HEALTH WEALTH CAREER

MERCER WEBCAST

CBI/MERCER PENSIONS SURVEY

12 NOVEMBER 2015

Frank Oldham, Mercer Senior Partner
Neil Carberry, CBI Director
Andy Parker, Mercer Principal
Yvonne Sonsino, Mercer Partner

TODAY'S SPEAKERS

Frank Oldham
Mercer Senior Partner,
Global Leader of DB Risk

Frank joined Mercer in 1982 and has since worked in London, having previously had responsibility for the retirement business in the UK, he also advises a number of multinational as well as trustee boards in the UK.

Neil Carberry
CBI Director of Employment,
Skills and Public Services

Neil is a member of the council of ACAS and of the Low Pay Commission, which makes recommendations about the level of the National Minimum Wage. Before becoming director, Neil spent four years as Head of Employment and Pensions Policy.

Andy Parker
Mercer Principal,
DC & Savings

Andy has 30 years' experience of advising clients and managing projects and relationships for both corporate and trustee clients on all areas of defined contribution pension and AVC provision.

Yvonne Sonsino
Mercer Partner,
EuroPac Innovation Leader

Yvonne Sonsino rejoined Mercer in 2013 and is now the Innovation Leader for EuroPac. She was formerly Head of the International Consulting Group in Mercer, leading teams to deliver global HR projects for clients across multiple industries.

AGENDA
WHAT WE'LL COVER TODAY

- Executive summary
- Key findings in defined benefit
- Key findings in defined contribution
- Key findings in the ageing workforce
- Questions

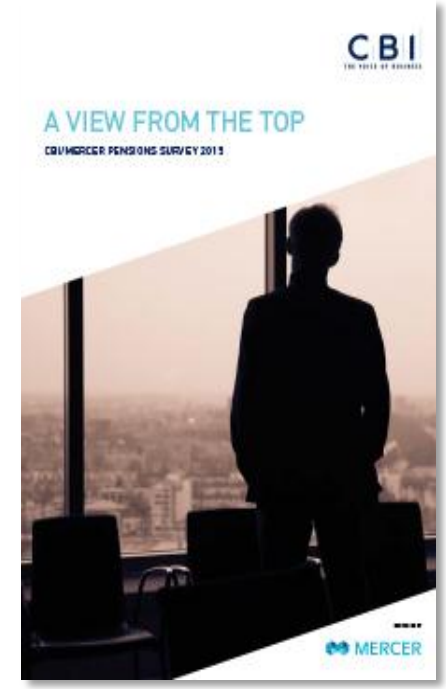
PLEASE NOTE: ALL DATA QUOTED THROUGHOUT THIS PRESENTATION IS SOURCED FROM THE CBI/MERCER PENSIONS SURVEY 'A VIEW FROM THE TOP', UNLESS STATED OTHERWISE

CBI / MERCER PENSIONS SURVEY
EXECUTIVE SUMMARY

‘A VIEW FROM THE TOP’
CBI/MERCER PENSIONS SURVEY 2015

Background to the survey:

- It gathers the **views of corporate leaders**
- **166** respondent organisations
- Increasing share of **SME respondents**
- Respondents to the survey being responsible for **£115bn worth of assets** invested in pensions in the UK
- In 2015, the UK economy is on an even firmer footing. But the last two years have **seen dramatic shifts in the pensions landscape**



‘A VIEW FROM THE TOP’
PENSIONS STABILITY

“Business leaders are clear that the priority on pensions must be regulatory stability”

- 52% believe **regulatory stability must now be the top** pensions priority for government
- Despite all the recent changes, 96% of respondents believe there is a still a strong business case for offering pensions
- **However, stability is vital in ensuring pensions remain a key employee benefit**

‘A VIEW FROM THE TOP’
PENSIONS TAXATION

‘Changes to the UK pensions taxation system are the greatest threat to the sustainability of UK pensions’

