The Pension SuperFund

Taking care of pension promises

ACA Sessional Meeting – 24 May 2018

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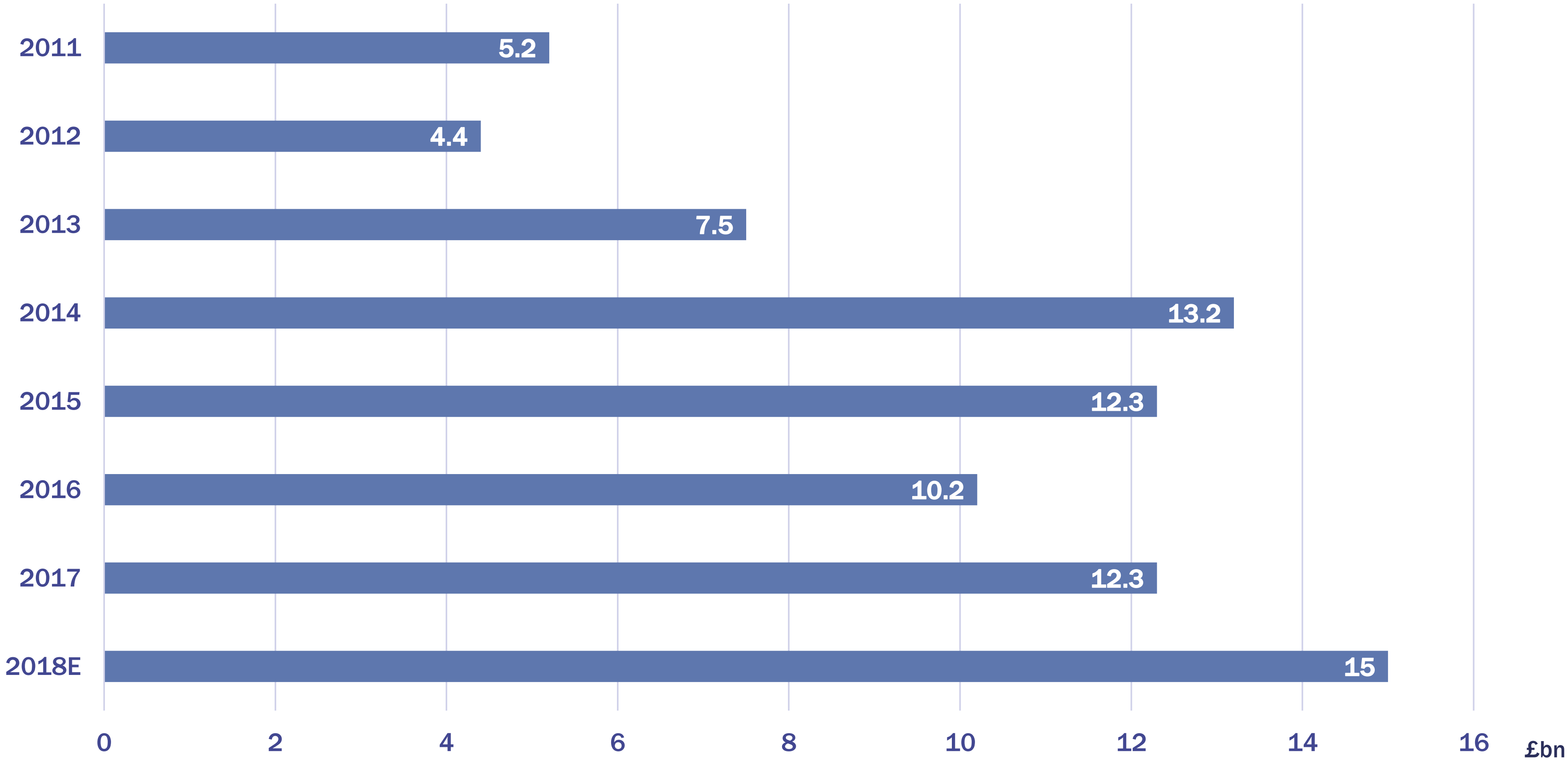
The case for consolidation

The Government's White paper sets out the case for consolidation.

