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WELCOME

Approaching the endgame: The future of Defined Benefit pension schemes in the UK

Tuesday 29th October 2019

www.pensionspolicyinstitute.org.uk

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A Pensions Policy Institute report

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Welcome from the Chair

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Madeline Forrester,
PPI Council Member

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Key findings

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Mark Baker,
Senior Policy Researcher,
PPI

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Rise and fall

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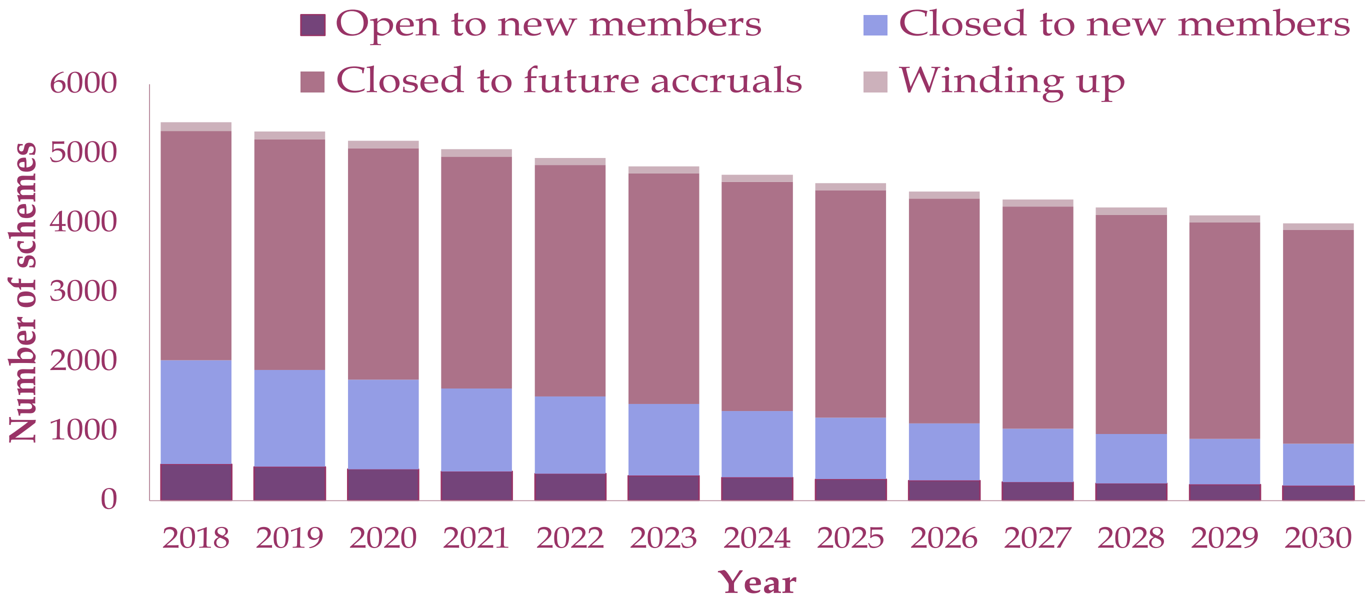
The number of active schemes will continue to decline

