
New solutions emerge



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P A T E R N O S T E R

DB risk transfer - insurance market activity



c. £800 million P A T E R N O S T E R



c. £700 million  Rothesaylife



c. £240 million 



c. £170 million P A T E R N O S T E R



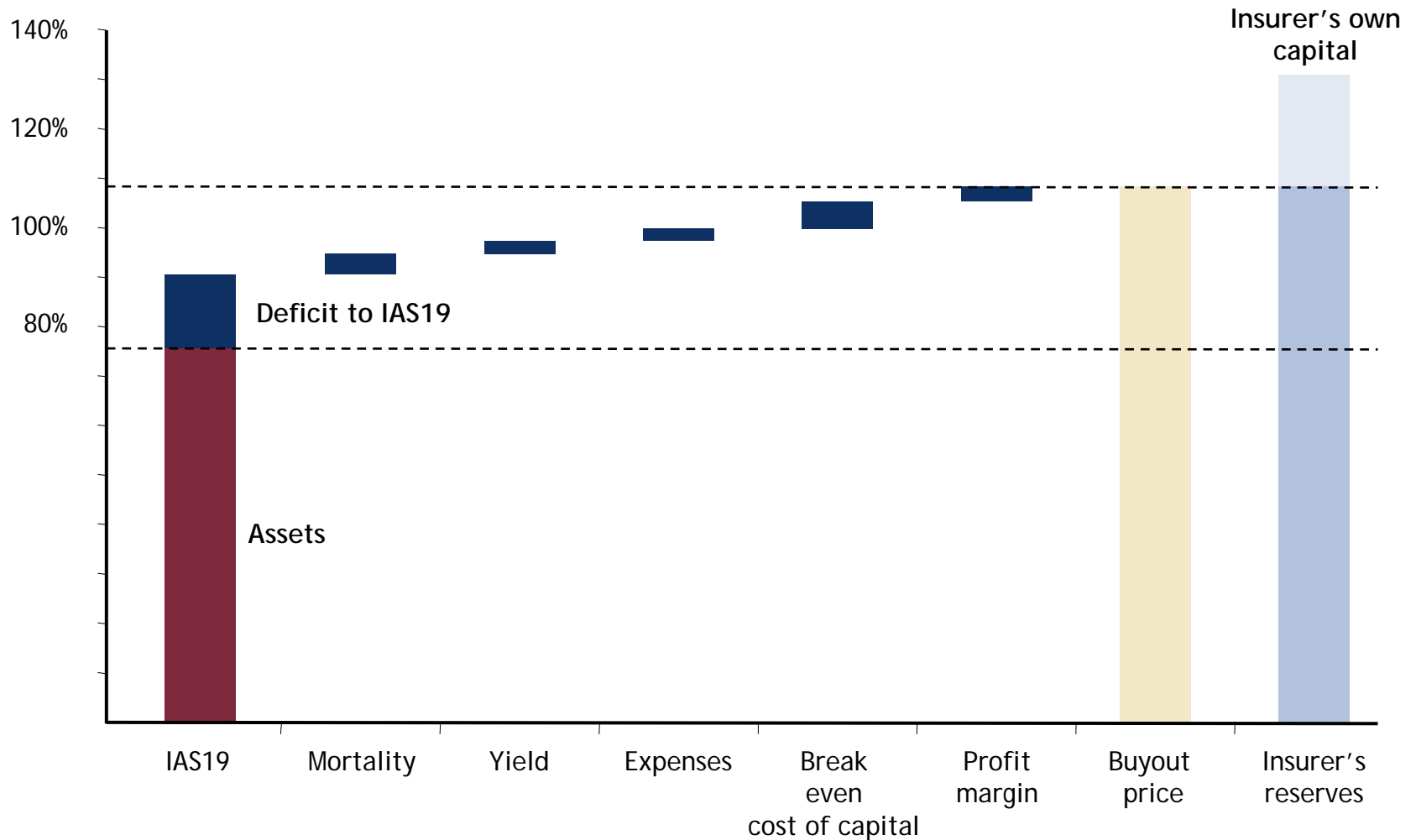
c. £150 million P A T E R N O S T E R

Annuity pricing



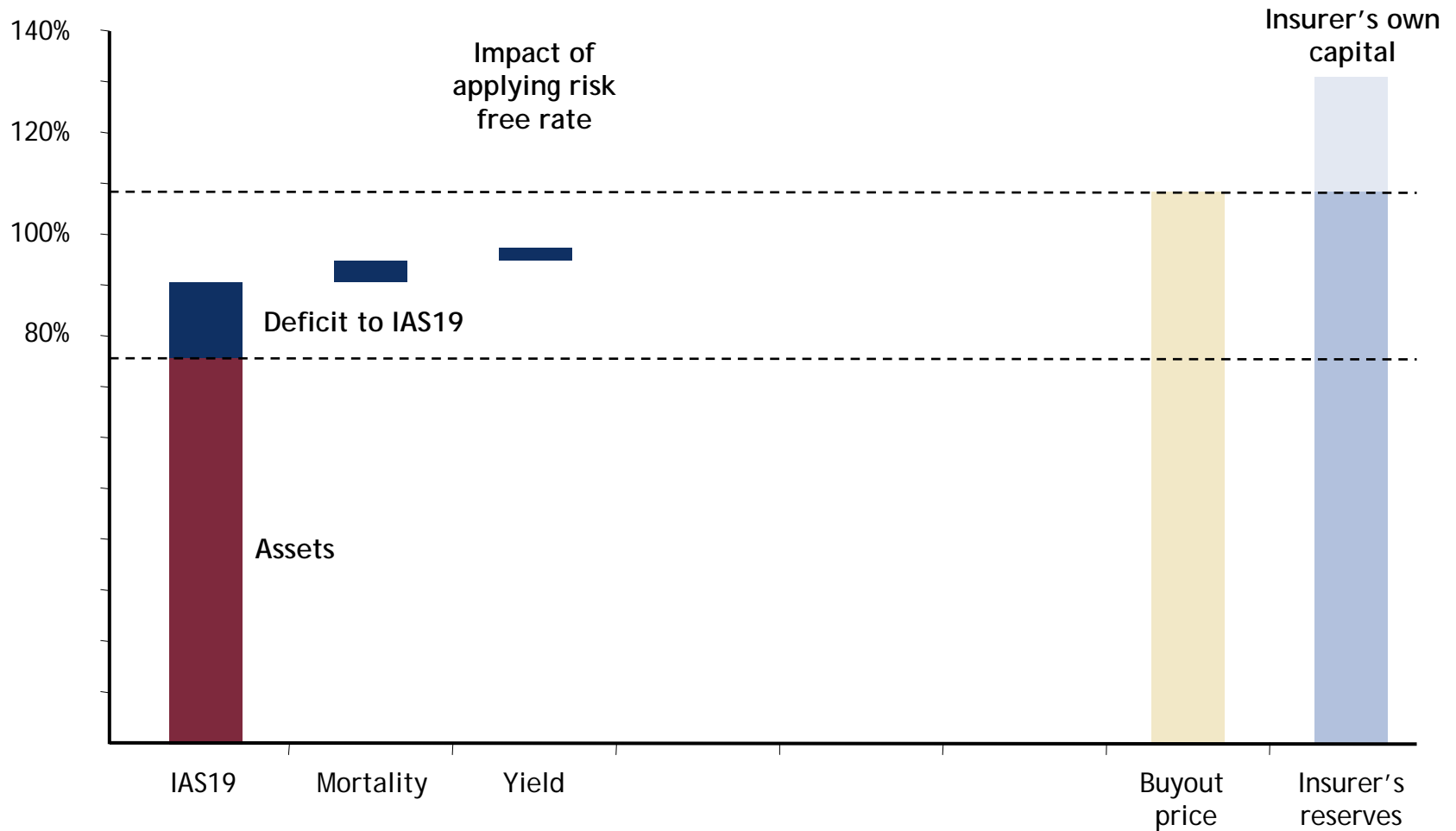
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The cost of buy-out: an example



