

Producing scheme funding plans in the current economic conditions



ACA sessional meeting - Glasgow, 27 June 2012

- Calum Cooper
- Partner

Show of (some) hands

“... an appropriate regulatory response to the current economic climate. Liability measurement is not to be weakened, but more creative methods of paying off that deficit can be explored ... acceptance that special measures are in order for the weakest of employers.”
Lane Clark & Peacock LLP

“...makes it clear that trustees need a cohesive financial management plan that links funding with investment strategy and the employer's covenant. Arguably this will place a burden on many trustee boards but actually the regulator has, in my view, struck the right balance between the relevant regulations and pragmatism.”
Barnett Waddingham

“The recognition from the Pensions Regulator that current market conditions are challenging and that there is flexibility in the current funding regime is welcome.”
PwC

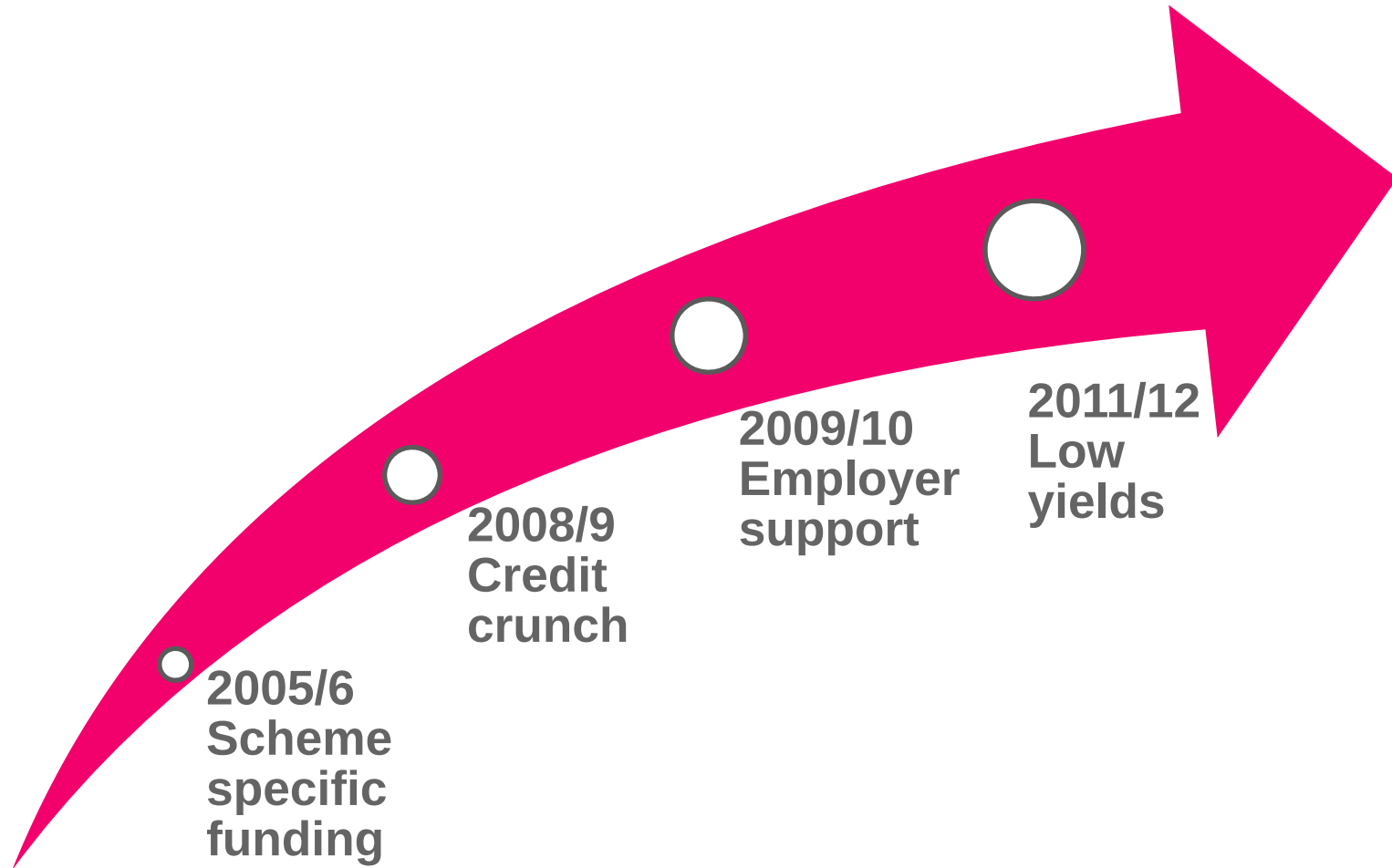
“It is helpful in providing further clarity about TPR's expectations of trustees and employers...in particular with respect to the low level of UK Gilt yields.”
Mercer