Number of DB pension schemes by status



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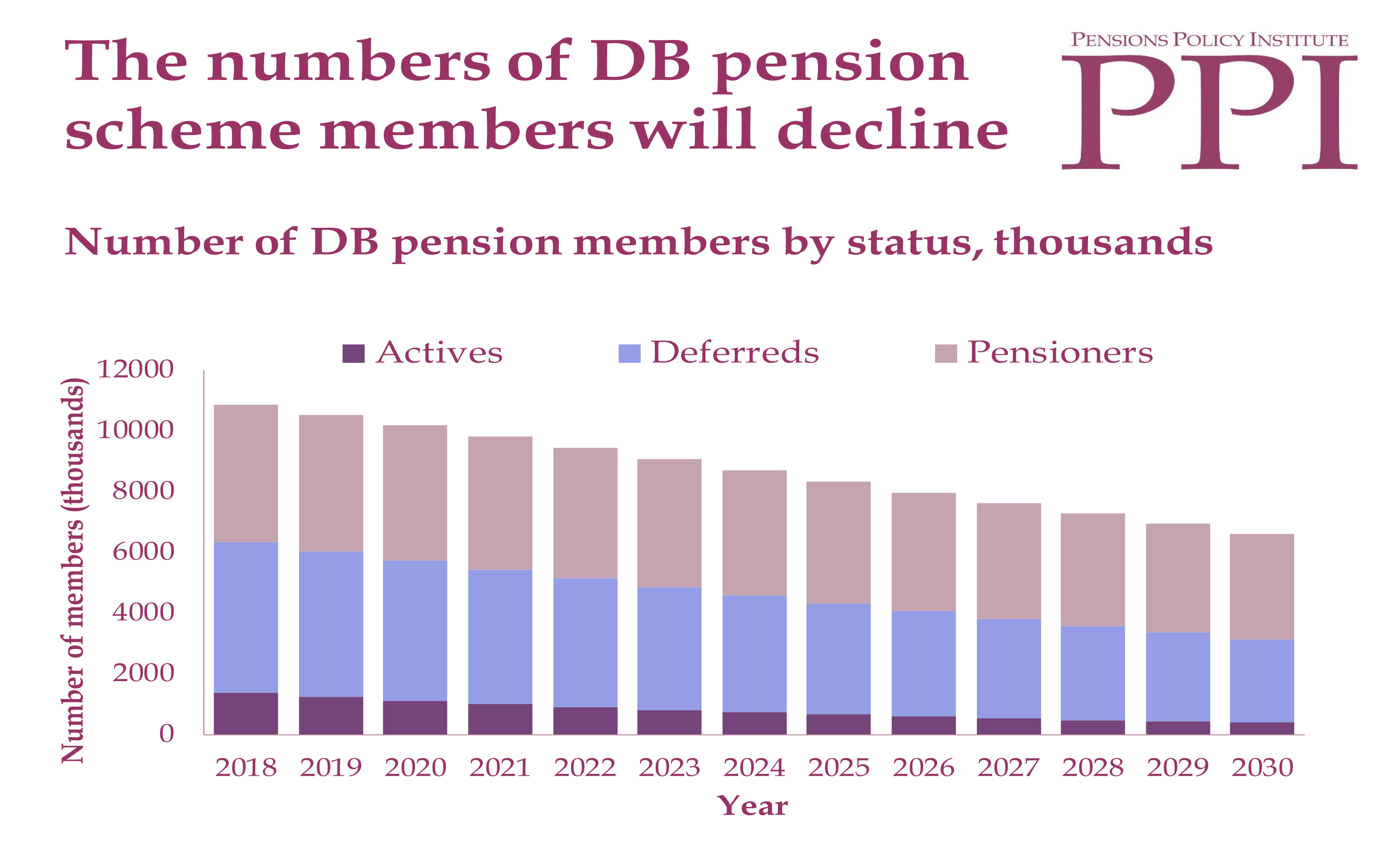
Membership is in decline



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The bulk annuity market is growing

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Recent years have witnessed a significant increase in the size of the bulk annuity market

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UK bulk annuity transactions by year in £billions (nominal amounts)

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Funding levels are projected to continue to improve

