

# 2nd Annual Trustee Survey



Assurance Limited

## EXECUTIVE SUMMARY

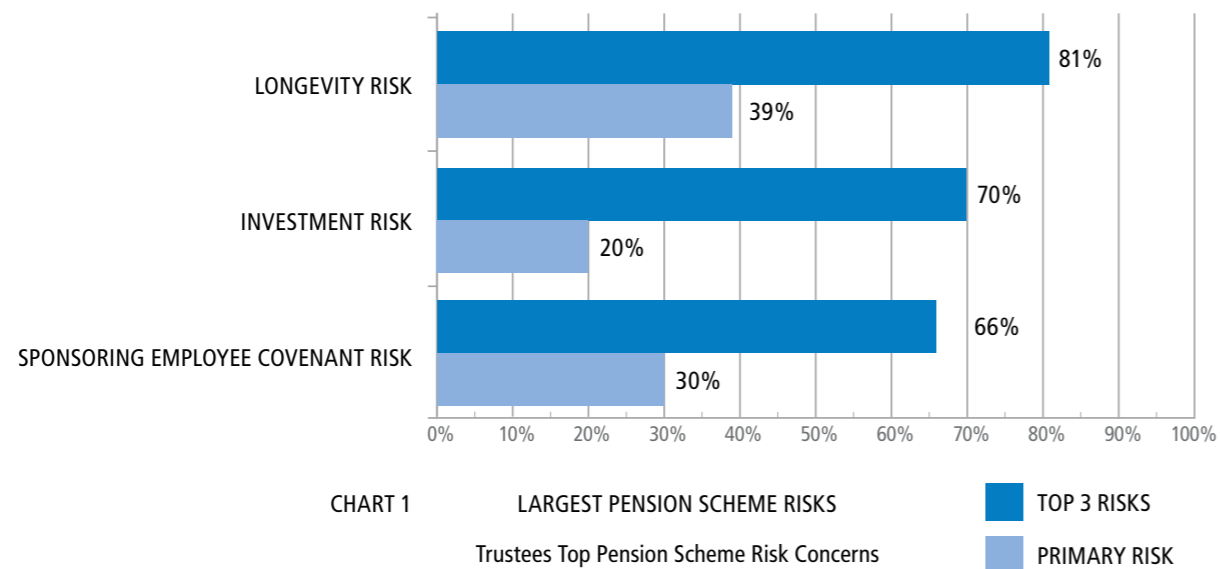
MetLife Assurance Limited surveyed trustees to assess how the economic events of the past 18 months have impacted pension scheme risk management and the bulk annuity provider selection process. The results of this survey show that:

- For a second year, longevity risk is the scheme risk that concerns trustees most.
- Almost two thirds of trustees place a greater importance on scheme de-risking in light of the economic events of the past 12-18 months. In response, over half of trustees have a plan in place to de-risk their pension scheme over the next five to 10 years.
- Over the next two years, trustees will consider asset risk hedging, longevity risk hedging, and bulk annuities to manage identified risk in their pension schemes.
- Most trustees believe that accuracy of scheme data is very important to the bulk annuity purchase process. About one third of trustees believe it is very important to de-risk a scheme's assets in advance of a pension risk transfer.
- When selecting a provider to de-risk their scheme, more than seven in 10 trustees selected financial strength as the most important attribute. Whilst trustees are clear about important attributes, nearly one third admitted to not being prepared for the provider selection process.
- Two thirds of trustees are forecasting strong growth in the value of transferred pension liabilities.