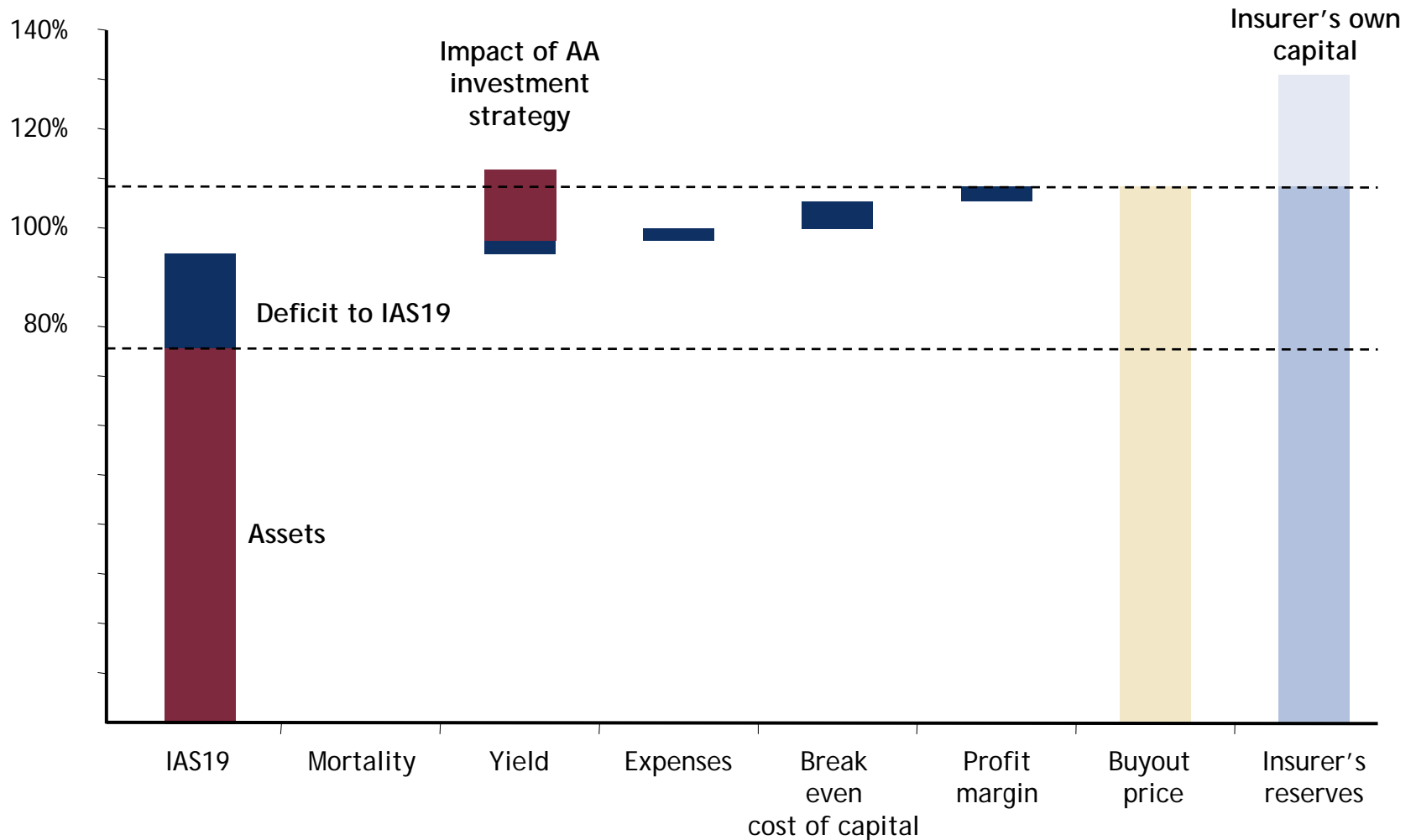
Source: Paternoster

Effect of tPR and ASB proposals



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Effect of tPR and ASB proposals



