

Scheme-specific funding - nice idea but...

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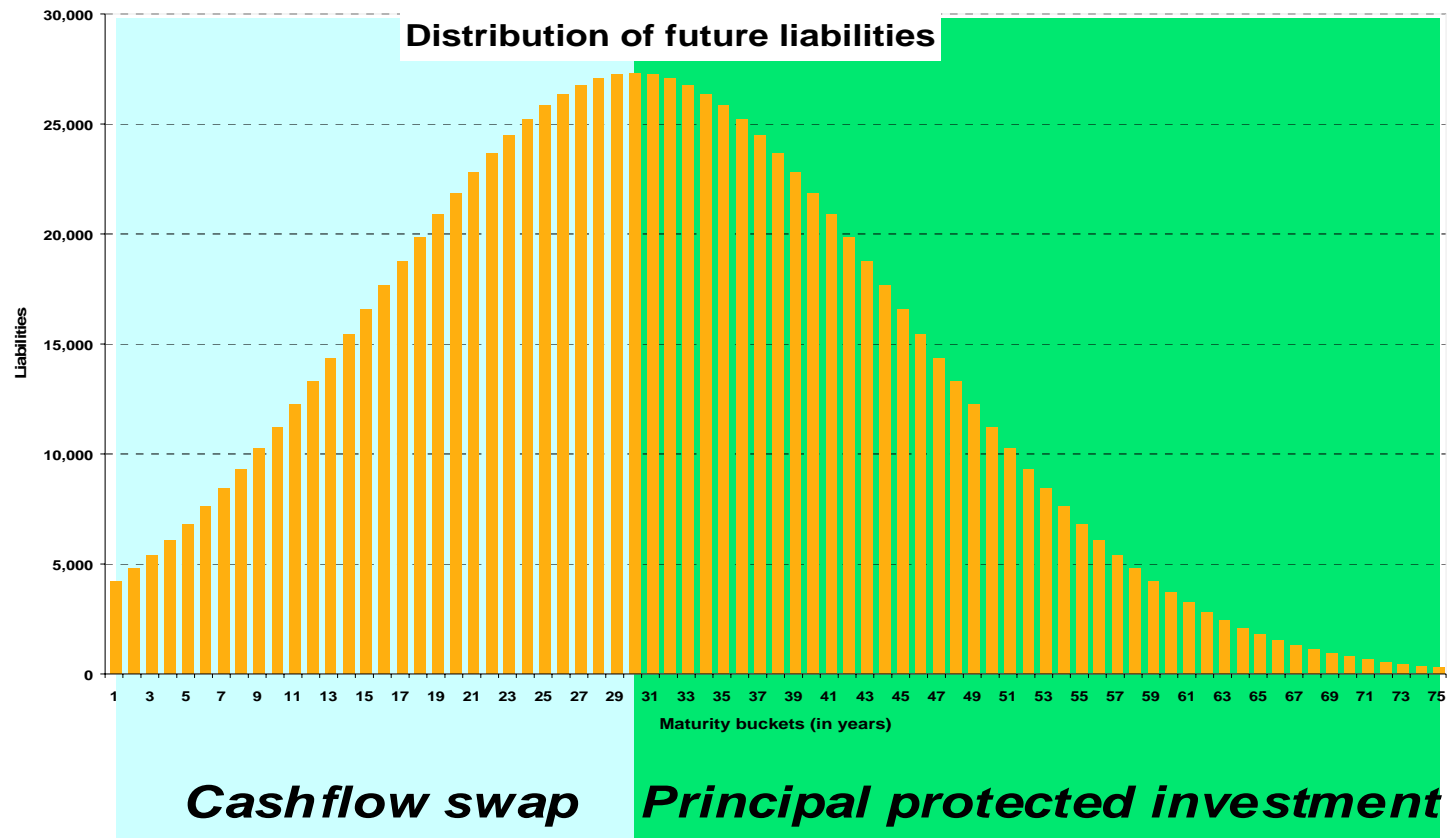
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Agenda

- Statutory funding objective (SFO)
- Statement of funding principles (SFP)
- Valuation reporting
- Failure to reach agreement
- Issues for trustees and employers

EU Directive - scheme liabilities



Statutory funding objective (SFO)

- Shortfall = assets - technical provisions
- Assets are sufficient and *appropriate*
- Technical provisions (TP) calculated in accordance with any “prescribed methods and assumptions”
- Actuarial certification within reasonable period
- Methods & assumptions for TP require agreement of employer