Key benefits:

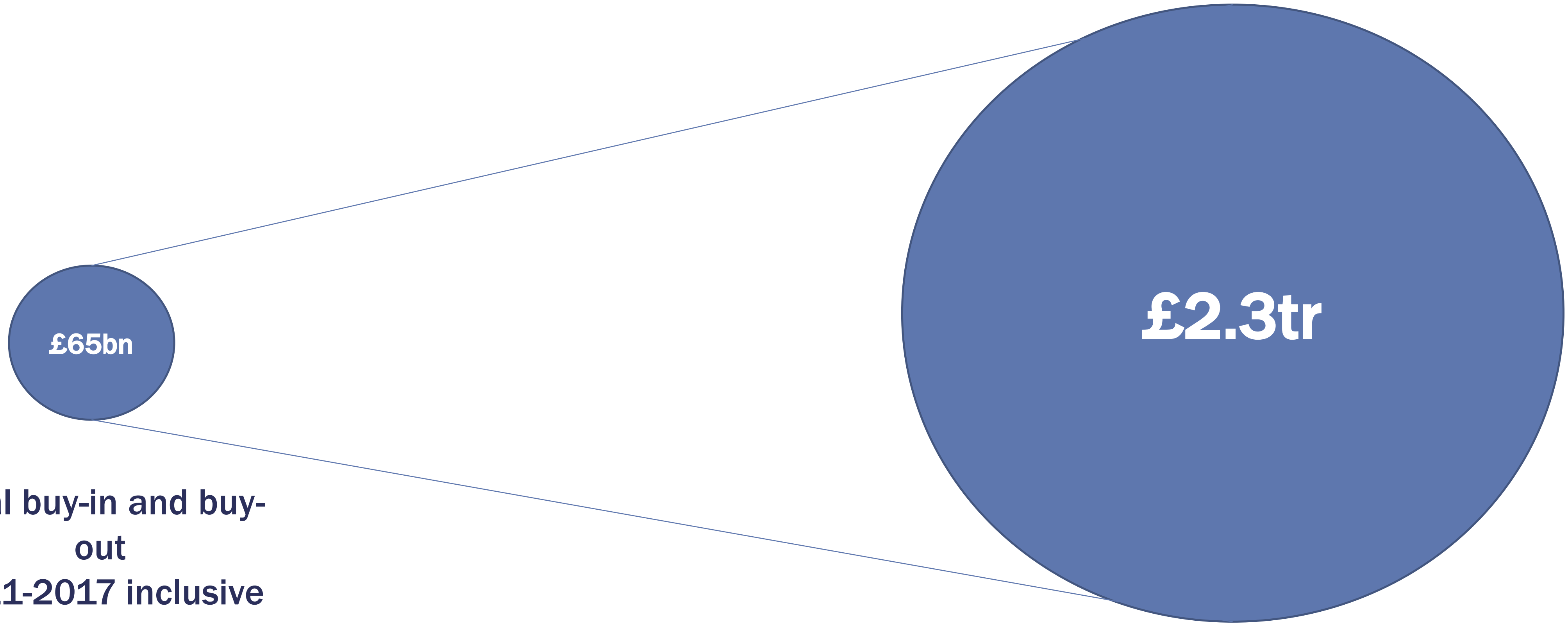
- Lower costs per members due to economies of scale
- Improved investment returns and lower relative risk
- Better governance and resourcing

