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Fellowship Network Session

The first session of the PMI Fellowship Network for 2019 involved a presentation from The Pension SuperFund to discuss Defined Benefit Consolidators. I was lucky enough to be co-chairing both the Bristol and Leeds sessions and this was obviously a topic which piqued the interest of many Fellows; both were well attended and produced active discussion.

Antony Barker from the Pension SuperFund started each session with a presentation which formed the basis of the discussion. A number of attendees confessed to not knowing a great deal about the consolidators which helped the discussion be open and honest without any preconceived ideas.

The presentation

Antony gave a high level review of the 5,500 plus defined benefit schemes in the UK, together with details of the numbers of schemes failing and transferring into the Pension Protection Fund. The presentation covered both The Pension SuperFund and Clara-Pensions' methodology.

The main features of both arrangements are:

Selected Features	The Pension SuperFund	Clara-Pensions
Sectionalised?	No. Single non-sectionalised fund for all transferred schemes.	Yes. Single fund but sectionalised for each transferred scheme.
End game	Funds run off in the long term. No specified finite lifetime or wind up target.	Fund targets buyout and winding up of each section after 5-10 years.
Price and top up	'Purchase price' is 105% of self-sufficiency technical provisions. Investors add capital of 10% on top.	'Purchase price' is c.90% of buyout liabilities. Investors add capital of c.10% on top.
Investor returns	Investors receive regular returns subject to capital adequacy.	Investors only receive their returns once buyout target achieved.
Profit share	Members benefit from a share of the upside (e.g. as DC top up).	Members do not receive a share of the upside.

The discussion

The discussions raised a few interesting points/questions including:

- Required funding levels: both arrangements require a funding level of 90% or 105% either with or without an employer top up of some description.

  A number of smaller schemes with much lower funding levels and little chance of an employer top up are effectively excluded.

- Returns and top ups: the efficiencies The Pension SuperFund are looking to achieve via a single fund, thus reducing valuation and investment costs, are unlikely to be achieved by Clara as they are still remaining as separate schemes with a focus on buyout.
- Are insurers happy about this alternative? The Pensions SuperFund is not in competition with the insurers as they are a single fund and not looking to buyout. Clara will ultimately go to buyout with an insurer.

  The point raised here was that at present the insurance market only receives around 1% of pension fund liabilities per annum, so it shouldn't impact on their share of the market.

- It is getting more difficult to attain a quote from the insurers as the market seems to be full with the current providers, so another product such as these is probably needed. These funds could be seen to compliment insurance companies.

Having been involved with the Fellowship Network for a couple of years now, I believe this was a fantastic example of bringing together Fellows to openly discuss and challenge important issues in our industry.

If you are a Fellow of the Institute, I suggest you attend these important events when they arise.