DB Schemes in 2015

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A decade of pension change by numbers……

- €67bn. – assets in DB plans at end 2014 up from €50bn at end 2004
- 750 – no. of DB plans has halved
- 140,000 - employees in funded DB plans
- 420,000 – no. of deferred pensioners
- 100,000 – no. of pensioners making up 55% of liabilities
- 90% - proportion closed to new members
- 40% - 50% - no. of DB plans closed/closing to future accrual

So what happened ?…….

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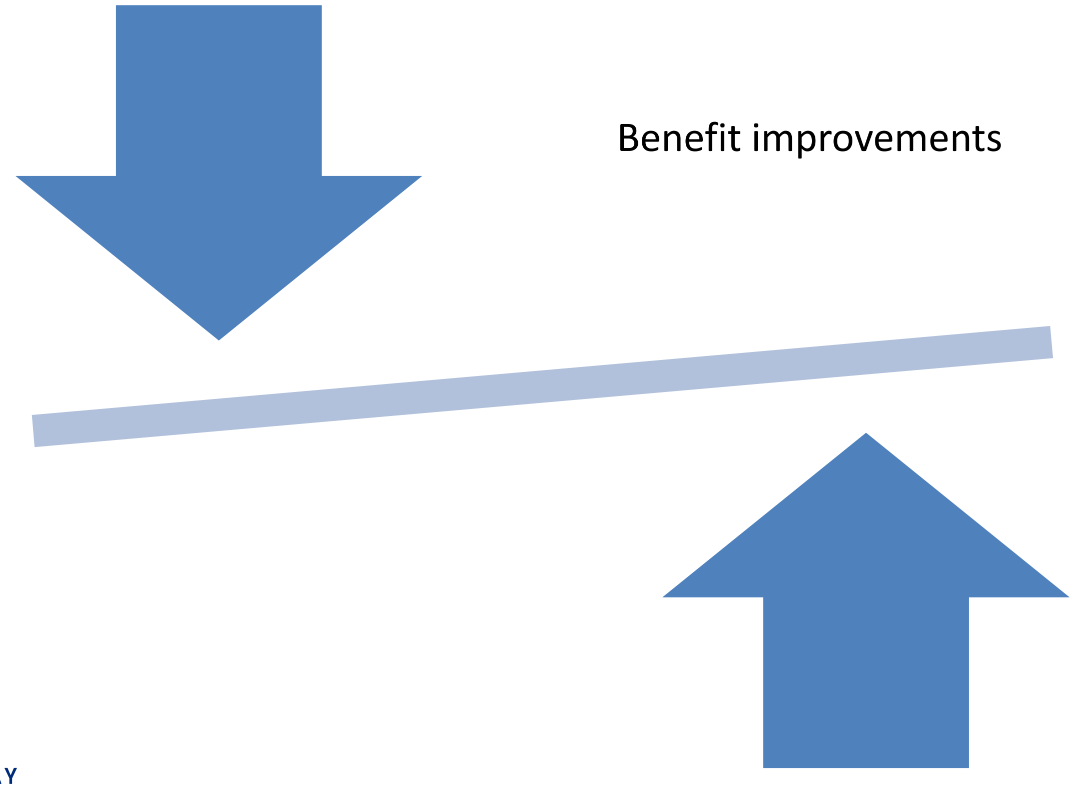
Where did it all go wrong for DB plans….



