



Innovative Ways of Looking at the Defined Benefit Challenge

Jerry Moriarty
Director of Policy, IAPF

UK Innovations





UK Context

- Pension Protection Fund
- Employer Debt
- Scheme Specific Funding



UK Headlines

- **Aggregate FTSE 250 pension deficit hits £12bn**
- **DB deficit worsens to £173bn**
- **PPF to become UK's largest scheme**



Enhanced Transfer Values

- Inducement offered by employer to transfer out of scheme
- Overall cost is less than retained liability and/or costs of managing that
- UK Pensions Regulator has issued Guidance
- Inducements also offered to accept reduction in benefits



Buy-Outs and Buy-Ins

- Transfer some or all of risk
- Buy-out market hit £8bn in 2008
- Fallen back since and some players exiting market
- Buy-In becoming more common – longevity hedging
- Extremely complex



Employer Covenant

- Strength of employer key to PPF and trustees
- Contingent assets often used to enhance covenant
- Partnership approach often taken – follow fortunes of employer
- Encouragement of Regulator



Examples BRITISH AIRWAYS

- Returned contingent assets worth £330m to employer
- “Improve financial position and prospects of the company with a view to meeting its obligations to the scheme”



Examples



- Employer took control of investment strategy
- Investment Committee of four senior managers and two trustees
- Employer placed £1bn in escrow account to cover deficits



Examples - Johnson

- Offer to pensioners to sacrifice inflation-linked increases for initial increase
- 60% took up offer
- Reduced IAS liabilities by £2.5m



Examples - RSA

- £1.9bn buy-out deal with Goldman Sachs
- Insured 55% of pensions in payment
- “DIY” buy-out combining longevity swap with interest rate and inflation swap



Innovative Ways of Looking at the Defined Benefit Challenge

Jerry Moriarty
Director of Policy, IAPF