2015 ACA members’ conference

Current issues in corporate pensions

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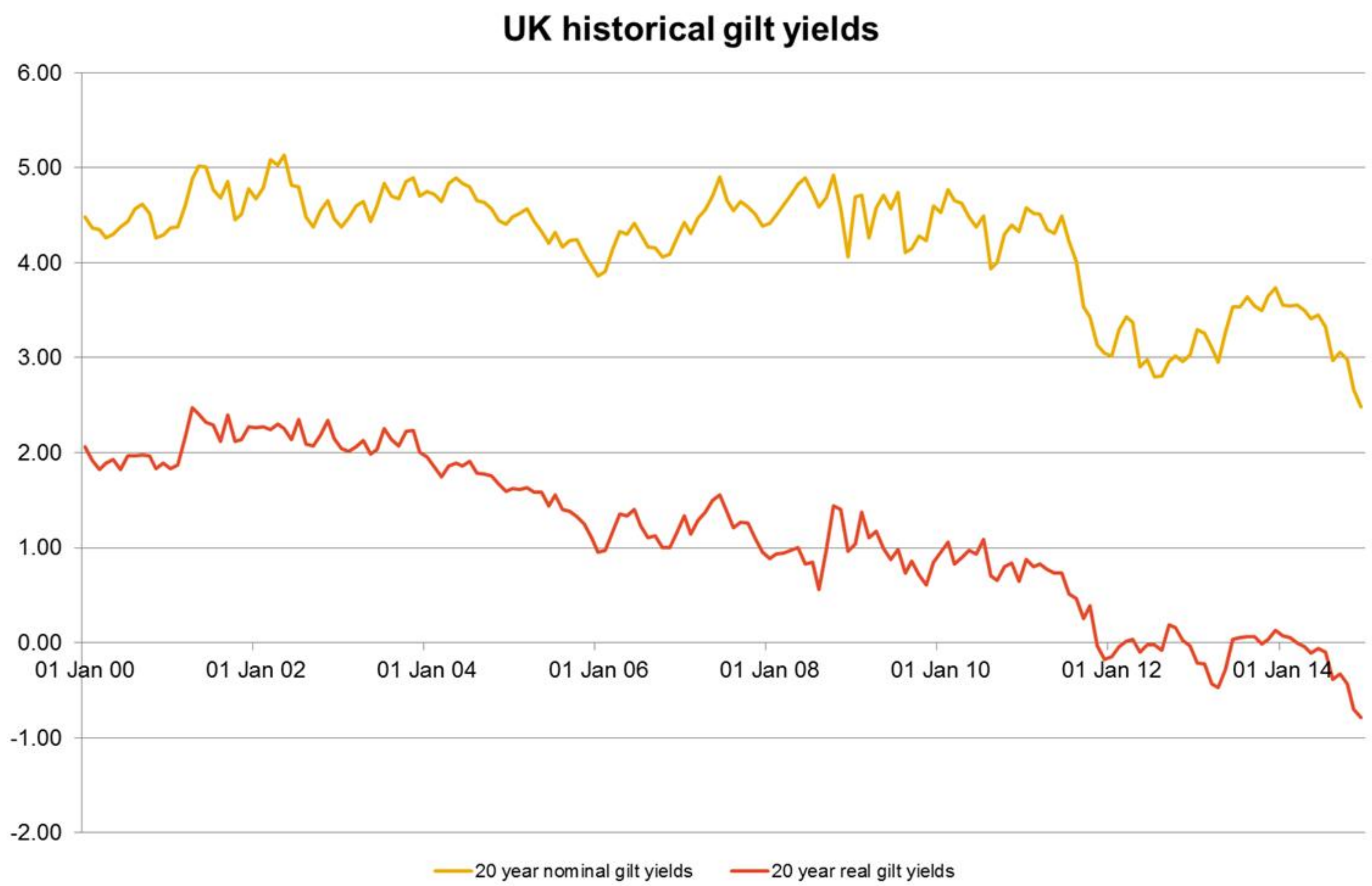
TOWERS WATSON

