

PENSION MANAGEMENT RESEARCH PANEL

A Market Gone Bad: How Are Pensions Around the World Responding?

GLOBAL RESULTS

The **Pension Management Research Panel** recently conducted a global Quick Poll of pension executives from five markets - Canada, Hong Kong, Netherlands, United Kingdom and United States. The poll was completed by a total of 157 executives overseeing pensions ranging from £30 million to over £1 billion in assets. None of the participants were institutional clients of SEI. The aim of the polls was to examine the extent of the impact last year had on organisations managing pensions and how they are responding to ongoing worldwide investment volatility.

Global Asset Losses in 2008

Around the world, organisations overseeing pensions experienced a significant loss in assets last year, including:

- 76% reported a decrease in overall pension assets of at least 11%
- Almost half (46%) of all polled reported a loss of between 21-30%.
- A tenth (10%) of the participants said the loss was 31-40% of the overall portfolio

Funded Levels Have Been Hit Hard

Poll participants in the US, UK and Canada were asked how much 2008 impacted the plan's funded level from the year prior:

- Almost two thirds (64%) of that group saw a decrease in funded level of at least 11%.
- A third (32%) said their funded level decrease was at least 21%
- 10% said the decrease was over 31%

Pensions Are Impacting Overall Business

Following 2008, what is the impact of pension contributions on overall businesses? While in most countries funding relief has either already been provided or is close to being provided, the impact cannot be ignored:

- Half (49%) of those polled said that if their organization was required to make the

contribution, "the company could have made it but it would have had a significant impact on overall corporate finances."

- 11% admitted the "organisation would not have the cash to make the required contribution."

Asset Allocation Changes Taking Place

Market volatility is causing organisations to make changes to the asset allocation policy:

- 64% made changes in the past year
- 38% made changes in the past six months
- Nearly a quarter (23%) made changes in the past three months

What Actions Are Taking Place?

The recent market turmoil is causing organisations overseeing pensions to consider or implement the following options:

- 27% are diversifying out of equities and into bonds
- 21% said they are diversifying out of equities into alternatives
- 12% are considering or have already implemented interest rate swaps
- 6% are considering or have already implemented inflation swaps

U.K. POLL RESULTS

Organisations Polled

Breaking down participating organisations based on assets in their pension fund:

- 29% under £50 million
- 12.9% between £51 and £100 million
- 16.1% between £101 and £300 million
- 12.9% between £301 and £500 million
- 12.9% between £501 and £1 billion
- 16.1% over £1 billion

Losses in 2008

UK respondents reported significant decreases in pension assets last year as almost three quarters (71%) cited a loss of at least 20% with over a quarter (25.8%) citing a loss of more than 20%. Here is the breakdown:

- 25.8% saw a decrease of 21-30%
- 45.2% saw a decrease of 11-20%
- 22.6% saw a decrease of 1-10%
- 6.5% saw no decrease

Subsequently, the funding levels of UK pensions were also hit hard as 75% of UK poll participants saw a decrease:

- 7.1% saw a funding decrease of 21-30%
- 21.4% saw a funding decrease of 11-20%
- 42.9% saw a funding decrease of 1-10%
- 3.6% saw a decrease of 41% or more

Sponsor Covenant Concerns

Surprisingly a relatively low number of respondents are concerned about the health of their company sponsor with only one third (33%) stating that they were either concerned or very concerned about the company sponsor's ability to make contributions. This may reflect a lack of understanding of the importance of the employer covenant particularly in relation to investment strategy decisions.

Responses to Market Conditions

The long term future for defined benefit plans in the UK continues to change. Of all of the UK plans polled:

- 50% of UK participants said the organisation is diversifying out of equities and into bonds
- 34.6% said they are moving assets out of equities and into alternatives
- 26.9% said they are considering LDI

- 42% said they are considering Buy In
- 34.6% said they are considering Buy Out

It is interesting to note that organisations are still more focused on decisions relating to asset allocation rather than risk management indicating that there is a still more focus on assets than liabilities.

Fiduciary Management gaining popularity

In addition to investment changes defined benefit plans in the UK are also considering changes to the way the scheme is managed with well over half (61.3%) stating that an approach combining implementation and advice from one provider (Fiduciary Management) would be something they would consider.

Limitations with traditional model of oversight

Weaknesses in the current model of pension fund management were highlighted with less than one third of those surveyed (32.3%) meeting more than once outside of quarterly trustee meetings during the last year and 38% monitoring the scheme's assets relative to liabilities only once a year.

- 19.4% have not met once outside quarterly meetings
- 12.9% have met once
- 54.8% have met twice
- 12.9% have met month

- 38.7% review assets to liabilities annually
- 35.5% twice yearly
- 22.5% monthly
- 3.2% weekly

CONCLUSION

There is little arguing that the events of 2008 have had a tremendous impact on defined benefit pension schemes. Losses are significant resulting in funding deficiencies that are so large that many companies don't have the ability to make contributions.

In response, those overseeing pension investments are moving assets away from the equity markets and continuing to review the overall strategy. This includes further evaluating scheme design changes and the overall management of the pension and may signify an end to the traditional model of pension fund management with movement towards new models which provide more support for trustee bodies, increased oversight and improved governance.

Past performance is not a guarantee of future performance.

IMPORTANT INFORMATION

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs.