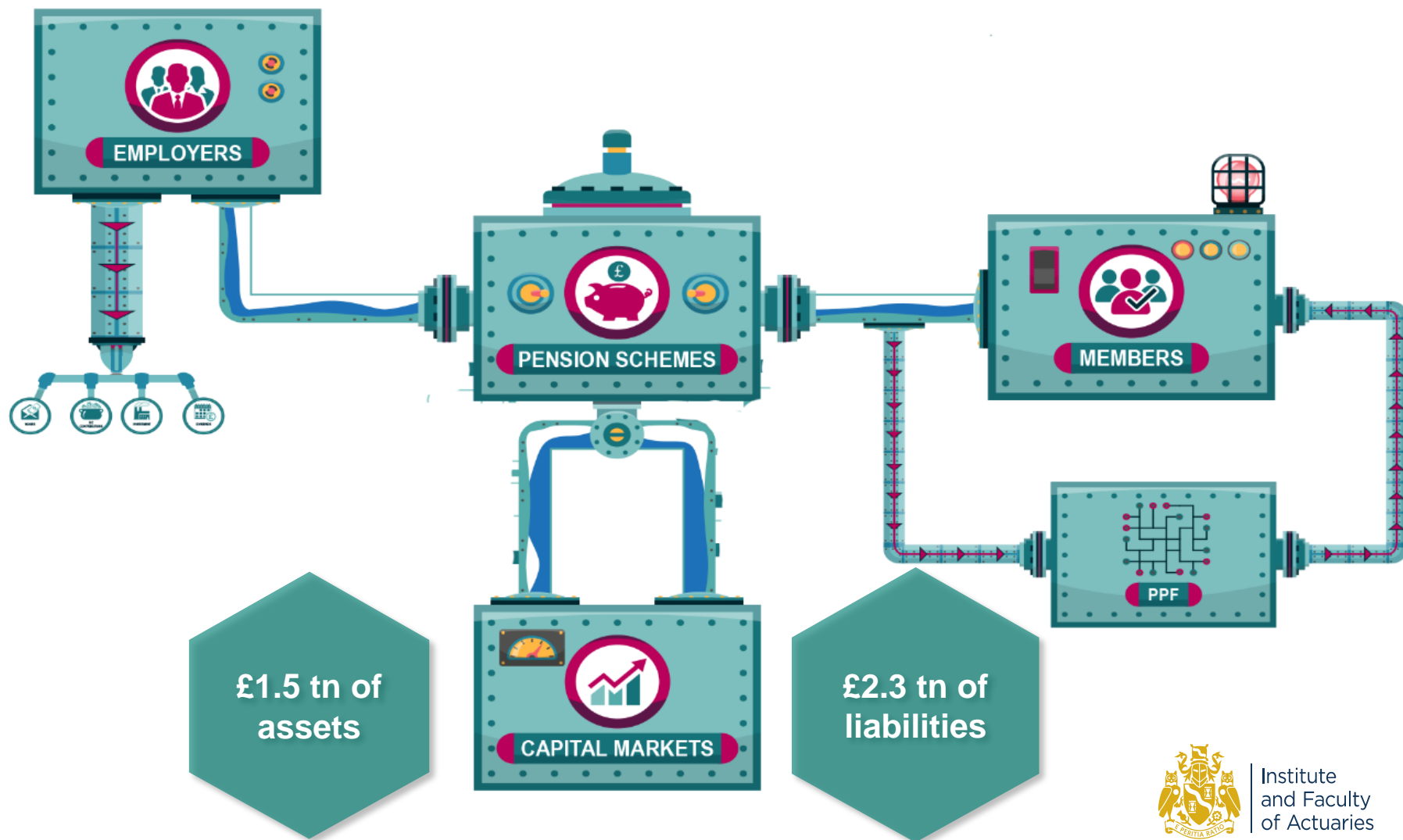
Defined Benefit schemes are important



