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Adding shareholder value through pensions

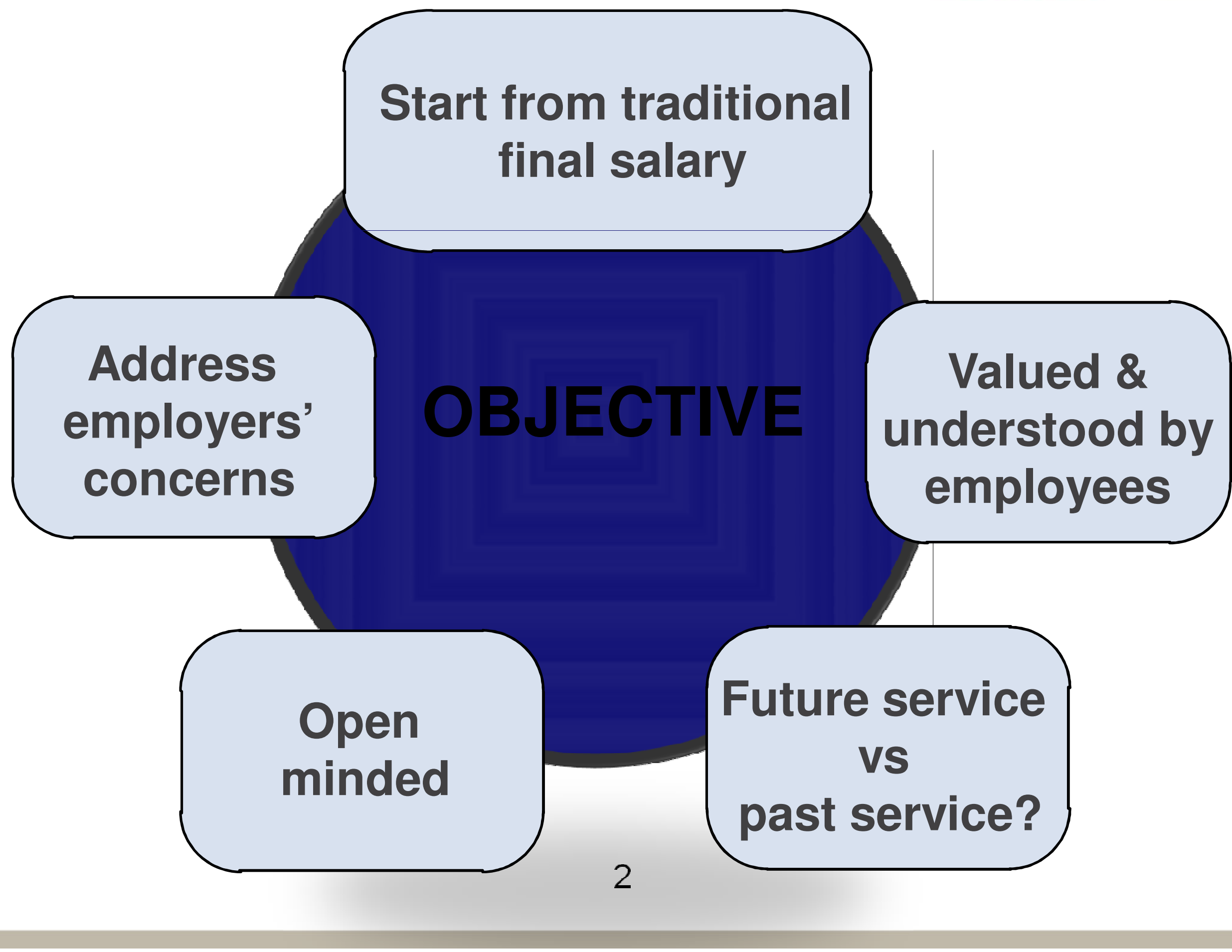
DA Industry Working Group: DB minus

Jane Beverley FIA, and
Catherine Love Soper FIA

Introduction to DB minus

> Discussions with a range of employers have indicated that some who want to move away from their current DB pension arrangements are keen to retain some element of DB, but with an element of risk-sharing. They regard this as part of building a long-term relationship with the employee.

DWP Department for Work and Pensions



Models already possible

CARE

- Winners and losers
- Not reduce risk

CASH BALANCE

- Only pre-retirement risk
- Education?
- Full DB regime

RISK MANAGEMENT

- Buy-outs, Buy-ins
- Longevity swaps
- Interest rate / inflation hedging

Longevity risk

John Lewis applies a Life Expectancy Adjustment Factor (“LEAF”) to service post 1 October 2008.

Pension is reduced to take into account improvements in longevity to retirement so employer exposed to less longevity risk post 2008.