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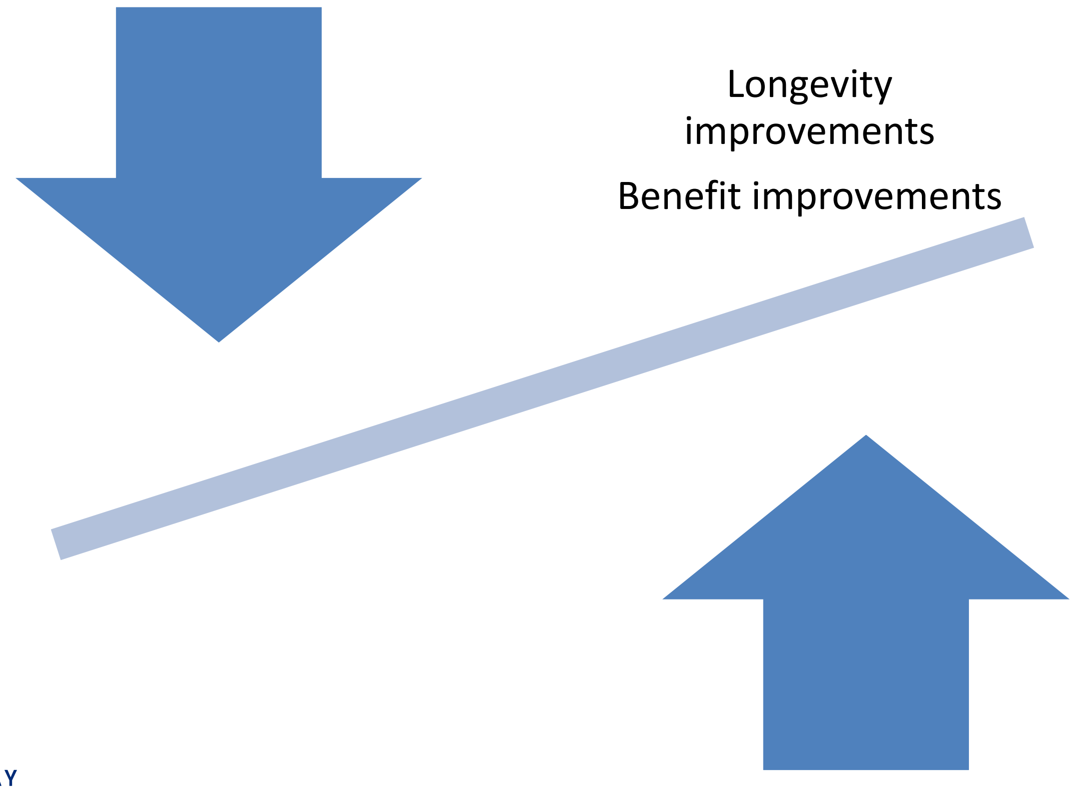

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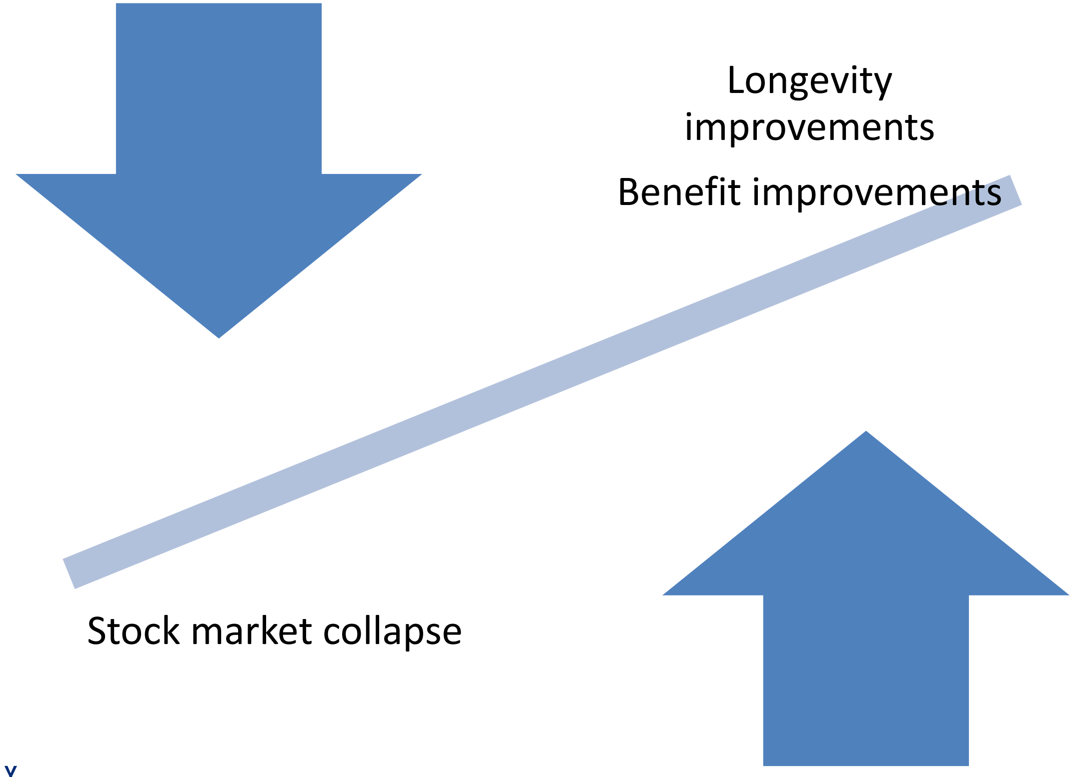

