

The changing landscape for private sector Defined Benefit pension schemes

Niki Cleal and Chris Curry

Pensions Policy Institute

www.pensionspolicyinstitute.org.uk

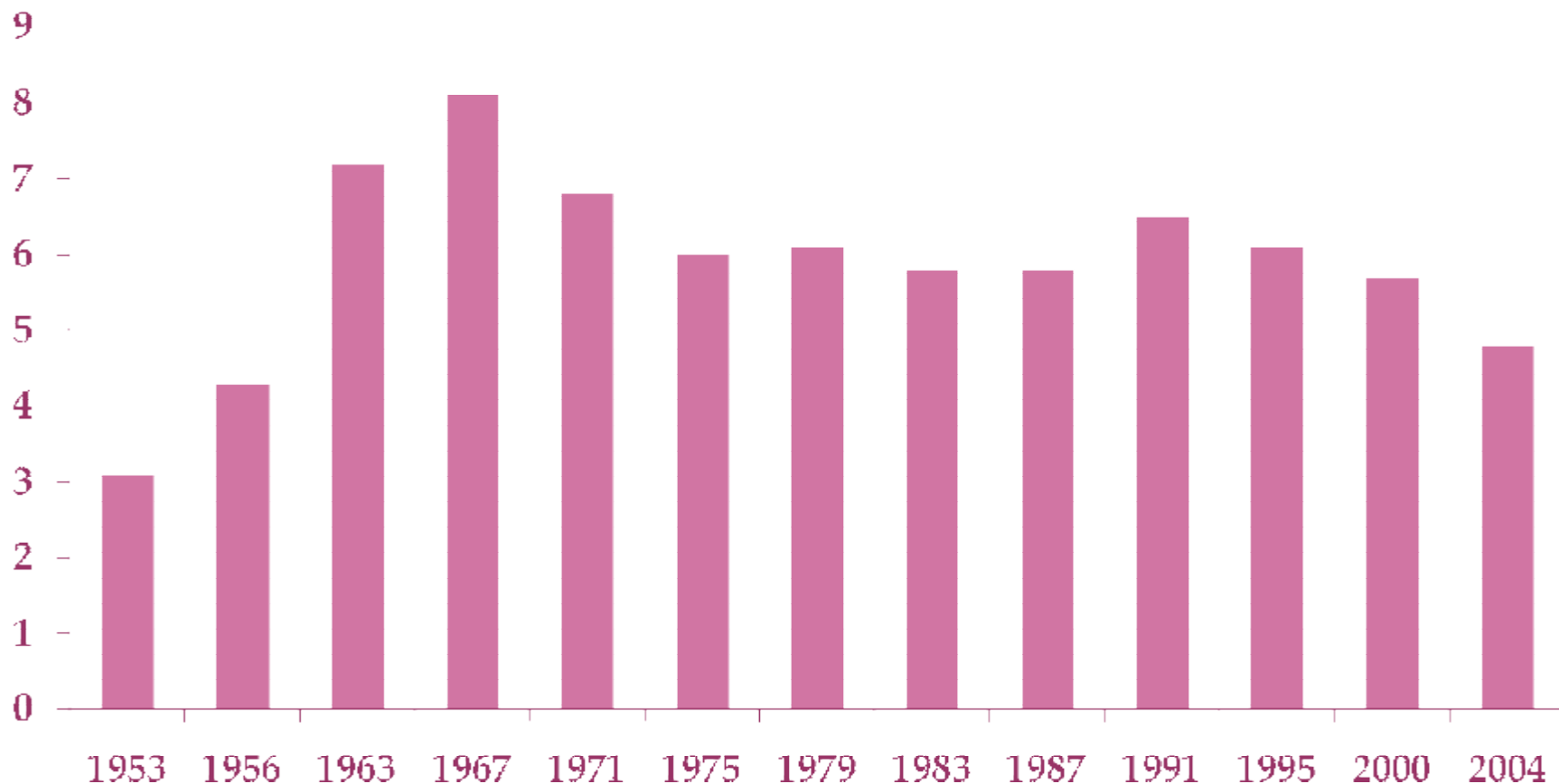
Research findings and conclusions

- DB occupational pensions are in decline in the private sector, but the rate of decline has slowed
- A number of factors have increased the cost of DB pensions
- Scheme sponsors are reacting in a number of ways
- The future for DB schemes is uncertain