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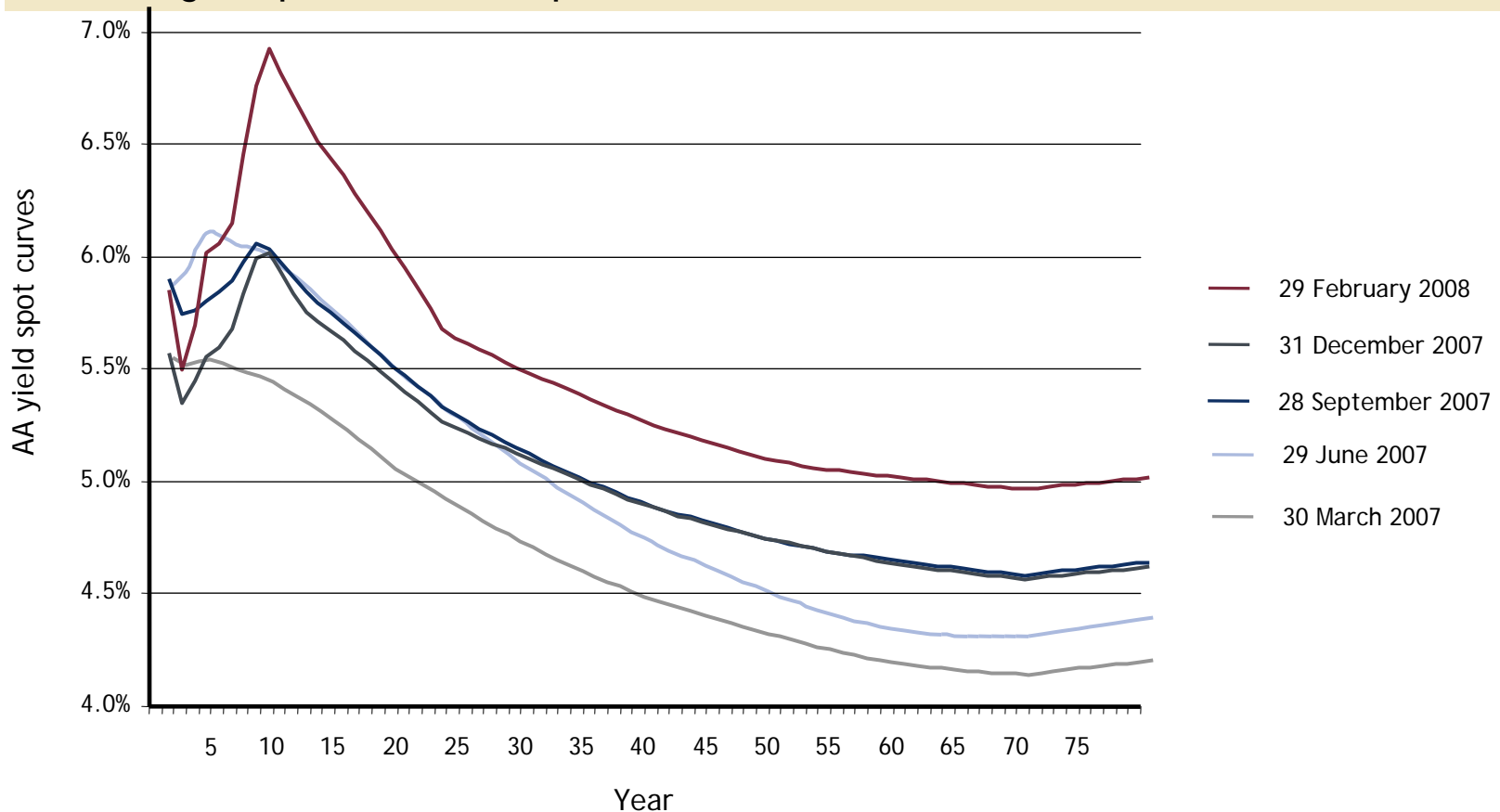
Market timing



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Examining annuity pricing - yields

In addition to pressure on margins, annuity pricing has been reduced by widening corporate bond spreads...



