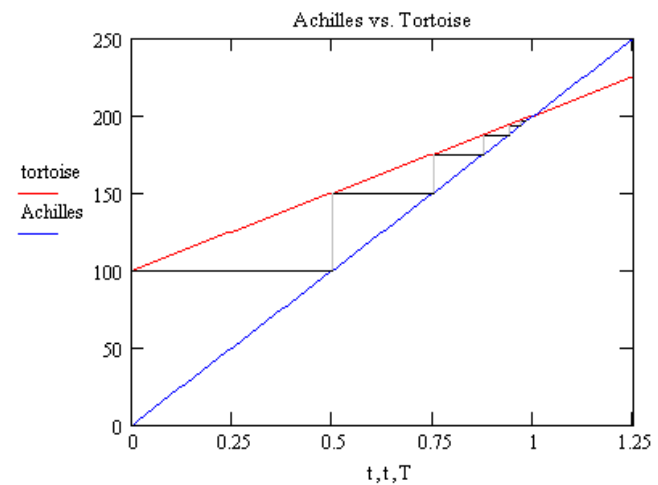# The new model DB – a classical perspective

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Our guides

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Perseverance -the three classical problems

Work started ~ 1800BC – 500BC

- Trisecting the angle

- Doubling the cube

  - Proved impossible by Pierre Wantzel in 1837

  - Soluble by origami mid 1980's

- Squaring the circle

  - Proved impossible 1882 by von Lindemann