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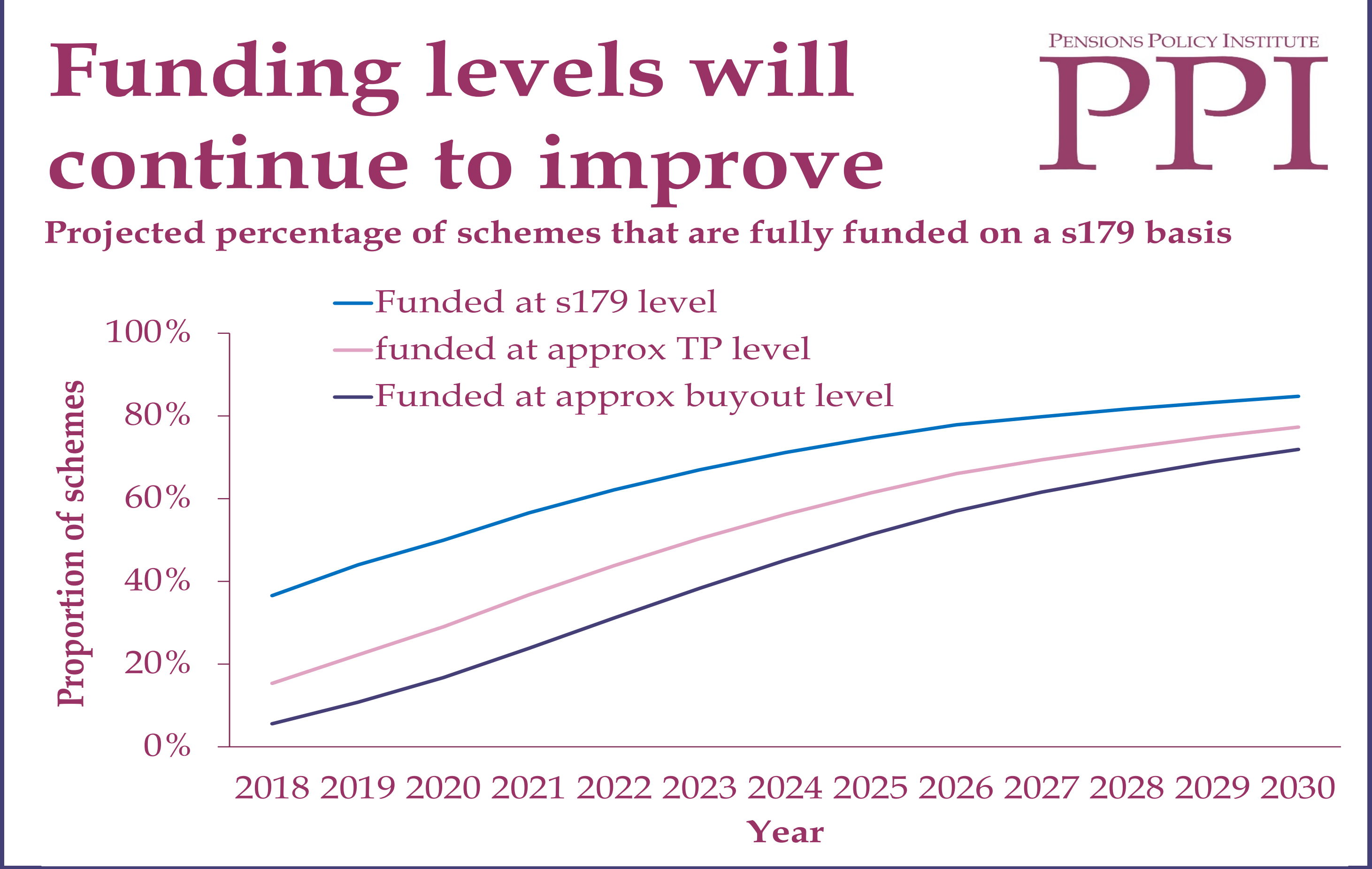