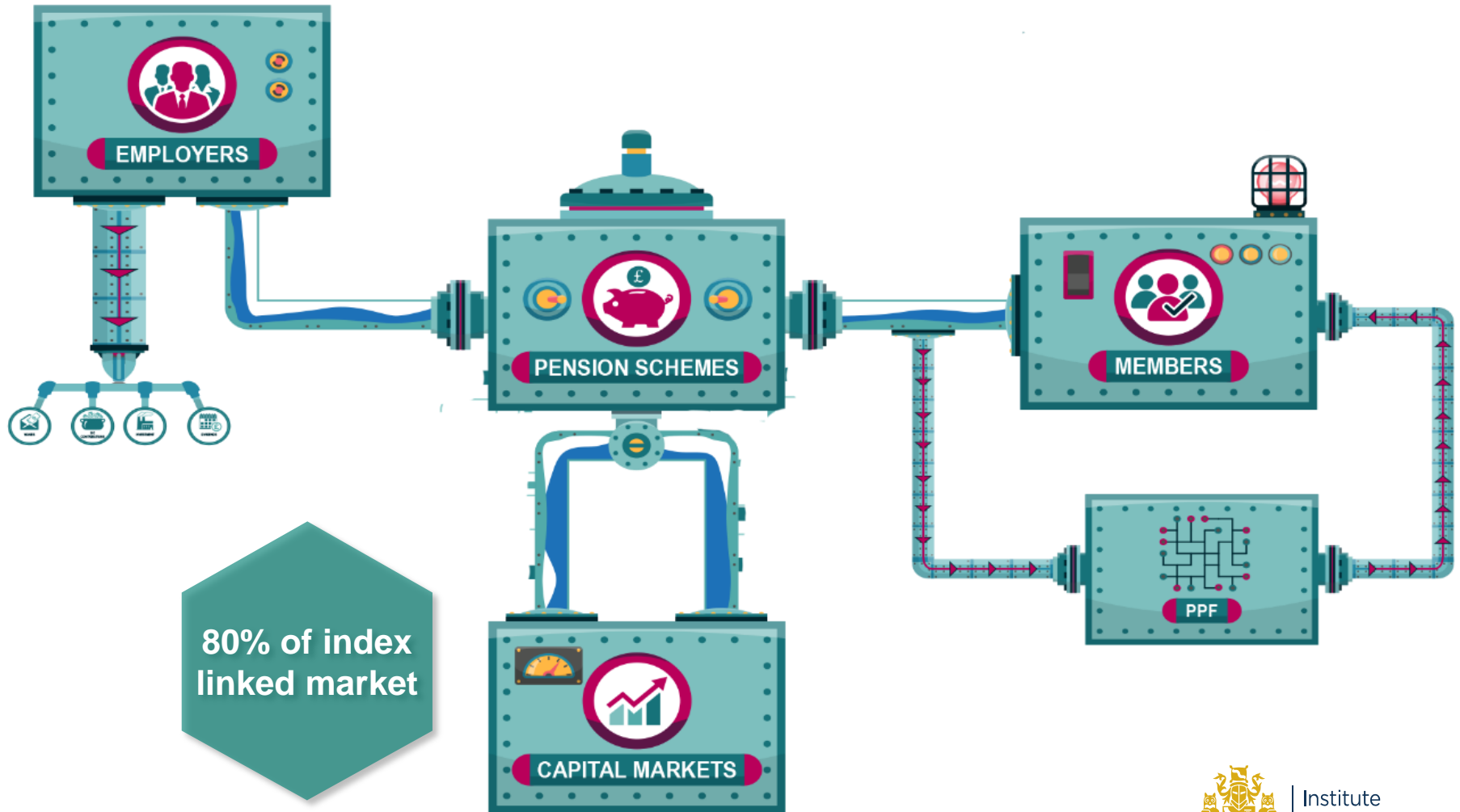
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