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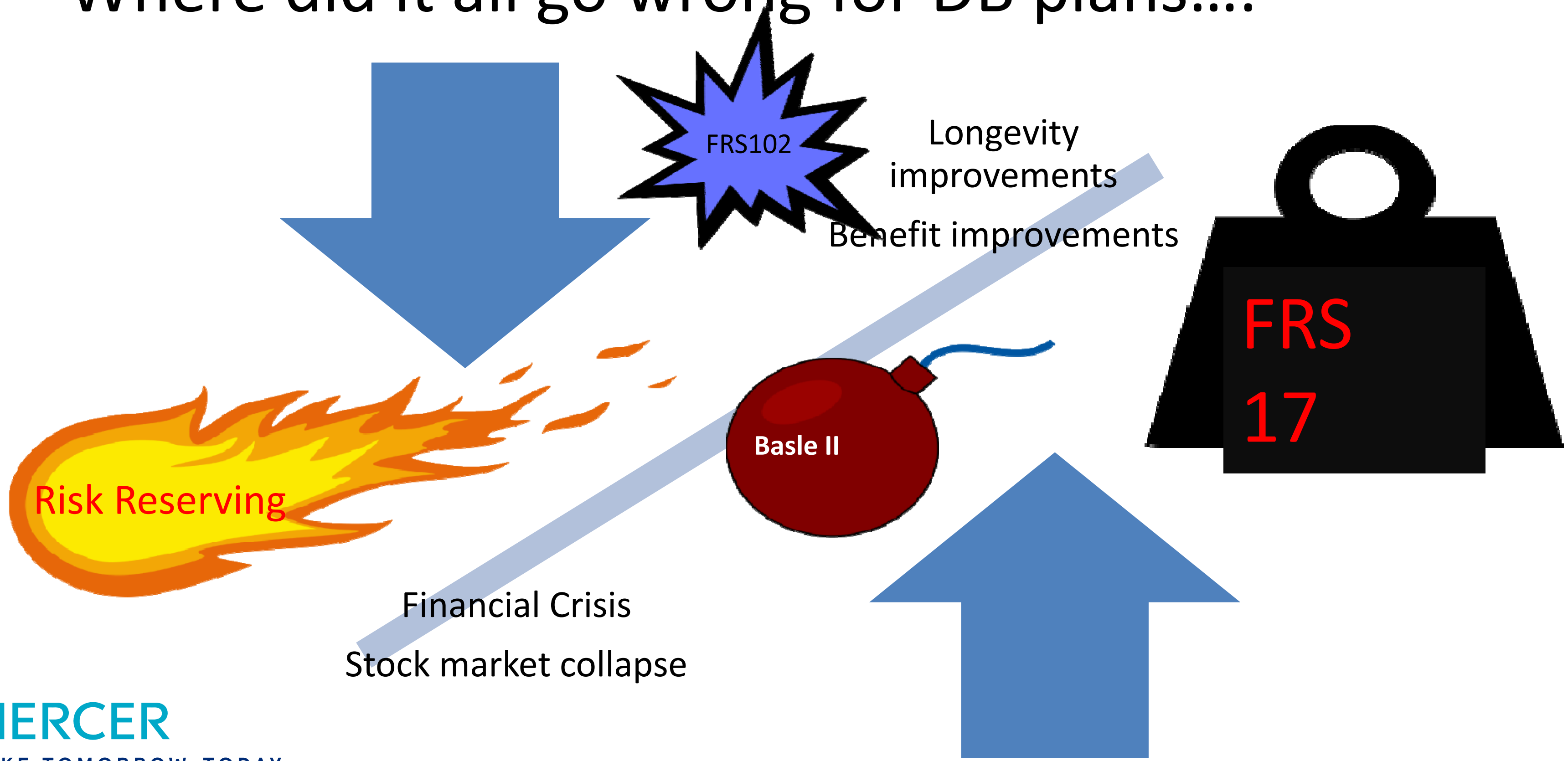