- Eight in ten respondents (79%) state tax changes should not be a priority for government
- 51% state that the **latest cut in the LTA from £1.25m down to £1m** will bite into the savings of managers and middle income earners in their organisations
- Businesses are clear that the current framework of pensions tax relief – while complex – is the **best system for encouraging pension saving**
- Businesses need to have national insurance contribution relief on pensions in place – this relief keeps pensions affordable for business

‘A VIEW FROM THE TOP’
DEFINED BENEFIT (DB)

“The costs of DB pension schemes continue to dominate boardroom discussions. In many firms, pensions remain one of the top risks facing the business”

- The cost of DB schemes is **weighing heavily on business activities**
- **Volatility of DB liabilities remains a particular challenge**, with nine in ten (90%) of business leaders concerned about volatile markets worsening their funding position
- 82% of business leaders say that **DB costs are having a negative impact on their results** in company accounts
- Satisfaction among business leaders with the Pensions Regulator’s announcements is at its **highest level ever** in our survey, at 84%, reflecting the success of the **new growth objective**

‘A VIEW FROM THE TOP’
AUTO-ENROLMENT / DEFINED CONTRIBUTION (DC)

“With two and a half more years to go and 1.8 million employers yet to stage, auto-enrolment is very much a live issue”

- **97% of businesses** with eligible employees are still due to stage
- 82% say they **do not believe reviewing statutory minimum contribution levels should be a priority**
- Ease of administration as a top priority when looking for an auto-enrolment solution has **jumped to nearly 70%, up from 41% in 2013** for medium-sized companies
- **Overall the biggest auto-enrolment challenge for firms is on-going compliance**, with three quarters (73%) of respondents citing this as an issue
- **The changing regulatory environment has added to the problems of compliance**
- 48% of business leaders say that the pension freedoms in the 2014 budget have made **DC pensions more effective** in ensuring employees can afford to retire

‘A VIEW FROM THE TOP’
AGEING

“Business leaders are clear that a comprehensive crosscutting strategy is needed”

- The Office of Budget Responsibility (OBR) forecasts that **26% of the population of England and Wales will be more than 65 years old by 2065**
- **Tax for business and individuals could increase**. It is crucial the Government starts shaping an effective response now
- Government can add value by **preparing for an ageing society**
- 92% say that the provision **of long-term care will become an additional financial concern**
- 78% report they will offer **more flexible working opportunities** to deal with an older workforce
- 93% believe **employees will face increased responsibility for financing adequate income** in later life

KEY FINDINGS
DEFINED BENEFIT

RISKY BUSINESS
DB PENSION LIABILITIES

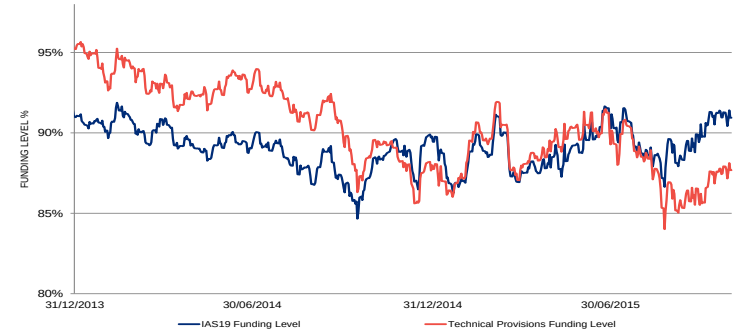
DB COSTS REMAIN THE BIG ISSUE
IMPACTING ON BUSINESS INVESTMENT

Volatility of DB liabilities is a challenge

- 82% of business leaders saying **DB costs are having negative impact on their results in company accounts** vs. 57% in 2012*
- **90% report a negative impact** (worsening their funding position)

- *"We need to compete for investment in the UK from our group parent. There is no doubt that our DB pension scheme makes our business less attractive for investment."* **Large energy firm**

