

MetLife[®]

Assurance Limited



3rd Annual UK Finance Director Survey

EXECUTIVE SUMMARY

This report presents the findings of the 2011 Annual UK Finance Director (FD) survey for MetLife Assurance Limited. FDs at businesses with a defined benefit (DB) pension scheme were interviewed on a range of pension scheme issues including the importance of de-risking, responsibilities, awareness of de-risking strategies, and likelihood to undertake a buyout or buy-in. The key findings were:

- 76% of FDs stated that de-risking the pension scheme was important to the overall business objectives, increasing in importance from 2010.
- The FDs surveyed in 2011 gave increased responsibility for the employer in driving de-risking strategy, although the majority still believed this responsibility was shared with the trustees.
- There was low awareness of the various de-risking strategies proposed with 45% of FDs surveyed not aware of any.
- One in five were aware of pension transfer buy-ins, and fewer than one in five were aware of asset allocation, longevity swaps and buyouts.
- Likelihood to undertake either a buy-in or buyout remained very low, as seen in the previous FD surveys (in 2009 and 2010).

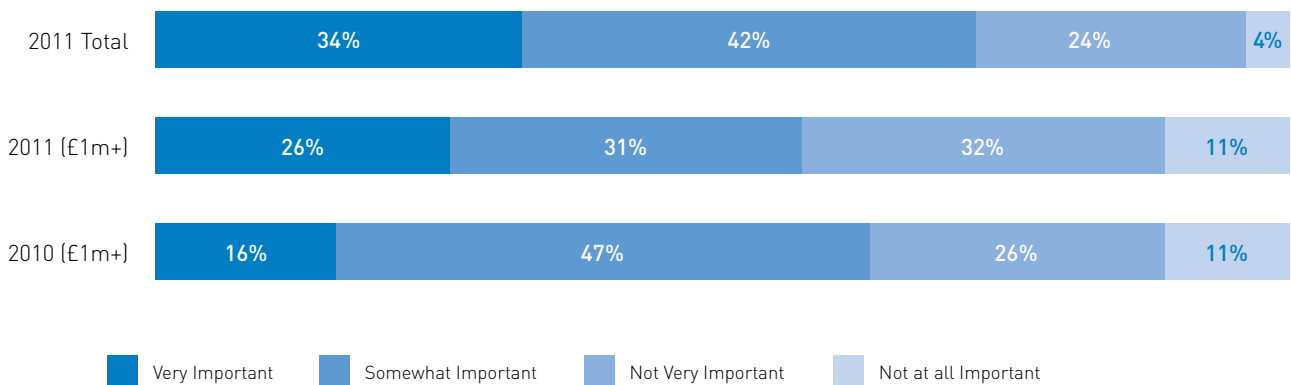
The sample selection for the 2011 survey comprised businesses with at least five employees, delivering a sample size of 63 businesses with a DB pension scheme. This represented a slight modification from the 2010 sample profile when 81 businesses with a turnover of £1m+ were selected for interview, meaning that reliable comparisons over time can only be made on the smaller sub total of DB schemes from £1m+ turnover businesses (54 interviews).

Main findings

De-risking pension scheme increases in importance

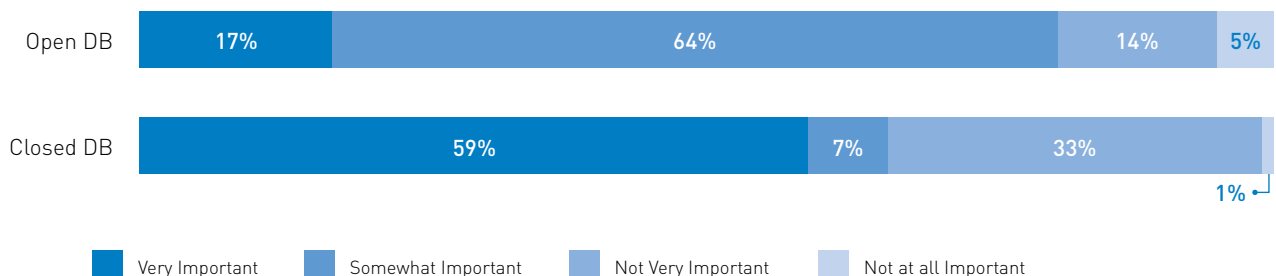
As in 2010, the majority of FDs said that de-risking their pension scheme is important to the overall business objectives. The proportion saying important increased overall from 63% in 2010 to 76% in 2011. Comparing the businesses with £1m+ turnover, there was a marginal drop in net importance, to 57% but the proportion saying very important increased from 16% in 2010 to 26% in 2011, which was mainly owing to responses from FDs at £5m-£20m turnover businesses. One in ten of the total sample of FDs in this set of larger employers felt it was not at all important, similar to 2010.