Case study: partial transfer



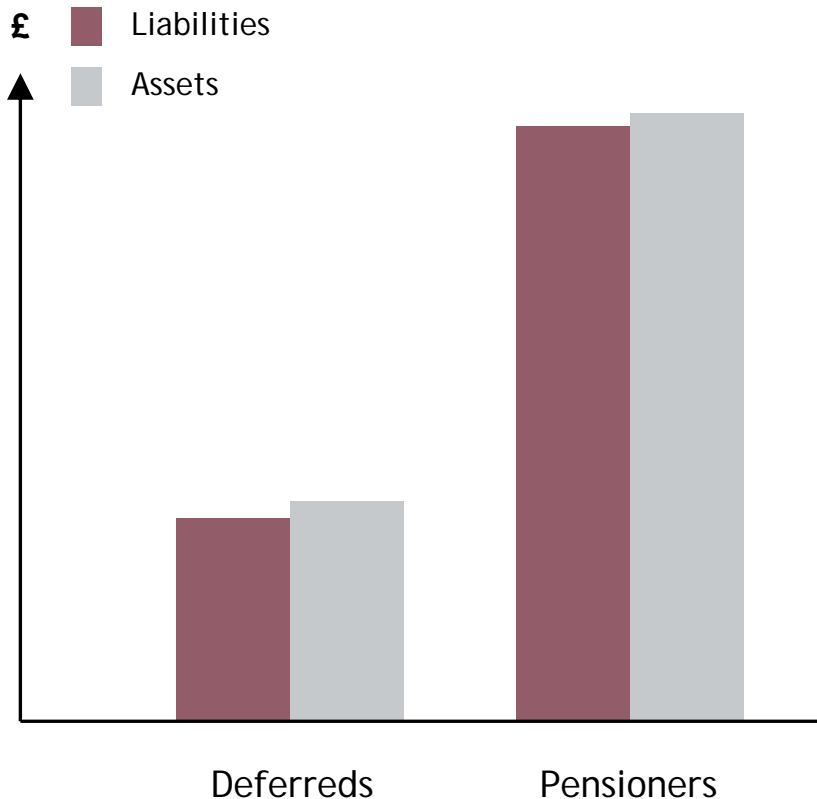
Partial transfer - pensioners only

The purchase of a bulk annuity policy as an investment of scheme provides an effective mechanism for achieving the company's and trustees' aims...

- **All financial risks relating to insured liabilities are removed:**
 - mortality risk
 - interest rate risk
 - inflation risk
- **Protection of corporate covenant maintained**
- **Trustees maintain control over:**
 - communications and payments to all scheme members
 - discretions
 - investment of *residual* assets and management of deferred liabilities
- **Additionally:**
 - ability to treat all scheme members equally in the event of sponsor failure
 - PPF protection eligibility if appropriate
 - Ultimate protection of the Financial Services Compensation Scheme

Partial transfer - a case study

Conventional methods understate deferred liabilities more than pensioners while ALM strategies have been modified in search of higher returns...

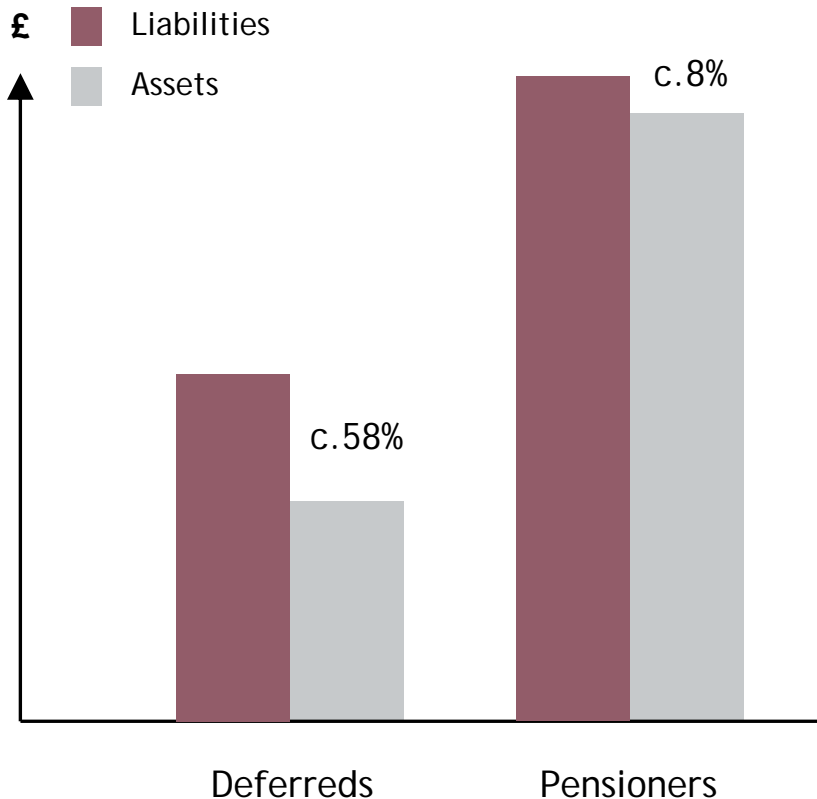


Pensioner assets and liabilities

- Scheme over 100% invested on an actuarial funding basis
- Pensioner liabilities supported by assets invested c.80% in fixed income securities
- ALM strategy modified in expectation of benefiting from mis-match
 - interest rate
 - inflation
- Liability remains key variable

Pricing a partial transfer

Insured liabilities as assessed by an annuity provider are higher than when measured on a funding basis because all risks are removed...