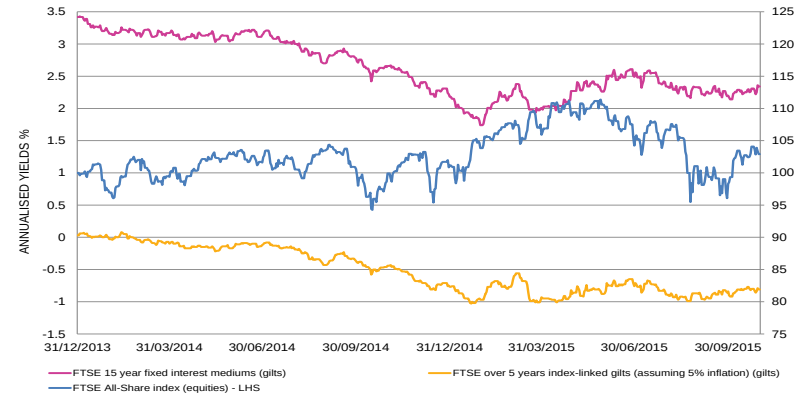
FTSE 350 FUNDING (DEC 2013 TO OCT 2015)



The calculations are approximate and intended to give a broad indication of the trend in the funding level over time. The assets are updated in line with market indices. The IAS 19 liabilities are updated with corporate bond yields and the implied market rate of inflation.

The Technical Provisions have been re-based at 31 March 2007, 2008 and 2009 so they have the same relative strength to IAS19 liabilities as illustrated by the funding positions in "The Purple Book". The liabilities are then updated with gilt yields and the implied market rate of inflation.

YIELDS AND MARKETS (DEC 2013 TO OCT 2015)



*Source: 2012 CFO survey carried out in conjunction with the ICAEW

ARE YOU PREPARED?

"The risks in our scheme are appropriate given the strength of our business"

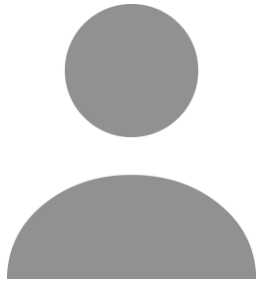
"Our scheme is adequately protected against equity market falls"

"Our investment and funding strategies are designed to limit volatility"

"We have considered the risks within our scheme and have taken action to mitigate those risks which are unsustainably high"

"We are in a position where we could move quickly to further reduce risk if the opportunity arose"

"We have a long term objective and are following a plan to get there"



COULD YOU SAY YES TO THESE STATEMENTS?

MANAGING PENSION RISK
KEY OPPORTUNITIES AND DEVELOPMENTS

- Cashflow driven financing
- Member options
- Buy-in / Buyout
- Longevity hedging
- Alternative security

It is important to consider how these tools are put together to form a risk management plan. This will be different for each scheme depending on the materiality of each risk and the ability to tackle and mitigate those risks

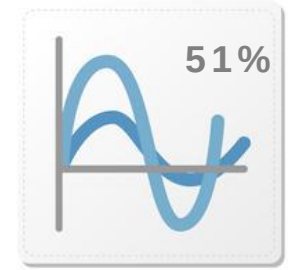
HOW ARE COMPANIES RESPONDING?
RISK REDUCTION AND CHANGING LIABILITIES

Reform to the end of contracting out **has accelerated the ending of DB** - 1 in 5 businesses with DB schemes are closing their scheme to existing members

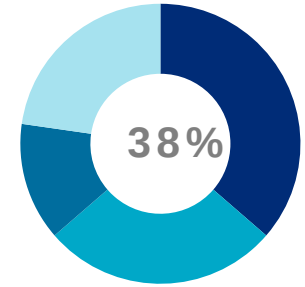
Also included was risk transfer such as buy-in / buyout (28%) and longevity swaps (11%), as well as the use of contingent assets and other funding methods (17%)

To manage their DB risks, companies are undertaking a range of **strategies to better manage asset risks**. 60% of respondents say one of these will be further de-risking

