

TDC Pensions Conference

Small DB or Large DB? That is the question!



Top 5 issues for 2018

1. GDPR
2. Good quality member data
3. Governance by 21st century trustees
4. Powers of the Pensions Regulator
5. IRM (covenant, funding, investment risks)

DB v. DC

12.6m members of (trust based) DC schemes
v.
10.5m members of DB schemes

The Purple Book

- 1,994 small schemes (2-99 members)
- 2,458 medium (100-999)
- 759 large (1,000-4,999)
- 377 monsters (over 5,000)

5,588 schemes in total

The White Paper



Protecting DB Pension Schemes

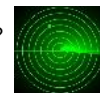
New / more **powers** for **The Pensions Regulator**
"...tough new powers to prevent companies neglecting deficit laden schemes..."

DB funding
a tougher regime for DB funding

TPR's strategy for small DB schemes

The Pensions Regulator is taking a more proactive approach

Is your scheme on the Regulator's radar?



2018 Valuation Questionnaire

- Questions 2.4 – conflicts of interest
- Questions 3.1, 3.2i, 3.4 – assessment of employer covenant
- Questions 4.1ii, 4.2, 4.3 – investment strategy
- Question 5.2 – IRM

DB White Paper

The Pensions
 New / more powers for Regulator
 "...tough new powers to prevent companies neglecting deficit laden schemes..."

DB funding
 a tougher regime for DB funding?

DB consolidation

Small DB or Large DB?

PLSA: 'The Case for Consolidation' (March 2017)

currently
'wide variation in costs and standards of governance'

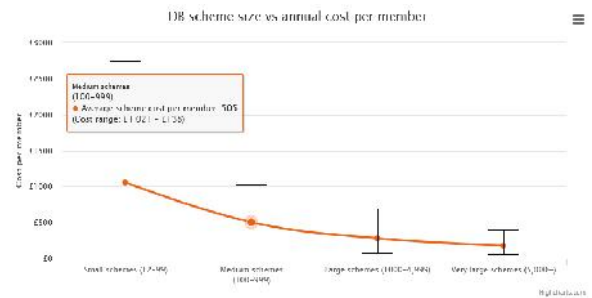
consolidation could
'bring material reductions in cost and tangible improvements in investment returns'



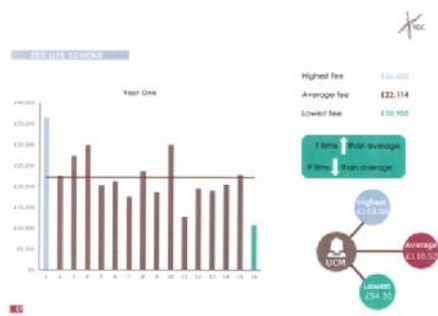
Cost effective management

Small schemes have higher costs when expressed as £ per member!

Cost per member – tPR survey 2014



Cost per member – KGC survey 2017



Cost effective management

Small schemes have higher costs when expressed as £ per member!

Wide range, take care to compare like with like

Bundled arrangements & investment fees

Quality and low cost

Cost effective management needed for next 10-15 years

Fixed cost for fixed services

Avoid high hourly rates!

Fixed fee per transaction, or
allow (and pay) for transactions for 10/15% of members?

The TDC way

Employer's pensions budget

'Budget'	£600K total
DC contributions, 10% of salary	£200K
Fees for admin, actuarial, trustee, lawyer, investment adviser, etc	£100K
PPF levy	£50K
DRCs	£250K

More fees ...

Legislation & regulation

- GDPR
- Record keeping
- IRM

Optional

- Liability reduction
- Financial Education exercises

Scheme governance

TPR view that small schemes are less well governed

21st Century Trusteeship campaign relaunched Sep 2017

- clear roles and responsibilities and clear strategic objectives
- a skilled, engaged and diverse board led by an effective chair
- close relationships with employers, advisers and others involved in running the scheme
- sound structures and processes focused on outcomes
- a robust risk management framework focused on key risks

Trustee body

Challenge from PLSA's 'Good Governance', Sep 2017
"collective characteristics of trustee board are key to good governance" (people rather than process)

Role of MNTs?

More use of professional trustees

- One (wo)man band or corporate?
- Sole trustee?

Chair has key role

APPT

Professional Trustee Standards Working Group
Consultation on standards for professional trustees

6 principles

- Fitness and propriety
- Integrity
- Expertise and care
- Impartiality and conflicts of interest
- Professional behaviour
- Systems and controls

Plus additional standards for chairs & sole trustees

Good practice

Chair's Statement for DB schemes
DWP is "very interested", 22 Feb 2018
Included in DWP White Paper. 19 March 2018

Trustees' Business Plan

TPR tools to evaluate trustees' effectiveness

DB to DC transfer



Longevity

CMI_2017

Compared to CMI_2016, latest table shows lower life expectancies, on average 2 months

Reducing improvements to longevity are now a **trend** rather than a blip

Male aged 65 life expectancy of 22.1 years (22.9)

Female aged 65 life expectancy of 24.0 years (25.0)

Review of actuarial factors

Maximum cash on retirement
Move from 9.0 factor!



Allowing for members taking cash in the valuation
Pension of £10,000 at age 65
Or cash of £40,000 plus pension of £5,500
Liability calculation is either £200,000 or £150,000!

Comes back to bite if member takes reduced or no cash!

Which category is your scheme in?

10% fully funded now, 100% of TPs

80% "we'll be fine in 10 years"

10% on shaky ground, "distressed"



No need for DB consolidation?