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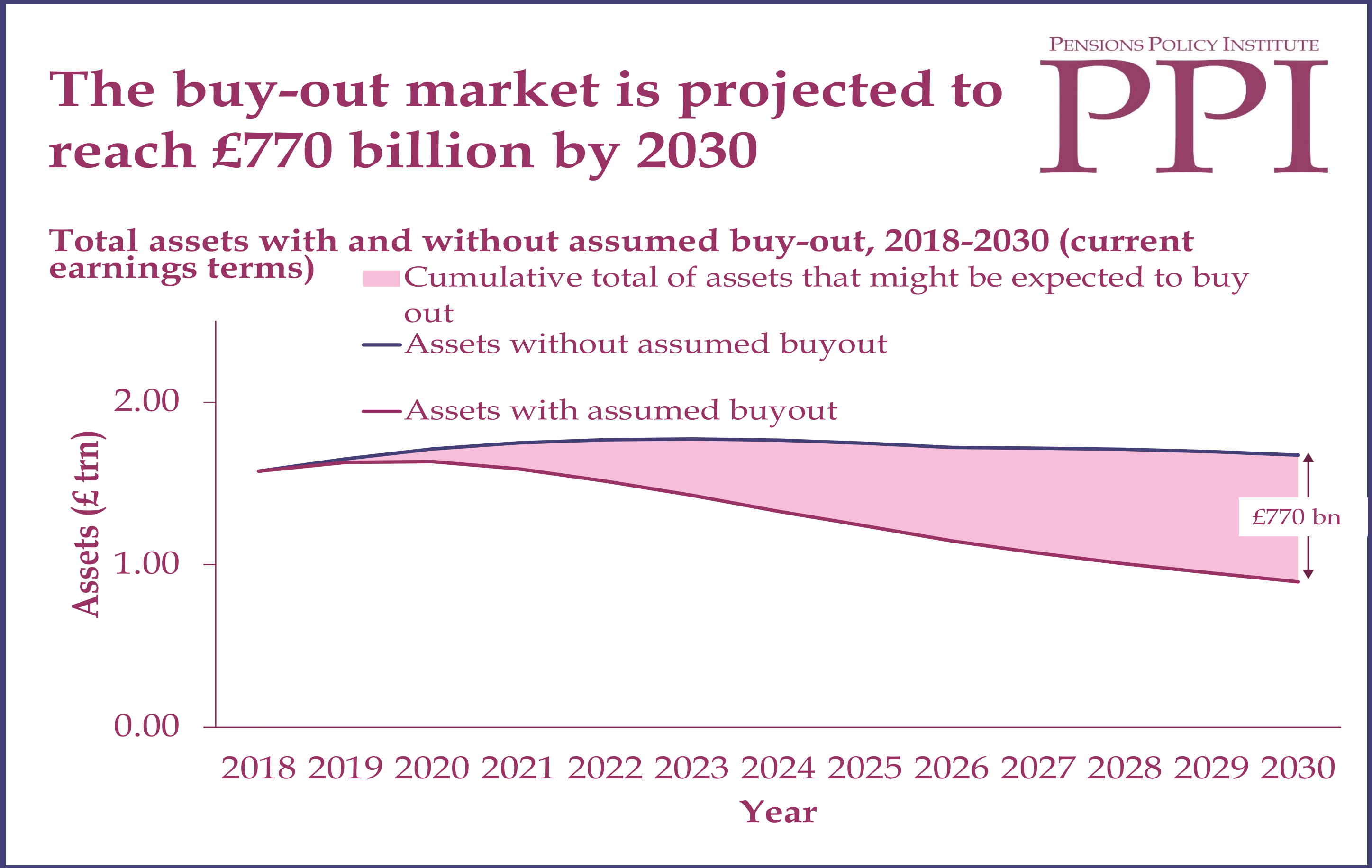
The potential bulk annuity market is projected to increase



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Investment strategies are changing

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DB pension scheme asset allocation has become more risk-averse in recent years

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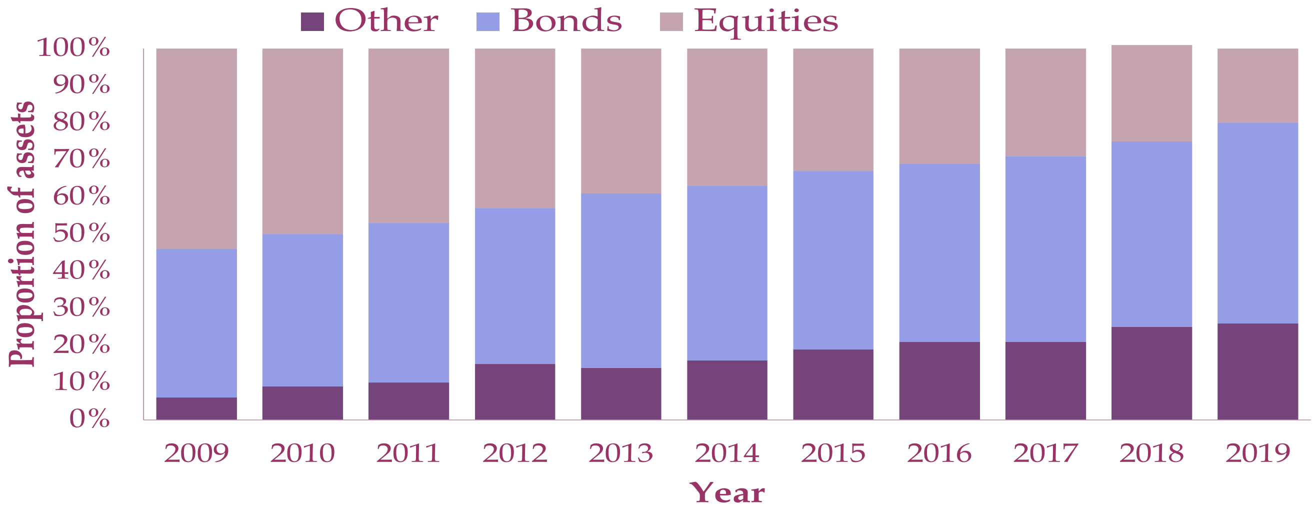
Asset allocation in DB schemes 2009-2019



