JIA 114 (1987) 403-405

FIRST ONE-DAY SEMINAR, STAPLE INN, 27 NOVEMBER 1986

As part of its developing Convention programme the Institute held its first one-day seminar on the theme "Responding to Recent Pensions Legislation" on 27th November 1986 at Staple Inn.

The seminar was chaired by John Martin. Graham Ward FCA participated as a guest speaker. Ninety-six members of the Institute and twenty-six members of the Faculty attended.

The seminar was divided into four sessions which took the form of introductory remarks by a speaker or speakers followed by an open discussion.

THE FINANCE ACT 1986

The first session was opened by speeches from D. H. Loades and D. W. Peacock. D. H. Loades described the provisions contained in the Finance Act 1986 designed to restrict 'surpluses' in occupational pension schemes. He also outlined how the apparent need for a regulatory framework had arisen.

D. W. Peacock focussed on the many uncertainties still inherent in the proposals. (At the time of the seminar Regulations had not been issued.) He also speculated on how the new rules might work in practice.

Before the discussion was thrown open to the floor the Chairman drew the attention of the meeting to the conflicting views of the London Business School and the Association of Consulting Actuaries as regards the size of accumulated pension fund 'surpluses'. The London Business School had published an estimate of £50bn and commented that the true figure might in fact be as high as £80bn. The Association of Consulting Actuaries had issued a statement explaining that the true figure was likely to be nearer £8bn.

The discussion focussed on the vagueness of the proposals regarding the important questions of asset valuation and allowance for discretionary benefit improvements. The guidelines for asset valuation appeared to leave considerable scope for manipulating the figures to achieve the desired result. There was some consensus that the proposed guidelines as to admissibility of an allowance for discretionary benefit increases were too stringent. They might actually deter pre-funding to the inevitable detriment of beneficiaries.

TRANSFER VALUES

E. M. Lee reviewed the legislation (introduced by the Social Security Act 1985) on the computation of transfer values. He also referred to the guidelines contained in the Institute's Professional Guidance Note GN11. Before proceeding to the calculation of a cash equivalent the speaker explained the necessity for considering the nature of the preserved benefits. These have become increasingly complex as a result of a series of overriding legislation. The speaker then gave an extensive list of issues arising when trying to apply the regulations.

Echoing the discussion in the first session the meeting turned its attention once again to the difficulties raised by discretionary increases. It emerged that practice varies from scheme to scheme as to whether any allowance is made for discretionary increases. This is an area which is being examined in a transfer value survey being conducted by the Institute.

THE DISCLOSURE REGULATIONS

G. N. C. Ward FCA and M. J. Jones presented an extensive survey of the disclosure regulations and their likely impact upon the actuarial profession.

M. J. Jones covered the requirements for a signed actuarial valuation and its availability to interested parties. He also spoke in detail on the actuarial statement to be incorporated in the annual trustees' report.

G. N. C. Ward FCA explained the pension cost requirements of the Companies Act 1985 and described the genesis and rationale of the accountants' Exposure Draft ED39. M. J. Jones gave an assessment of the impact of ED39 on the actuarial profession. He focussed in particular on the ED39 concept of 'regular cost' and its equivalence (or non-equivalence) to the standard contribution rate as implied by a variety of funding methods.

The speakers circulated a draft joint protocol being developed between a firm of accountants and various actuarial firms to ensure proper and smooth application of the provisions of ED39.

The discussion centred on the actuarial statement for the annual report and on the admissibility of various funding methods for the purposes of ED39.

EFFECTS UPON EXISTING PENSION SCHEMES OF PROPOSED CHANGES IN THE STATE EARNINGS-RELATED PENSION SCHEME

I. J. Ferguson said that the new legislation provides a golden opportunity for employers to review their pension arrangements and their financial commitments to pensions. He emphasized the need for the review to have regard to current employment patterns. Presenting an interesting employment structure of a typical company he concluded that there was scope for defined contribution schemes alongside defined benefit schemes.

R. E. Brimblecombe stressed the need for companies to review their pension increase policy and be prepared to disclose it. This would be of great significance in an employee's decision whether to remain in or opt out of company arrangements. He also referred to the many difficult issues which would arise such as re-entry terms for employees initially opting for personal pensions and the question of provision of life cover for those outside the group scheme.

P. E. Felton noted the general support of the trade union movement for finalsalary schemes. He also expressed grave reservations about the logic of hybrid schemes.

The discussion revealed diverse views on the subject of hybrid schemes. The message seemed to be that hybrids would be complicated but so are the alternatives. Concern was voiced about sales practices in relation to personal pensions and the wide variations in investment performances which was to be expected on such contracts. Great stress was placed on the increasing need to communicate with employees. Now is the time to 'sell' company schemes and to dispel some of the widespread misunderstandings.

S. M. SOUTHALL