Agenda

1. Low gilt yields
2. Plan design
3. DC flexibility
4. Longevity
5. PPF levies
6. Section 75 debts

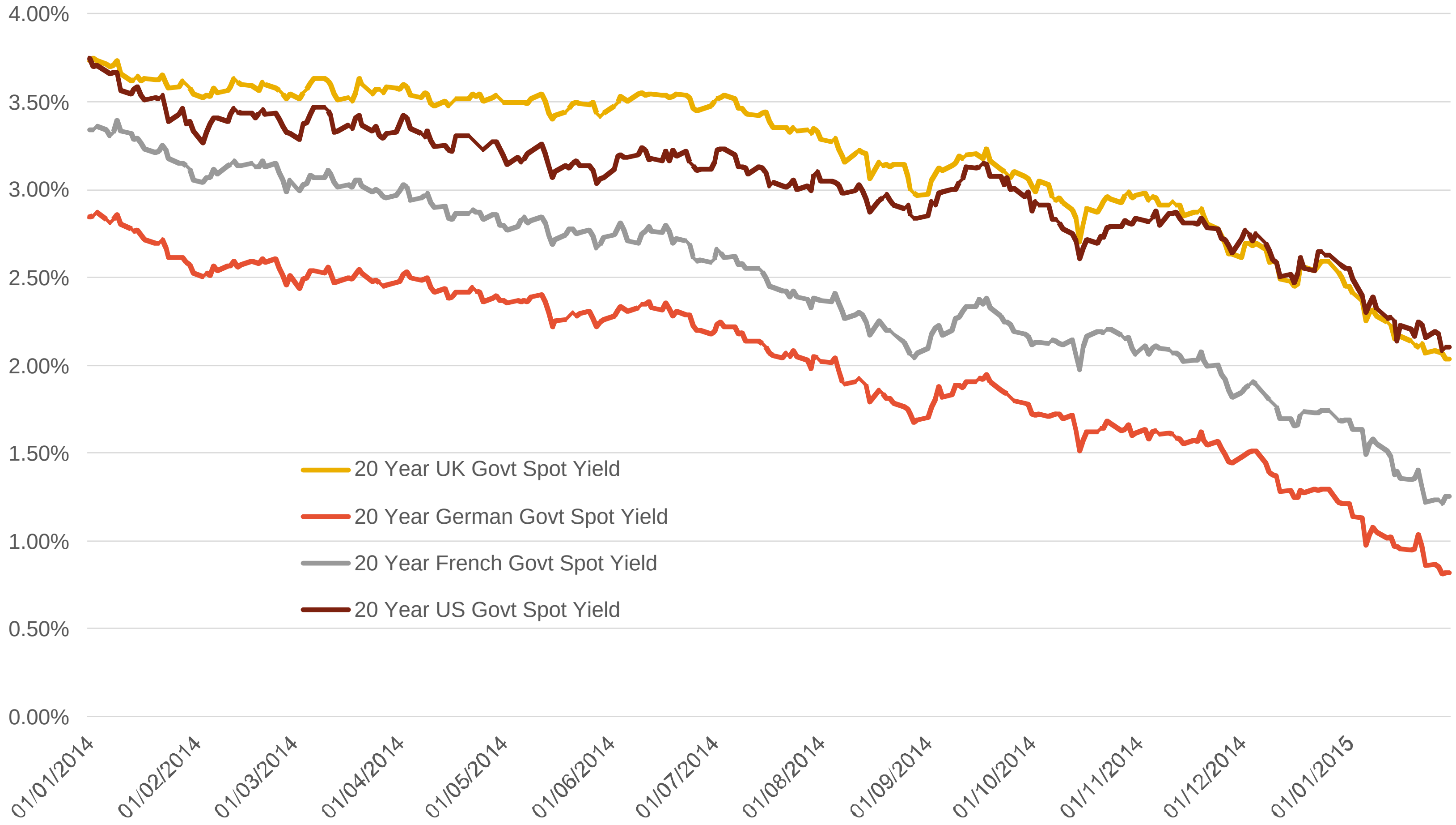
Low gilt yields



Source: Bank of England

And the rest of the world...