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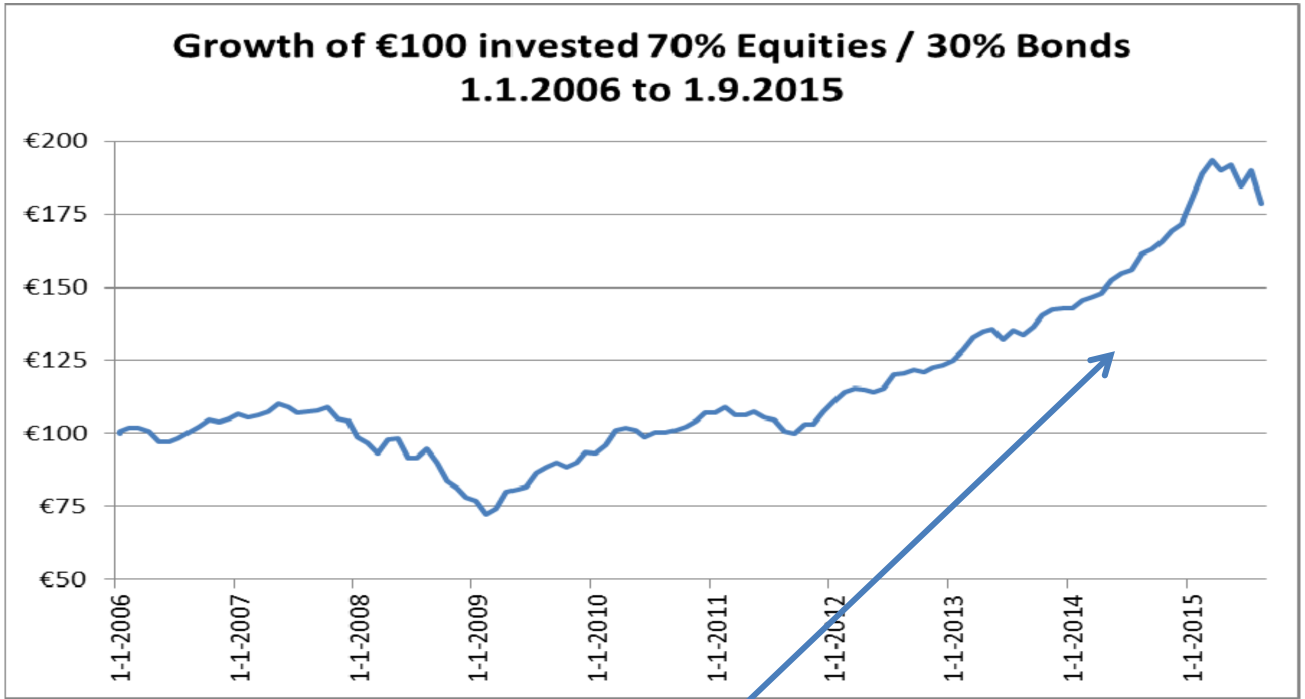
Asset Performance 1.1.2006 to 1.10.2015



