

The Actuarial Profession  
making financial sense of the future

Advising Scheme Sponsors  
Lesley-Anne Cameron

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Introduction

- Trustee empowerment
- The need for separate advice
- Areas of involvement

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## Gestalt Shift

A gestalt shift is a refocusing from one configuration to another that takes place suddenly and *in toto*.

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## The Pensions Gestalt Shift

*"The pension scheme, if in deficit, is an unsecured creditor of the employer. ...*

*... The trustees should therefore learn from the way a bank with a large unsecured loan would look to negotiate with a company."*

Source: Guidance from the Pensions Regulator, Clearance statements, April 2005

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## The Pensions Gestalt Shift

- Schemes were originally seen as a company tool
- A tax efficient way of delivering remuneration
- Seen as part of the Company
- So why would there be conflicts?
- Why any need for separate advice?

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## The Pensions Gestalt Shift

- The pensions environment has changed
- Contributing factors include:
  - Emerging deficits
  - More onerous legislation
  - FRS17 and greater audit review
  - Greater investor interest
  - Greater media coverage

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## The Pensions Gestalt Shift

- Pensions Act 2004
  - Scheme specific funding
  - The Pensions Regulator
  - Moral hazard clauses
  - Perceived pressure to meet trigger points
- Change in balance of powers for some schemes
- "Unsecured creditor"

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## Trustee Empowerment

- Many still to go through the Gestalt shift
- But likely to do so in the near future.

- Case study:

Reducing cost of accrual  
versus  
Short term cash concerns

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## What the Change Means

- Management time taken up by pensions
- Viewed as a financial problem that needs to be managed
- Less time to run the company
- No longer seen as an effective remuneration tool
- Just a problem!

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## The Need for Separate Advice

- New legislation to understand
- A “new” creditor with unknown demands
- An unsecured creditor would be unlikely to use the same advisors as the company
- Relationship will differ to that with the banks

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## What the Client Needs

- Help understanding of:
  - the shift in power
  - the new statutory process
  - the range of solutions and approaches
- Driven by accounting standards
- Hence need to manage FRS17 position
- Within cash constraints
- Different strategies for different companies

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## Further Areas of Advice

- PPF levies
  - Improving D&B rating
  - Contingent assets
  - Asset allocation?
- Future pension provision
- Deficit reduction and management
- Investment strategy

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## The Moral Pension Debate

- Deficit reduction
  - Commutation terms
  - Enhanced transfer offers
  - Exchange of non-statutory benefits
  - Freezing pensionable salaries

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## Summary

- Changing pension environment
- Trustees acting as unsecured creditors
- Companies looking for separate advisors
- More debates still to come

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