

Scheme Funding

The Pensions Regulator
Clive Pugh and Stephanie Murphy

Agenda

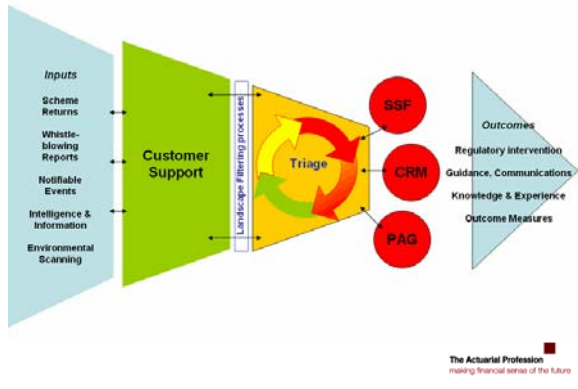
- TPR approach/SSF team
- Recovery plan "life-cycle" (receipt, assessment, action?)
- Experience to date
- Certification issues
- Actuary with the power to set contributions
- Employer covenant assessment
- Interesting cases
- Key messages

Pensions Regulator's Approach

We are a risk based regulator

- Our new organisation
- Practical approach
- Commercial view

Delivering Regulation



Scheme Specific Funding Team

- Set up Autumn 2005
- Currently 20 team members and growing
- Mixture of case managers, business consultants, lawyers and actuaries
- Making use of secondees

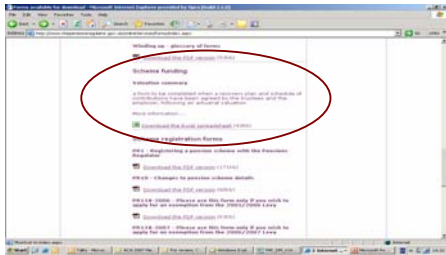
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Submission of a recovery plan

- Recovery plans and associated SoCs must be filed with the Regulator
- What happens if there is a surplus ?
- Valuation summary form

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Submission of a recovery plan



www.thepensionsregulator.gov.uk/onlineServices/forms/index.aspx

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Initial assessment of recovery plans

- Recovery plans assessed against published triggers
- Other factors considered
- Decision made to investigate more closely – move to secondary assessment stage
- Sampling of non triggered recovery plans

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Secondary stage assessment of recovery plans

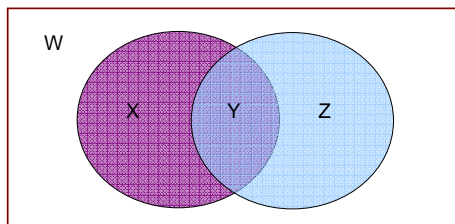
- Selected recovery plans will be passed to a SSF case manager
- Virtual teams set up for each case
- Additional information requested
- Assessment of the trustees' decisions
- May meet with trustees and/or employer and their advisers

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Possible actions following secondary stage assessment

- Conclude that the trustees' decisions appear reasonable and no further action is warranted
- Engage with the trustees and the employer to discuss decisions made
- Envisage majority of cases will be resolved through negotiation
- Last resort - use one or more of our powers

Experience to date: triggers



- Technical provisions triggered
- Recovery plan triggered

Experience to date – recovery plans

- Some more statistics on
 - recovery plan length
 - level of TPs and assumptions

Experience to date

- Early days
- Too early to draw any definitive conclusions
- Level of TPs most likely reason to trigger
- Only small proportion of triggered plans have required further action

Mortality

- **Base:** majority use 92 series tables as a starting point
- Trustees need to be able to justify the base tables adopted
- **Improvements:** Cohort approach most popular but also seen deduction in discount rate, mortality reserve

Certification of SOC

- Can take place at either effective date of valuation or later certification date
- Different wording for certification
- Considerations if using valuation date
- Considerations if using certification date

Actuary with the power to set contributions

- 5(3) Scheme Funding regulations “take account of the recommendations of that person”
- Paragraph 9(5) of Schedule 2- “if he...had the responsibility of preparing or revising the schedule ...”
- Treat as tripartite from outset (trustees, employer, actuary)
- Independent ER covenant advice?

Covenant Assessment

This is an art not a science and there is no right answer

- Corus is worth £6bn !!
- Trustees’ responsibility
- Professional advice
- Trustee regulatory liability

Taking Professional Advice

A judgement call

- No automatic requirement to use external advisors
- Is there expertise within trustee board ?
- Do the board as a whole have the knowledge and experience to come to a reasonable decision ?
- Focus external advice on specific areas

Some interesting cases

- Cautious trustees
- Interaction with clearance cases
- Innovative approaches - Contingent assets
- Conditional recovery plans
- Summary funding statement
- Charities and Regulated Industries
- SPV's

Key Messages

- Primacy of technical provisions
- Higher margins on assumptions expected for schemes with weak employer covenants
- Effective negotiations: issues of security / affordability addressed
- Triggers not targets
- Mortality- lack of evidence
- One size won't fit all

Back to Front – an example

Cash on offer from employer x 10 years

= Deficit

+ Assets

= TP's

Questions for you

- Are scheme actuaries being pressed by trustees to provide covenant assessment advice?
- How are you factoring employer covenant strength into your advice on the level of technical provisions?
- How many of you are expecting to update the valuation position to the certification of the SOC date?

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THANK YOU
