

## De-risking - key steps to success

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## Agenda

- 15 minute presentation
- 15 minute break-out sessions
- 10 minute feedback and review of key insights
- 5 minute Q&A

## Strong appetite for insured solutions

- › Independent analysis consistently shows an increased desire to de-risk
  - › Trustees – looking to reduce exposure and protect member benefits
  - › Sponsors – looking to stabilise their balance sheet
  
- › The market has already reacted
  - › Increased focus from corporate advisers
  - › Increased number of providers
  - › Wider range of solutions available
  - › Record market sales in 2008
  - › However, reduced activity following economic downturn
  
- › The key focus is not ‘whether’ to reduce risks, but ‘how’ and ‘what’ to look for

## De-risking – the key steps to success

## Let's first look at the high level process.....the key steps to success



## What are the main options?

### Hedging against risks

Liability  
Driven  
Investments

Longevity  
Swaps

### Reducing risk exposure

Existing  
Pensioner  
Buy-in

New  
Pensioner  
Vestings

Fixed Term  
Insurance

### Risk removal

Full Buyout

Partial Buyout

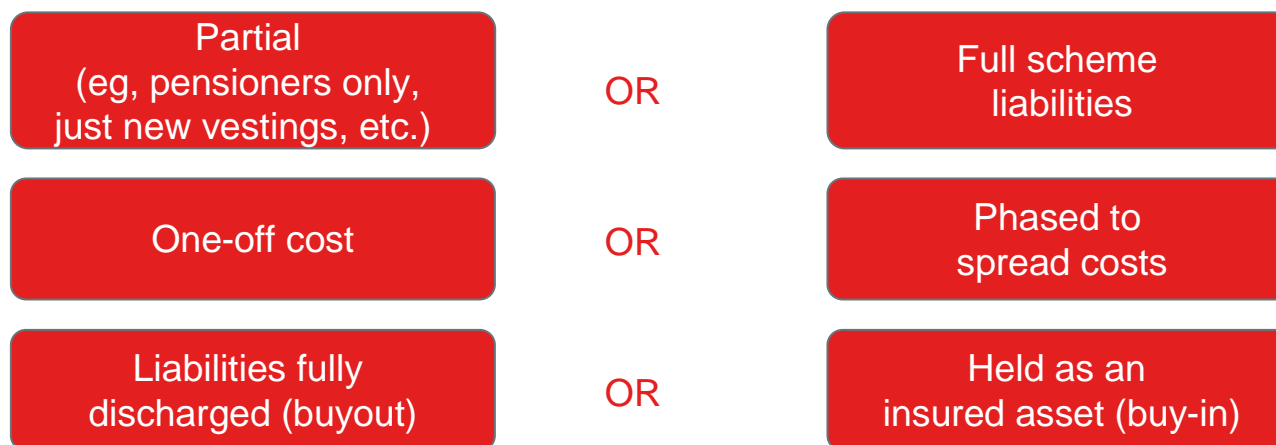
Enhanced  
Transfer  
Values

'Scheme  
Adoption'

- Are you looking to hedge against risks, reduce exposure or remove risks?
- Are you looking to address all scheme risks or just specific 'hot-spots'?
- Are you looking for an immediate solution or a phased, long-term approach?
- What can you afford?

## ‘Pension Risk Transfer’ = Insured Annuity Solutions

- › Despite innovations, only insured annuity solutions offer true ‘risk transfer’
  - › Aside from Enhanced Transfer Values and ‘scheme adoption’ routes
- › Alternative solutions mainly help to ‘reduce exposure’ or ‘hedge against risks’
  - › Merely help preparation for the ‘end-game’ (full scheme wind-up)
  - › Even then, annuity solutions are required via buyout (to avoid entering PPF)
- › Annuity solutions are flexible



