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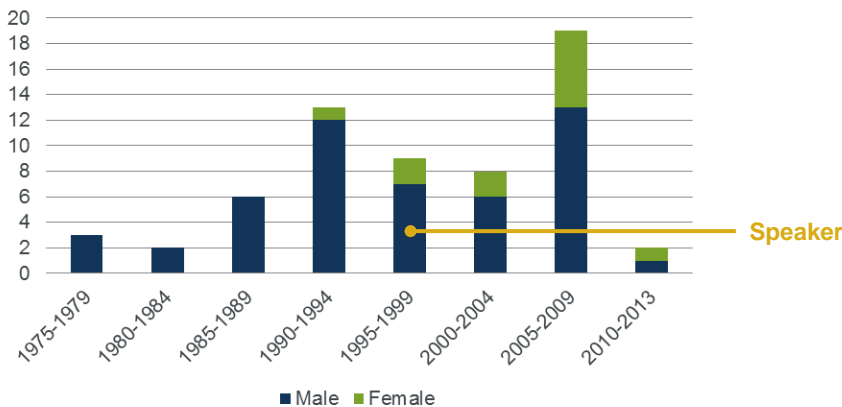
The radically changing role of the actuary in scheme funding negotiations.

Richard Murphy



6 June 2013

Profile of the breakout session by year of qualification



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Overview

- Where are we and why are we here?
- The revolutions currently underway
- Role of the Scheme Actuary
- What the future might bring and the skills needed to retain the key adviser role

What we want to avoid!

The only reason you go to work is that
you did not die in the night

KATE GILL, motivational speaker



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Valuation negotiations, 2013 style (Only slightly exaggerating)

Dear Company,

*Thank you for the deficit
contributions. We invested
them as you suggested and it
has not solved the problem.
Can we have lots more
please?*

Yours,

The Trustees



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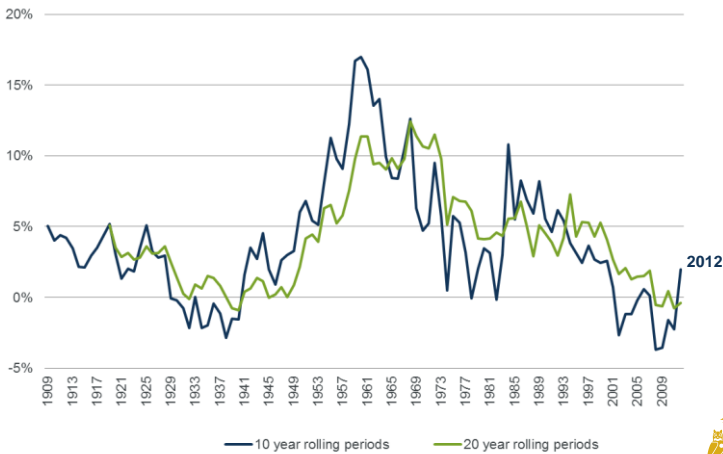
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How did final salary pensions get so expensive and complicated ...

	1991	2013
Life expectancy at 65	80	88
Gilts		
- Nominal 10 year yield	9.7%	1.5%
- Real yield	4.0%	-0.2%
£10,000 pa pension at age 65	£120,000	£280,000



Excess return on equities compared to gilts over rolling periods 1900-2012



Source: Barclays Capital Equity Gilt Study 2012



Recognising our professional requirements

The Actuaries' Code

2.2 Members will not act unless:
a) they have an appropriate level of relevant knowledge and skill;

2.3 Members will consider whether advice from other professions and other specialists is necessary to assure the relevance and quality of their work.

5.2 Members will take such steps as are sufficient and available to them to ensure that any communication with which they are associated is accurate and not misleading, and contains sufficient information to enable its subject matter to be put in proper context.



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Stories from the coal-face:

The twists and turns of employer covenant

World class (and bust)

Pizza: that's cash only

**No Pensions Regulator
please**



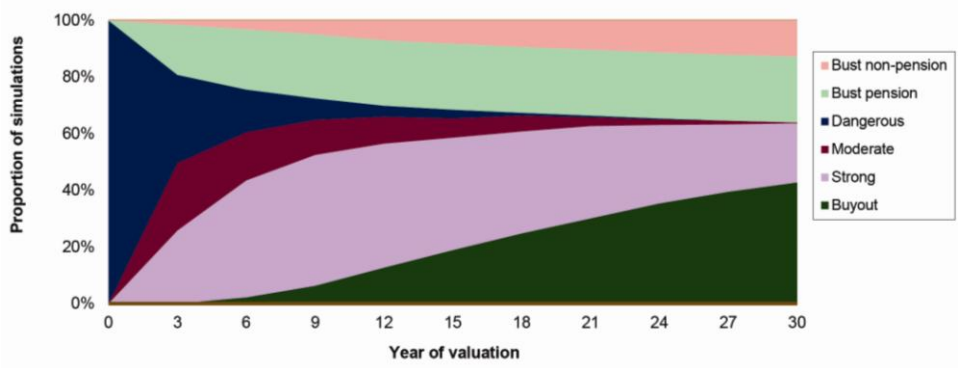
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Scheme large compared to the employer