- Link retirement age to changes in longevity
  - E.g. SPA or independent commission?
- Pass longevity risk to employees…
- …Only PRE retirement
- Consider healthy life expectancy?

Conversion to DC

- DB provision which converts to DC on:

Leaving

Death

Retirement

Past and future service?

Focus on current active workforce

Member education

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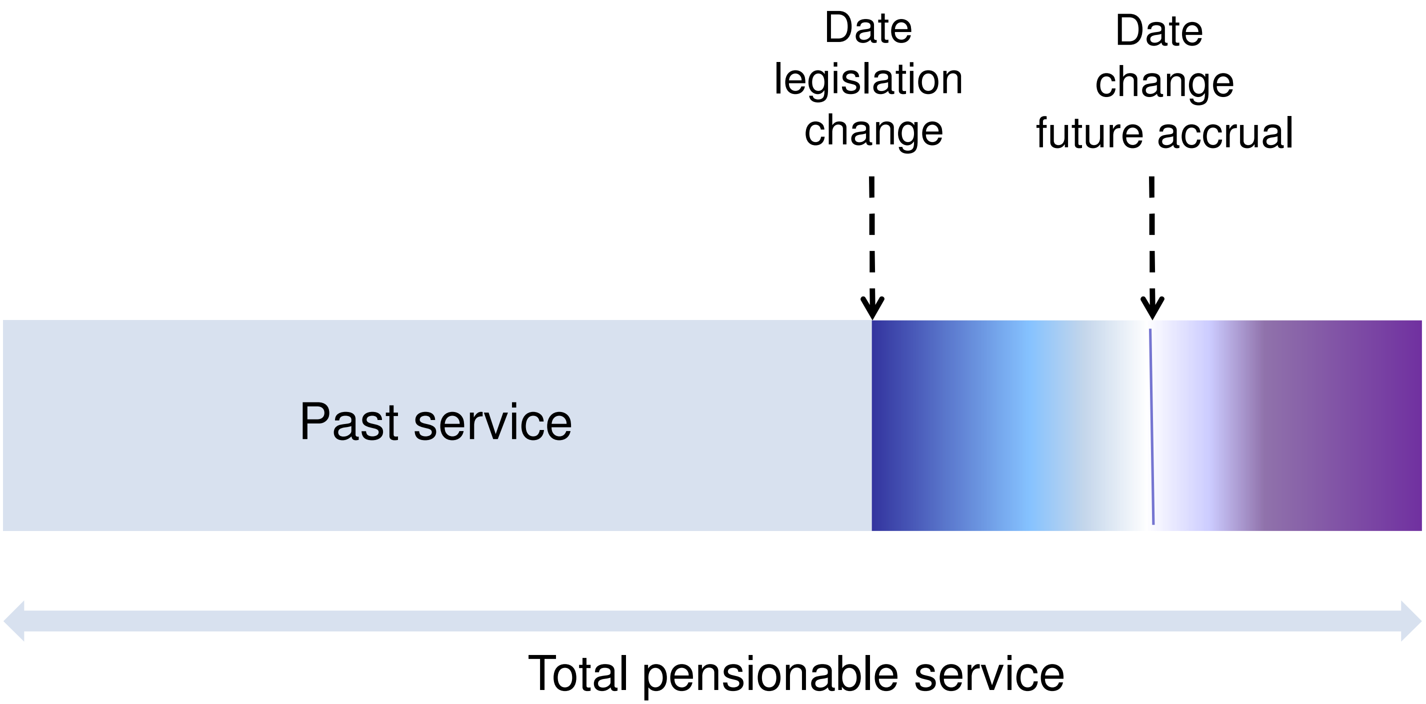
Legislative changes

- To cover past service…



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Simplified / core DB schemes

- Removal of spouses' pensions:

Currently required under Reference Scheme Test – Contracting Out for DB to be abolished

Not required for C/In schemes

Arguably no (or much less) need for today's workforce given both men and women work

Will reduce costs for employer

Will it reduce risk?

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Simplified / core DB schemes

Core DB benefits (existing funding regime) with additional benefits on a discretionary basis (light regime)

Conditional indexation

- Future indexation not guaranteed
- Conditional on scheme funding level
- Index targeted but can be withheld

Optional indexation

- Remove statutory requirement completely!