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The Dairy Crest Pension Scheme

2006 - Closed its pension scheme to new members
2009 – First bulk annuity buy-in
2010 – Closed its pension scheme to new accrual
2010 – Second bulk annuity buy-in
2016 - Developed a deficit Recovery Plan
2022 – Aiming for progressive de-risking

Sponsor appetite for maintaining control can determine levels of consolidation

The end game could be a long game

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Many DB pension schemes will not be wound up for many years

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Expected longevity of pension scheme by current status

Scheme Status	Expected time in current status (years)	Expected time until scheme is wound up (years)
Open to new entrants	9.7	35.5
Closed to new entrants, open to accrual	7.3	30.8
Closed to further accrual	25.4	26.1
Winding up	2.2	2.2

The DB endgame provides a wealth of opportunity, but none are without risk

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- Bulk annuity purchases guarantee future payments, but may be beyond the reach of some schemes
- Investment strategies can play a role, but may require fiduciary management
- Consolidation can reduce risk by pooling functions, but may weaken the covenant
- Superfunds are the elephant trying to get into the room

Response to the research

Douglas Hogg,
Senior Solutions Specialist – Pensions, Aberdeen Standard Investments

Aberdeen Standard Investments

29 October 2019

Navigating to your DB endgame

Douglas Hogg FIA

Senior Solutions Director – Pensions

Navigating to your endgame

Different skillset is required when investing for the endgame

Buy & Maintain Credit with a strong track record of avoiding downgrades and defaults

Alternative sources of contractual income to access illiquidity premia and diversify risk exposures

ESG* Embedded across investment capabilities to generate the best long-term outcomes

LDI and derivatives expertise for hedging residual risks including interest rates, inflation and currency risks

Insurance heritage and a track record of delivering **holistic pensions solutions** through connected teams

Genuine partnership working with a manager who helps you understand your options and who will implement the optimal solution for you

Source: Aberdeen Standard Investments, 30 June 2019. *Environmental, Social and Governance

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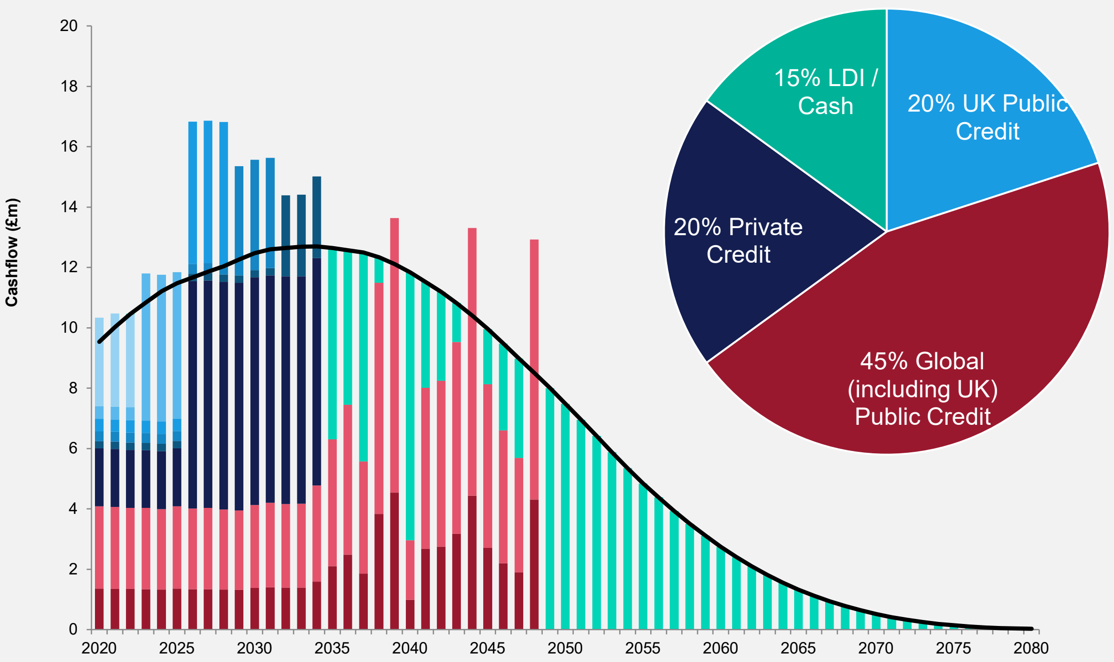
Navigating to your endgame