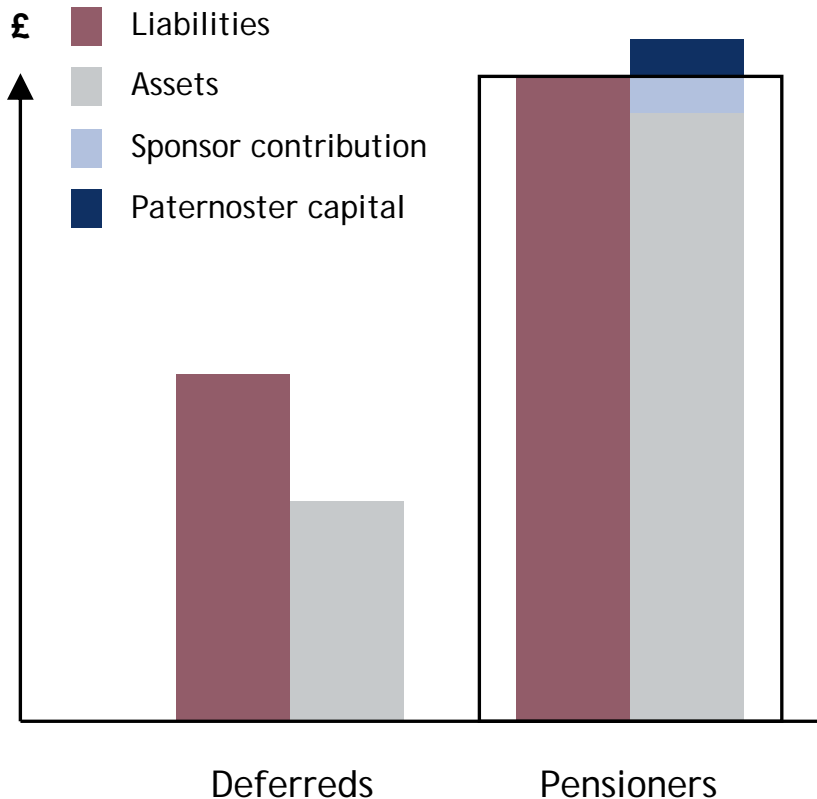


Annuity pricing

- On a buy-out basis, relative funding levels differ owing to:
 - more prudent mortality assumptions
 - different investment assumptions
 - insurance capital requirements
- All risks removed from scheme in respect of insured liabilities:
 - mortality risk
 - asset performance risk
 - reinvestment risk
 - model risk

Executing a partial transfer - “super ALM”

Partial transfers are best executed through the purchase of a bulk annuity policy as an investment of scheme using scheme assets and cash...



