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Current issues in pensions.

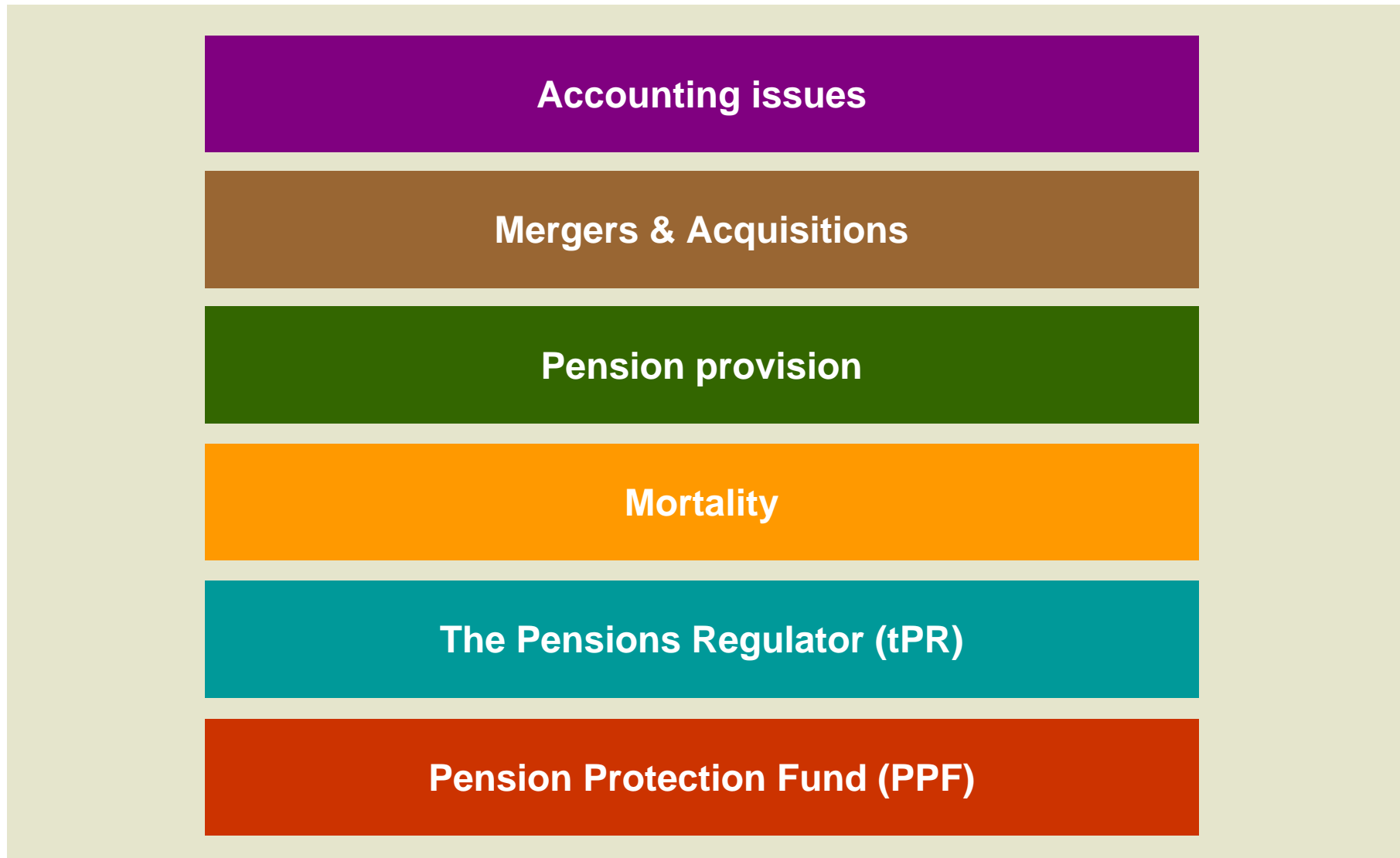