## LONGEVITY RISK REMAINS TRUSTEES GREATEST CONCERN

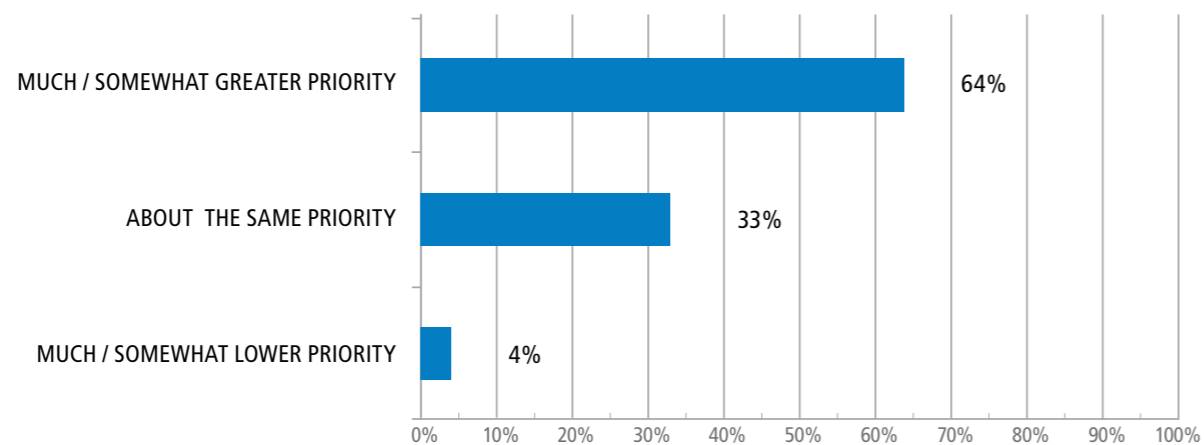
When presented with a list composed of seven pension scheme risks, 81% of the trustees surveyed by MetLife Assurance (Chart 1) ranked longevity risk among the Top 3 risks that concern them the most, including 39% of the trustees who ranked it as #1. This is the second straight year that longevity risk was identified by trustees as the risk causing the greatest concern.

Concerns about longevity risk were followed by investment risk (70% of the trustees ranked it among their Top 3 concerns, including 20% who ranked it as #1) and risk related to sponsoring employer covenant (66% of the trustees ranked it among their Top 3 concerns, including 30% who ranked it as #1).



### DE-RISKING BECOMING A HIGH PRIORITY

After unprecedented economic and stock market turmoil, almost two thirds (64%) of the trustees surveyed (Chart 2) said that the economic events of the past 18 months have caused pension de-risking to become a greater priority when managing pension schemes.

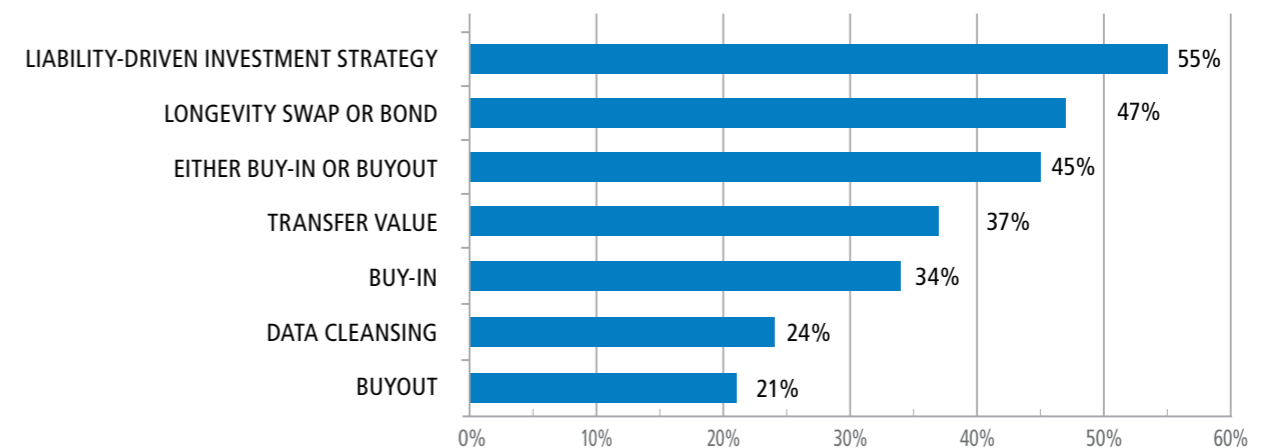


**CHART 2 CHANGE IN EXTENT OF PRIORITY ASSIGNED TO PENSION SCHEME DE-RISKING**  
Note: Due to rounding, numbers may not equal 100%.

### TRUSTEES HAVE PLANS IN PLACE TO DE-RISK THEIR PENSION SCHEMES

In response to concerns about de-risking, over half (59%) of trustees surveyed (Chart 3) said that they now had plans in place to de-risk their pension scheme over the next five to 10 years.