A projection forward 30 years



I did not jump to conclusions, I took a small step and there conclusions were

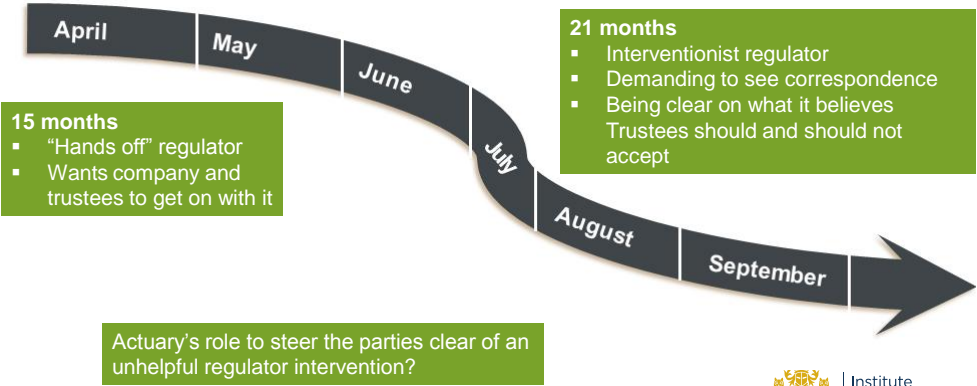


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Recent experience of the Regulator when company and trustees cannot agree

“Keep calm and carry on”



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The revolutions currently underway

- The calculations revolution
- The investment revolution
- The covenant revolution
- The governance revolution

Mankind tends to overestimate trends in the next 2 years and underestimate their impact over 10

BILL GATES



The “normal” valuation checklist



- Sensible assumptions:

Mortality
Investment growth
Long term funding and investment strategy
- Sensible approach:

Put forward prudent technical provisions
Put forward acceptable recovery plan
- Sensible backing:

Contingent assets, guarantees, negative pledges
Asset backed funding solutions

- Understanding the objectives and the constraints
- Making it add up (the hard bit)



Trustee powers are key...
... and will become more so

Powers in deed to set employer contributions

“Nuclear” clauses to wind-up the scheme and demand buyout funding

- Closure to future accrual focuses the mind on delivering benefits
- Management of potential conflicts of interest has seen the departure of many senior executives from the trustee board
- The permanent implications of the 2003 Debt on the Employer change to full buyout have sunk in for many company and trustee boards
- The last decade of poor investment performance has focused minds on how reliant schemes are on good investment returns
- The Regulator’s focus on employer covenant has highlighted the risks



Employers get the best results when they
take the initiative (usually)

- Understand the trustees’ objectives
- Set their own objectives with the board (or other appropriate decision-making body)
- Work within the board / parent company budgeting and decision-making process
- Position the covenant positively, disclosing the information the trustees need to build the relationship
- Avoid time pressure and make a justifiable offer, but with a few cards up the sleeve
- Tie in any valuation settlement to agreement on other steps
- Prefer cash-based solutions but consider the alternatives if necessary

Parent company guarantee

Bank guarantee or letter of credit

Escrow accounts

Charge over assets

Intangible assets e.g. brands



The role of the actuary

Recent experiences of delivering the valuation process

- Negotiator not mediator
- There is no normal
- Pensions funding is complicated (obvious but always worth remembering)
- There is no such thing as presenting material neutrally:
 - *If it is important, say it early and often*
 - *Human nature is to want to start from last time’s answer*
 - *Human nature is to want to pick the middle number*
 - *The preliminary numbers are incredibly sticky*
- Never under-estimate the one really determined person
- Local management may not have told headquarters quite how bad things are




Skills checklist to retain the key adviser role

Technical actuarial	✓	Project and cost management	✓
Communications	✓	IT skills on lots of platforms	✓
Investment	✓	Behavioural psychology	✓
Corporate finance and decision-making	✓	Marketing	✓
Negotiation	✓	“People skills”	✓




What will the next decade bring?


A personal view




Bond yields could be low for a long time and risk assets could do badly too (not necessarily a bad thing generally but terrible for DB pension schemes)



Slow move of the real target to funding for buyout




Employer covenant, not actuarial assumptions, will be key for valuations




Pensions Protection Fund

For many, getting "PPF +" benefit will be considered a success



Keeping investment strategy clear will be a real challenge and the actuary can help by supporting & challenging what investment consultants put forward



There will be a squeeze on the actuary role but those who are equipped for the new environment will do well

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.