

Regulating Pension Scheme Funding

5 November 2007, London
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Scheme Funding

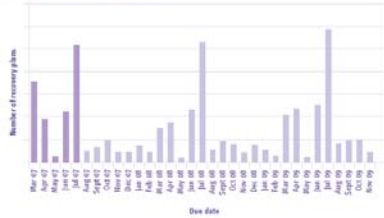
- New scheme funding requirements came into force in December 2005
- DB schemes with deficits required to submit a recovery plan to us
- Code of practice to help trustees interpret legislative requirements
- Statement issued setting out our approach to regulation

The emerging picture

- We have published an analysis of what we have seen to date
- This is partly to meet demands from the industry, but also to meet our commitment to transparency
- Analysis based on recovery plans received by end of July 2007

Recovery plan due dates

Figure 1.1
Schedule of recovery plan due dates

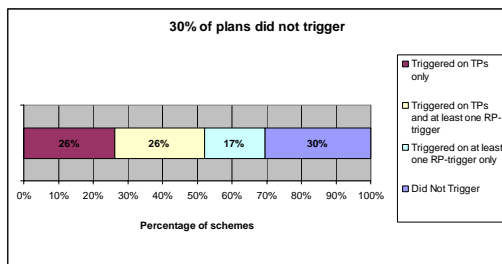


Our triggers

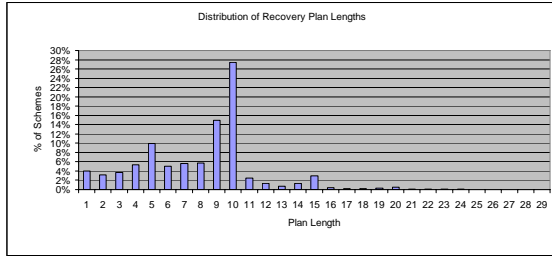
- Technical Provisions – one trigger in relation to FRS17/IAS19 and s179
- Recovery Plans – three triggers around:
 - Length of plan (10 years)
 - back-end loading (no worse than salary linked plan)
 - investment return assumptions over plan period (no higher than implied by reasonable asset allocation)



Triggers in practice

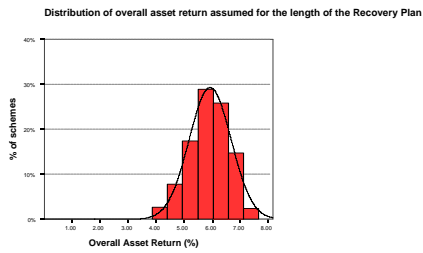


Recovery plan length



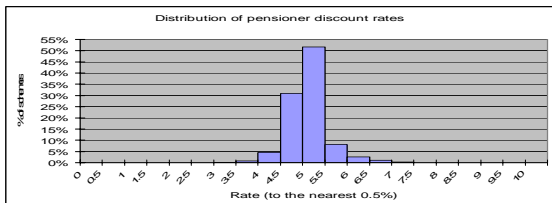
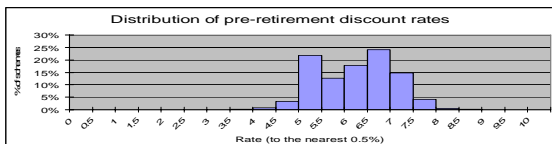
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RP investment return

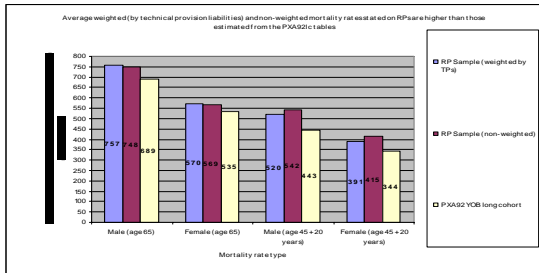


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TP discount rates

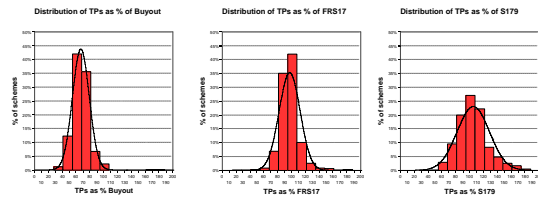


Mortality



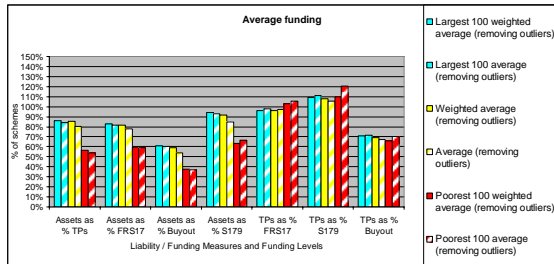
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Comparison with other liability measures



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Funding levels and comparisons for various subsets



The Pensions Regulator

**Mortality:
Information submitted**

- Our valuation summary form includes all the information we need for our triggers ...
- Plus some information on selected individual assumptions...
- ...including the post retirement mortality assumption for current and future pensioners
- We ask for q_x for a male and female aged 65 at the valuation date and 20 years in the future as well as the table description
- These statistics are based on the post retirement mortality assumptions only