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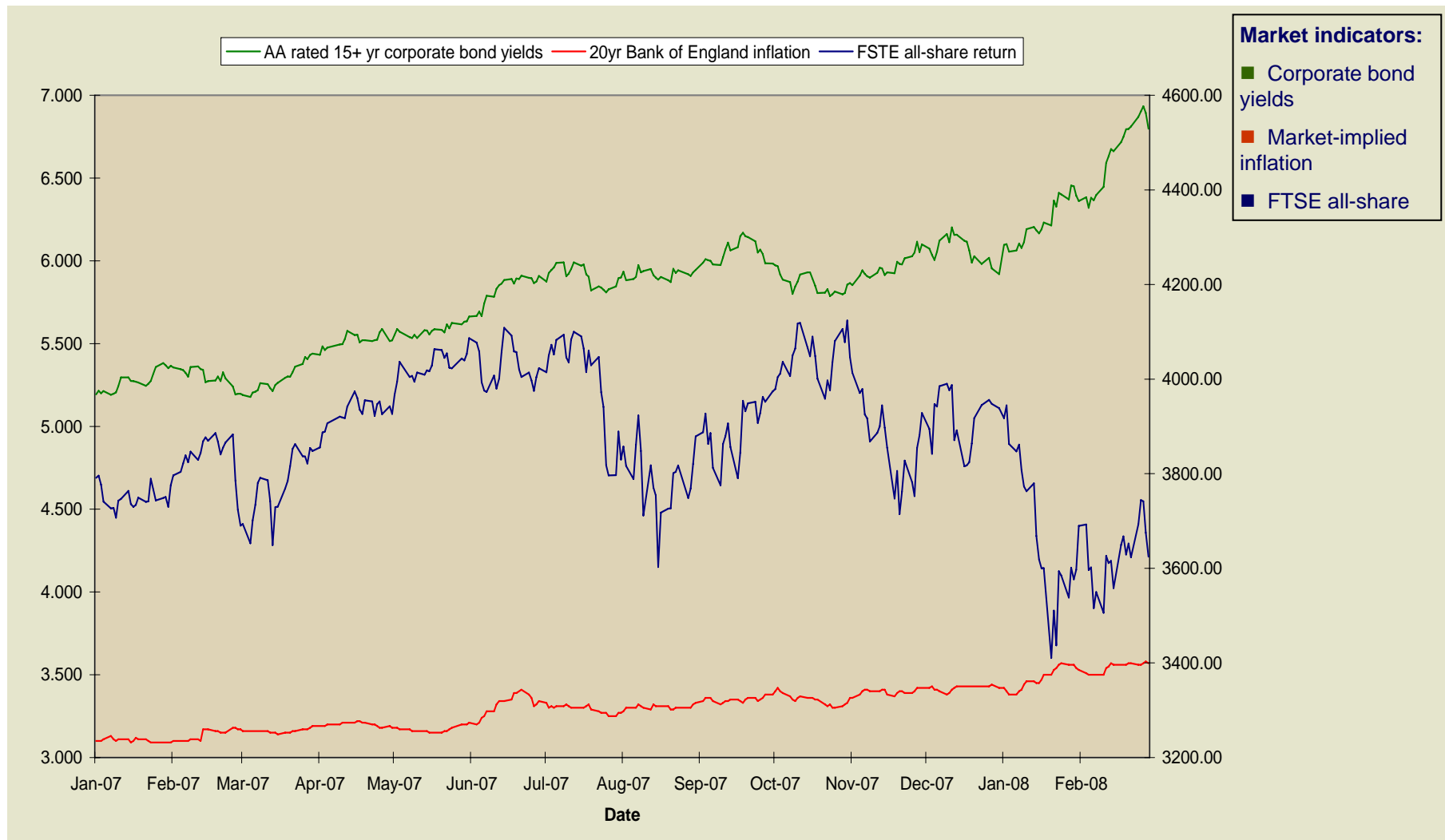
Audit • Tax • Consulting • Corporate Finance •