Q. How important is de-risking the pension scheme to your overall business objectives?



The opinions were strongest for FDs of businesses with closed DB pension schemes, where 59% stated de-risking their pension scheme was very important, significantly higher than the 17% representing open DB schemes, where the majority stated de-risking was somewhat important. This is presented below somewhat interestingly there was also a notable proportion of FDs at businesses with closed DB schemes that stated not very or not at all important (34%).

Q. How important is de-risking the pension scheme to your overall business objectives?

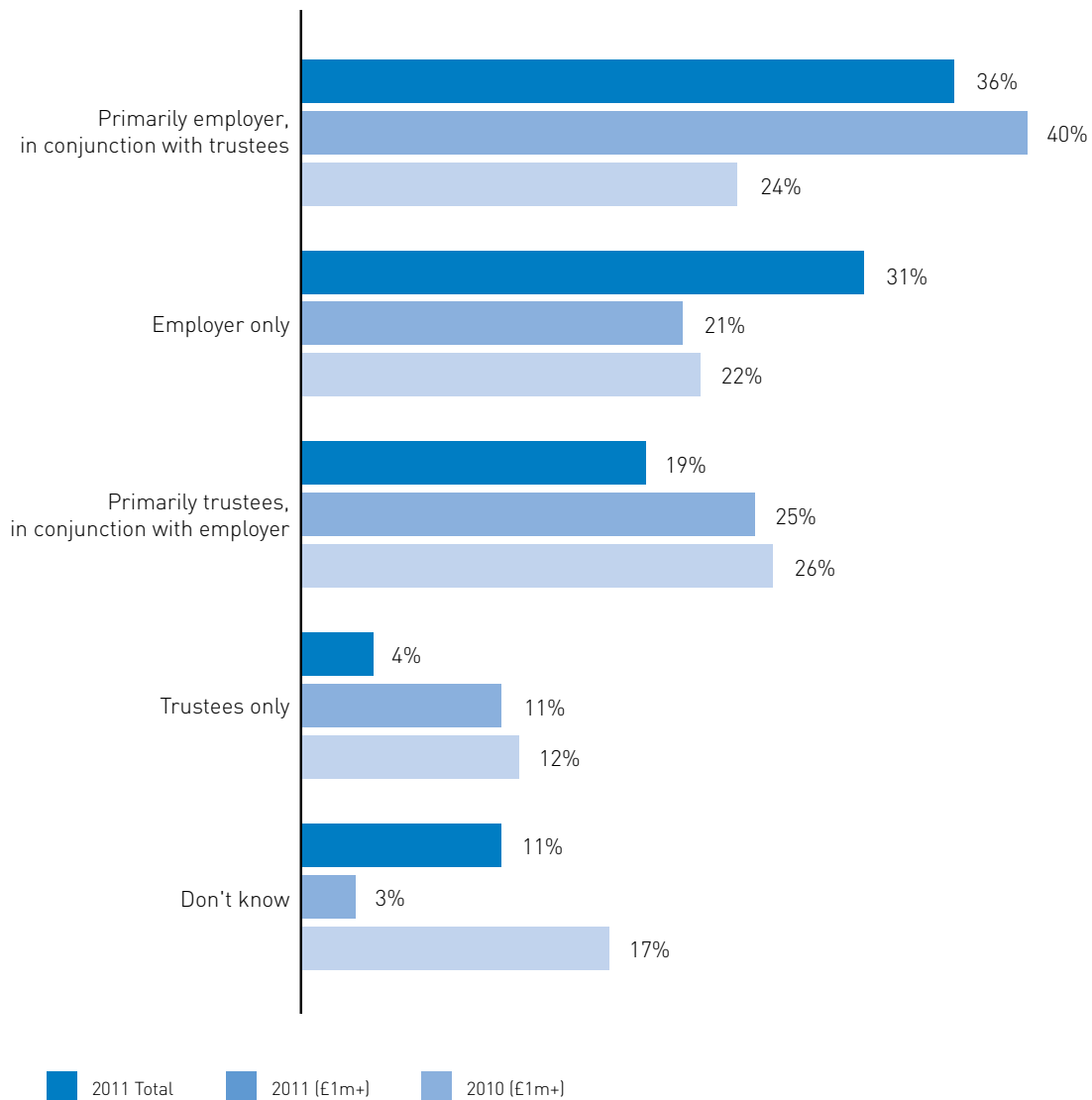


Totals may not equal 100% due to rounding.