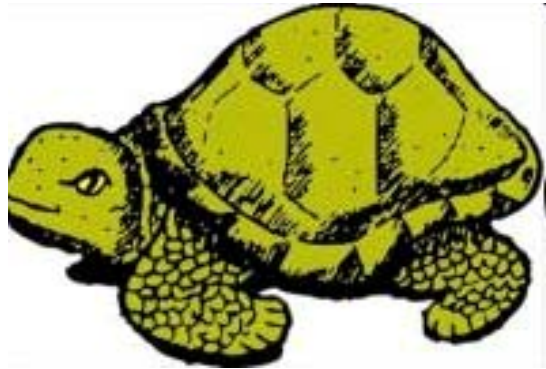$$s \cdot \sqrt[3]{2}$$

$$1/\sqrt{\pi}$$

Zeno of Elea

Zeno's Paradox

VS
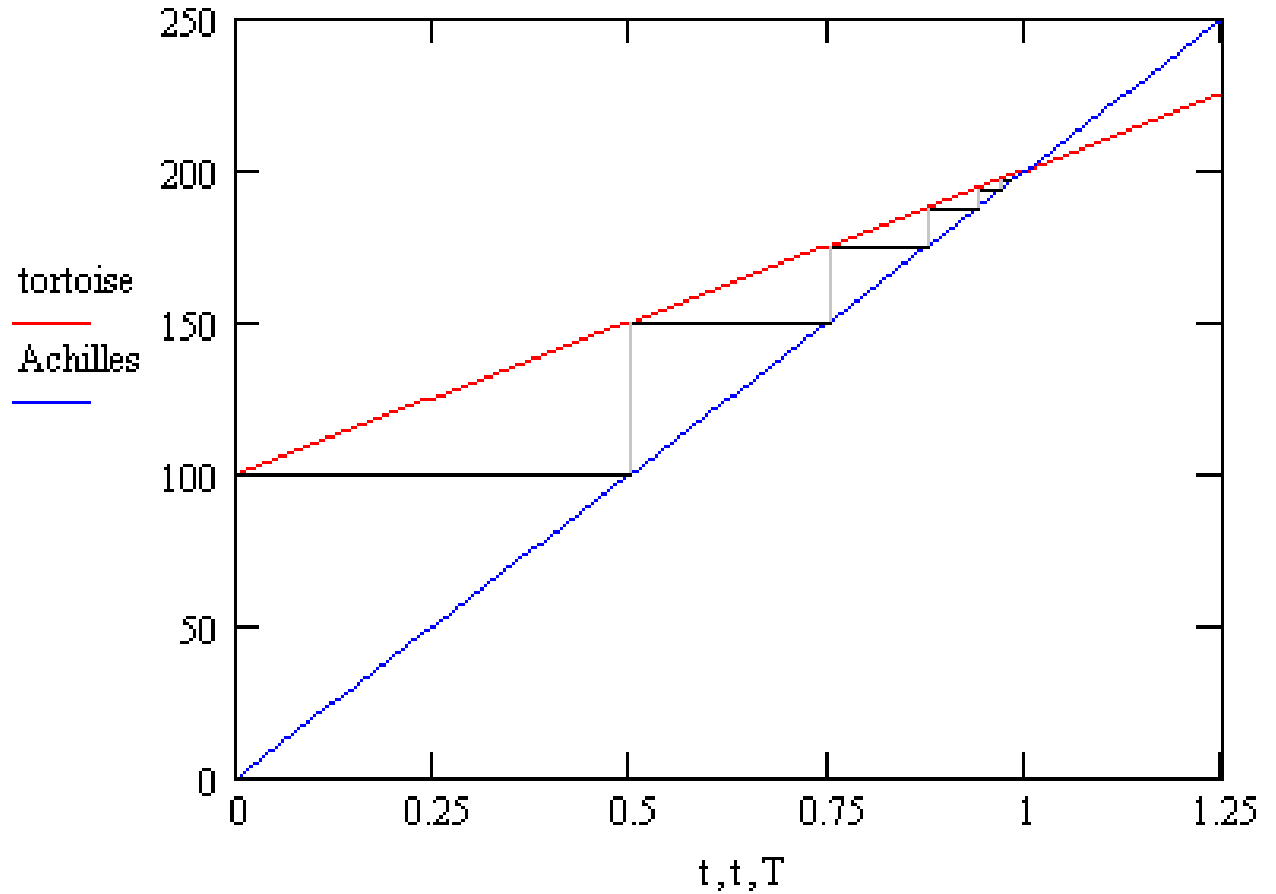
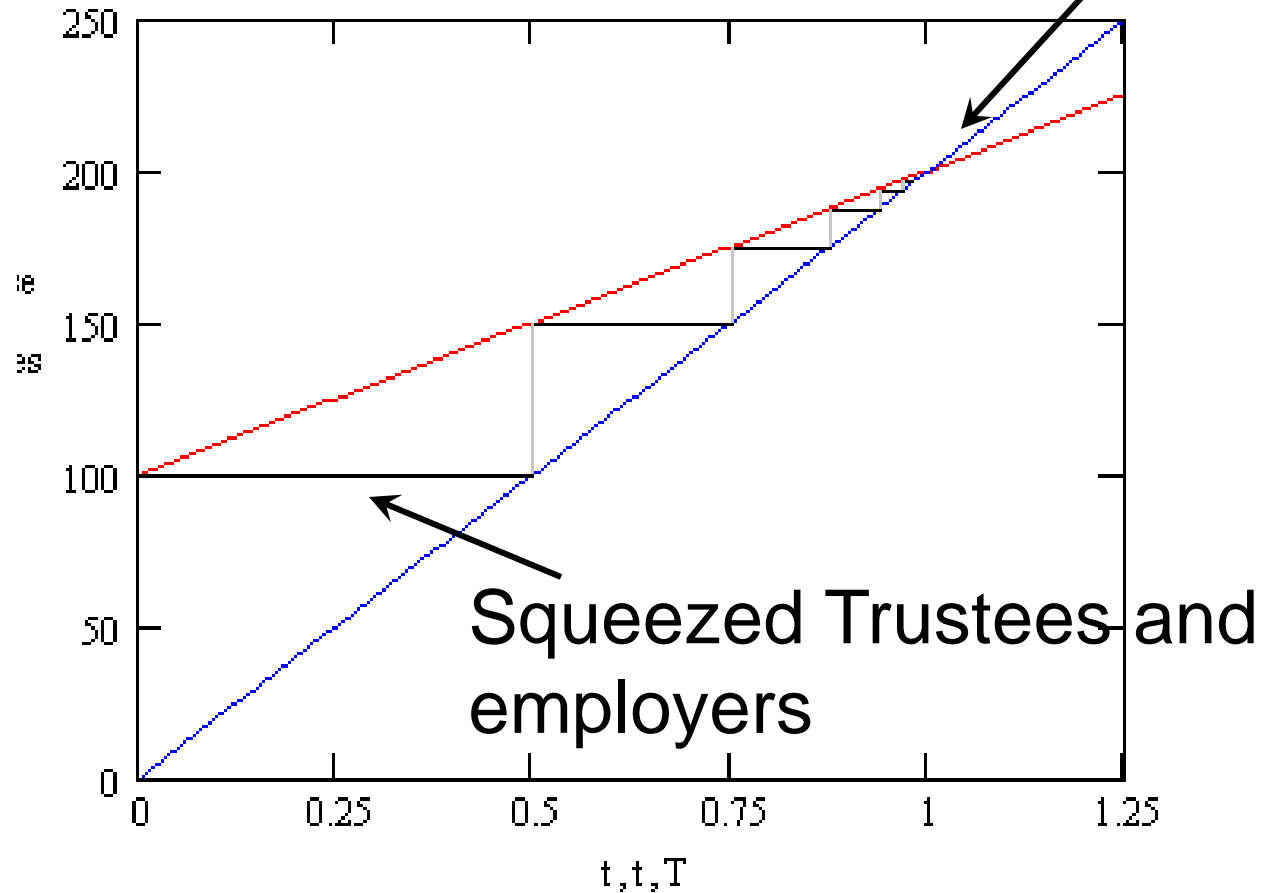# Zeno's Paradox

Achilles vs. Tortoise

DB Paradox

Increasing burdens

vs

Changing world

Squeezed Trustees and employers

Current paradoxes

– The resulting benefit paradox
  - DB better and desired but
  - made hardest for a volunteer employer to run

