### The Actuarial Profession

making financial sense of the future

2003 Pensions Convention

Implementing accounting standards

Richard Soldan

### FRS17 in 2002 - what have we seen?

Deficits

- Poor equity performance
- P&L and STRGL
- Assumptions
  - expected equity returns
  - discount rate

# Balance sheet position - December 2002

- FTSE100 estimated deficit £40bn
- 4% of market cap
- Compares with approx £5bn surplus Dec 2001
- Poor equity returns
- Lower discount rate

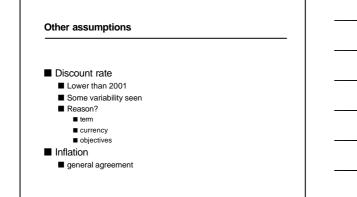
### Asset performance

- STRGL figures
- BP asset loss
  - £3.2bn
  - 27% of scheme asset value
- Average FTSE100 asset loss >20%
- Volatility
- Future returns?

### Expected return on equities (1)

- Subjective
- No "right" answer
- Directors responsibility, on actuarial advice
- Large range disclosed by FTSE100
  - disclosed in 2001: 6.5% to 9%
  - disclosed in 2002: 5.1% to 9%
  - average rate reasonably similar

# Expected return on equities (2) Reaction to market falls? FRS17 - "broadly level amount" But reduced expectations? Applied to reduced asset value Profit sensitivity Harmonisation - no expected return element?



# SSAP24 - responses to market falls (1)

- FRS17 increased emphasis on pensions
- Old valuation now less appropriate
- Paragraph 49
- Practical solutions
- True and fair
- Materiality

### SSAP24 - responses to market falls (2)

- Cost = contributions
- No adjustment, no special disclosure
- No adjustment, paragraph 49 disclosure
- Adjustment applied
- Updated valuation
- "It depends"

## Summary

- FRS17 deficits have increased
- Greater disclosure
- SSAP24 closer scrutiny