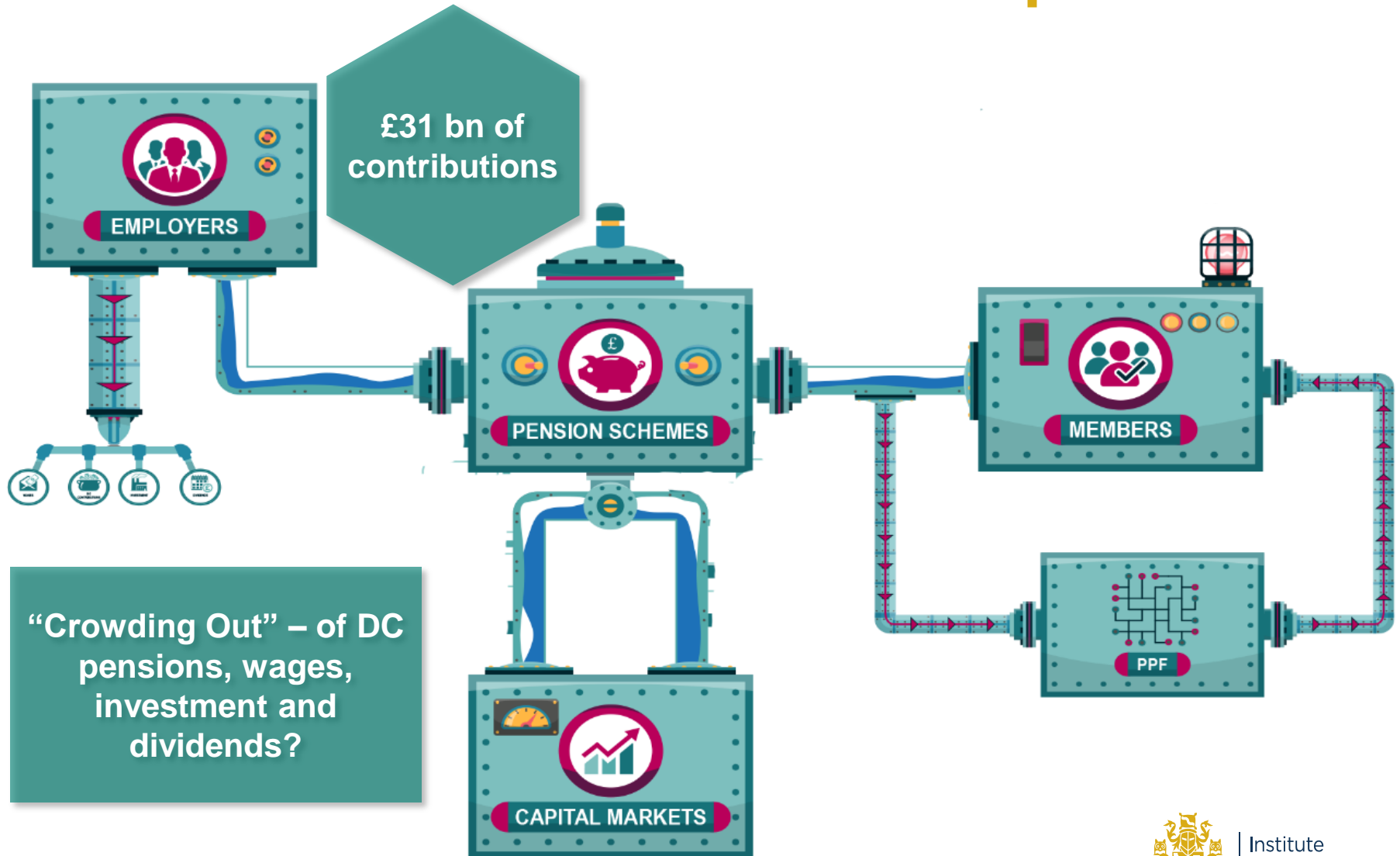
Defined Benefit schemes are important