Key steps

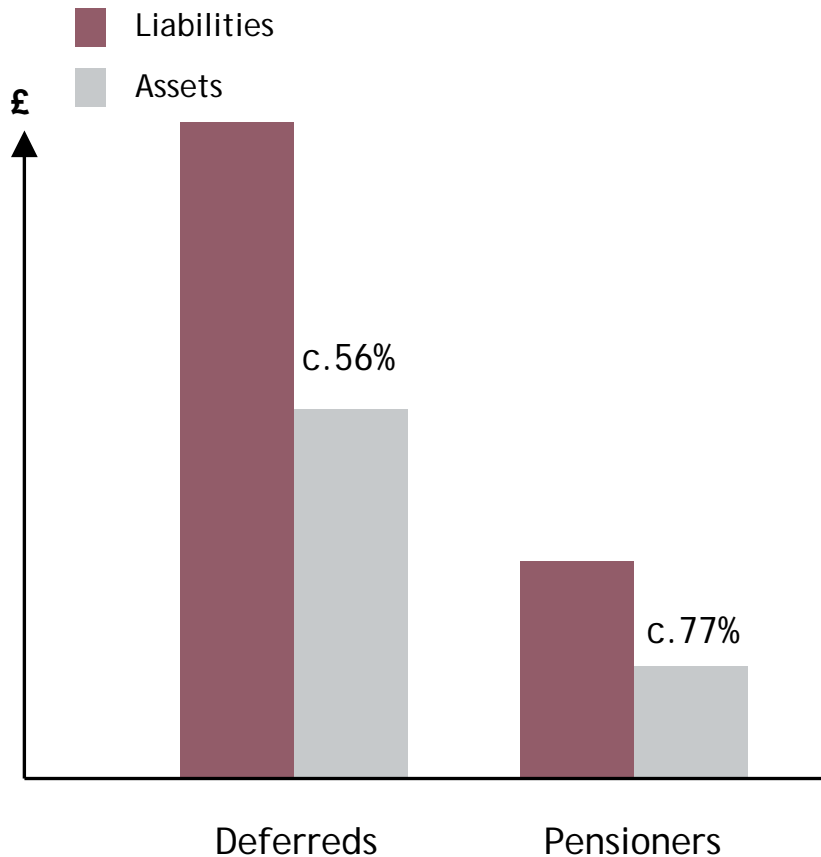
- Liabilities assessed and premium agreed
- Existing assets transferred
- Sponsor contribution to fund fully
- *Assets and liabilities are then fixed*
- Paternoster allocates further capital
- All assets and liabilities fully matched
 - interest rate
 - inflation

Case study: phased transfer



Phased buy-out - a case study

A twelve year recovery plan reduced to four years through phased buyout...