Increased employer responsibility

One third of FDs surveyed (36%) stated that the primary responsibility for de-risking was shared between 'the employer in conjunction with trustees', a greater proportion than in 2010 (40% of FDs at £1m+ businesses in 2011, compared to 24% in 2010). This trend was mainly owing to an increase in smaller businesses with 6-50 employees believing that responsibility rests with employers, either solely or in conjunction with the trustees. FDs were least likely to feel it was the sole responsibility of the trustee (4%). This proportion was higher among £1m+ businesses (11%), comparable to 2010 (12%).

Q. Who do you believe has primary responsibility for driving the de-risking strategy within the pension scheme?



Interestingly, there has been a decrease in FDs at businesses of £1m+ turnover stating they do not know who has responsibility for driving the de-risking strategy, dropping significantly from 17% in 2010 to 3% 2011. This, combined with the increased number stating that de-risking strategy was 'primarily the employer's responsibility in conjunction with the trustees' (increasing from 24% among £1m+ businesses in 2010 to 40% in 2011), suggests that FDs are becoming more engaged with the management of their schemes.

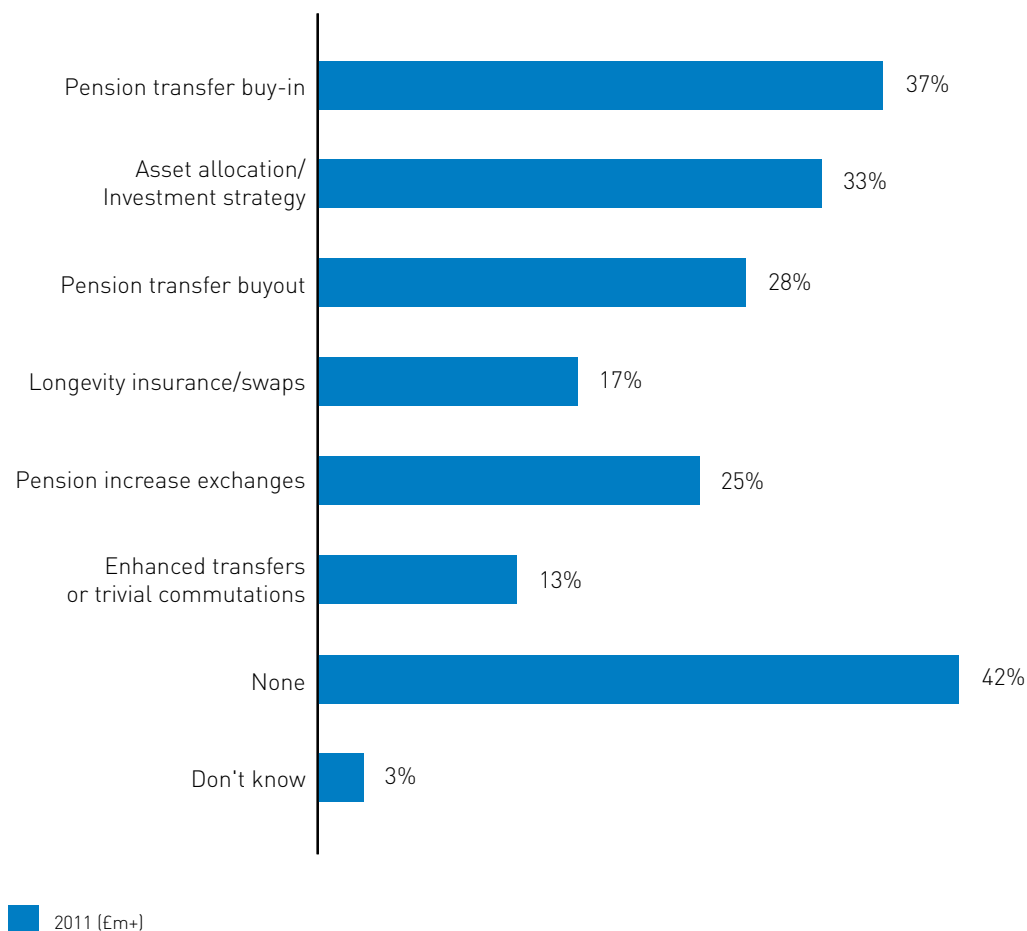
Totals may not equal 100% due to rounding.

