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?

Other assumptions

- Discount rate
  - Lower than 2001
  - Some variability seen
  - Reason?
    - term
    - currency
    - objectives
- Inflation
  - general agreement

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