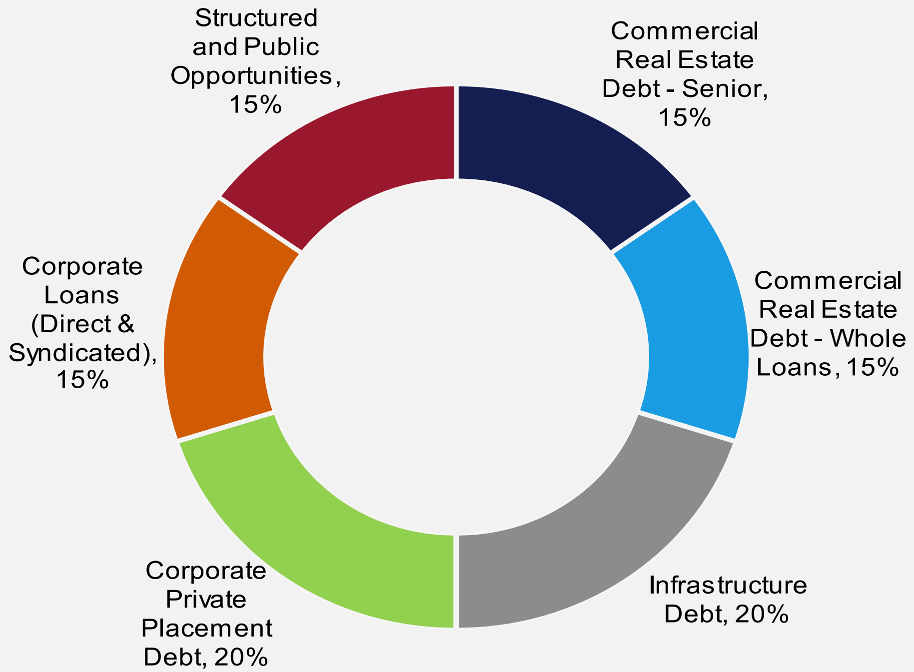
Pooled investment solutions for smaller schemes

Holistic pooled fund solution to meet cashflow requirements



- **Pooled buy & maintain funds** with focus on contractual income
- **LDI funds** to hedge residual risks
- **Well diversified global credit exposure**
- **Ensure sufficient liquidity** to meet unexpected cashflows

Pooled diversified private credit fund targeting illiquidity premia



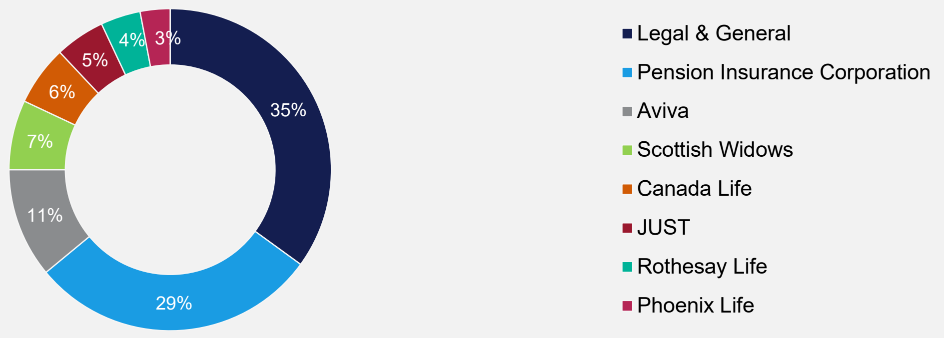
- **Expected yield:** 4-5% [2,3]
- **Expected spread** c. 280-300bps [3]
- **Quality:** Investment grade focus, senior, secured
- **Fund liquidity:** Quarterly subscriptions and redemptions [4]