“While the industry was crying out for easements to reflect gilts markets and QE, instead we have a new set of rules and constraints.”
KPMG

“In our view, it should be a matter of judgement for individual schemes to decide whether to adjust their Technical Provisions to reflect current circumstances.”
Aon Hewitt

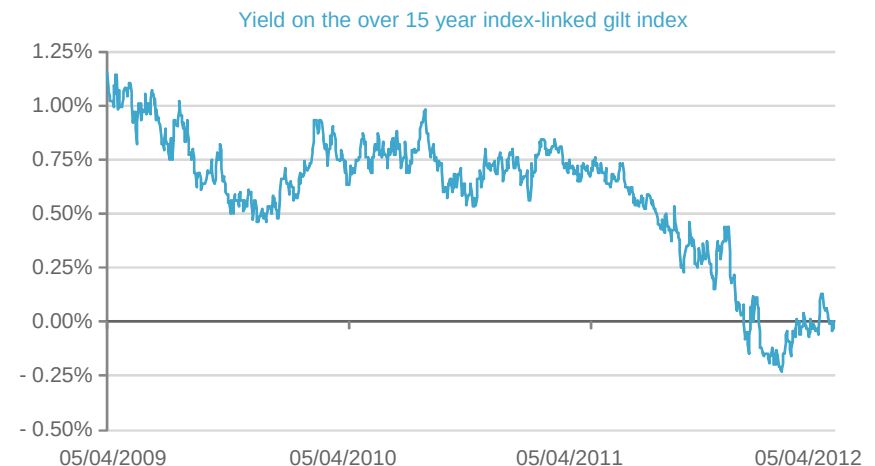
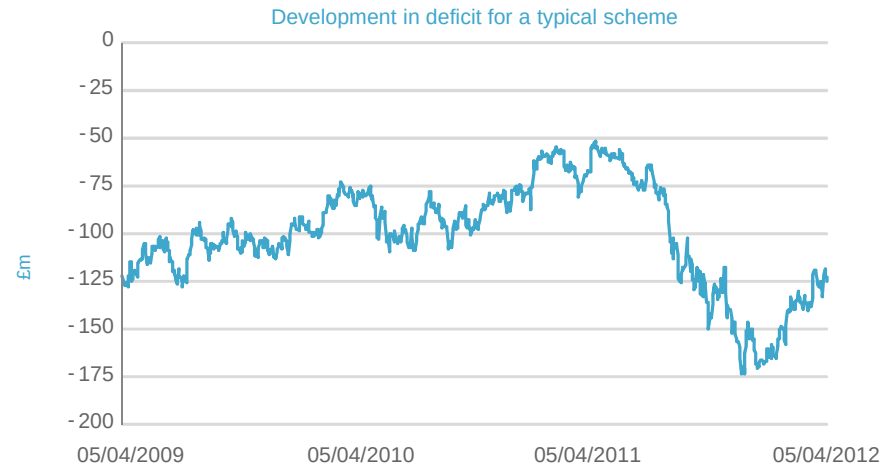
“...a potential ray of light for some employers....pointing to the expectation that recovery plans will need to be extended”
Hymans Robertson LLP

Same-same ... but different



What is the issue?

- Deficits now back to 2009 levels
- QE and European debt crisis have led to lower UK interest rates
- Poor economic outlook
- A quick turnaround less likely this time?