Pension buy-in and buy-out market 2011-2018



Source: LCP de-risking report 2018

Insurance alone is not the answer

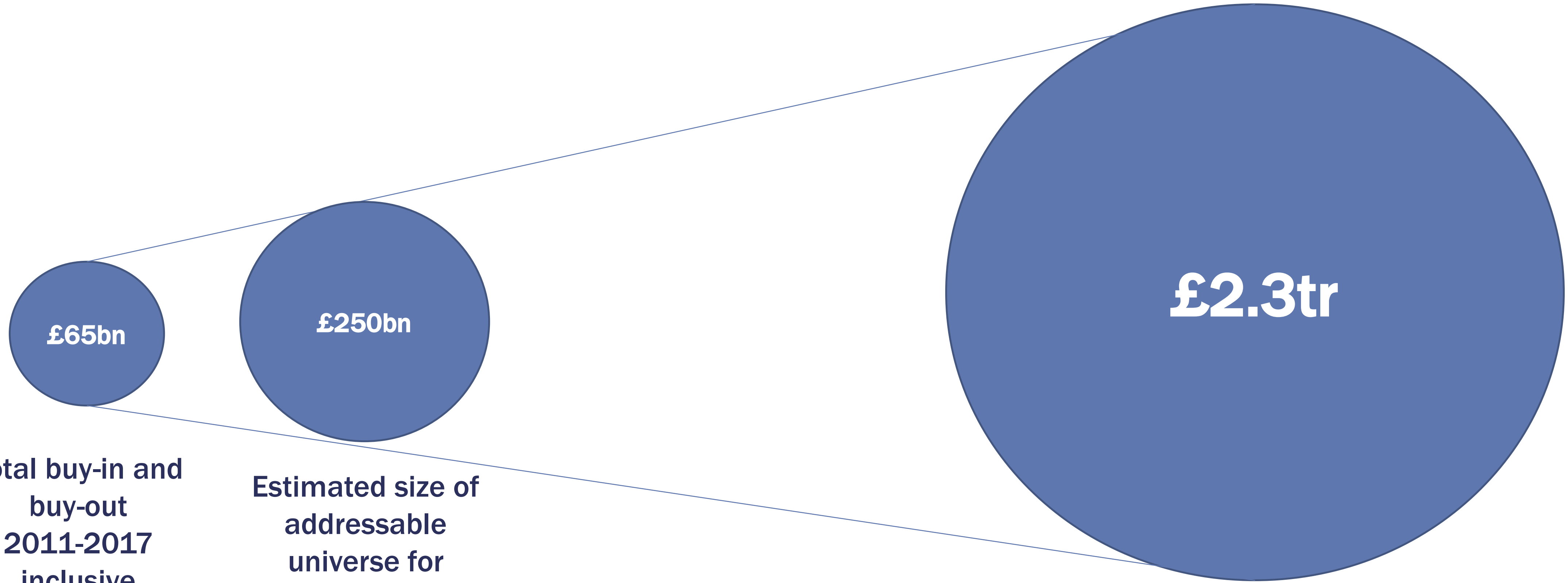


Total buy-in and buy-out
2011-2017 inclusive

