

Reinventing Retirement: Balancing Risk

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# Trends in UK Private Pensions

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# Trends in UK Private Pensions

- ◎ Changes in legislation
- ◎ Changes in benefits
- ◎ Changes in investments

# Changes in Legislation

- Preservation (1975)
- Revaluation in deferment (1986)
- Transfer rights (1986)
- Sex equality in private pensions (1990)
- Revaluation in payment (1997)
- Member-nominated trustees (1997)
- “Debt on Employer” requirement (2003)
- Pension Protection Fund (2005)
- New funding standard and pro-active regulation (2005)

# Pension Protection Fund

- Covers DB scheme wind-ups when employer is insolvent
- Compensation:
  - 100% for pensioners
  - 90% for members under scheme retirement age
- Compulsory levies on DB schemes
  - Based on membership for 2005/06
  - “Risk-based” from 2006/07 onwards
- “Moral hazard” provisions

See: [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk)

# Changes in benefits

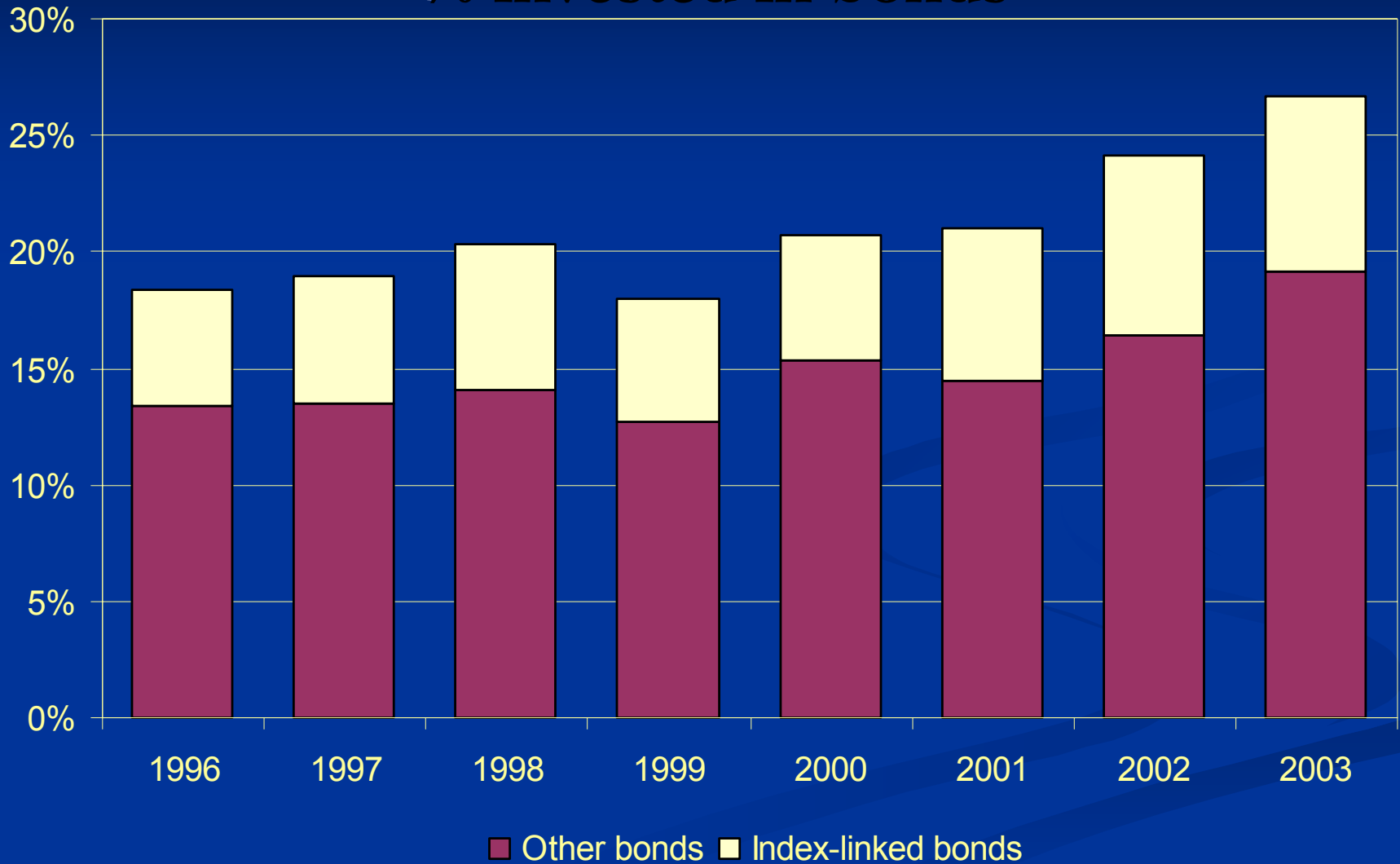
- Reduction in benefits in DB schemes
- New types of DB benefits
  - Career average
  - Cash balance
- Shift from DB to DC
  - Closure of DB schemes to new entrants/accruals
  - New DC schemes with lower contributions

# Changes in Investments

- DB schemes are maturing
  - View that liabilities for pensions in payment are best matched by investment in bonds
- Concern about the risks of equity investment
  - Greater caution on the part of actuaries
  - New funding standard and impact of PPF
- Accounting standards
- Arguments from financial economics

# The Shift to Bonds

## % invested in bonds



# Conclusions

- Increasing cost of providing private pensions
  - Lower real rates of return
  - People are living even longer
- Employers seeking to avoid risk and cost
  - Shift to DC
  - Lower quality provision
- Falling membership
- Are DB schemes in “terminal decline”?

# The Pensions Commission

- To review the UK private pension system and long-term savings
- To assess its effectiveness
- To make recommendations for change

See: [www.pensionscommission.org.uk](http://www.pensionscommission.org.uk)

# Timetable to Reform

- Pensions Commission
  - Interim report in 2004 – background and issues
  - Considerable debate and discussion
  - Final report in Autumn 2005
  - No clear consensus – but it has clarified the issues
- Government response in 2006?
- Legislation will follow – 2008?