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Defined Benefit schemes are important



The Evidence

- Call for evidence
 - 31 responses from wide range of organizations and individuals
 - 13 interviews with Scheme and Sponsors
 - 16 In-Depth Stakeholder interviews
- What do members think?
 - Quantitative and quantitative analysis of member views
- How bad is the problem? The central issue
 - “Mousetrap” modelling for PLSA



Responses

ACA	Plumbing Pensions UK
Age UK	Prospect
BALPA	Punter Southall
Bob Chadwick (individual)	Redington
Con Keating (individual)	RPMI
Dennis Leach, (individual)	Sackers
Derek Benstead FIA (individual)	Scottish and NI Plumbing Employers' Federation
Derek scott (individual)	SEI Investments
First Actuarial	SPP
Institute and Faculty of Actuaries	Tesco
Invensys Pension Scheme Executive	The Pensions Trust
JP Morgan Asset Management	Tim Keogh (individual)
Keith Jones (individual)	TSPP
Pauline Armitage (Individual)	TSSA
Pensions Action Group	TUC
	Universities and Colleges Employers Association



Interviews

ABI
ACA
Age UK
CBI
DWP
GAD
HMT
PASA
Pensions Institute
PPF
PPI
Resolution Foundation
The Investment Association
TPAS
TPR
TUC



PLSA research into what members think

QUALITATIVE RESEARCH

- ▶ Detailed conversations with 65 DB pension members.
- ▶ Mix of active and deferred DB members and those with DB pensions in payment.
- ▶ 10 x 120 minute focus groups, plus 10 x 60 minute one-to-one interviews.



SURVEY

- ▶ Survey of 1,000 workplace pension members.
- ▶ Survey covered active and deferred DB members, DB pensioners and DC members.
- ▶ 15 minute online survey.



Members on an emotional journey

INTERVIEW START

Generally happy with their DB pension and feel 'lucky' to have one.



UNDERSTANDING THE SIZE OF THE PROBLEM

Shocked and angry that this situation could have arisen.



DB SCHEMES ARE 'EXPENSIVE' AND THERE ARE SHORTFALLS

Growing awareness that not all promises may be kept making them doubt, sometimes for the first time, their belief that their DB entitlement will be met in full.



UNDERSTANDING THE CAUSES OF THE PROBLEM

Initial reaction to 'blame' employers for taking bad or greedy management decisions, or making bad investment decisions.