Strong asset growth even allowing for 2008

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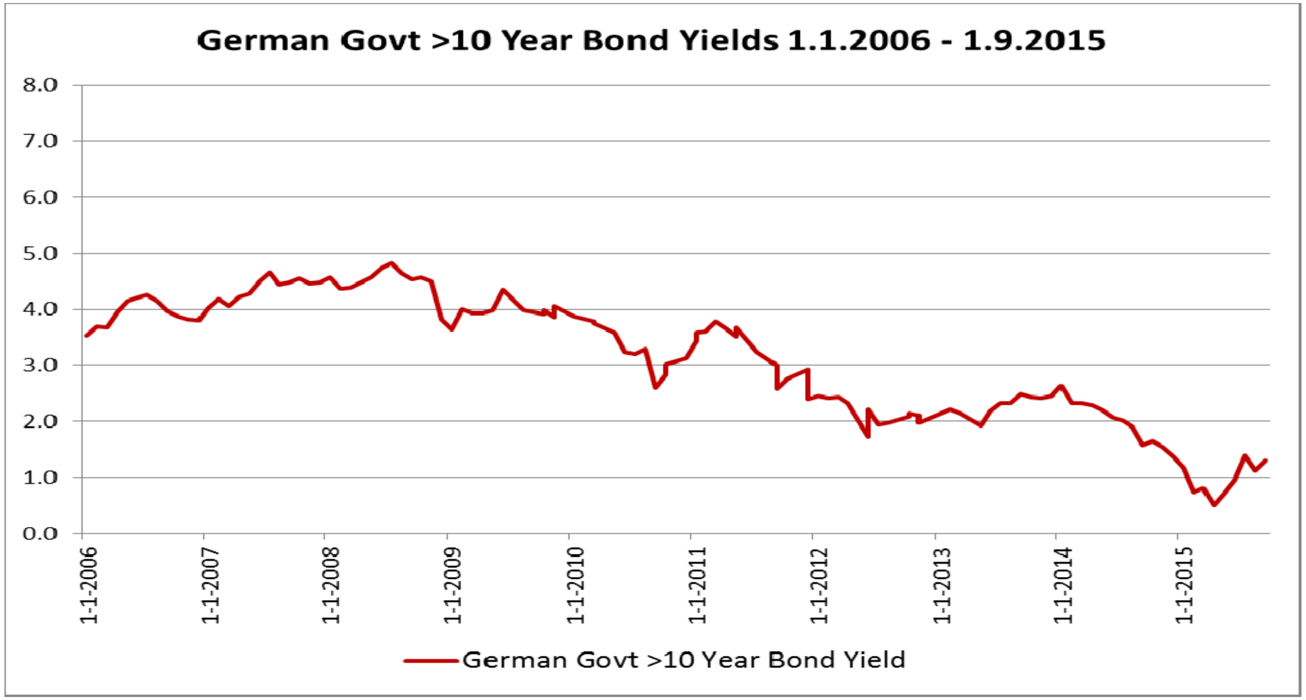
German Bond Yield Movements 1.1.2006 to 1.9.2015