A year in pensions



Accounting issues

Movements in market indicators



Accounting issues

Rising net discount rates

Volatility in asset values and market falls

Improving accounting estimates of funding of pension schemes

Accounting issues

Deloitte estimate of FTSE100 accounting position



Disclosure of surplus

Surplus may exist on accounting measure

Amount recognised in accounts should reflect the economic benefit a company may take from it

This may be none if there is a commitment to make contributions to fund a deficit calculated on a different basis

Proposed changes to accounting practices

ASB proposals
issued in January
2008

Move of discount
rates to gilt type
rate

Actual returns on
assets used instead
of expected

Reduced
dependency on
future salary
increases

Proposals unlikely
to be fully
implemented

Consultation closes
on 14 July 2008

Mergers & Acquisitions

Large transactions:

Alliance-Boots largest private
equity purchase in UK -
£11.5bn price

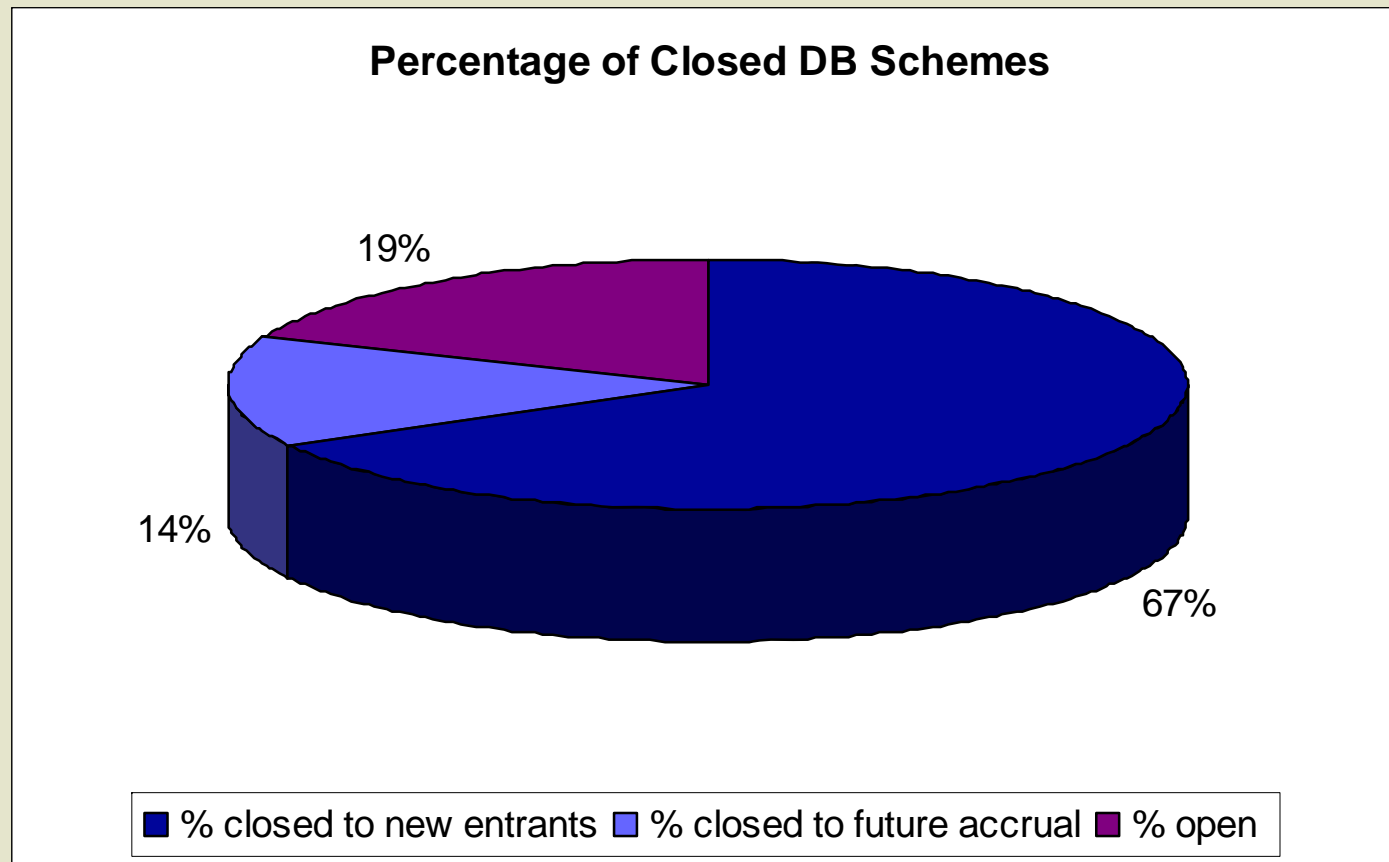
£1bn package for pension
scheme

Reduced level of activity in second half of the year

Distressed debt acquisitions – Bear Stearns?

Pension provision

Trend continuing towards DC provision at expense of DB



Pension provision

However, increases in amount contributed into DC

		2002	2003	2004	2005	2006	2007	Long-term expected
Defined Contribution	Employer	5.1%	5.2%	5.8%	5.9%	6.0%	6.2%	7.4%
	Employee	3.4%	3.5%	4.0%	4.1%	4.1%	4.1%	5.0%
Group Personal Pension	Employer	5.6%	5.6%	5.8%	6.1%	5.8%	6.0%	7.2%
	Employee	3.6%	3.8%	3.6%	3.8%	4.0%	3.9%	4.3%
Stakeholder	Employer	5.0%	5.2%	4.3%	4.5%	4.0%	4.1%	6.0%
	Employee	3.3%	3.5%	3.7%	3.8%	4.1%	4.1%	5.3%

De-risking strategies

Buy-out costs and timescales reducing as market becomes competitive

Still a considerable margin over accounting liability estimates (+20%-40%)

Possible to do a partial risk transfer or reinsurance

Buy-outs of P&O's and Rank's pension schemes (both <£1bn)

Deferred liability management

Mortality

CMI SAPS survey issued proposed graduations in January 2008



Mortality

Continued research into methodologies for projecting future mortality

- Lee-Carter
- P-spline
- Cairns-Blake-Dowd

Little consensus emerging as to which method to use

Pensions actuaries more likely to use existing (i.e. Cohort) improvement tables

Mortality

Accounting assumptions show:

Most common is still PMA92mc using year of birth methodology

Some actuaries have adopted the '00' series tables and are likely to use a floor in cohort improvements

Still some older tables (i.e. PMA80) used

Adjustments to tables include discount rates, age ratings, and k-factors

The Pensions Regulator

Sea containers determination – first issuance of a FSD

Telent trustees – exercised right to appoint independent Trustee

Scheme specific funding

Importance of employer covenant

Consultation on Mortality assumptions

Consultations on DC schemes and conflicts of interest

Pension Protection Fund (PPF)

Currently 115,000 members of PPF

1,457 pensioners in payment

**Estimated levy still at
£675m though rules
have changed
meaning**

Schemes at lowest risk paying more

**Schemes at highest risk paying less – recognition
that insolvency event should not be caused by
payment of levy**

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