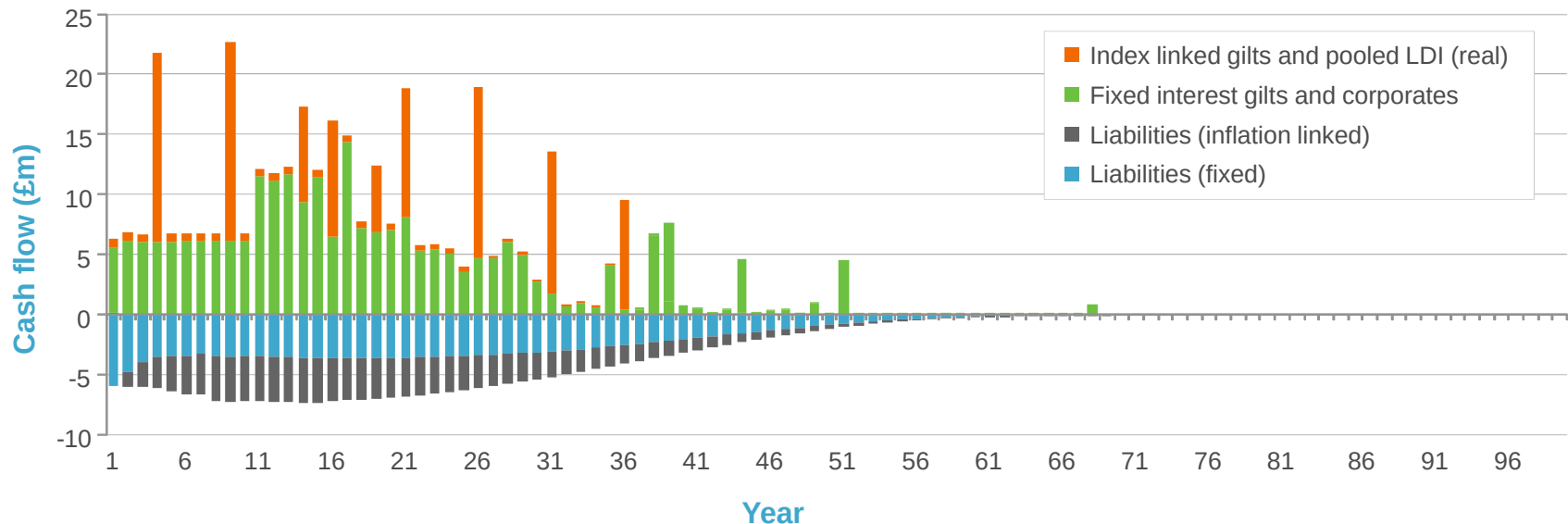


Pension Regulator – 2012 key messages

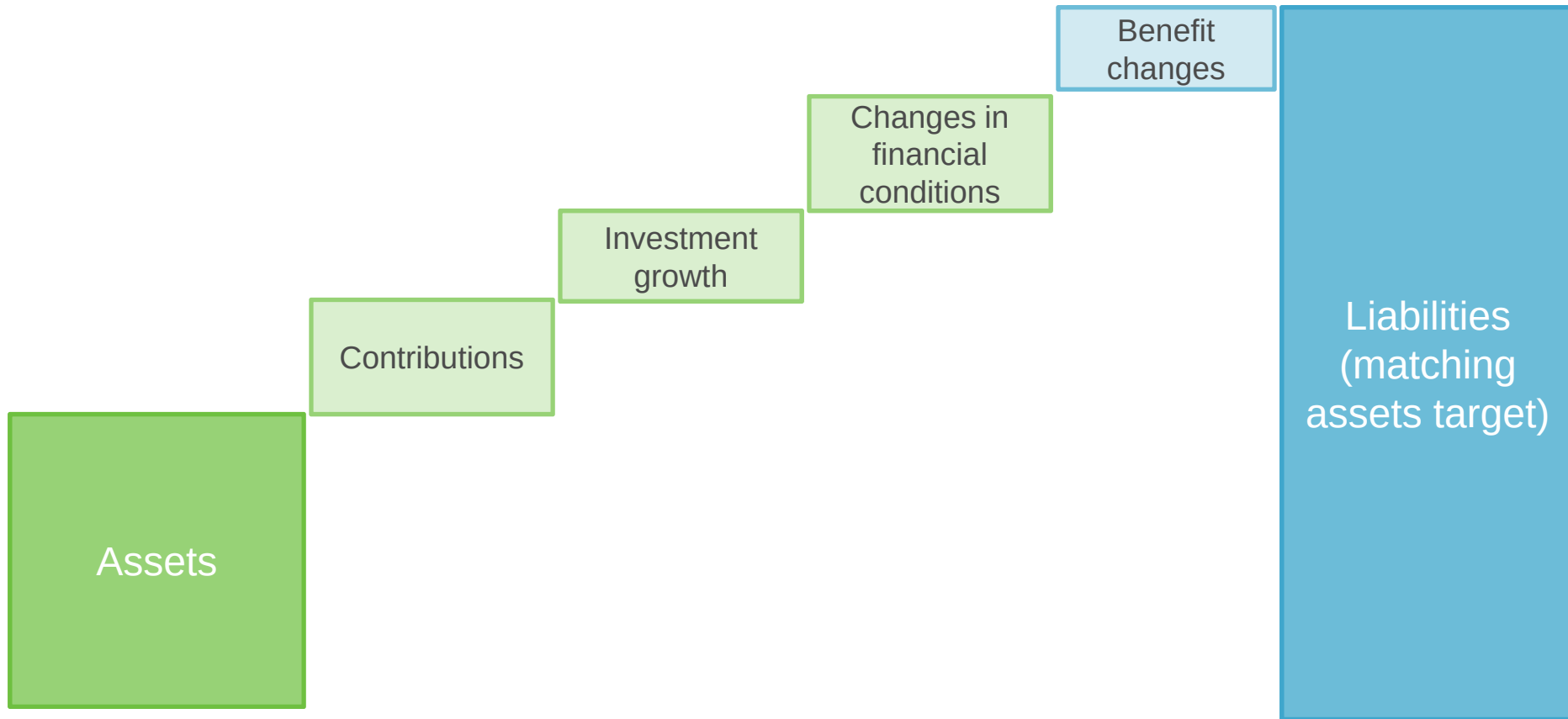
- Focus on integrated management of key risks
 - Don't massage the liabilities
 - Robustly test affordability
 - Greater flexibility in recovery plans

Risk management in the context of objectives

- The right management information: cash flows not liabilities.
- Assuming a risk transfer end game (and no UK sovereign default..), risk is best measured relative to a closely matching portfolio of gilts, swaps and buy-in.