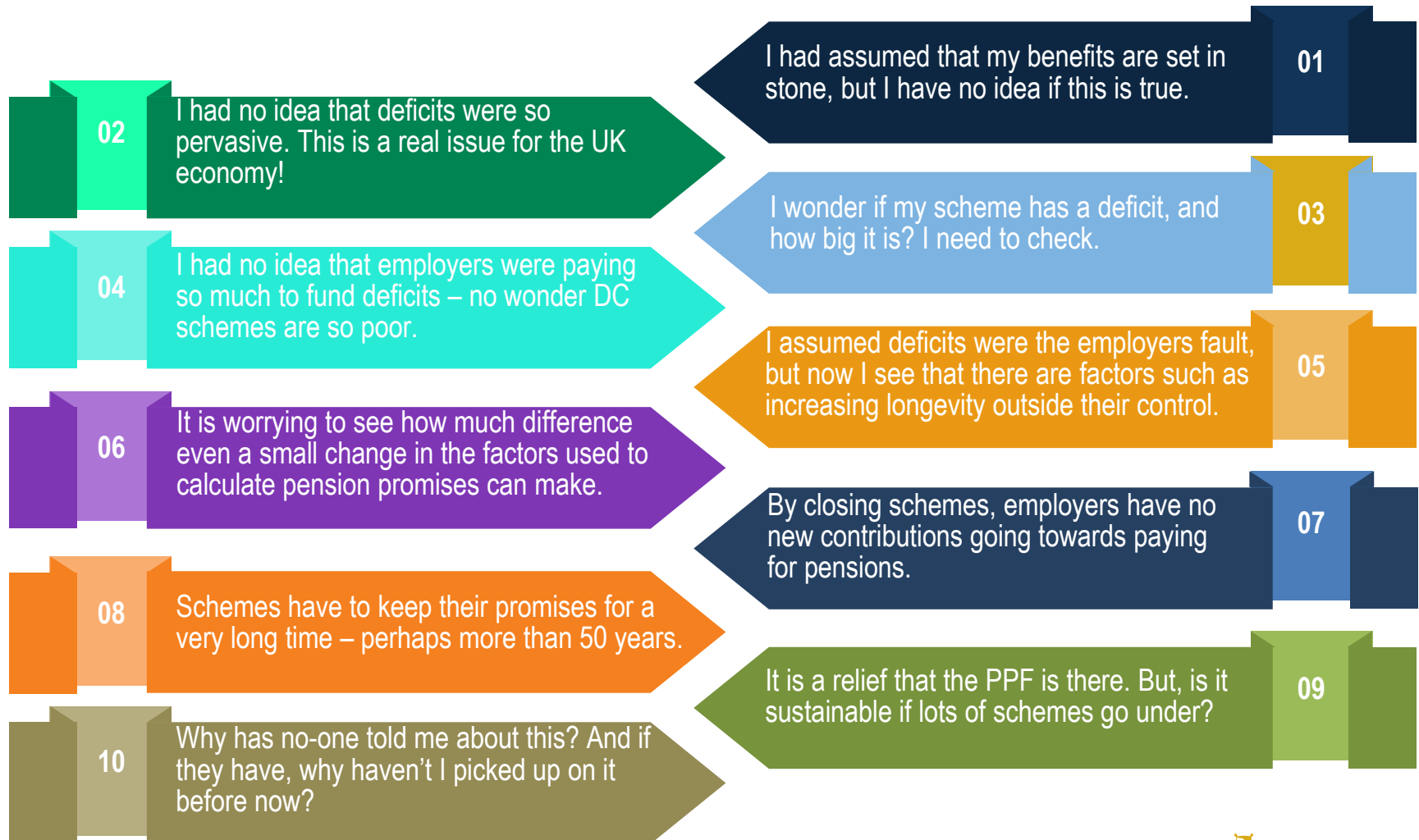


WON'T GOVERNMENT BAIL US OUT?

Aware that there is some sort of Government protection in place, but few knew how it works.



The 'PENNY DROP' Moments



“Mousetrap” modelling

- Integrated modelling of covenant, assets and liabilities, over 30 years
- How many schemes – and members – are at risk?
 - PPF – 15% over 15 years: Pension Institute – 1,000 schemes
- Mousetrap – many!
- Lower for longer hurts and De-risking increases defaults

44% of DB liabilities

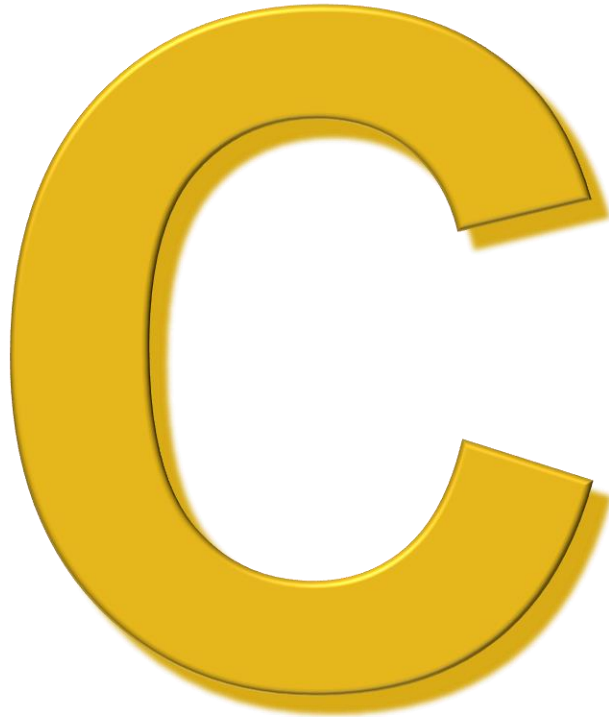


After 30 years	% of simulations reaching full solvency	Sponsor default
CG1 - Strong	90%	5%
CG2 – Tending to strong	67%	16%
CG3 – Tending to weak	52%	37%
CG4 - Weak	32%	64%