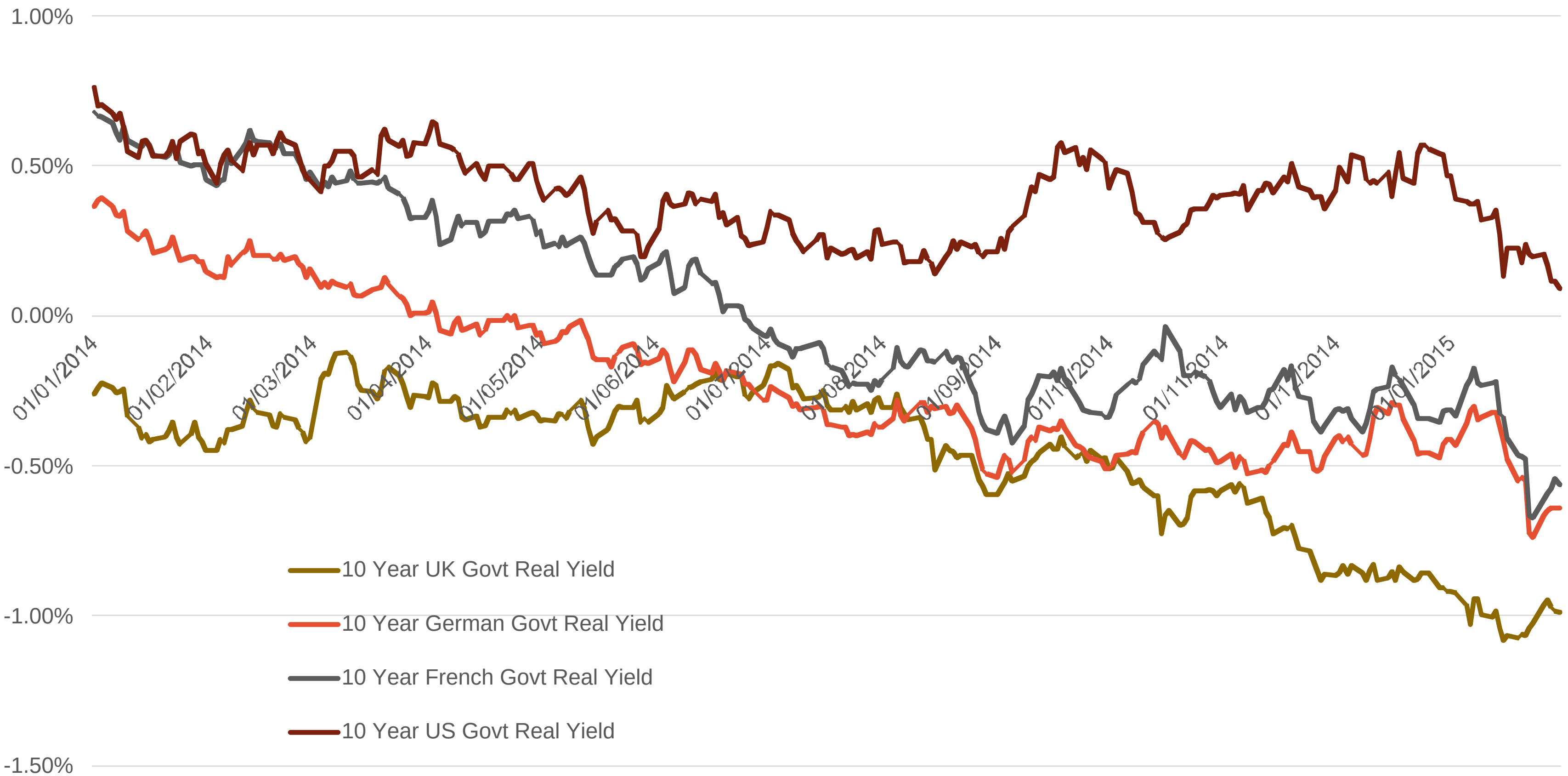
20 year government nominal yields in US, France, Germany and the UK, % pa