Occupational pensions in the UK are in decline

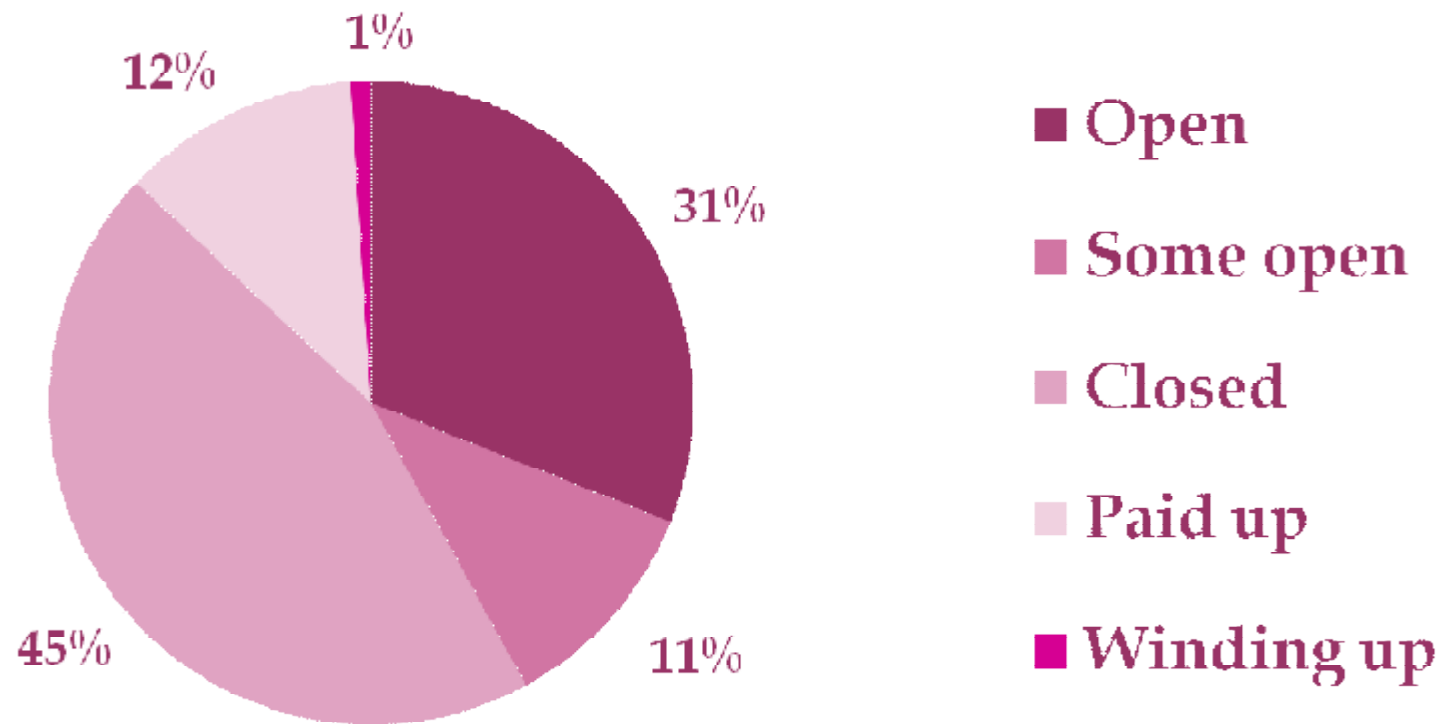


Active members of private sector occupational pension schemes in the UK, millions of people