Low awareness of de-risking strategies

This question was re-worded from last year's survey, when the question asked what activities FDs were most likely to consider to achieve their de-risking goals. This year the question was refreshed to assess awareness of a range of de-risking strategies, therefore a direct comparison with the 2010 results cannot be shown.

In 2011, 42% of FDs surveyed from £1m+ turnover businesses were not aware of any of the de-risking strategies presented, and a further 3% answered 'don't know'. Awareness was highest among FDs at businesses with £1m+ turnover, where 37% were aware of pension buy-ins, 28% buyouts, and 33% were aware of asset allocation.

Q. Which of the following de-risking strategies are you aware of?



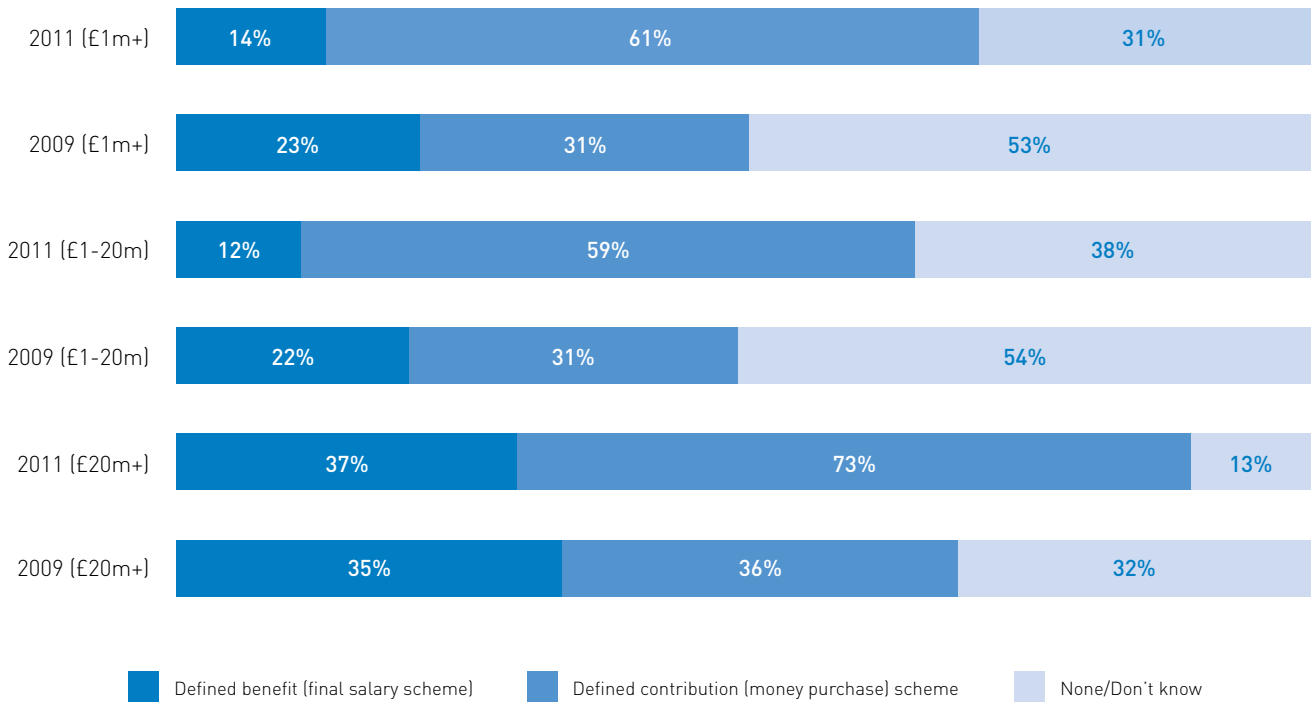
Among those saying de-risking is important, there was higher awareness of the listed strategies except pension increase exchanges and enhanced transfers, of which fewer than one in ten were aware. There is an opportunity to further educate FDs about their options as 36% of those stating de-risking was important were not aware of any of the options presented to them. 75% of those for which de-risking was not important were also unaware of any strategies.

