

UK pension funds turmoil

Pension schemes use *liability-driven investments (LDIs)* to protect from falling government bond yields. When yields spike, they are hit with margin calls – demands for funds – to cover their losses



■ **Pension funds:** Invest their assets in government bonds (gilts*) in order to pay pensions decades later

■ **Hedging:** Funds typically hedge through *interest rate swaps* managed by LDIs. Fund receives fixed rate of interest – in exchange, fund pays variable market rate of interest to counter *fall in yield*

30-year UK government bonds (yield, percent)

■ **Dec 16, 2021:** Bank of England (BoE) raises rates to curb inflation, bond yields surge

■ **Margin call:** As yields go up, funds need to provide more collateral to LDIs by selling gilts

■ **Sep 23:** Prime Minister **Liz Truss** (above) backs **£43 billion** (€50bn) of unfunded tax cuts

■ **Sep 28-Oct 14:** Fire sale of gilts forces BoE to step in to avert financial collapse

Jun 2007:

4.825

Jan 2005:
4.516

2007-09: Global financial crisis

■ **Fall in yield:**
Value of swap increases for fund because scheme receives fixed rate, while variable rate it has agreed to pay in return falls

*Government bonds in Britain are known as gilts

Oct 14: 4.255
Sep 22, 2022: 3.834
Dec 2021: 1.120

Nov 2021: 0.852

5

4

3

2

1

0

05 | 06 | 07 | 08 | 09 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22