Total DB liabilities on buy-out basis*

** source: PPF Purple Book 2017*

Consolidation only part of the solution



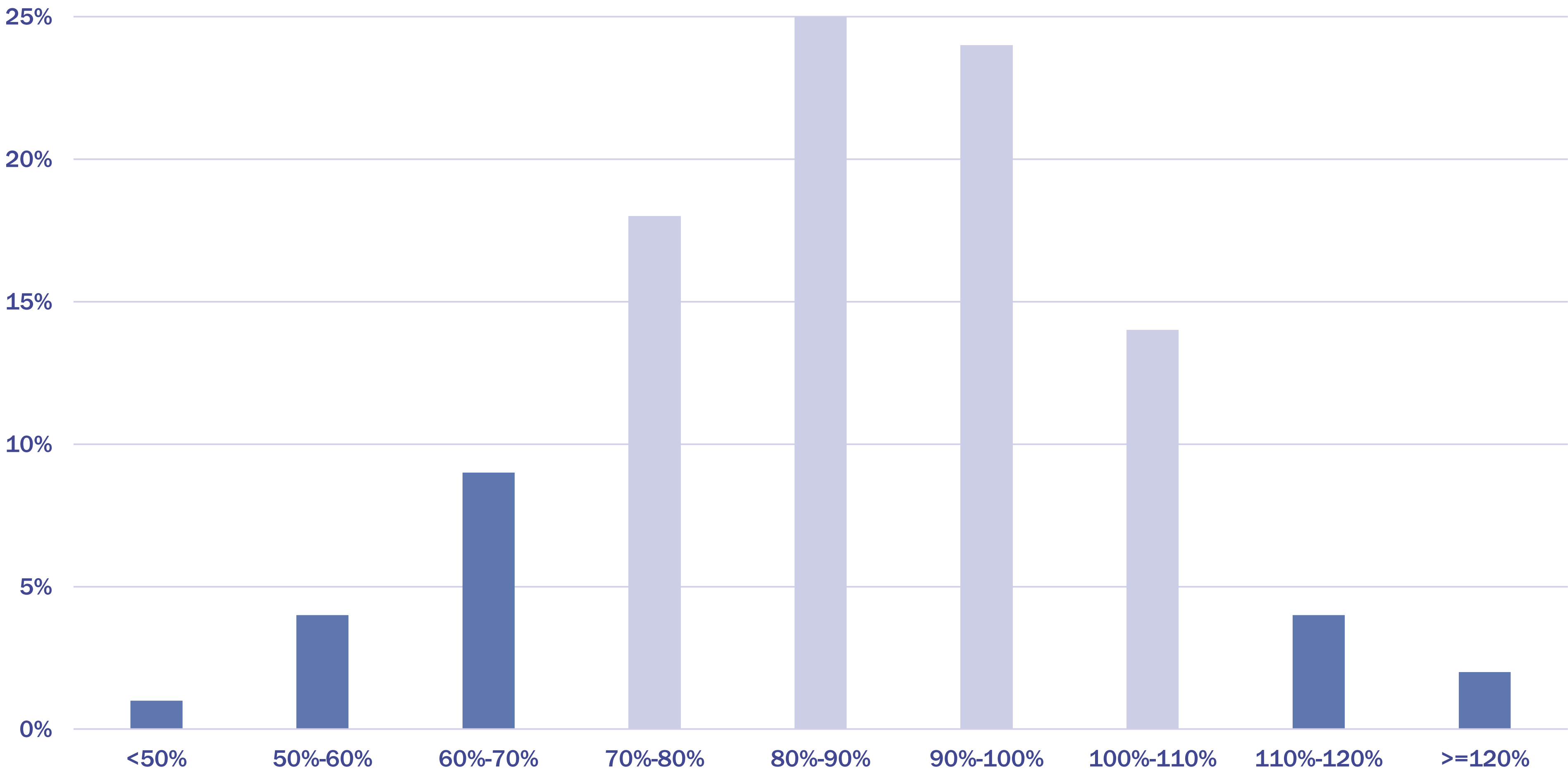
Total buy-in and buy-out 2011-2017 inclusive