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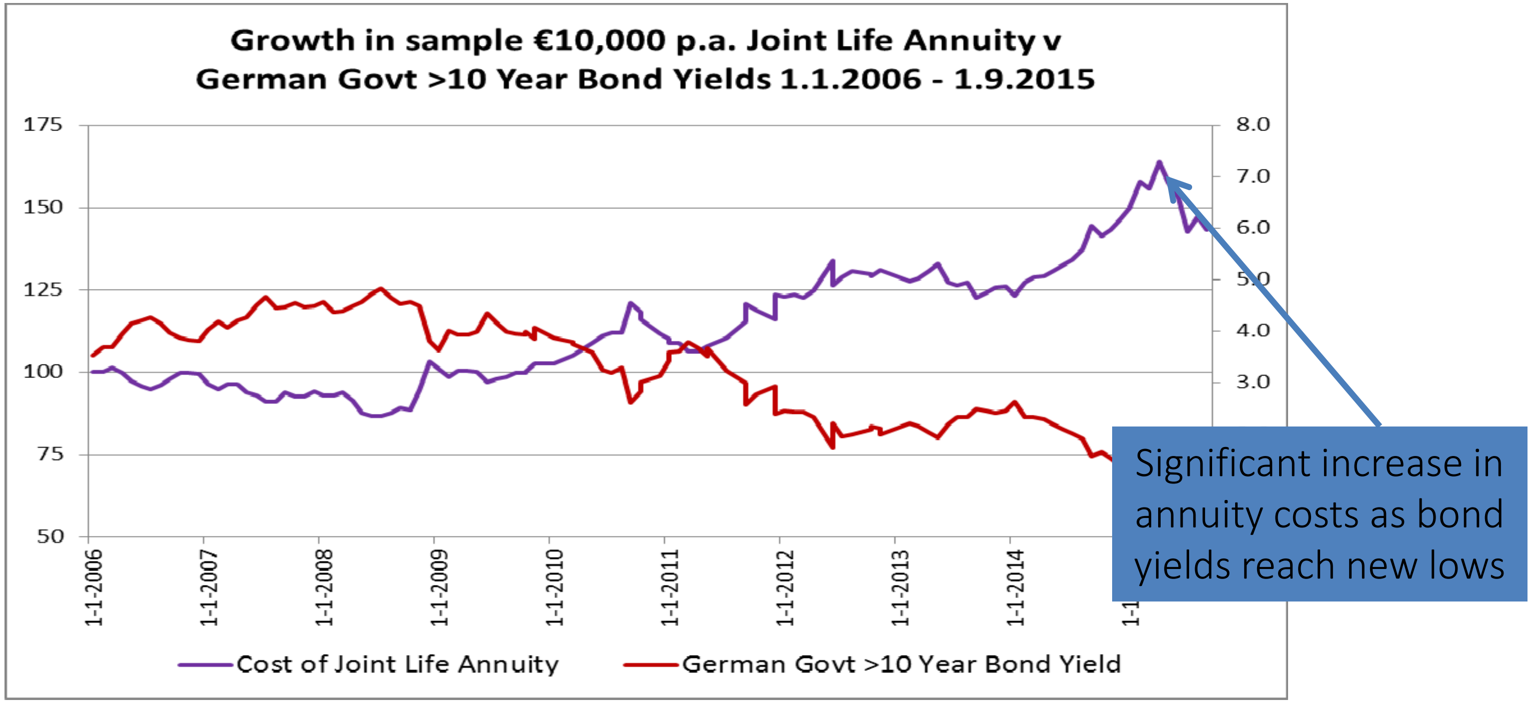
Liability Growth 1.1.2006 to 1.9.2015