We have also seen **further moves to the delegation** of investment decisions with 15% proposing to increase the use of 3rd party support

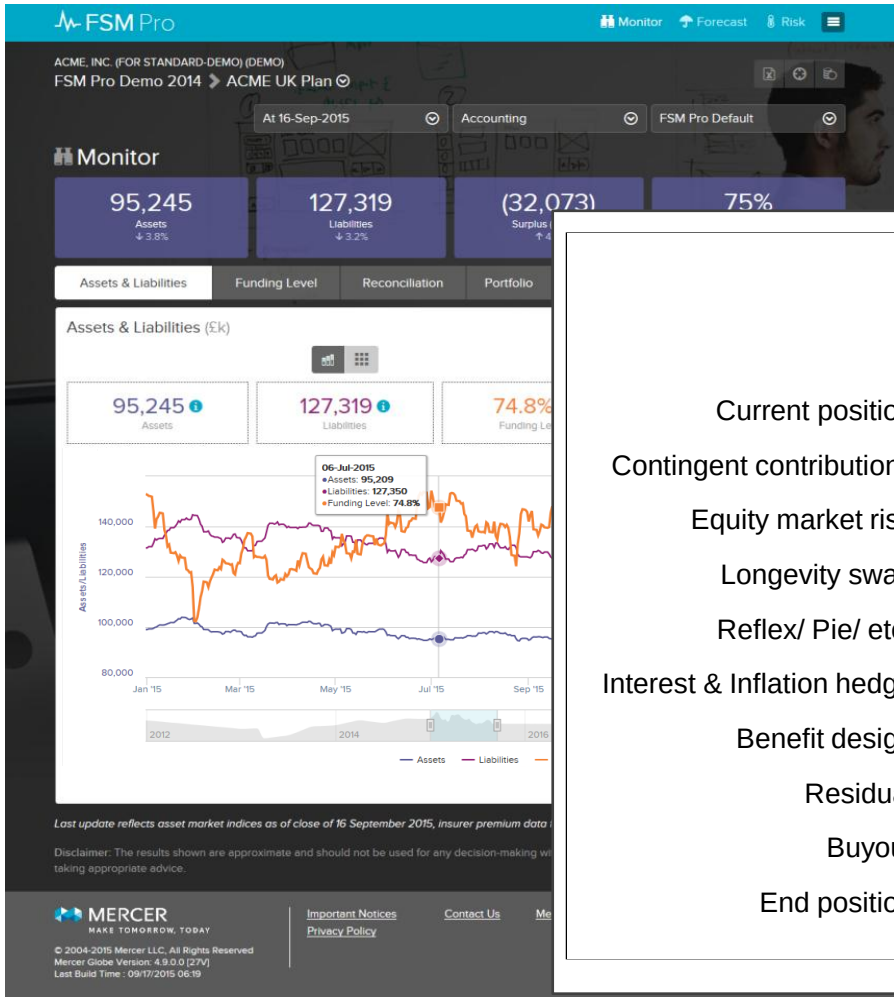


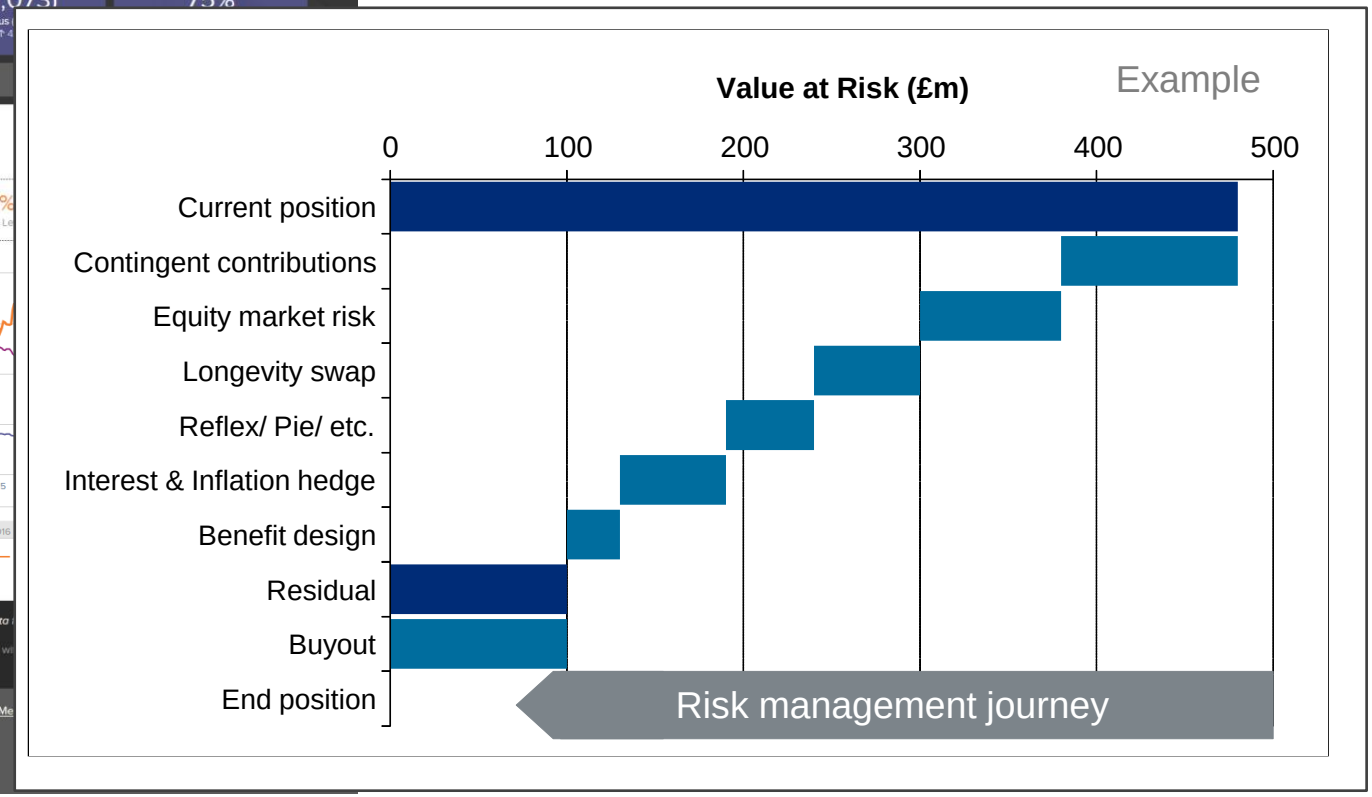
Increased hedging of liabilities



Diversification of assets

IT HELPS TO KNOW WHERE YOU ARE
MONITORING AND A CLEAR PLAN CRUCIAL





