

Regulating Pension Scheme Funding

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Agenda

- Regulatory statement & code of practice;
- Triggers for regulatory attention;
- Actions following trigger;
- Use of regulatory powers; and
- Experience to date.

Code of practice: Funding defined benefits

- Issued December 2005
- Valuation process
- Consultation and agreement with employer
- Objective assessment of employer's covenant
- Dealing with conflicts

Code of practice: Setting TPs

- Accrued benefits funding method
- Actuarial advice on method and assumptions
- Range of values or options for each assumption
- Prudence of assumptions overall
- Scheme specific

Code of practice: Setting TPs

- Illustrations of variability
- Equity out-performance allowed in investment assumptions used to set technical provisions (need to consider employer covenant)
- Mortality- latest available data on likely future mortality rates

Code of practice: Recovery plans

- Recovery Plan- aim to eliminate shortfall as quickly as the employer can reasonably afford
- Scheme specific
- Assessment of employer's covenant

The regulator's statement

- Issued May 2006
- Scheme specific funding strategy
- Triggers for technical provisions and recovery plans
- Primary focus – prudence of technical provisions
- More flexibility in the recovery plan
- Viability of sponsoring employer key

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Key TPR messages

- Higher margins on assumptions expected for schemes with weak employer covenants
- Prefer prudent technical provisions and a longer recovery period
- Justification for assumptions adopted (particularly in relation to mortality)

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Key TPR messages

- Flexibility
- A back-end loaded recovery plan over 10 years could be appropriate for a specific scheme
- A TP basis and RP that is "acceptable" to TPR on one scheme may not be acceptable for another scheme

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Scheme Specific Funding (SSF) Team

- SSF team within TPR set up Autumn 2005
- Currently 18 team members and growing
- Mixture of business consultants, case managers, actuaries and lawyers

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Submission of a recovery plan

- Encouraging completion of a valuation submission data form
- Details of valuation results/assumptions/recovery plan
- Policy on "pre clearance" and "no names" enquiries

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Submission of a Recovery Plan

- Triggered Recovery Plans will be passed to a Case Manager within SSF team
- Virtual teams for each case
- Business analyst will assess information on employer covenant
- Actuary will review actuarial assumptions adopted in light of strength of employer

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Actions following trigger

- Do actuarial assumptions appear imprudent?
- Does the recovery plan look inappropriate?
- If yes, TPR may request further information
- Meeting with TPR and trustees/actuary?

Intervention

- Some triggered schemes may warrant further investigation
- Proactive approach
- CRM and SSF teams -interaction
- If negotiation fails
- Powers under PA 1995 and PA 2004

Experience to date

- 12 recovery plans submitted
- RP lengths range from 6 months to over 20 years
- 4 have triggered on either the TP trigger or RP triggers
- 2 that triggered have received no further action letter from TPR

Experience to date

- 5 of the 12 plans submitted adopt higher pre-retirement investment return assumption to post retirement
- Around half of the schemes have adopted PXA92 tables YOB (with medium cohort)
- Only 1 scheme has adopted a different asset return assumption for setting Recovery Plans

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Experience to date

- Over 30 meetings to date
- 4 via corporate transaction clearance process
- 1 proactive meeting
- 5 mediation meetings (pre submission)
- 2 post recovery plan submission
- Other meetings at trustees'/employers' request

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Lessons learnt

- Important to share lessons learnt
- Range of assumptions
- Justification for assumptions
- Employer's covenant assessment
- Access to information
- Conflicts

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Any questions?

- Secondments to TPR
- E-learning