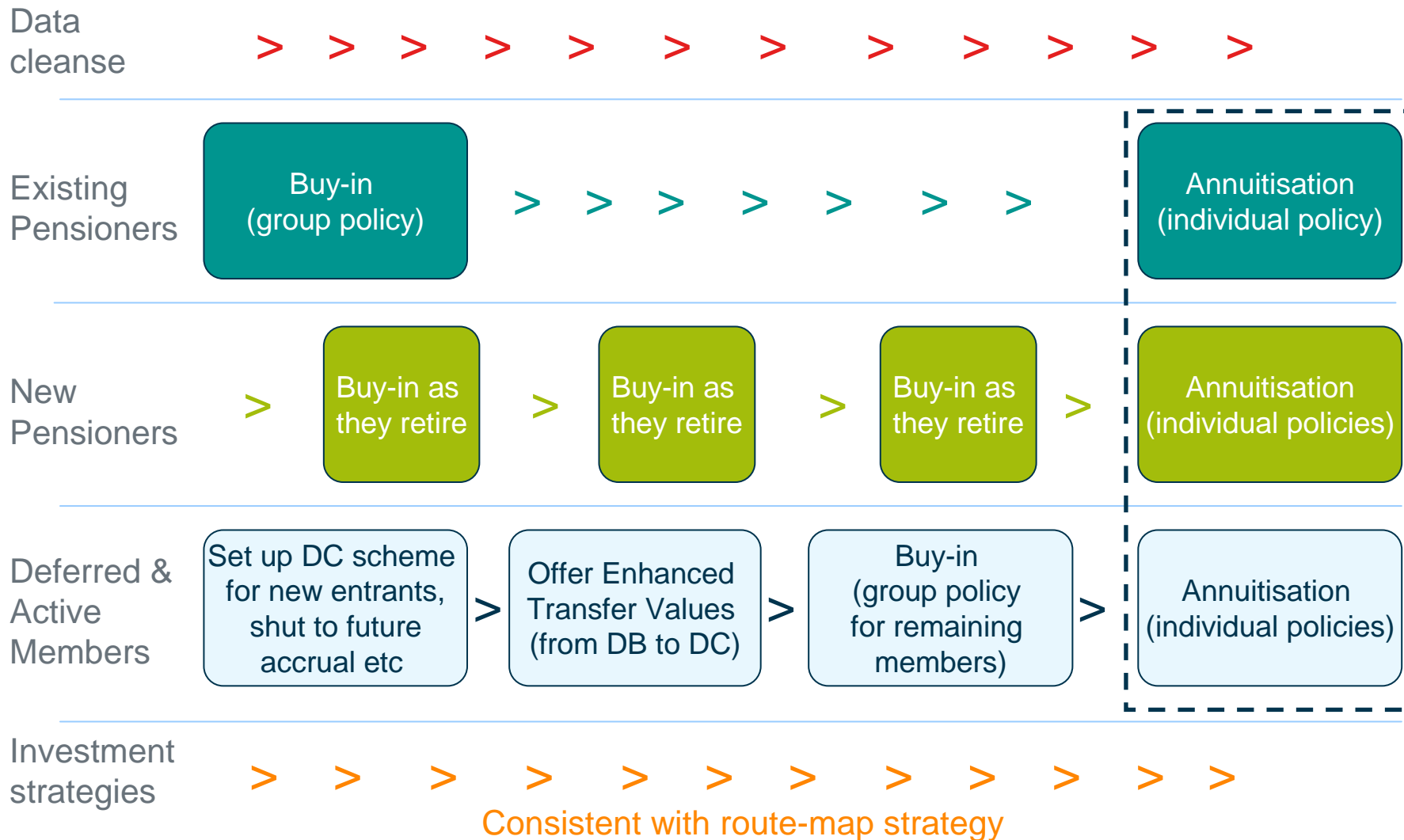
You can access the full ABI guide at [www.abi.org.uk/Bookshop/default.asp](http://www.abi.org.uk/Bookshop/default.asp)

How do you assess provider strength & capabilities?

## Easy to be drawn on price alone, but due diligence goes much further....

- › Financial strength, security and long term outlook (capital reserves, credit ratings, analyst reviews)
- › Expertise and track record in de-risking solutions
- › Admin capability (testimonials and site visits)
- › What they invest in and where they write annuity business (security)
- › Financial backing (support structure and financial guarantees from backers)
- › Long term business strategy – and any inherent risks
- › Prudence and caution involved (margins and quality of business written)
- › Flexibility (innovation, ability to tailor solutions or re-scale benefits)
- › Willingness and capacity to offer additional security structures where required

