Dealing with underfunded pension funds

Alan Rubenstein, CEO, Pension Protection Fund
What does the UK DB pensions landscape look like?

- 6400 private sector DB schemes with £1 trillion assets
- 5500 schemes in deficit
- £283 billion deficit at the end of July 2012
- 41.1% equity allocation (60% in 2006)
- 58% closed (44% in 2006)
UK scheme funding history

**Chart 1:** Estimated aggregate balance (assets less s179 liabilities) and funding ratio of schemes in the PPF universe

<table>
<thead>
<tr>
<th>Funding Comparisons</th>
<th>August 2011</th>
<th>July 2012</th>
<th>August 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate balance</td>
<td>-£126.1bn</td>
<td>-£283.0bn</td>
<td>-£280.3bn</td>
</tr>
<tr>
<td>Funding ratio</td>
<td>88.50%</td>
<td>78.90%</td>
<td>79.10%</td>
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<tr>
<td>Aggregate assets</td>
<td>£966.6bn</td>
<td>£1057.5bn</td>
<td>£1062.5bn</td>
</tr>
<tr>
<td>Aggregate liabilities</td>
<td>£1092.7bn</td>
<td>£1340.5bn</td>
<td>£1342.9bn</td>
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PPF expected risk has risen sharply since the beginning of FY 2011/12
The value of claims has increased dramatically.
UK Funding Regime

• Technical provisions in PA04
• Triennial valuations
• Trustee responsibility
• Employer - Trustee dialogue
• TPR’s Code of Practice on Funding
• TPR’s annual DB Funding Statement
What effect will IORP II have on the UK?

- £100bn - £600bn increase in capital requirements for pension schemes
- Acceleration in the closure of DB schemes
- Significant reduction in capital available for investment
- Shift into ‘risk-free’ assets
- Knock-on consequences for macro-economic growth
Is this the starting point for a new way?

• Irrevocable decline of DB
• DB-DC at the extremes
  – DB places too much burden on employer
  – DC too risky and opaque for individual
• Little employee faith in DC
• Market has no middle ground
• Do we need a ‘Defined Ambition’?

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Defined Ambition: Could Denmark be the model?

- **Split of contributions:**
  - 80% secure deferred annuity using swaps and repos
  - 20% invested in risk portfolio (in practice up to 40%)

- **Bonus pool means shared longevity and inflation risk**

- **Dynamic risk management mitigates erosion of benefits by volatile returns**

- **Consumer understands the minimum they’ll get, but there is the possibility of getting more.**