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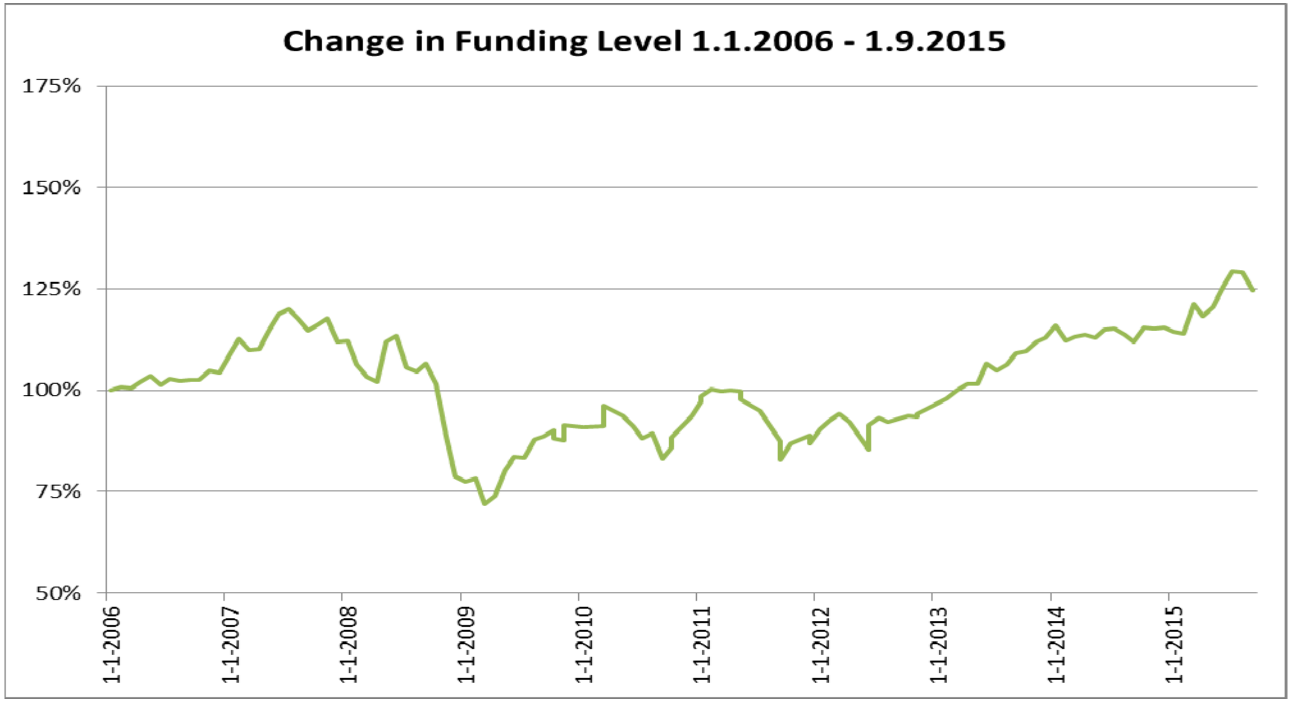
Change in Funding Level 1.1.2006 to 1.9.2015



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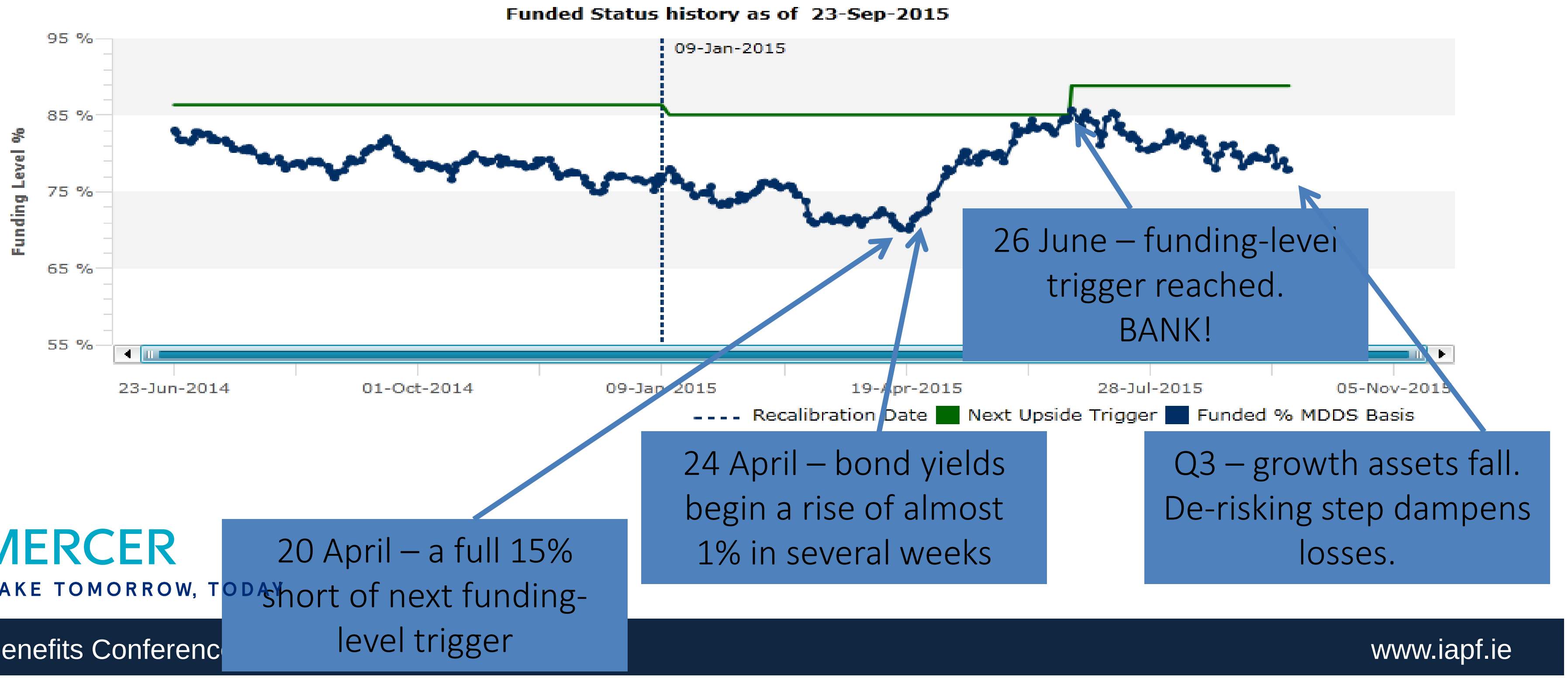
Opportunities can come and go very quickly