Agree a plan and progress along as opportunities arise

KEY FINDINGS
DEFINED CONTRIBUTION

MELBOURNE MERCER GLOBAL PENSION INDEX

2014: 67.6

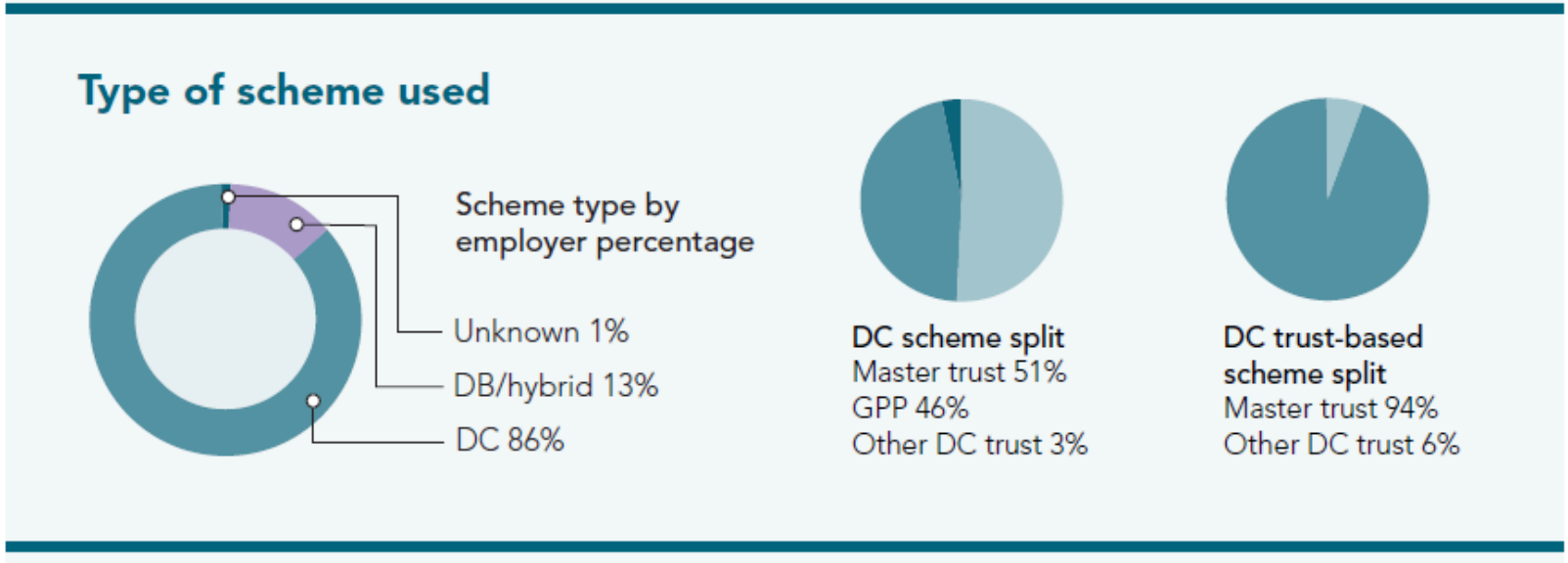
UK

2015: 65.0

"The decline in the British (UK) score was primarily caused **by the removal of any requirement for retirees to purchase an annuity at retirement"**