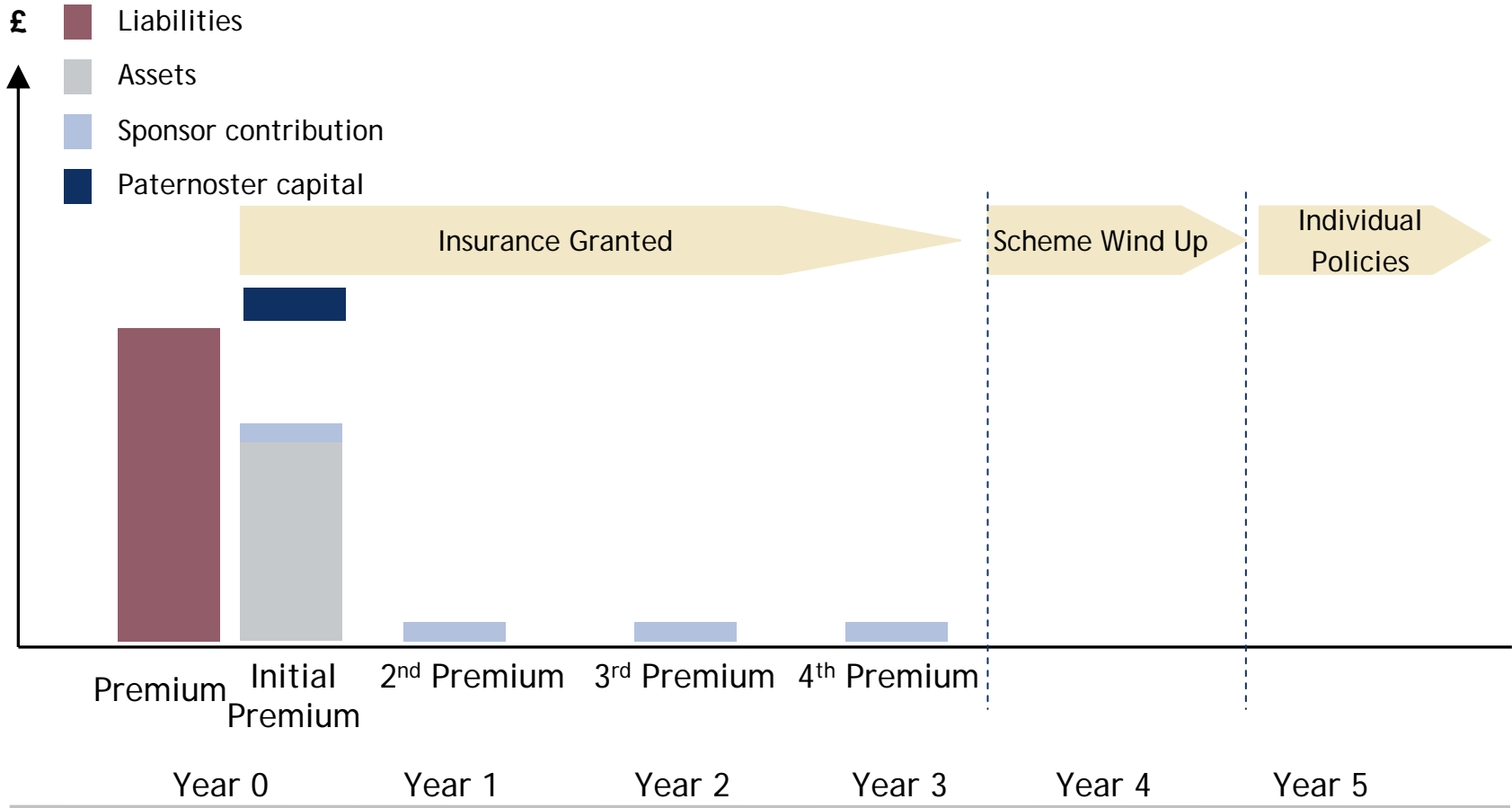


Scheme assets and liabilities

- Scheme closed to future accrual
- Scheme 64% funded on a buyout basis and 99% funded on a weak FRS17 basis
- Recovery plan in place over 12 years
- Pensioner liabilities invested as in Gilts

Executing a phased buyout

Phased buyouts are executed through the purchase of a policy as an investment of scheme with any shortfall paid over an extended period...



Result of executing a partial transfer

The purchase of a bulk annuity policy provided an effective mechanism for achieving the sponsor's and trustees' aims...

- The scheme was fully insured
- Sponsor has certainty of future costs
- Trustees maintain control over communications with members, administration and payroll and may continue to apply discretions
- Economic benefit of future member behaviour may be included
- Security:
 - Paternoster holds solvency capital immediately
 - Additional underpin of the FSCS
 - Protections afforded by PPF remain.

In the event of sponsor default

If the sponsor were to default, Paternoster's policy would permit a reapportionment of the insured benefits...

- The benefits of the bulk annuity policy would be reapportioned across all scheme members by the trustees
 - allows trustees to fulfil their duties to treat all members equally
 - benefits to deferred and pensioner members would be scaled-back accordingly
 - residual scheme assets would be pooled with policy assets.

Trustee preoccupations

Our primary concern has been to ensure **long term security for our scheme members** and we agreed that transferring to an insurance company was the best way to manage this. Paternoster impressed us at every stage of the process."

Roger Lawson Trustee, Chartered Accountants; Employees Superannuation Scheme

"We are delighted to have been involved in advising the Trustee on the terms of the contract with Paternoster. The new approach that Paternoster is bringing to **securing benefits** is really helpful to trustees of schemes winding-up."

Vivien Cockerill, Partner, Wragge & Co LLP

"As trustees, ensuring the **long term security for the scheme members** was paramount. We are confident that the solution offered by Paternoster delivers the best possible outcome for our pensioners and the remaining members."

Graham Pitcher, Director, GP Noble Trustees

What our clients say...

“Paternoster had an ability to work effectively towards an end-result within our required timeframe...Paternoster always met the deadlines, working with us to achieve our goals. We found they had a willingness to consider a structure that addressed our corporate needs rather than simply following the conventions of the pensions insurance market. This was very apparent when we compared them with the approach of all the traditional big players who we also invited to tender (and some new entrants to the market). Paternoster were both innovative and flexible in contract negotiations. Other providers agreed to match Paternoster's offer when questioned, but it was Paternoster who really led the process, working close to our pensions and legal advisers.

Ferrante Zileri Dal Verme, Finance Treasury Director, Iveco Group

The transition over to Paternoster could not have been better. The payroll was set up without any delay, communication to scheme members was spot on and the dedicated Paternoster resource managing the process was excellent.”

Ashley Sanders Pension Adviser, Texaco Overseas Tankship Seagoing Personnel & Widows Pension Plan



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