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The Issues



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alculations



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Consolidation – Efficiency and VFM

- There are a large number of DB schemes in the UK
- Small schemes are generally characterised by poorer governance standards than larger schemes
- Small schemes cannot leverage economies of scale
- Small schemes damage the security of members' benefits
 - -and potentially the size of those benefits.



Compromise – Member benefits

- The current system has binary outcomes of complete ‘success’ or complete ‘failure’
- Schemes continue or they – or their employer – fail and members enter the PPF
- PPF benefits entail a 27% loss, on average
- Black or white outcomes are not good – we need 50 shades of Grey!
- Where is the balance between members’ interests (retired and current) shareholders and employees?
- Other countries have compromised – why not the UK?

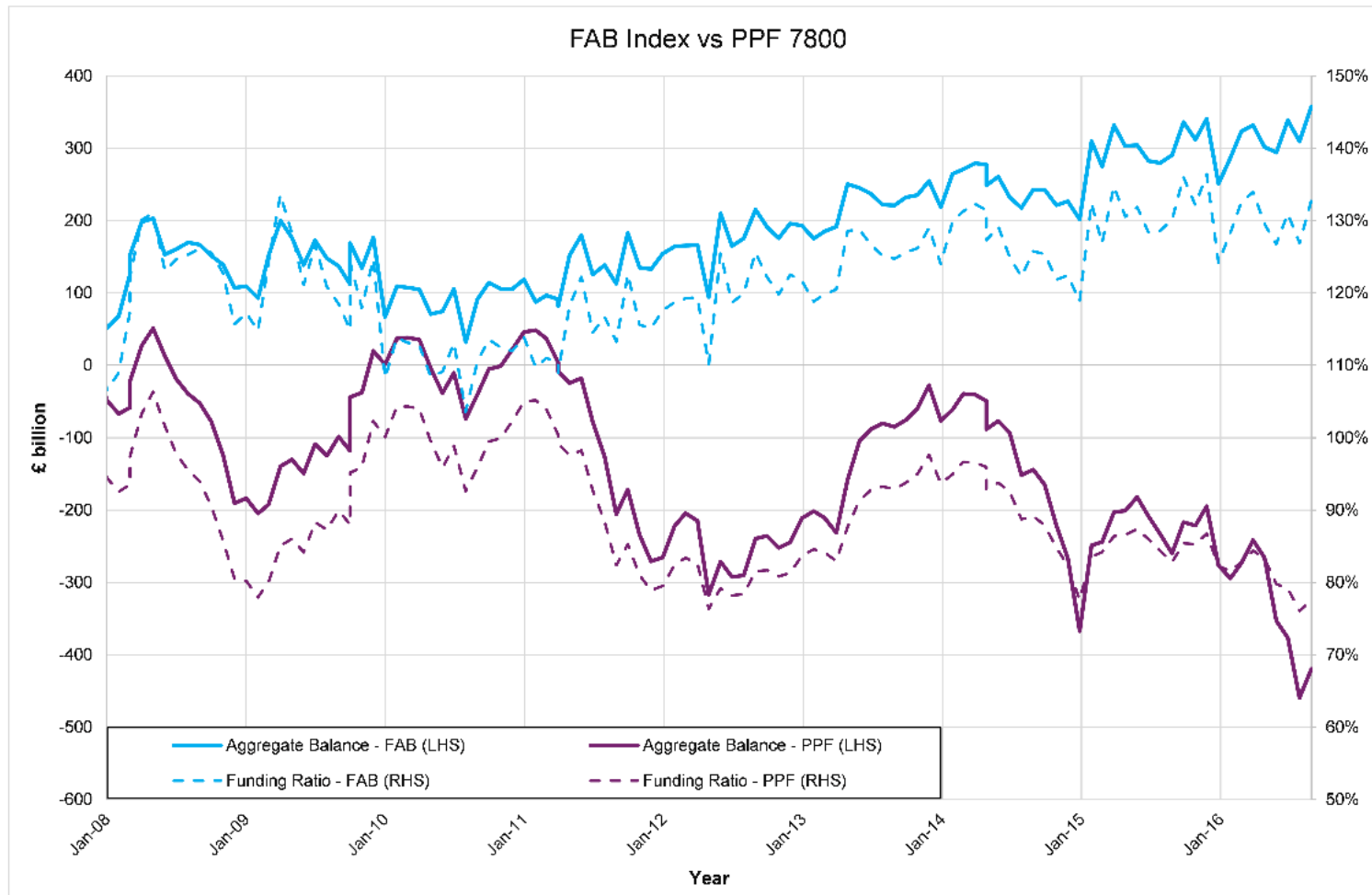


Calculations



- What you measure is what you get
- If you measure liabilities as “gilts plus” then people will buy gilts
 - Was this ever right?
 - Is it right in times of ultra low interest rates?
- Should we focus on fundamentals?
 - What is our chance of providing the benefits?



Crisis, what crisis?



The debate

The Sect	Bond Bashers	Bond Believers
The labels	Flat Earth Bulls*** 	Oblate Spheroids Cow Driven Investment 
Key supporters	Antony Hilton	Reddington
The one line pitch	Pension deficits do not change every day because of changes in the (artificial) price of bonds	If you take a massive bet on interest rates and get it wrong, you should be punished
Investment Consequences	Fundamentals	Bonds and Hedging
Valuation approach	Best estimate minus or other	Gilts plus
Current deficits	Huge	Manageable

**What do clients think about this debate – and about actuaries?
Where is the middle ground?**



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DB Taskforce - Next stages

The System is too fragmented

Scheme resolution is inflexible

Approach to benefit change is rigid

Risk bearing is sub-optimal