Source: Datastream, Bank of England

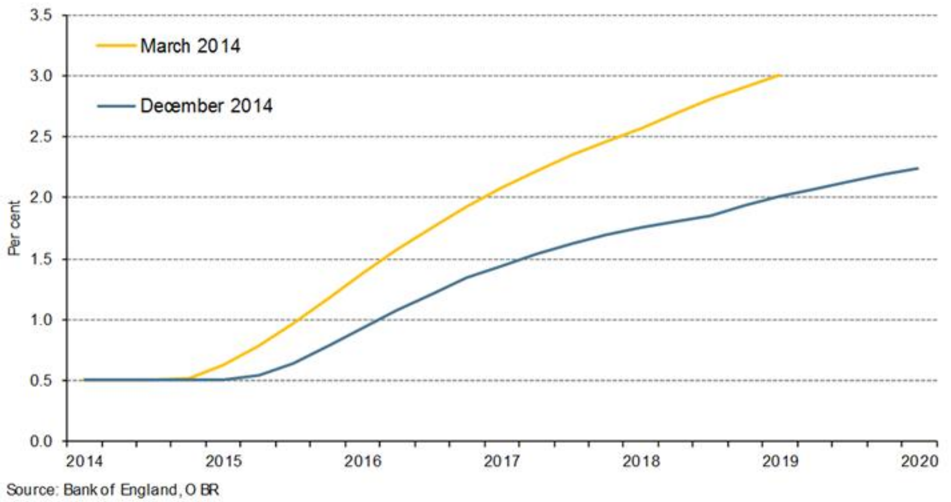
And the rest of the world...