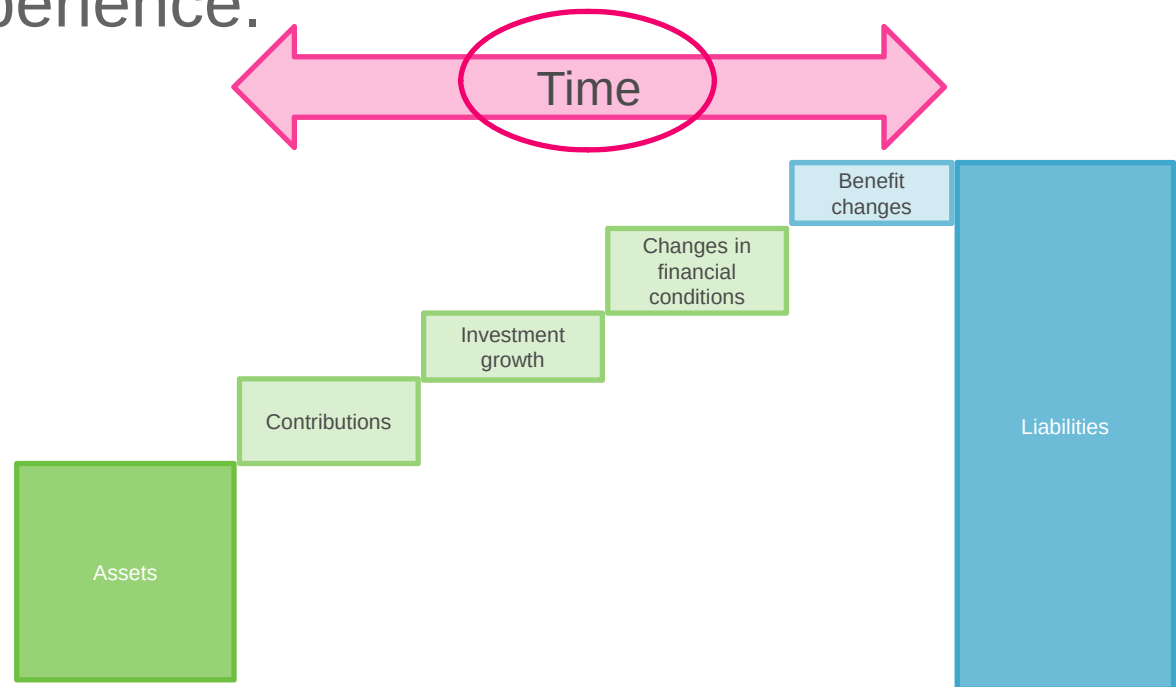


Recovery plan risk management tools – tPR focus



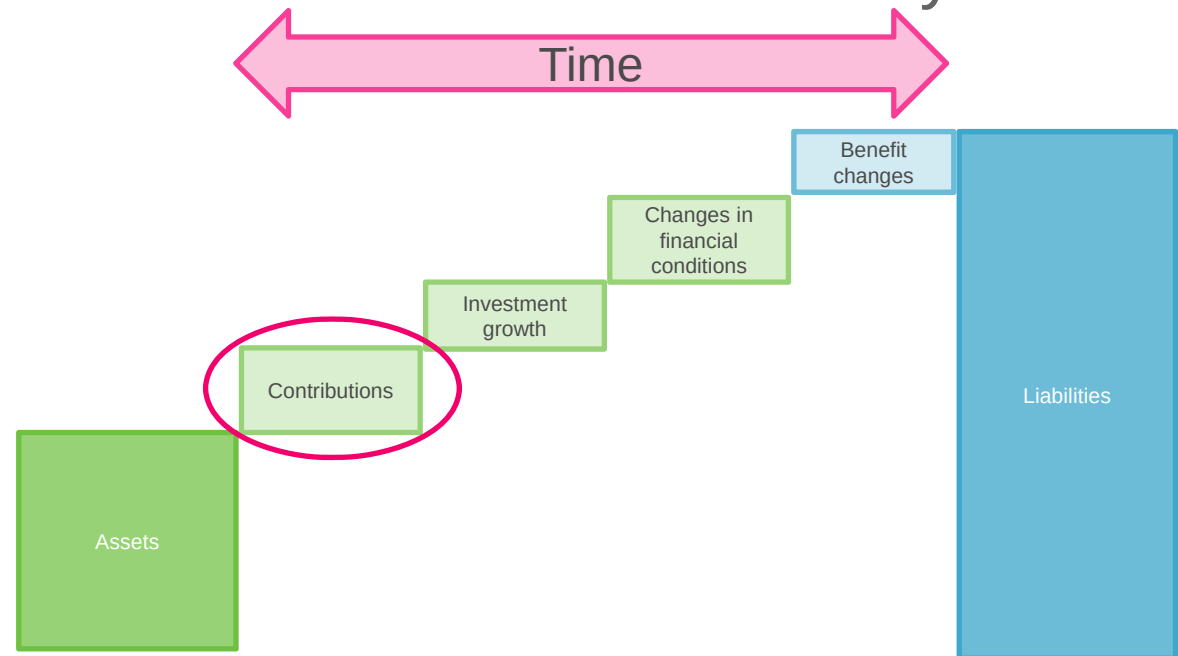
Recovery plan risk management tools – tPR focus

- Longer period possible, provided justified on grounds of reasonable affordability.
- Anchor of maintaining real terms contributions.
- Post valuation experience.