– The flawed design paradox
  - "safe" DB schemes – too expensive/inflexible
  - DC also flawed – underfunded/misunderstood

– The Regulator's paradox/forced short term paradox
  - Obliged to demand action now
  - Now is the wrong time to derisk

Preservation paradoxes

– can reduce accrued rights to worsen benefits (DB-DC) but not to tweak a good scheme (DB-DB) (except s50)

– change accrued rights for actives but not for deferreds (except s50)

– even if the employees are willing to take risk you (probably) cannot change with the consent of the member

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New DB Model - Why

- EU – the Principles for the effective supervision of Pension Schemes

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NPF suggestions

- Fixed contributions for members and employees

- Flexible benefits

- Design which copes with increases in life expectancy

- Core benefits and revaluations to be "guaranteed" (but see first bullet above…)

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Supply and demand

- Are you in favour of the new DB model proposed in the National Pensions Framework Proposal?

    Yes 43%, **No 57%**

- If a workable model was developed, would you consider implementing it?

    Yes 67%, No 33%

IAPF Benefits Survey 2010 (104 out of 135 respondents)

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A bit of νουσ

- mental activity in general, but increasingly knowledge and reason as opposed to sense perception (Homer, Aristotle)

- Anaxagoras's *nous* was a mechanical ordering force that formed the world out of an original chaos

Legislative change required

- Amendment of the blanket protection for pension in payment (s59B) and in wind-up priorities (s48)

- Amendment of the preservation regime (including revaluation)

- Amendment of the funding standard
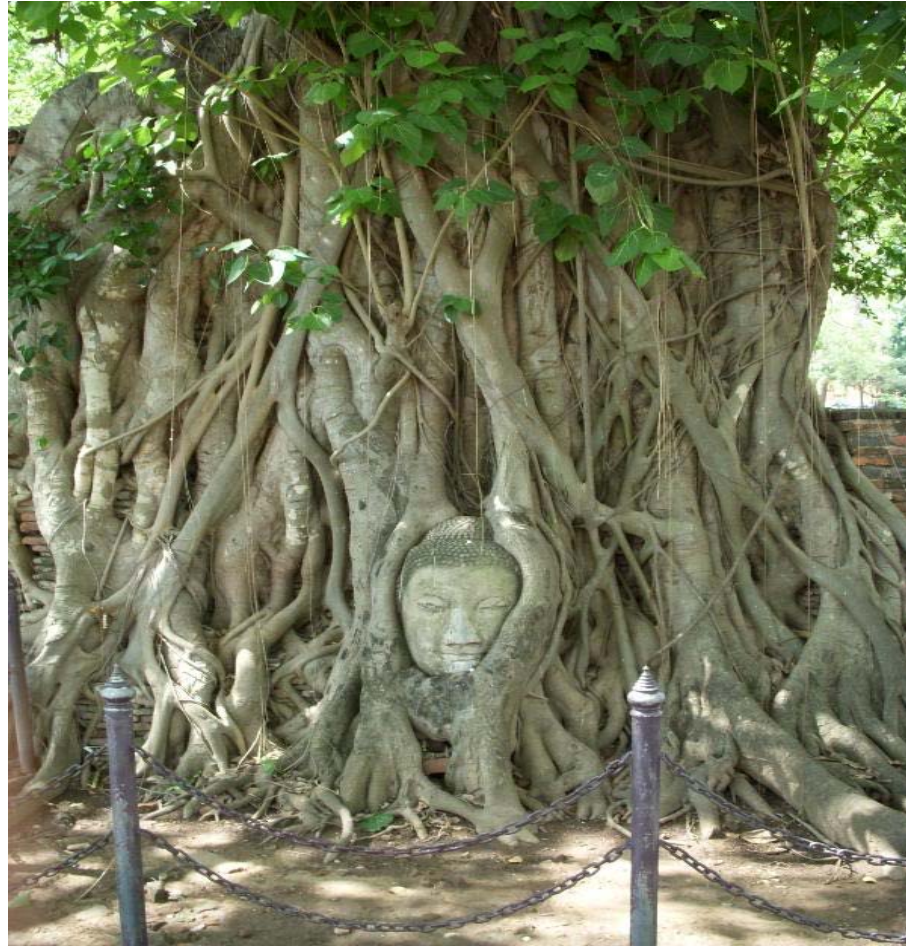
- Perhaps amendment of the Revenue limit regime

Towards a solution

- Outline objectives of the new DB scheme

- Design the structure

- Work out the required changes

Pruning preservation

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Pruning preservation

- Why preservation – to provide a proportionate benefit for proportionate service (indexed in line with CPI max 4% from date of end of benefit accrual to date of payment)

- Deferreds more protected than actives who can suffer pay cuts.

- Under new model – preservation of core benefits which cannot be reduced without regulator consent. Flexible benefits to be reduced at any time to any degree where trustees fairly require for solvency

- Apple approach to regulation

The Alexandrian solution