AUTO-ENROLMENT: TAKE TWO

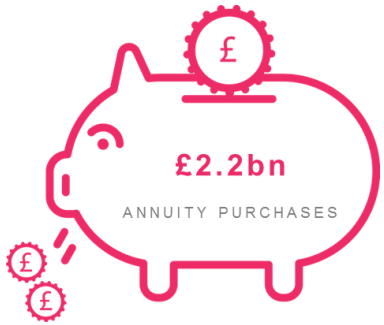
- Opportunity or challenge?
- Process not pension
- Take advantage of the lessons learned

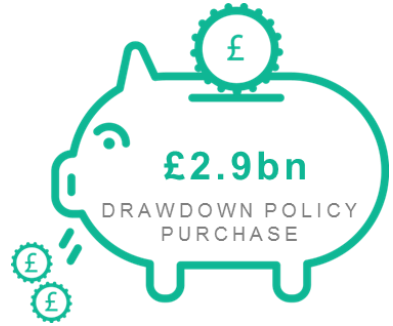


Source: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2015.pdf

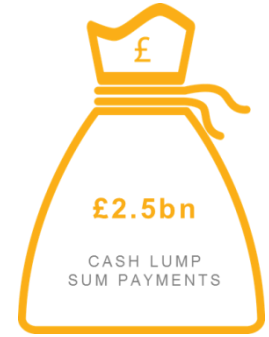
LIFE WITH "FREEDOM AND CHOICE"