10 year government real yields in US, France, Germany and the UK, % pa



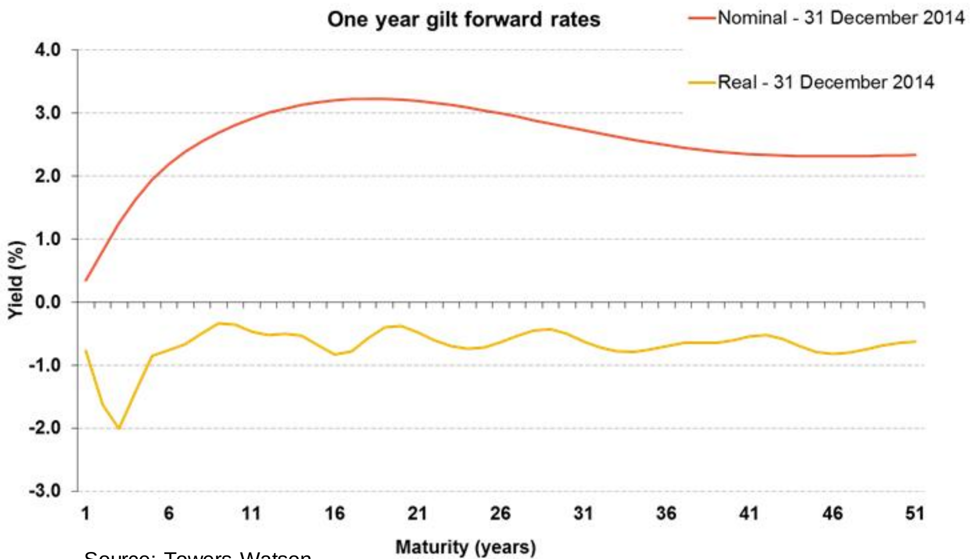
Source: Datastream, Bank of England

Market expectations…



Medium-term market expectations of interest rates

Forward rate curves – December 2014



Source: Towers Watson

What does it mean for…

FUNDING

EQUITIES

EMPLOYER BALANCE SHEETS

HEDGING

COLLATERAL

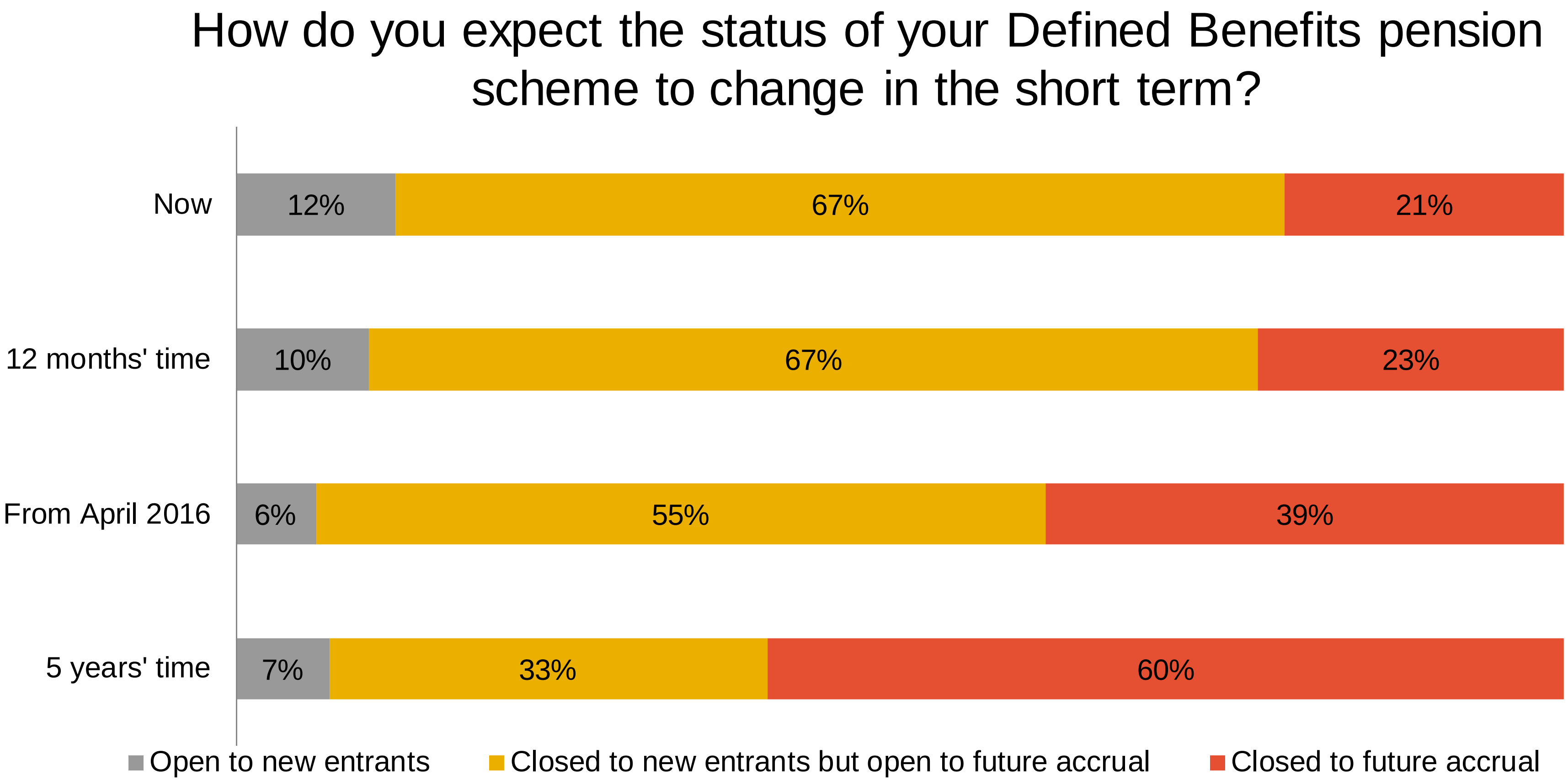
CONTINGENT FUNDING

SMPI

BUY IN/OUTS

LONGEVITY

Plan design



Source: Towers Watson Survey 2014

Some key discussion areas

- Statutory override
- Alternatives to closure
- CDC
- DC budget changes
- GMP reconciliations
- Rules
- Business case

Case studies

Case study 1	Case Study 2
• Transparency • Time • Senior managers and leadership accountable	• Be willing to ride out the negative storm • Ramp up education and guidance • Hands on, 1-1 approach

DC flexibility…and what could it mean for DB/hybrid schemes

DC section – does it still work?