The greater awareness for buy-in, than seen for buyout suggests that the industry has been successful in raising awareness of this option. However, in companies with a turnover above £1m, likelihood to undertake a pension transfer remained low; as in 2010 and 2009. Just three of the 25 businesses with DB schemes that were aware of either option, were likely to undertake a buy-in or buyout.

Provision of DB pension schemes

The base of DB schemes interviewed was smaller than previous years due to the declining availability of DB schemes. The chart below shows how penetration of DB schemes has fallen since the first FD survey in 2009, from 23% of £1m+ businesses to 14% of £1m+ businesses surveyed today. It was not possible to make a comparison with 2010 results because previous interviews were screened to ensure only DB schemes were included.

Q. Thinking now about pensions at your company, which of the following is provided to your permanent employees?

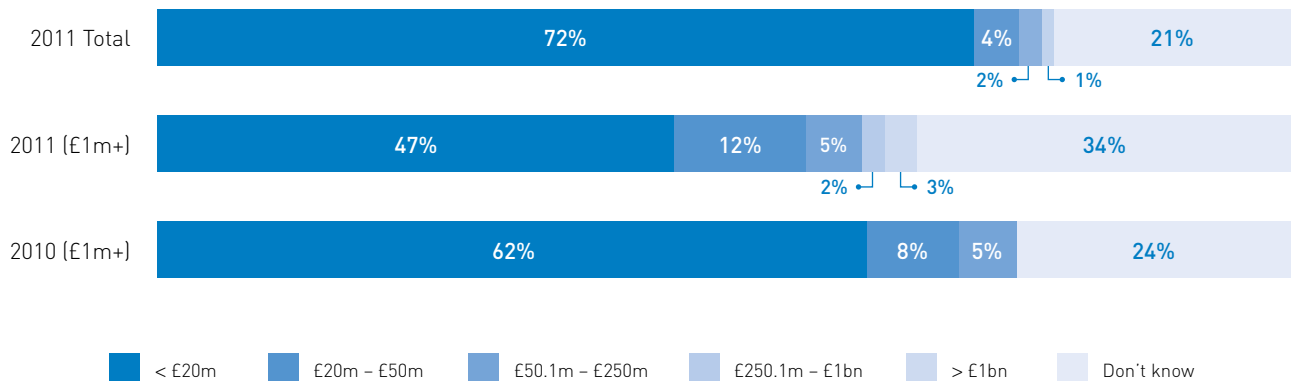


The proportion of businesses with a DB pension scheme remained stable among the largest businesses surveyed (£20m+) but declined for mid-sized businesses (£1m-20m) from 22% to 12% between 2009 and 2011. At the same time, the proportion offering a DC pension scheme increased significantly, across all sized businesses (in part due to reduced numbers saying none or don't know).

Totals will be greater than 100% where businesses have both a DB and a DC scheme.

Size of DB pension schemes

The 2011 survey had greater coverage of large pension schemes. The value of the pension schemes was less than £20m for half of the businesses in the sample, compared to almost two thirds in 2010. This year's sample included some businesses with a pension scheme value of greater than £1bn, whereas none were over £250m in 2010.



Methodology

The BDRC Continental Business Opinion Omnibus was used to undertake this annual survey of Finance Directors on behalf of MetLife Assurance Limited. Between the 5th and 23rd of September 2011, 462 senior financial decision makers at businesses with five or more employees were surveyed via telephone, of which 63 interviews were businesses with open or closed DB schemes. Senior financial decision makers include the owner, or Managing Director at small firms and the Financial Controller or Director at mid-large sized businesses. This delivered a sample of 320 businesses with £1m+ turnover, of which 54 respondents were from businesses with a DB scheme.

The Business Opinion Omnibus is a monthly survey which interviews a nationally representative sample of 500 senior financial decision makers. Results are weighted to the ONS profile of UK VAT/PAYE registered businesses with a turnover of £50,000+.

For this research in 2011, businesses with at least five employees were selected for interview. This represented a slight modification from the 2009 and 2010 sample profile where businesses with a turnover of £1m+ were selected for interview. The change in definition widened the pool of businesses with DB schemes to be included but does mean that reliable comparisons over time can only be made on the smaller sub total of DB schemes among £1m+ turnover businesses (54 interviews). 81 businesses with DB schemes were interviewed in 2010.

Note that where totals do not sum to 100% this is due to rounding, or where multiple responses were allowed, such as for the "Provision of DB pension schemes" question, where business may have both a DB and DC scheme.



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