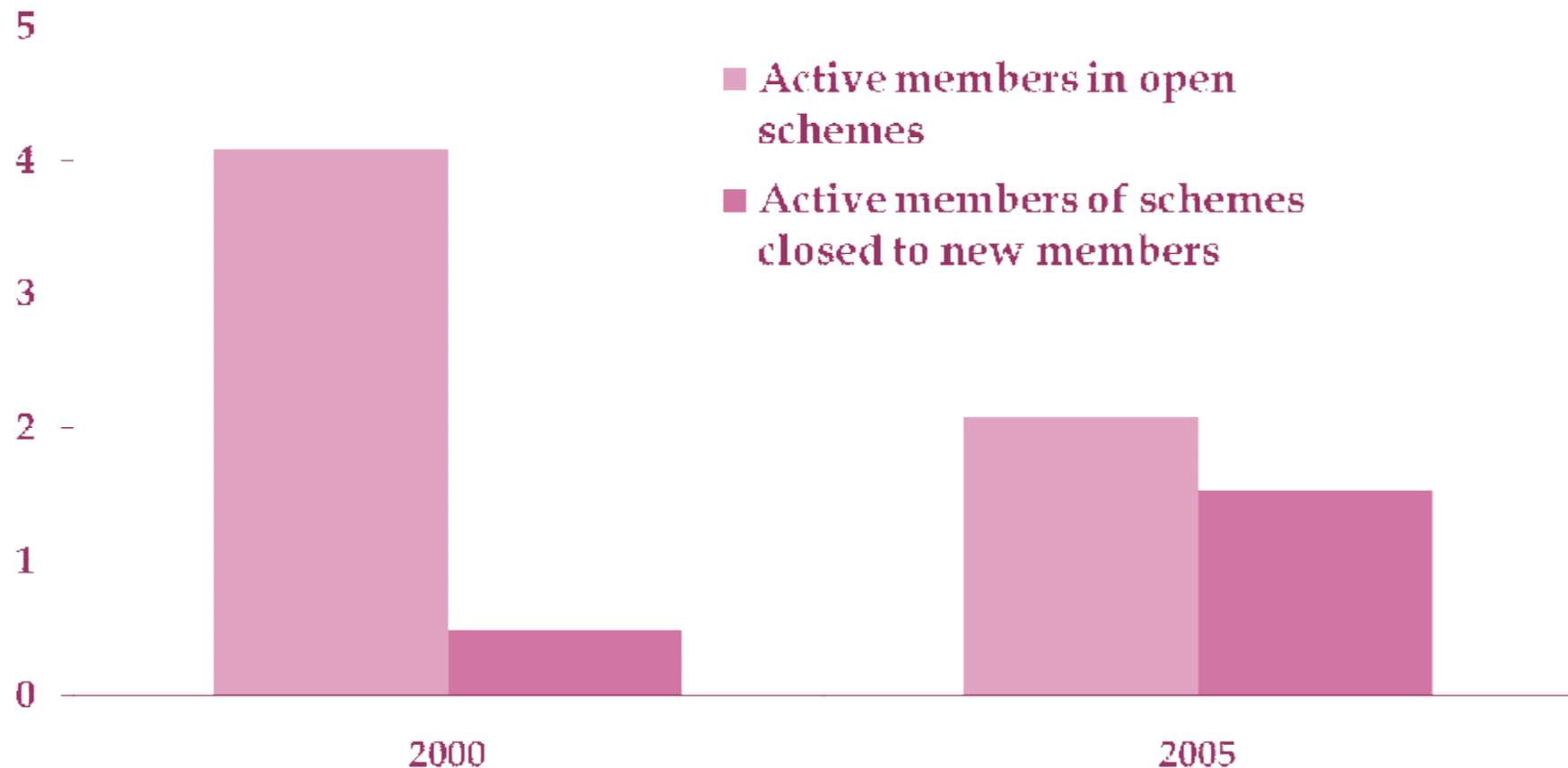
Most DB schemes in the private sector are closed to new members