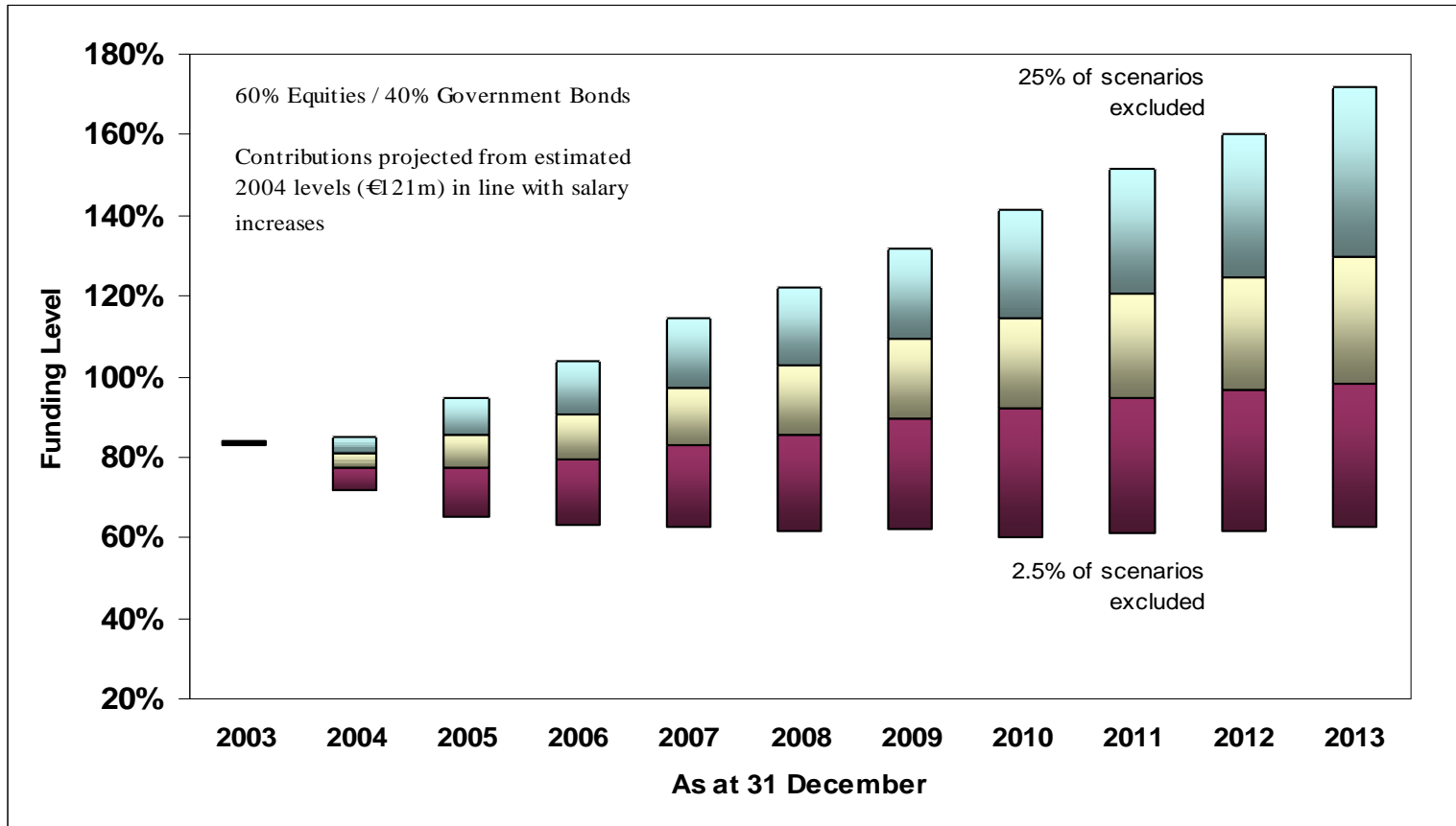
Statement of funding principles (SFP)

- Trustees' written policy for ensuring SFO is met
- Agreement of employer and advice of actuary
- SFP includes methods & assumptions for technical provisions and correction period
- Recovery plan - action to meet SFO in the event of shortfall and period for correction
- Schedules of contribution consistent with SFP - certified by actuary

Valuation reporting

- Actuarial valuations – at least every 3 years provided there are annual “actuarial reports”
- Actuarial reports - developments in technical provisions since last valuation
- Valuations against PPF as well...will impact risk-based levies
- More focus on solvency

More focus on solvency



Failure to reach agreement

- Basis for PPF – buy-out
- Regulator: minimise calls on PPF
- Regulator power to set SFO and conts
- Consider new scheme...then extend
- Regulator sees recovery plans
- How tough will new regulator be?

An Illustration of the hit

Assets £1.5bn and payroll £500m

	Typical Funding basis	Buyout Basis
Technical Provisions	£1.8bn	£3bn
Future service rate	15%	30%
Deficit funding (pa)	£30m	£150m
Contribution rate (pa)	£105m	£300m

Issues for trustees and employers

- Need detail urgently
- More focus on solvency
- Future discussions on funding...
- How tough will regulator be?
- More bad news for DB schemes...have you warned clients?

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