



Britain at work

Employers retreating from pension promises? Protecting members' interests in difficult financial times

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The Actuarial Angle

- What are the problems?
- Things that tackle the past service deficit
- Future service benefits and consultation
- Possible strategies

What are the Problems – Part 1

- Generally the big problem is the past service deficit:
 - Massive fall in asset values – particularly if large equity holdings
 - Valuations now require assets to be taken at market value
 - Gilt yields quite low – these driving liability values
- Many schemes very mature – big past service liabilities for pensioners and deferreds

What are the Problems – Part 2

- Often future service benefit cost not unaffordable on its own
- Stance of the pensions regulator:
 - More proactive?
 - Different approach to open schemes?
- Lack of collective approach

Typical Scheme Valuation Result

Assets		£70m
Liabilities:		
Actives	£10m	
Deferreds	£30m	
Pensioners	£60m	
TOTAL		£100m
Deficit		£30m
Funding Level		70%
Cost of Future Benefits		24%

Things that change the past service deficit

- Pensioners:
 - Existence checks
 - Cannot reduce benefits except with consent
 - Offer to swap higher initial pension for current index linked pension
- Deferred pensioners:
 - Offer early retirement and commutation
 - Commute EPB only cases
 - Enhanced transfer value exercises

Enhanced Transfer Values

- Transfer value less than valuation reserve
- So members transferring reduce deficit
- Do they reduce the long term cost?
- Employer may want to encourage transfer
 - Reduce deficit
 - Remove risk
- So may encourage by offering enhancement to transfer value or cash
- Independent financial advice

Regulator Guidance

- Recognition of data issues
 - Full, clear communication
 - Financial advice
 - Employer not trustee run
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- But outcome is that this has Regulator's blessing so difficult for trustees to oppose

What should our stance be?

- The outcome is generally to reduce deficit so improve security for those remaining
- But employer money could be spent on extra deficit conts
- Unenhanced transfer value is “fair”
- PPF issues
- But members are losing db and getting less than cost of buying out

Things that change the past service deficit

- Active member benefits can be reduced with consent:
 - Give up pension increases
 - Give up accrual
 - Permanently or temporarily
- Active member accrued benefits can be affected by:
 - Changes in salary definition – all future salary increases non pensionable
 - Move to career average basis – all future increases in line with inflation or other index
 - Both require consultation but not consent

What should our stance be?

- The outcome is generally to improve security
- Trustees need to think carefully about letting members agree to past service reductions – and consider TD&R
- Specific case law on trustees agreeing to breaking the salary link - again TD&R
- Negotiators – is giving up past service benefits worth improved security and perhaps keeping db?

Future Service Benefits

- Often not unaffordable in themselves
- Employees often happy to pay extra
- Changes worth considering:
 - Accrual rates – many down to 1/80th
 - Career average rather than final salary
 - Pension age – 68 anyone?
 - Salary sacrifice
- When does db become less attractive than dc?
- What is role of Trustees?

Consultation

- Employer must make the business case for a change
- Must show how changes affect members and the scheme
- Strong argument for a partnership approach
- Why were other options discounted
- Open communications