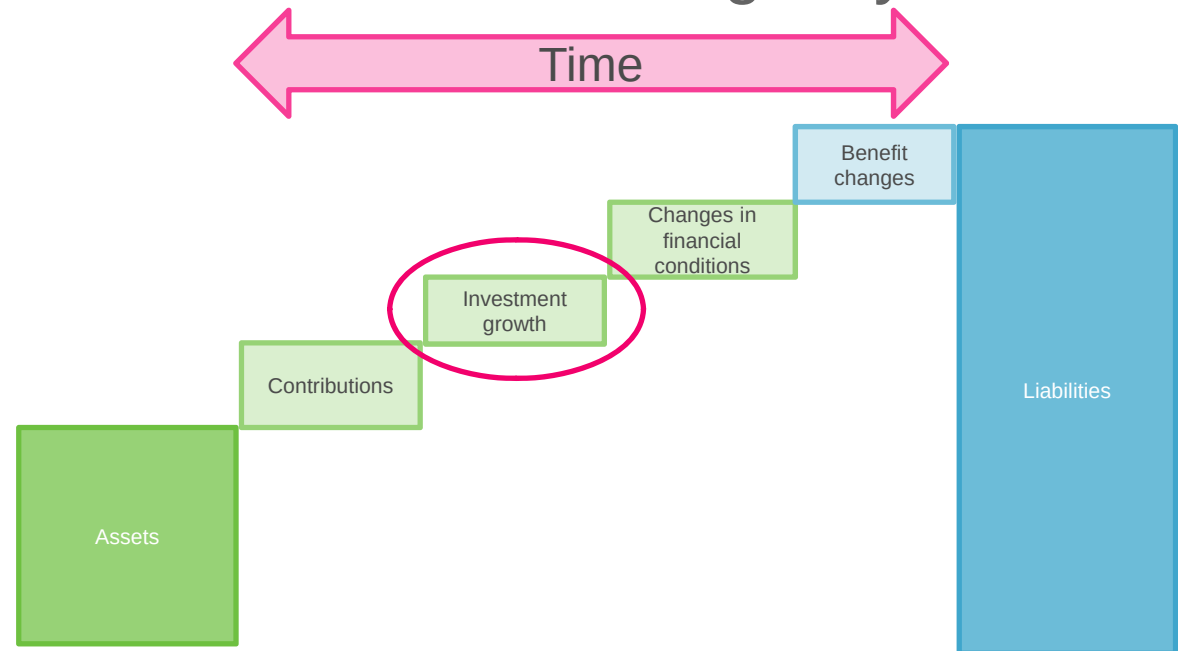
Recovery plan risk management tools – tPR focus

- Contributions should not impinge on the future success of the Company
- Fair share
- Consider contingent contributions and/or security



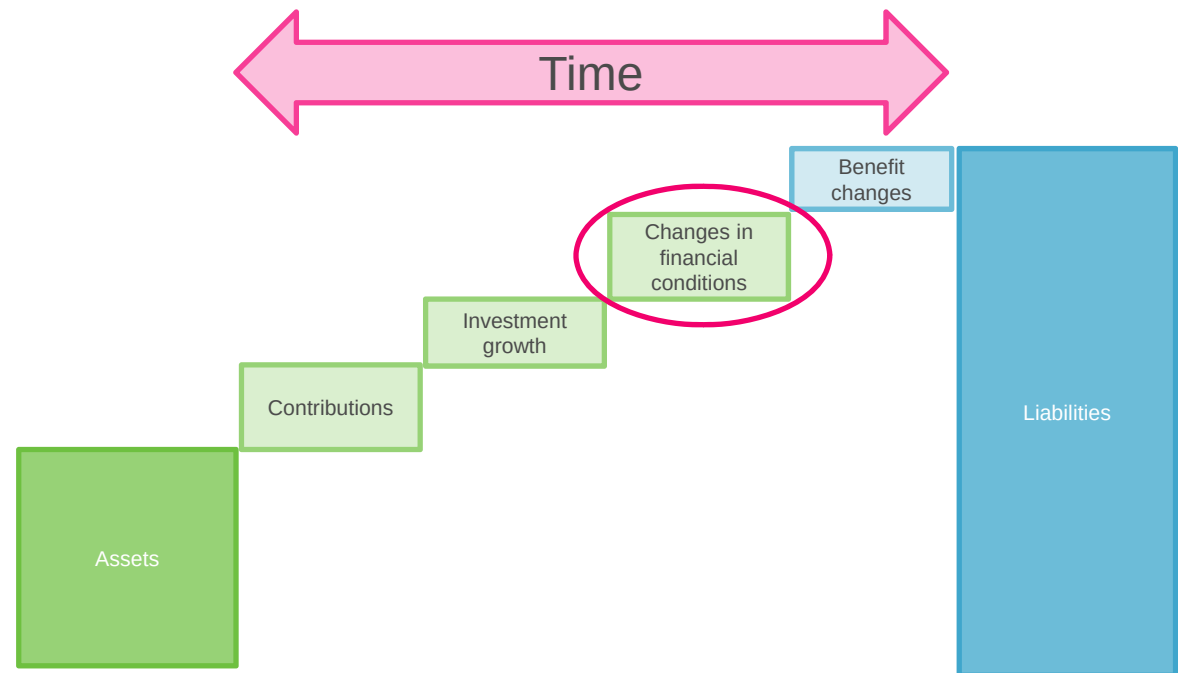
Recovery plan risk management tools – tPR focus