More than half (55%) of trustees surveyed said that over the next two years they will be considering asset risk hedging, such as liability-driven investments, while 47% are considering stand-alone longevity risk hedging, such as a longevity swap or bond. Additionally, 45% of trustees surveyed said they would consider pension risk transfer in the form of either a buyout or buy-in within the next two years.



**CHART 3 PERCENT OF TRUSTEES CONSIDERING VARIOUS OPTIONS TO DE-RISK THEIR PENSION SCHEME WITHIN THE NEXT TWO YEARS<sup>1</sup>**

Note: Due to rounding, numbers may not equal 100%.

### ACCURACY OF SCHEME DATA VERY IMPORTANT

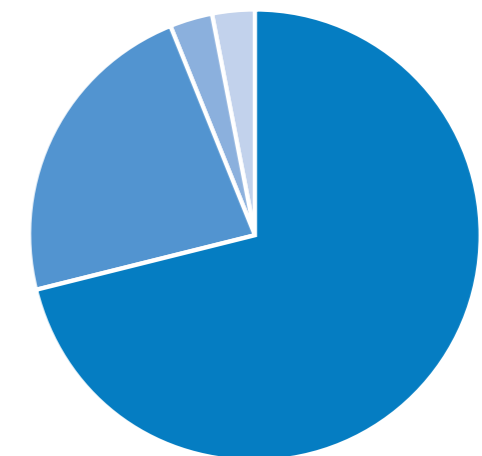
Most trustees (90%) agreed that accuracy of scheme data is very important to the bulk annuity purchase process. Moreover, 34% of trustees surveyed believed that it was very important to de-risk a scheme's assets in advance of a pension risk transfer.

### FINANCIAL STRENGTH IS MOST IMPORTANT INSURER ATTRIBUTE

When trustees were asked to rank the importance of four attributes when deciding which annuity provider they would select for de-risking their scheme, they ranked financial strength to be by far the most important (Chart 4). More than seven in 10 respondents (72%) selected financial strength as the most important attribute, followed by competitive pricing (23%). Administrative capability and brand were identified as much lower in importance, with each selected by only 3% of trustees as the most important attribute.

**CHART 4 IMPORTANCE IN SELECTING AN ANNUITY PROVIDER**  
PERCENT RATING #1 IN IMPORTANCE

FINANCIAL STRENGTH OF THE INSURER	72%
COMPETITIVE PRICING	23%
ADMINISTRATION CAPABILITY	3%
BRAND	3%



Note: Due to rounding, numbers may not equal 100%.

<sup>1</sup> For this survey, "Buy-in" and "Buyout" were separate and unique choices and some Trustees selected both. To prevent double-counting this de-risking question, a net figure called "Either Buy-In or Buyout" was computed for these aforementioned options.

Whilst trustees are clear about what they view as important attributes, nearly one third (30%) of trustees admitted to not being very prepared or not prepared at all to go through a proper selection process when choosing an insurance provider.

## **TRUSTEES FORECASTING STRONG GROWTH IN THE VALUE OF TRANSFERRED PENSION LIABILITIES**

Trustees are forecasting strong growth in the value of transferred UK pension liabilities this year. Two thirds (66%) of trustees believe that the value of transferred UK pension scheme liabilities will increase by more than 10% in 2010, including 11% who believe the value will be more than 25% higher than last year.

### **SUMMARY**

Economic events appear to have accelerated trustees focus on pension de-risking. Whether it is longevity concerns, higher volatility in the investment market, or just a recognition of the costs that uncertain data and benefits bring to a scheme, a broad range of reasons have led trustees to consider concrete steps to minimise these risks for the scheme and the corporate sponsor.

Indeed, these findings demonstrate that trustees are increasingly focused on looking at ways to de-risk their pension scheme in order to secure members' benefits. This survey shows that more than 20% of the trustees expect to consider some form of bulk annuity purchase by 2012 with other types of risk transfer also under consideration.

We expect those trustees who are concerned about scheme risk but who may not be ready for a full buyout to consider other de-risking strategies including data cleansing and asset liability matching as potential first steps.

### **METHODOLOGY**

MetLife Assurance surveyed 64 trustees who manage schemes varying from under £100 million to over £1 billion. Survey respondents participated in a print and online survey at and following the NAPF Annual Conference from 14th - 16th October 2009 and the Professional Pensions Show 2009 from 18th - 19th November 2009 with the survey closing 4th December 2009.



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