- Funding level of typical scheme (versus economic liability) since mid-2014



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Cash funding in 2015

- 60% of DB schemes meet the MFS
- 65% of large schemes do not meet MFS!
- Many plans in Funding Proposals running to 2023 (incl. risk reserves)
- Lots of money going in to DB but recent reviews typically call for more
- Extent depends on allowance for yield reversion, balance of power sponsor vs. trustees, employer covenant etc. etc.
- Mature plans challenged by annuity purchase aspect of MFS

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Risk Reserves

- 10% of liability less 10% of "qualifying assets" plus interest rate test
- Potential addition to liabilities could be
  - As low as 0% (e.g. fully matched)
  - As high as 15% (e.g. fully invested in growth assets)
- Trustees must have excess assets by 2016, or access to capital, or built in to FP
- Some argue the requirement is excessive
  - Class of qualifying assets is too narrow
  - Unreasonable to anticipate further fall in bond yields
- Mature schemes concerned with over-funding may seek non-cash funding alternatives
  - e.g. parent company guarantees, contingent assets

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2015 Environmental Aspects

- No easy answers to very low interest rates and long life expectancy!
- Regulatory environment remains unsympathetic ….. arguably a barrier to effective solutions…….but little prospect of a change in direction
- Recent Court rulings have changed mind-sets on:
  - Acceptable minimum funding levels
  - The role and powers of the Trustees
  - Scrutiny of decision-making

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Employers

- Generally supportive of DB but increasingly seen as placing excessive risk/cost on the business, so further change is inevitable.
  - Close to new entrants
  - Close to future accrual
  - ETV exercises to reduce liabilities
  - Thinking about end game strategy
  - Wind up
- Taking increased interest in risk management generally

Trustees

- Greater awareness of Trustee role and powers

- Increased emphasis on compliance, risk management and managing towards target funding levels and investment policies

- Working with employers to manage cash contributions within reason and look at alternatives to cash funding

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Is there any hope?

- What would it take to achieve a "soft landing" for DB schemes
  - A significant increase in interest rates
  - A better regulatory environment
- Reduced emphasis on annuities, flexibility for mature schemes
- Broader range of settlement options
- First world problem!
- If DB doesn't work out there is potential for a very good DC solution

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