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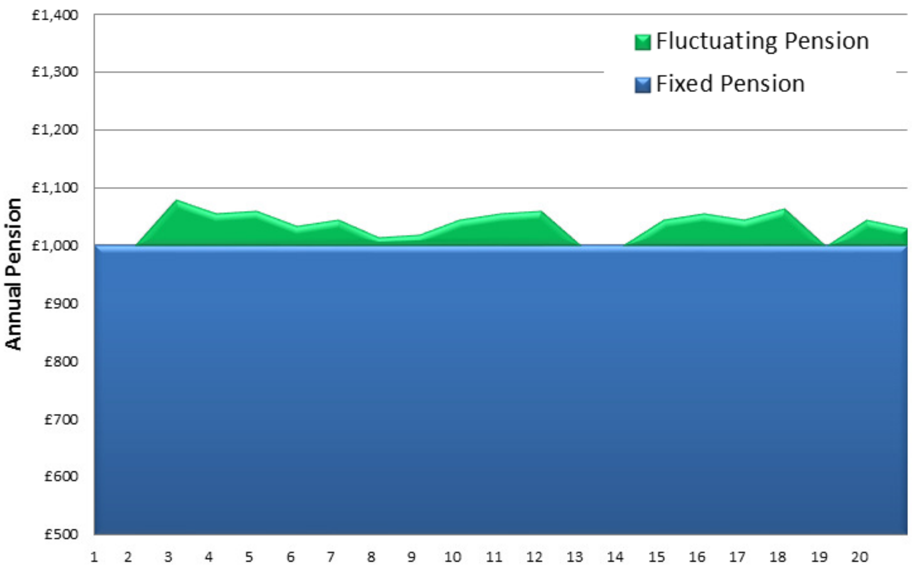
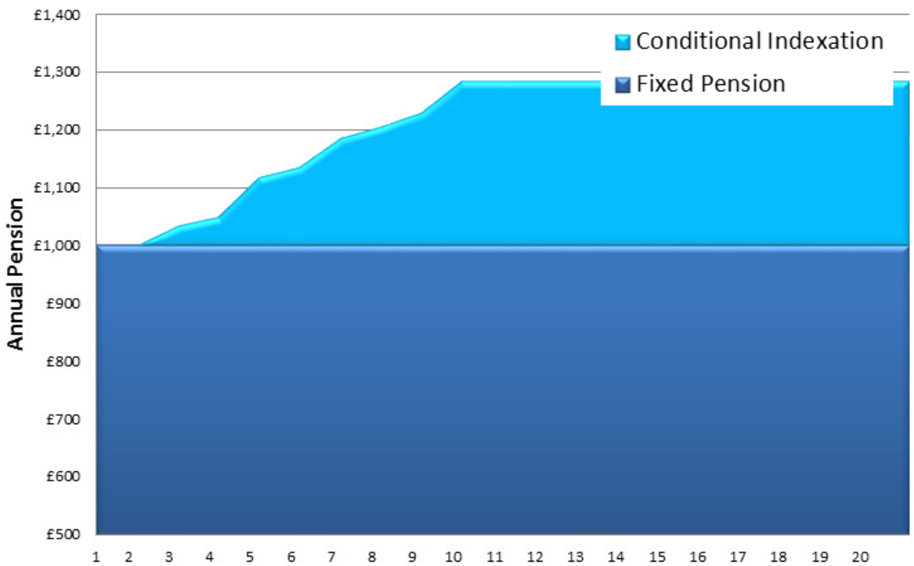
Simplified / core DB schemes

Fluctuating Pensions

- Indexation not “building” on itself
- Lighter regime





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Fixed term pension

Fixed term pension

Higher earners: member option

Low earners: bridge to State

No longevity risk!

Member education

Enhance / flex income

Phased retirement

Not in DWP's "Reinvigorating workplace pensions" paper

Summary

Mail Online

Defined ambitions heralded as the answer to Britain's pensions problem in new DWP report

This is MONEY.co.uk
FINANCIAL WEBSITE OF THE YEAR

Can 'defined ambition' schemes restore British workers damaged faith in company pensions?

Ambition defined: S
schemes.

theguardian | TheObserver

Minister urges companies to offer 'defined ambition' pensions

Professional Pensions

2013 Defined Ambition Competition

Defined Ambition Competition 2013
Barnett Waddingham Professional Pensions

Professional Pensions has teamed up with Barnett Waddingham to launch a £15,000 prize competition to find the most pragmatic approach to introducing defined ambition pension schemes to the market.

A prize of £7,500 will be awarded to the author of the winning submission and cash prizes totalling a further £7,500 will be available for the seven other strongest entries.

of the competition will be announced at Pensions Show on 013 and the winning entry will be published in Professional d submitted to the pensions minister for consideration.

ition schemes are those which sit somewhere between DB ion scheme, where the employer and employee share

FINANCIAL NEWS

Friday, 21 December 2012

Actuaries back Steve Webb's defined ambitions

The INDEPENDENT

Julian Knight: A 'defined ambition' is worthless if it turns into shattered dreams

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