Transfer bases

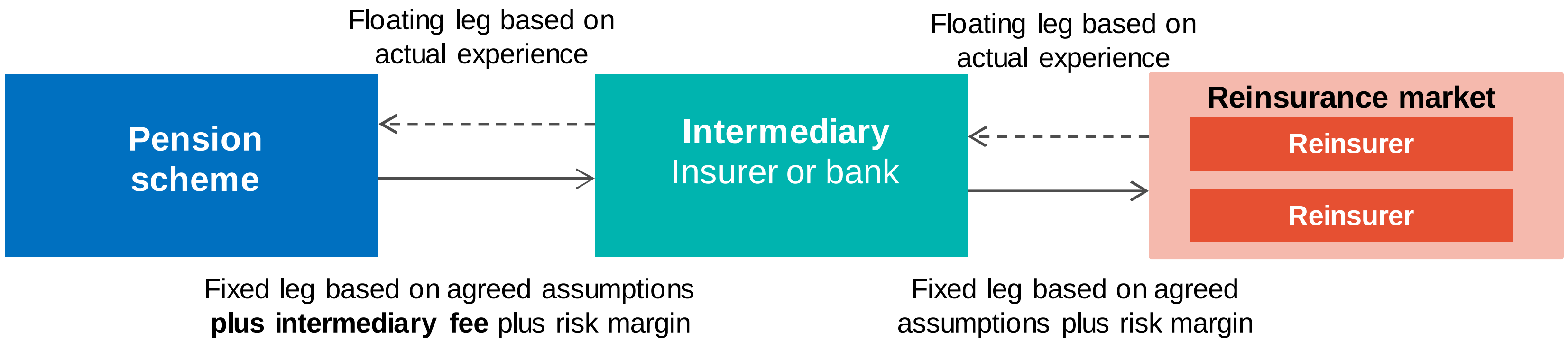
Commutation vs transfers

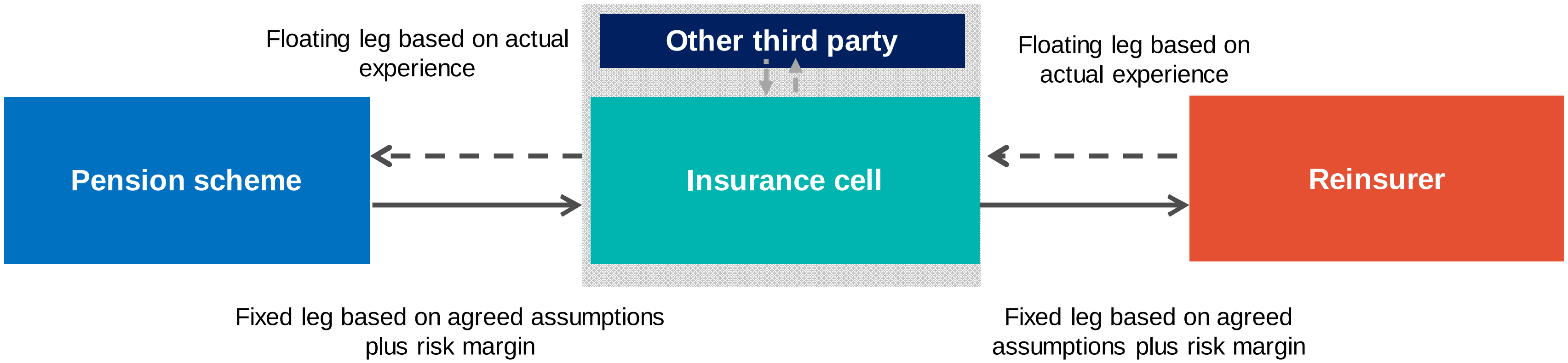
Cashflow changes

Advice models

Advice costs

Longevity hedging





Examples of direct access to the reinsurers: Aviva, BT and MNOPF

PPF levy – creating more questions?

Asset backed funding	Value of ABCs will be removed from assets used for S179 / block transfer valuations
Mortgage charges exclusions	• Rent deposit deed • Charges in favour of a pension scheme • Refinancing on better or equal terms • Mortgage size less than 0.5% of total assets • Company has an investment grade credit rating • A company in the group has an investment grade credit rating and no other company in the group has a sub-investment grade credit rating

Section 75 debts – FAAs / SAAs

- Ongoing positions vs solvency positions
- Cash available
- Bank ring-fencing
- Scheme mergers rationalising employers
- Interaction with tPR – experience