Estimated size of addressable universe for consolidation **today**

Total DB liabilities on buy-out basis*

** source: PPF Purple Book 2017*

Defined Benefit schemes by funding level



Source: The Pensions Regulator

Issues with Consolidation

1. Cost – is it manageable?

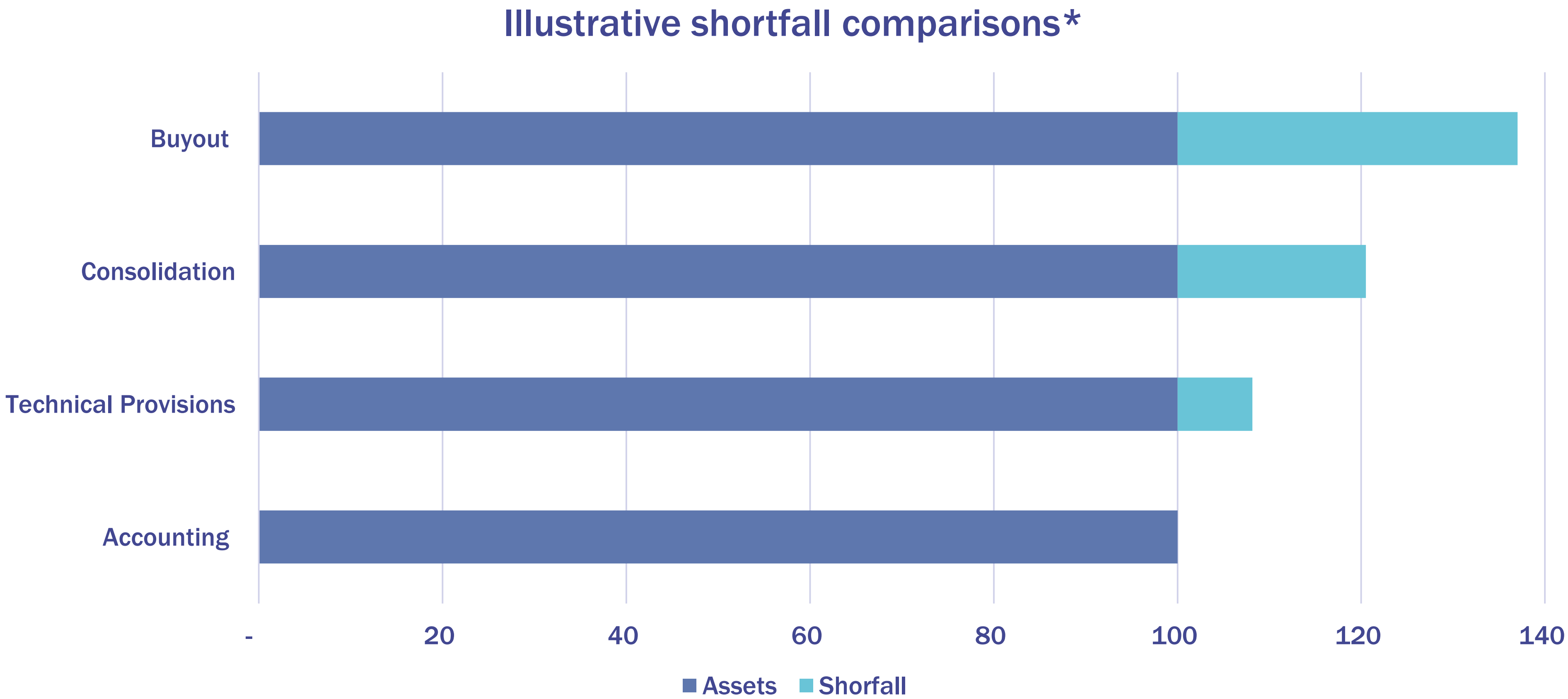
2. Covenant – assessing the change

3. Regulation – Clues from the White Paper?

The Pension SuperFund’s Proposition

- Consolidate UK occupational pension schemes by accepting bulk transfers of DB pension assets and liabilities from other UK occupational pension schemes.
- No changes to existing scheme benefits
- Run to the highest standards of governance, and use size to improve performance and drive down costs
- Replace sponsor covenant by immediate improvement in funding
- Maintain funding rate through low risk asset strategy and full liability hedging
- Share the upside between scheme members and capital providers

How it looks to corporate sponsors



*Illustrative numbers based on a scheme with 50% deferreds/50% pensioners, fully funded on IAS19 accounting basis, and rebased to 100

And how it looks to Trustees

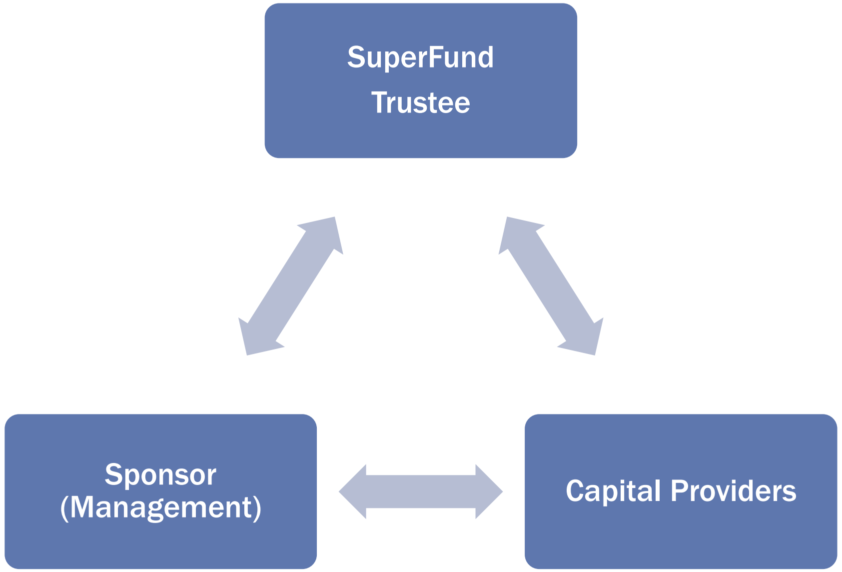
	Before	After
Recourse to future funding	Sponsor covenant	None
Liabilities (existing technical provision basis)	108	108
Assets: - in scheme - In ABC - total	 *100* *0* 100	 *121* *18* 139
Surplus/(deficit)	**(8)**	**31**
Funding level	92%	128%

Regulatory Considerations

- Current regulation does permit consolidation
- Indications from the White Paper:
    - Set clear expectations around the protections needed
    - A new accreditation regime to build confidence and encourage existing forms of consolidation
    - A new authorisation regime?

- Avoiding a race to the bottom
- But ensure any minimum standards don't leave us with only 2 real choices – PPF or Insurance Buyout

Our approach to governance



- Structure designed to maximise alignment of interests
- Extensive checks and balances
- Common interest in securing modest but consistent performance
- Key documents and contracts agreed in advance

Discuss!