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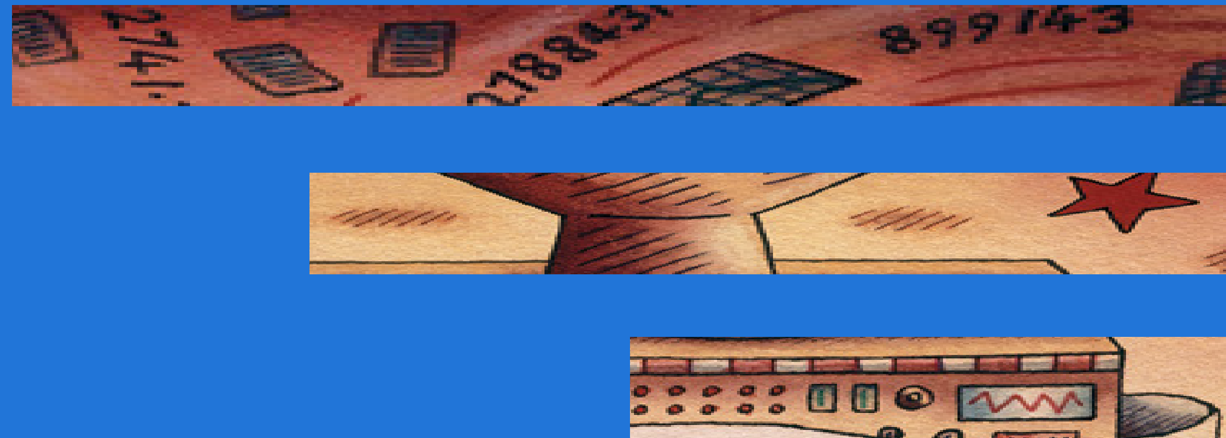

Employer Debt
Practicalities for the practicing actuary

David Everett

April 2009

"Actuarial Consultancy of the Year"
UK Pensions Awards **2005, 2006 & 2007**
FT Business Pension and Investment Provider Awards **2007**

"Investment Consultancy of the Year"
UK Pensions Awards **2007**
FT Business Pension and Investment Provider Awards **2007**

"Best Member Communication Strategy"
& "Best use of Technology by a Corporate Adviser"
Corporate Adviser Awards **2008**

The background

- Complex requirements
- Faulty regulations
- No BAS standards
- No professional standards
- So how do you safely advise?

Conflicts of interest

Conflict areas

- Selection of applicable time
- Approach to determination of scheme-wide debt
- Selection of apportionment method
- Details of the attribution of liabilities
- Debt compromises

Who is conflicted

- Employer / Trustees
- Scheme actuary / Corporate actuary

Scheme-wide debt: role clarity

Trustees

- Assets
  - "relevant accounts" or "updated asset assessment"?
- Membership and benefits ("Liabilities")
- Winding up expenses

Scheme actuary

- Value ("Amount") of liabilities
  - Full or "updated actuarial assessment"?
- Actuarial certificate
  - Evidence of debt
  - Pre-condition for apportionment

Determining the "amount" of liabilities

- A measured 'independent' opinion
- Should you base on actual quotations? Is this practical?
- What adjustments should you make from market knowledge?
- Communicate uncertainty in making estimates

Scheme-wide actuarial certificate

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- Schedule 1
  - Amount of the total liabilities
  - Amount of the total difference between scheme assets and the total liabilities (the scheme-wide buyout debt)

"Share of the difference"

- Liability share, unless
  - Scheme apportionment arrangement
  - Regulated apportionment arrangement
  - Withdrawal arrangement
  - Approved withdrawal arrangement
- Plus (trustee-agreed) "cessation expenses" if employment-cessation event

Share of the difference: role clarity

Trustees

- Membership and benefits (“Liabilities”)
  - Identification of orphans left by previous cessation (but not “former”) employers
  - Split service issues
- Cessation expenses

Scheme actuary

- Value (“Amount”) of liabilities – both K and L
- Actuarial certificate

Liability share issues

K/L x Scheme-wide buyout debt – RTD

- “K” – the amount of a scheme’s liabilities attributable to the cessation employer
- “L” – the total amount of the scheme’s liabilities attributable to employment with the employers

  (therefore excluding those not attributable (“orphaned liabilities”) but including the liabilities defined as K above).