- Allowance for investment returns can be “appropriate” – no need for “prudence”
- Risk should be supportable
- Proportionate, documented, viable, contingency plans



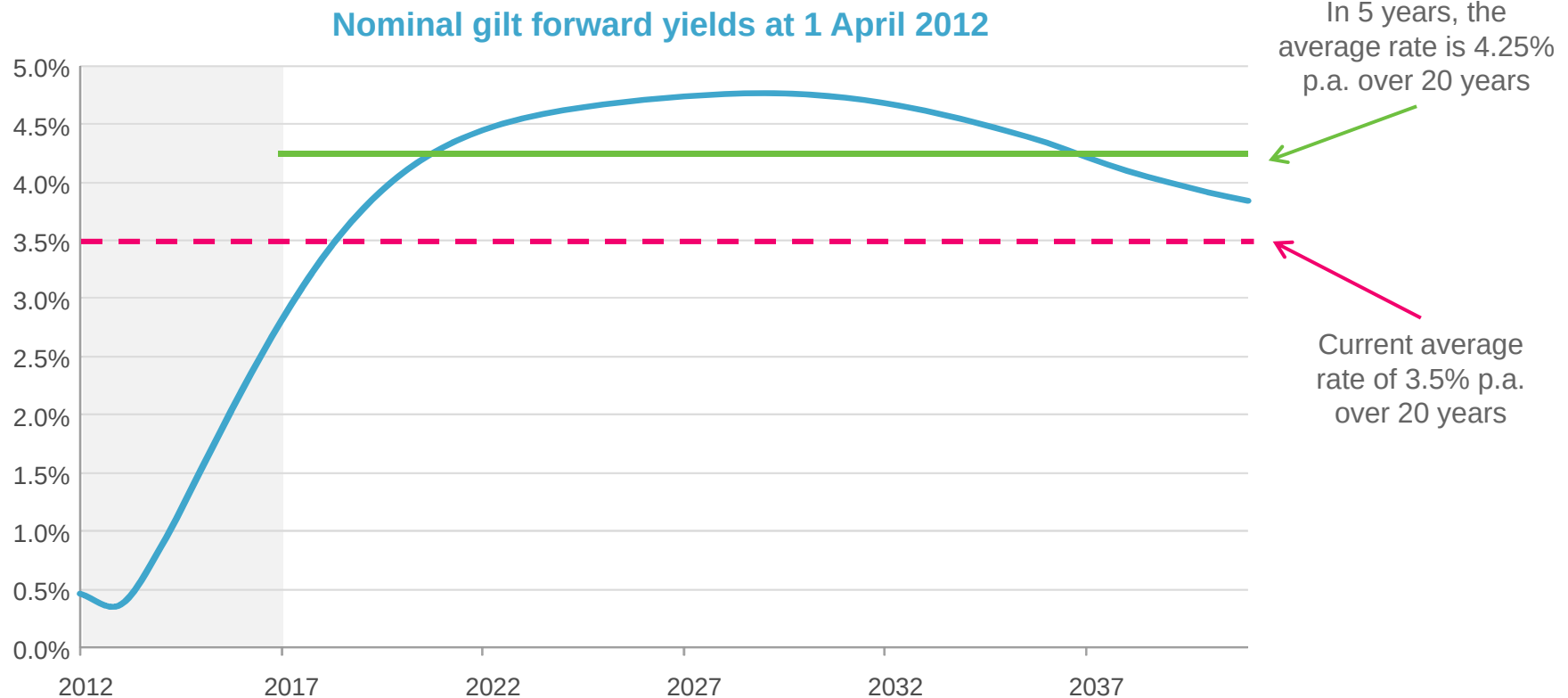
Recovery plan risk management tools – tPR focus