# Piecing it all together – de-risking route-map



## What have you considered so far?

	Group 1	Group 2	Total	Proportion of total
<b>How many trustees responding to questions below</b>	28	21	49	
<b>(1) How many have assessed full buyout?</b>	6	5	11	22.4%
<b>(2) How many have assessed pensioner buy-in?</b>	7	6	13	26.5%
<b>(3) How many have assessed other de-risking solutions?</b>	18	16	34	69.4%
<b>(4) How many have actually transacted a buy-in or buyout?</b>	8	2	10	20.4%

Notes:

1. The above numbers include some double-counting etc due to the fact that there were some pension schemes that were represented by more than 1 Trustee
2. The above data included input from both Independent Trustees and EBCs, whereby they answered on behalf of only one of their clients
3. The figures on this slide together with the statements on the next 3 slides were gathered from the attendees at the Trustee Forum on 21 May 2009

**For those who did not proceed.....**

<p>What held you back?</p>	<ul style="list-style-type: none"> <li>➤ Cost / lack of funds (various)</li> <li>➤ Considered themselves too small to be in the market for a quote</li> <li>➤ Poor admin data – took too long to fix and missed market opportunity</li> <li>➤ Happy with covenant of sponsor</li> </ul>
<p>Are you still planning to transact in the near future?</p>	<ul style="list-style-type: none"> <li>➤ Some no, some yes</li> <li>➤ If certain factors are right – agreeing triggers (technical provisions)</li> <li>➤ Some assessing alternative solutions</li> </ul>
<p>If so, what process are you putting in place to better enable transacting?</p>	<ul style="list-style-type: none"> <li>➤ Data cleanse exercise</li> <li>➤ Defining triggers for re-assessment</li> <li>➤ Developing long-term strategy (various)</li> </ul>

**For those who have completed a transaction .....**

<p>What did you do?</p>	<ul style="list-style-type: none"> <li>➤ Buyout (x4)</li> <li>➤ Buy-in (x2)</li> <li>➤ Buy-in of 50% of pensioners*</li> <li>➤ Buy-in of pensioners only (not dependants)**</li> </ul>
<p>How well has the solution met your aims?</p>	<ul style="list-style-type: none"> <li>➤ Completely (buyouts - various)</li> <li>➤ Very well (various)</li> </ul>
<p>What have you learnt?                  What (if anything) would you do differently?</p>	<ul style="list-style-type: none"> <li>➤ Would have secured all pensioners and not just a quota share of current pensioners</li> <li>➤ Would have secured ALL pensioner benefits, including dependants pensions</li> </ul>

**For those who have not considered buy-in or buyout solutions.....(yet)**

<p>Are you currently formulating a strategic de-risking route-map?</p>	<ul style="list-style-type: none"> <li>➤ Yes (various)</li> <li>➤ Some looking at LDI options</li> <li>➤ One table had 4 moving from active to passive investment mandates, while one planning to move from passive to active mandates</li> <li>➤ Assessing potential conflict of interest with sponsor</li> </ul>
<p>If so, what de-risking options would you consider and why?</p>	<ul style="list-style-type: none"> <li>➤ Buy-in and buyout (but some felt this is a step too far in current financial markets)</li> <li>➤ LDI (possibly by starting with small part of scheme)</li> <li>➤ Phased switch from equities to less risky assets</li> <li>➤ Scheme benefit restructuring (ie CARE)</li> </ul>
<p>Are there any solutions you would not implement? Why?</p>	<ul style="list-style-type: none"> <li>➤ Concern over some newer providers and their capital backing &amp; long-term business plans</li> <li>➤ Some scepticism over Enhanced Transfer Values (would like to understand better first)</li> </ul>

# Buyout and Buy-in – what's the difference?

## Buyout

**Complete removal of liability from sponsor**

Buyouts involve the full transfer of all scheme assets and liabilities to a regulated insurer (including data risk)

Historically used as a legal means of completing scheme wind-up (benefits need to be matched)

Enables sponsoring employers and trustees to be fully discharged of pension scheme liabilities

Ultimately, insurer will write policies in the names of individual members



## Buy-in

**Investment decision**

Effectively an annuity policy covering a selected portion of pensioners (data risk retained)

Secures future payment of selected Pensions (doesn't have to be fully matched)

Trustees can continue to manage the scheme, with added certainty over pensioner costs

Policy in the name of the trustees. Will effectively be held as an asset of the scheme to help meet liabilities

**For more information visit [www.pru.co.uk/risk](http://www.pru.co.uk/risk)**

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