**Mortality analysis:
Base tables used**

PXA92	1,099	96.6%
PXL92	3	0.3%
PXA80	7	0.6%
PXA00	18	1.6%
PA90	6	0.5%
a55	2	0.2%
Scheme experience	2	0.2%
Population tables	1	0.1%
	1,138	100.0%



**Mortality analysis:
Calendar year or year of birth approach?**

Year of birth	689	60.5%
Calendar year (or 'period' table) approach	414	36.4%
Not known	35	3.1%
	1,138	



Adjustments to tables

- Too varied to analyse meaningfully
- Difficulties with non standard terminology
- Average year of birth or individual year of birth - both approaches being used
- If calendar year approach used, year ranges from CY 1992 to CY 2045 (for current and future pensioners)
- Age adjustments vary from -8 years to +5 years
- Scaling percentages also being used (80% to 140%)
- If CY 2003-2006 approach has been used, often a reduction to the discount rate (e.g. 0.3% p.a.) used to allow for future improvements



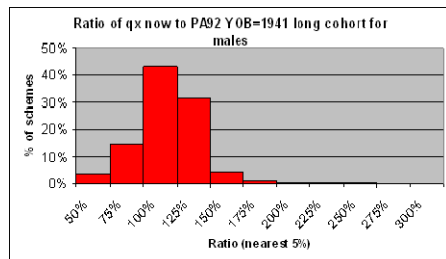
Future improvements

Allowance for the cohort effect

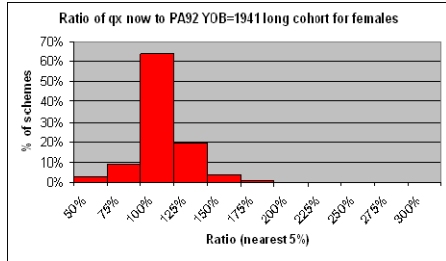
No cohort	374	32.9%
Short cohort	129	11.3%
Medium cohort	629	55.3%
Long cohort	3	0.3%
Not specified	3	0.3%
	1,138	100.0%



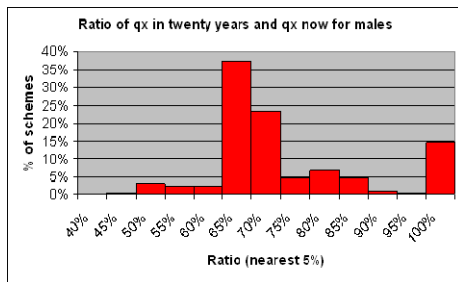
Comparison of q_{65} for males



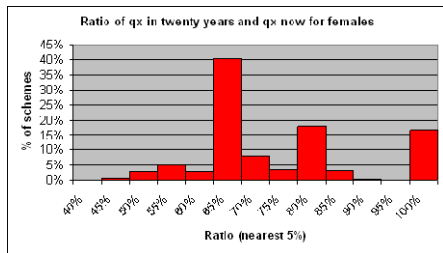
Comparison of q_{65} for females



Ratio of q_{65} 's for males



Ratio of q_{65} 's for females



**Mortality analysis:
Future improvements**

Allowance for the cohort effect

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**Mortality analysis:
Summary**

- Weak mortality may have been compensated for elsewhere in the Technical Provisions ('TP') basis
- We will not challenge a particular assumption if the overall level of TP looks appropriately prudent
- However, where the TP do look low for the strength of employer, the main assumptions we are challenging are the discount rates and/or the mortality assumptions
- Lack of evidence to support some adjustments to tables
- First tranche of recovery plans so we expect to see a strengthening of mortality assumptions for more recent valuation dates and future valuations



**Mortality:
Future developments**

- BAS is committed to issuing a consultation document in the new year
- CMI has issued working papers 27 (the "library" of mortality projections) and 29 (results of the SAPS investigation) both of which we expect to be influential in informing the advice actuaries give to trustees
- BAS and TPR held a joint "forum" on 17 September



Our observations

- We are encouraged by the broad sweep of funding plans submitted
- We expect longevity improvement assumptions to strengthen in the next round of submissions
- Failures to agree are a concern
- Late returns/requests for extensions are another



Our SF team Processes

- All submitted recovery plans pass through our filter process
- Triggered plans reviewed by multi-disciplinary SF "virtual" team
- Virtual team comprises a case manager, a business adviser, an actuary if technical provisions are at issue and sometimes a lawyer
- Triggered plans escalated according to risk evaluation
- SF team engages with trustees and advisers, usually via conference calls but sometimes it is necessary to meet



Failures to agree

- Up to end July, 74 schemes reported a failure to agree funding plans
- We have also experienced a recent trend to ask for more time
- Both are being treated similarly
- We are exploring reasons, emphasising the need for genuine trustee/employer engagement and giving tight deadlines for action, which we then follow up
- Most cases seem to be susceptible to this approach
- We cannot rule out having to use our powers



Key Messages

- Primacy of technical provisions
- Recovery plans based on affordability
- Covenant strength affects technical provisions
- Prudence doesn't equate to best estimate even for the strongest employers
- Our SF process is scheme specific



Any questions?