Question 1 - Consolidation

- Do you think that smaller DB scheme should be encouraged to join larger arrangements, to improve members outcomes?
- YES
- NO
- DEPENDS



Question 2 - Compromise

- Should DB schemes be allowed to change the promises they have made to members?
- NOT AT ALL
- YES – but only if the employer viability is threatened
- YES – all schemes should have this ability
- DEPENDS



Question 3 - Calculations

- Do you think that valuing pension schemes by reference to yields on government bonds is a sensible thing to do?
- NOT in current circumstances
- NOT in any circumstances
- YES – it is the only sensible way to value bond like liabilities
- DEPENDS



Biography and Disclaimers



Kevin is an experienced pension consultant who has been advising high profile clients for over 40 years. He is a qualified scheme actuary who has been involved with many different aspects of pension, investment and broader employee benefits, including the establishment of the Aon Hewitt UK Defined Contribution team. On the DC side he is now helping build out the Aon DC product range, including a mastertrust solution. On the DB side he was the inaugural UK lead for Global Risk Services, a fusion of actuarial and investment skills designed to help clients make sense of rapidly changing investment markets and new risk driven solutions, as they guide their plans to a more stable future. On the DA side, he was a strong advocate of Defined Ambition plans where he still believes that Collective Defined Contribution plans have the chance to improve the pension outcomes for millions of UK workers.

He continues to act as pension adviser on a limited number of client assignments, advising both trustees and employers, as well as contributing to Aon's thought leadership, through membership of industry groups such as the PLSA DB Taskforce. He is practicing what he has been preaching about phased retirement by working four days a week.

The author's views are his alone and Aon Hewitt reserves the right to dissociate itself completely from any old drivel he spouts ...

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