Attribution rules

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- if service split between employers then count only those liabilities which arose during or as a result of pensionable service with that employer (including any liabilities attributable to a transfer received by the scheme during that period of pensionable service);
- if the trustees are unable to determine the attribution between employers, or expect disproportionate costs to do so, then:
  - either:
    - all goes to the last employer; or
    - attribute in a reasonable manner to one or more employers;
  - or, if the trustees are unable to determine the last employer and cannot attribute to any employer then orphan.

Scheme-wide actuarial certificate

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- Schedule 1
  - Amount of the total liabilities
  - Amount of the total difference between scheme assets and the total liabilities (the scheme-wide buy-out debt)
  - K
  - L
  - Liability share (including cessation expenses)

Scheme apportionment share issues

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Potentially as little as a £1

- Still need to advise on the liability share
- Funding test advice likely (but trustee decision)

Funding test

The trustees must be reasonably satisfied that:

- when the arrangement takes effect, the remaining employers will be reasonably likely to be able to fund the scheme so that after the applicable time it will have sufficient and appropriate assets to cover its technical provisions, taking account of any change in those provisions which will in the opinion of the trustees be necessary as a result of the arrangement; and
- in the case of a scheme apportionment arrangement, the effect of the arrangement will not be to adversely affect the security of members' benefits as a result of any
  - material change in legal, demographic or economic circumstances, as described in the scheme funding regulations, that would justify a change to the method or assumptions used on the last occasion on which the scheme's technical provisions were calculated; or
  - material revision to any existing recovery plan.

Withdrawal arrangement share issues

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- Not less than Amount A (less than Amount A if approved withdrawal arrangement share)
- Selection of Amount B
- Funding test advice
- Actuarial certificates

Withdrawal arrangement formulae

Amount A	Current K/L x Scheme-wide scheme funding debt – RTD
Floating Amount B	Adjusted K/L x future scheme-wide buyout debt
Fixed Amount B	Current K/L x current scheme-wide buyout debt – withdrawal or approved withdrawal arrangement share

Adjusted K/L = (Current liability share – withdrawal or approved withdrawal arrangement share) expressed as a ratio of the Current liability share

Schedule 1C actuarial certificate

- Amount of the total liabilities (scheme funding)
- Amount of the total difference between scheme assets and the amount of the liabilities
- Withdrawal / approved withdrawal arrangement share
- Amount A (if an approved withdrawal arrangement)

Schedule 1D actuarial certificate

- Amount B
- (given as at the cessation date if Amount B is fixed or as at the guarantee time if amount B is floating)

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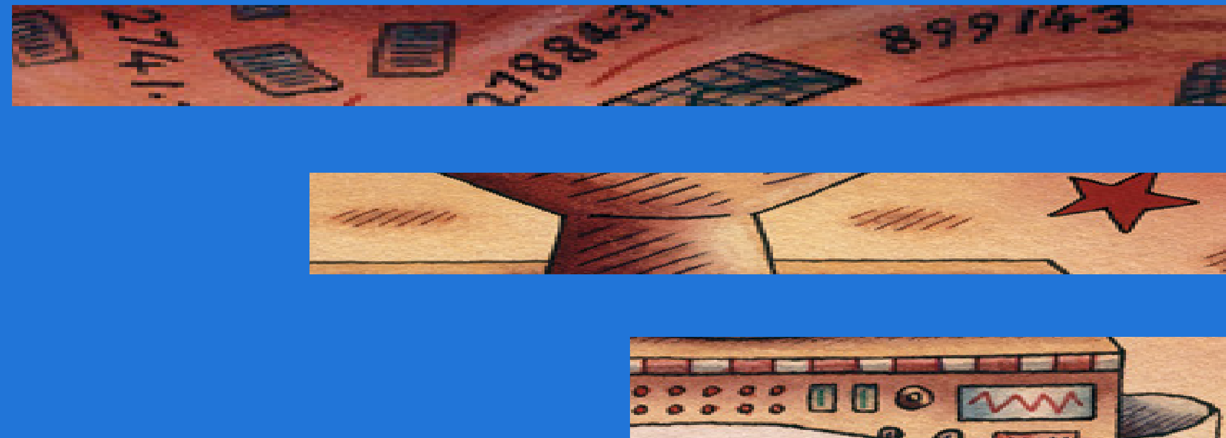

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