- Yields may rise, but beware double counting the impact
- Some rate rises already priced in
- Proportionate, documented, viable, contingency plans



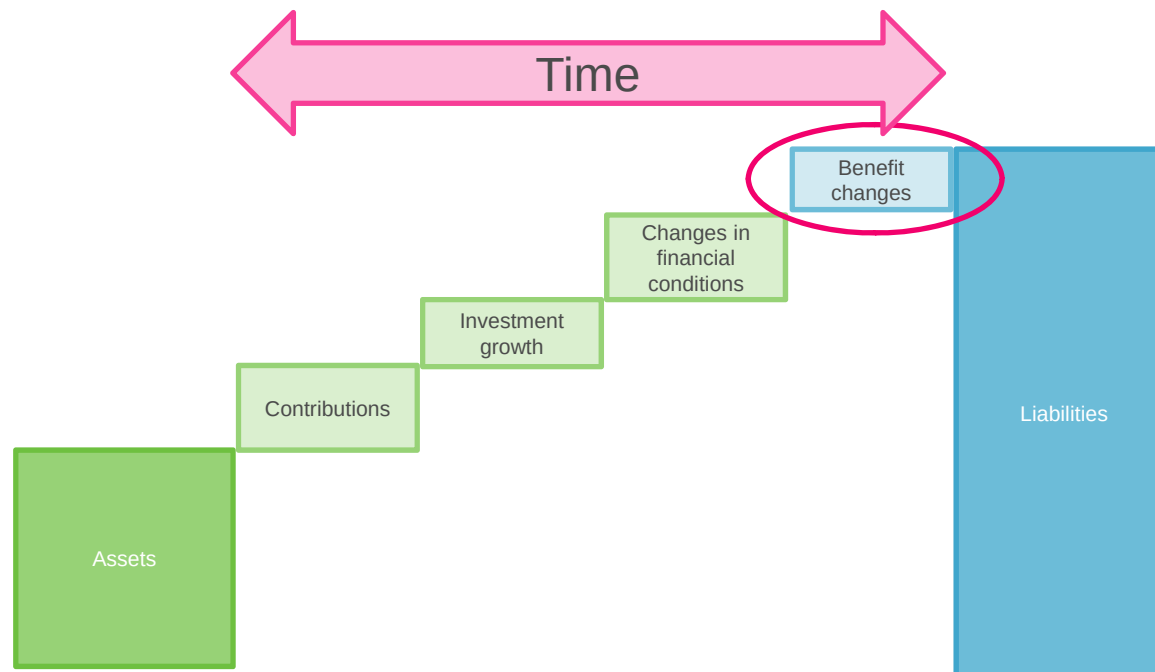
Yield reversion - a closer look

- Should we assume that rates rise faster or higher than expected by the market?



Recovery plan risk management tools – tPR focus

- A potential (implicit) contingency plan....



What would success look like?

- Integrated, documented, risk management frameworks to become the norm to support decision making including:
 - cashflow accuracy
 - articulation of aligned, real world objectives
 - the best combination of investments, contributions and contingency plans now and through time.
- Focus shifts beyond current day Technical Provisions and triggers.
- Technical Provisions to summarise decisions but not drive them.

Thank You

Any questions?

Please note except where specifically stated the comments and opinions outlined in this presentation are for the purpose of generating debate in respect of the subject of the presentation and are not necessarily the opinions or views held by Hymans Robertson LLP