



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA evidence to Select Committee highlights need for evolution of LDI in face of market challenges

16 November 2022: In our evidence to the Work & Pensions Select Committee, the Association of Consulting Actuaries says that whilst LDI remains fit for purpose, given recent experiences, we anticipate there will be changes in standard market practice in the operational of LDI arrangements, such as standard minimum levels of collateral.

Our [evidence](#) to the Committee's Inquiry on Defined Benefit pensions with liability driven investments, notes that ACA members provide a wide range of pension and investment consultancy advice to trustees and sponsors of defined benefit and defined contribution schemes. In preparing our response, we have summarized the typical perspectives of our client base.

Our key points are:

- In our view, LDI has overall significantly benefited defined benefit pension schemes (and their sponsors and members) including during the long period of falling yields driven in part by quantitative easing and during the pandemic.
- We believe LDI remains fit for purpose although, given recent experiences, we anticipate there will be some changes in standard market practice in the operation of LDI arrangements, such as standard minimum levels of collateral.
- Recent market events highlighted issues of liquidity rather than solvency.
- Trustee governance models have also been tested. In particular, recent events have required often daily management and decision making. Whilst most Trustee boards have responded well to these circumstances, some will have been challenged during the period.
- Our view is the proposed legislative changes for defined benefit schemes that are currently in the pipeline risk exacerbating some of the issues discussed in this response. Our [response](#) to the DWP's recent consultation on the draft Occupational Pension Scheme (Funding and Investment Strategy and Amendment) Regulations 2023, on 13 October 2022 covers these points in more detail.

Steven Taylor, Chair of the ACA said:

"In our view, LDI has overall significantly benefited defined benefit pension schemes, in particular during the long period of falling yields in part driven by quantitative easing and during the pandemic. However, given recent market challenges, we believe there will now need to be changes in standard market practice in how LDI arrangements operate, such as minimum levels of collateral".

Vanessa Hodge, Chair of ACA's Investment Committee said:

"Most DB trustees have well established, formal plans to source additional collateral when needed to help support their hedging arrangements. Given the unprecedented speed with which gilt yields rose between late September and mid-October, the pace with which assets could be disinvested and

transferred will have caused challenges for some pension schemes despite overall funding levels having improved in many cases.”

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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