

The Pension Protection Fund US/UK Pensions Conference

Lawrence Churchill
Chairman

- **State scheme**
 - Pension Credit – income guarantee
- **Defined Benefit Scheme**
 - Pension Protection Fund
- **Defined Contribution Scheme**
 - Market risk – protected funds available
 - Longevity risk – no protection

- Focussed solution to counter funding risk and insolvency risk
- Design incorporates learnings from 30 years PBGC experience

Pension Protection Fund/PBGC

- similarities

Both

- Take on the assets of insolvent employers' underfunded pension schemes
- Collect a levy from qualifying schemes
- Pay compensation based on members pension entitlement on an ongoing basis
- Cap the maximum level of compensation
- Aim to address corporate Moral hazard

Pension Protection Fund/PBGC - differences

Pension
Protection
Fund

- Governance
- Compensation Levels
- Levy

- Exposes risks which schemes are running
- Charges a levy on insurance principles
- Incentives to fund scheme better
(Complements European Directives)

- Confidence and consensus building
- Risk management and early warning systems
- Better standards of funding

- Moral Hazard
- Compulsory Insurance and Affordability
- Capital Market Innovation
- Are the equity holders getting too good a deal?

Reliability and confidence

- Security and Protection – an increasingly dominant theme
- Hazards vary for each type of pension provision
 - State system – political risk
 - Defined benefit – funding and credit risk
 - Defined contribution – market and longevity risk
- It's all about keeping promises – and evidencing that you are doing so.