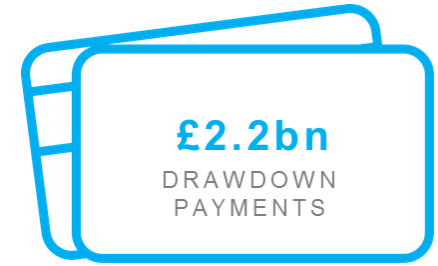
POLICY PURCHASE





BENEFIT PAYMENT





Source: Association of British Insurers (Nov 2015)

CALL TO ACTION

automatic enrolment

Pain free compliance is possible

Futureproof your DC arrangements to meet current and (known) future legislation

Embrace the engagement challenge

KEY FINDINGS
AGEING WORKFORCE

SURVEY EXAMPLE

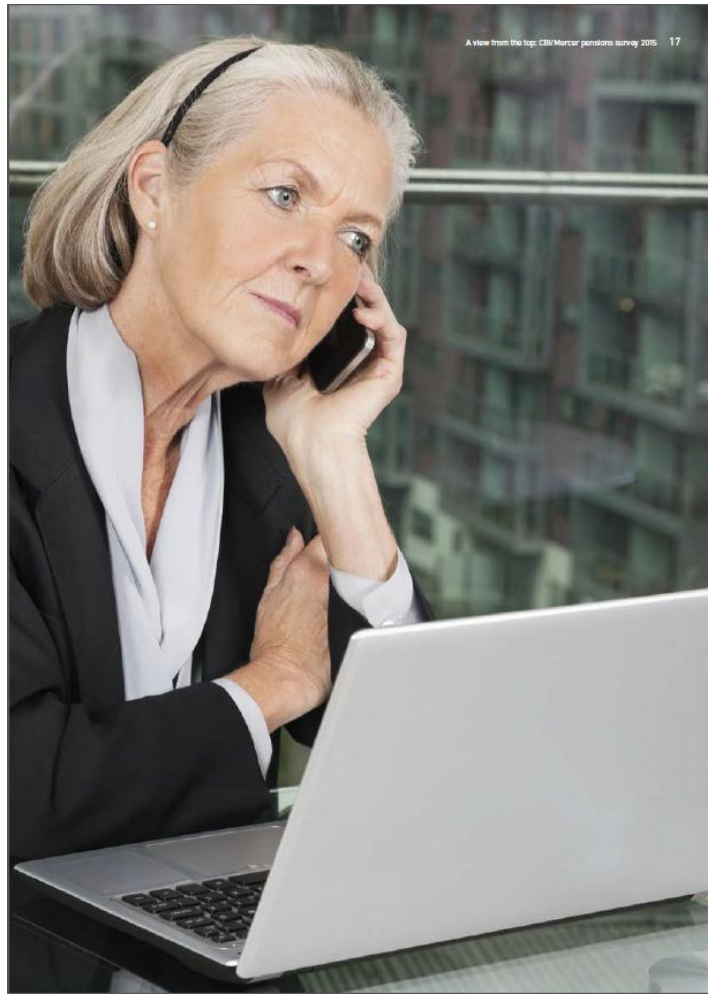
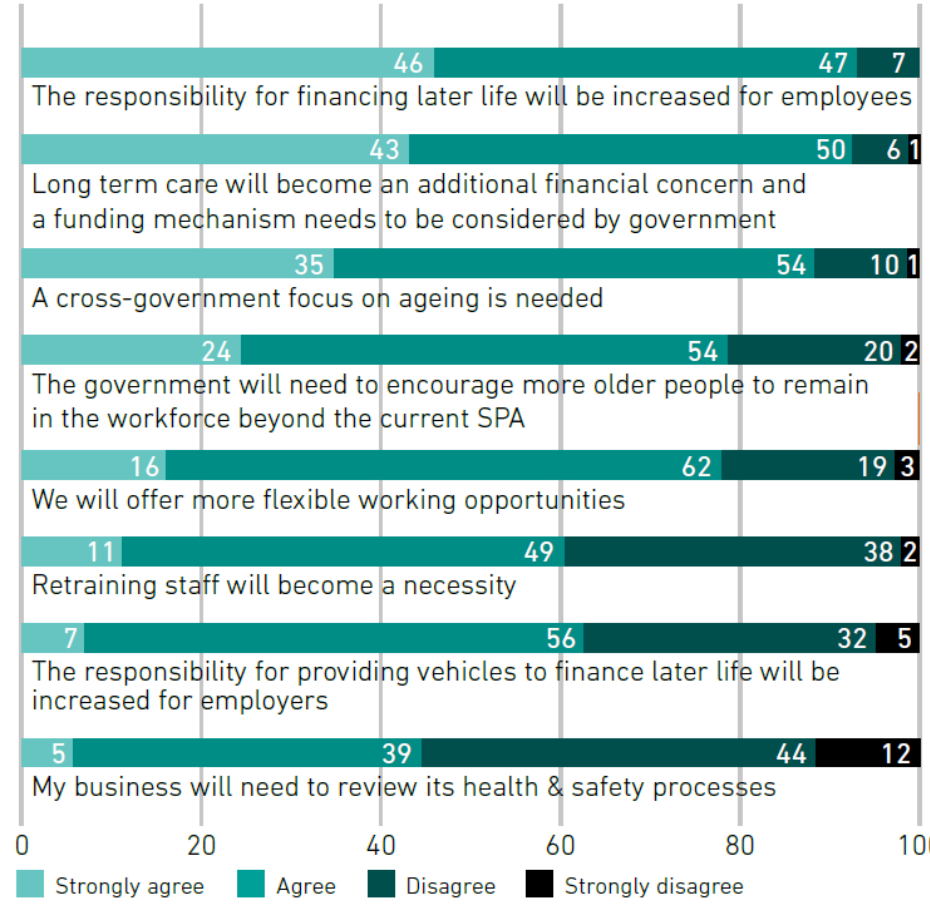


