



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA comment on recent government bond market volatility

6 October 2022: The Association of Consulting Actuaries (ACA) Chair, Steven Taylor, says that following significant recent government bond market movements, defined benefit pension schemes need to review hedging strategies to ensure they protect schemes effectively in times of market stress.

Steven Taylor said:

“In the past two weeks we have seen historically significant price movements in the government bond market, with the Bank of England intervening on 28 September to give defined benefit pension schemes breathing room to rebalance their investment strategies.

“When the dust has settled we expect that, in aggregate, recent increases to bond yields will have improved the financial position of defined benefit schemes, which typically invest in ways designed to align their assets with liabilities and often with an ultimate goal of securing benefits with an insurer.

“Over the past decade, these investment approaches have worked well and, for example, allowed schemes to emerge strongly from the pandemic when very low interest rates might otherwise have led to significantly higher deficits and funding requirements.

“Schemes also coped well with significant increases in bond yields earlier this year. However, it is the very rapid pace of more recent increases in bond yields that challenged some schemes, in particular with the need to repeatedly reorganise investments far more frequently than normal, and at the same time as many other schemes.

“The Bank of England intervention into the Government Bond markets was timely and has given schemes the opportunity to rebalance portfolios in an orderly way. During this time, and in the following period, it will be important for actuaries and the investment community to work closely with trustees to review their investment strategies so as to further increase resilience to significant market movements.

“Over the next year The Pensions Regulator is expected to update its funding guidance to schemes, which we expect will continue to encourage schemes to take steps to manage interest rate, inflation and other risks in their investment approaches.

“It will be important for trustees, actuaries, and the wider investment community to work closely with TPR and other regulators to ensure that as defined benefit pension schemes continue to mature, risk management steps that are sensible for individual schemes do not lead to wider market stress in volatile times.

“The DWP’s draft funding regulations (which are currently being consulted on) are also a good opportunity for industry and government to reflect on systemic risks together and agree how best to position the UK’s defined benefit funding regime for the years ahead.”

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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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