Percentage distribution of schemes by scheme status



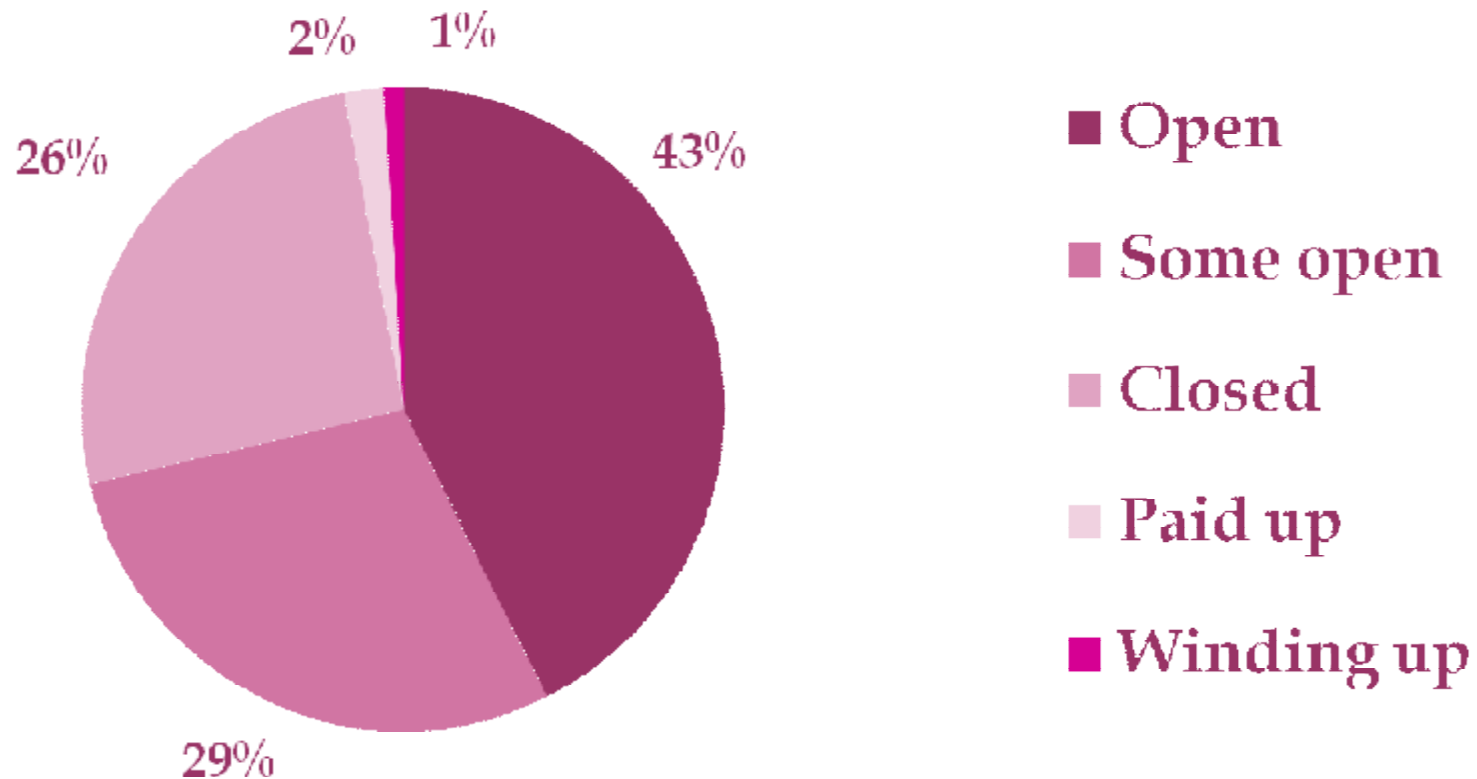
Many more active members in the private sector are now in DB schemes that are closed to new members

Number of active members of open and closed Defined Benefit schemes in the private sector, in millions



The largest proportion of members are in schemes that are still open to new members

Percentage distribution of scheme membership by scheme status



Fewer schemes have closed in recent years

Number of schemes closing by year



A number of factors have increased the cost of DB pensions

- Improving life expectancy
- Poor investment returns
- Increased legislation & regulation

Other factors have also affected DB

- Broader economic factors
- Attitudes to pensions

Scheme sponsors are responding in a number of ways



- Reducing deficits
- Changing investment strategy
- Reducing risk and/or level of pension
- Winding up or selling on pension

Reducing deficits

To reduce a deficit a scheme needs to increase assets and/or reduce liabilities

- **Increase contributions**
- **Use contingent assets**
- **Reduce benefits**
- **Raise the normal retirement age**

Investment strategy

Part of wider risk management practice that will depend on:

- Scheme funding level
- Strength of sponsor
- Maturity of the scheme

LDI vs Alternatives vs High Alpha

Reducing risk or selling on provision



Some scheme sponsors have sought to shift some of the risk on to members

- Close DB and open DC
- Risk-sharing

Others have moved away from DB provision completely

- Buy-outs

The future for DB schemes is uncertain



- Personal Accounts
- Deregulatory Review

Views about the future vary significantly...

Expert views

Views about the future vary significantly...

- Agreed: Cost pressures will remain and DB schemes will change
- Optimistic view: Deregulation can encourage greater risk-sharing and preserve viable DB pension schemes
- Pessimistic view: Extra pressures such as Personal Accounts will lead to further closures

Conclusions

- DB occupational pensions are in decline in the private sector, but the rate of decline has slowed
- A number of factors have increased the cost of DB pensions
- Scheme sponsors are reacting in a number of ways
- The future for DB schemes is uncertain