Exhibit 9 Challenges as a result of the UK's ageing society (%)



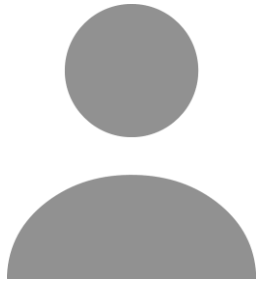
CERTAINTIES WITH AN AGEING WORKFORCE

Responsibility for financing later life will increase for employees (93%)

Living longer is becoming the norm

Working longer will become the norm

Health changes in ageing population will **increase costs**

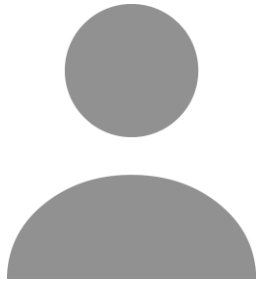


EMPLOYEES HAVE NEVER SAVED ENOUGH BEFORE – WHAT'S DIFFERENT NOW?

UNCERTAINTIES WITH AN AGEING WORKFORCE

- Will it be me?
- How long will I live?
- Will my pension last?
- How much will it cost?
- What is the long term government policy?
- What will providers offer – and when?

92% of respondents said **long term care is an additional financial concern**



HOW PREPARED ARE YOU?

WHOSE PROBLEM IS IT ANYWAY?

The Government can only do so much

Employers will need to recruit and **retain older workers**

- 78% report they will need to **offer more flexibility**
- 63% report that employers responsibility to **provide vehicles to finance later life**
- 60% believe **retraining will become a necessity**
- 44% report they will need to **review health and safety processes**

Employees will also need to **play their part**

- Keeping skills current
- Understanding the financial implications and taking ownership
- Managing own health

QUESTIONS?

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QUESTIONS

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

To submit a question while in full screen mode, use the Q&A button, on the floating panel, on the top of your screen.

CLICK HERE TO ASK A QUESTION TO "ALL PANELISTS"

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