Source: Aberdeen Standard Investments, 30 June 2019. Past performance is no guide to future results. [1] Characteristics are indicative, and subject to change. [2] For the GBP share class. [3] Based on current and anticipated market conditions. Yield and spread level that is expected once the portfolio is fully invested, which could take 9-12 months following launch. Gross of fees and expenses. [5] Subject to there being offsetting subscriptions in the first 5 years, and subject to a fund-level gate thereafter.

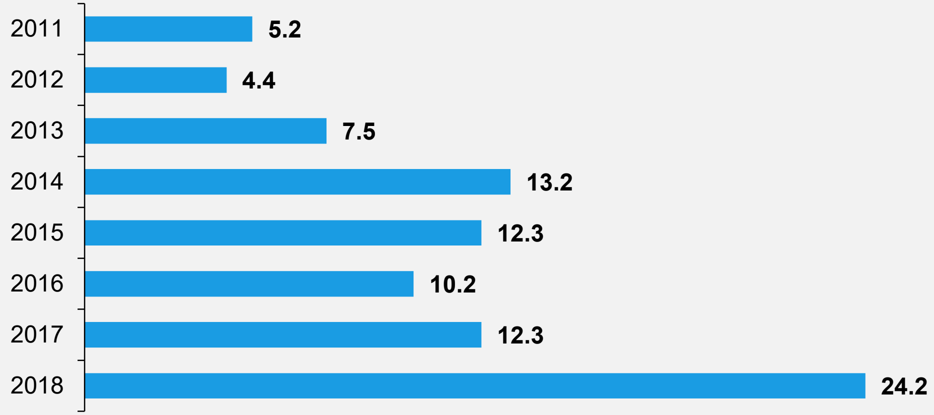
Insurance company buy-in and buy-out activity

Record year for insurance transactions… but when will demand outstrip supply?

2018 transaction volume by insurer



Volume of buy-ins and buy-outs (£' billion)



Source: LCP pensions de-risking report , 31 March 2019.

Practical considerations

Affordability?

Insurance market capacity?

Challenges for small schemes?

Investment strategy considerations?

- Timescales for buy-in/buy-out?
- Creating "insurance-friendly" investment portfolios
- Hedging insurance company buy-in/buy-out annuity pricing
- Identifying opportunities within illiquid assets

Challenges for smaller schemes

A range of consolidation options will emerge

Innovation expected across a range of options

Degree of consolidation

- No Consolidation
- DB Investment Platforms
- Fiduciary Management
- Mastertrust
- Superfunds
- Buyouts

Crucial that these meet the real client needs

- Cost synergies
- Improved governance and risk management
- Improving the security of members' benefits

Navigating to your endgame
Summary

Increased focus on the endgame

- A different investment approach and skillset is required
- Innovation of pooled fund solutions for smaller schemes

Demand for buyouts expected to continue to increase

- Capacity considerations?
- What practical steps can you take to prepare for a buyout?

Consolidation expected to be a feature of the future landscape

- A range of innovative options will emerge
- Crucial that these meet the genuine needs of pension schemes

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Response from the panel

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David Fairs,

Executive Director of Regulatory Policy, Analysis and Advice, The Pensions Regulator

Jack Jones,

Policy and Campaigns Support Officer, TUC

Lynda Whitney,

Partner, AON

The Chatham House Rule

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Panel Discussion

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Madeline Forrester, PPI Council member

Mark Baker, Senior Policy Researcher, PPI

David Fairs, Executive Director of Regulatory Policy, Analysis and Advice, The Pensions Regulator

Douglas Hogg, Senior Solutions Specialist – Pensions, ASI

Jack Jones, Policy and Campaigns Support Officer, TUC

Lynda Whitney, Partner, AON

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Questions and Answers

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Closing Remarks

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Please stay and join us for a drink and networking.