

## Pensions - September 2012

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#### IMPACT OF DB SCHEMES ON FTSE350 COMPANIES

Barnett Waddingham has published the results of its [research](#) showing that for 29 FTSE 350 companies, it would take over one year to repay the defined benefit (DB) scheme deficit using all the cash generated from their day to day operations. Other key findings include:

- Over 49 companies in the FTSE350 have deficit contributions that exceed their free cashflow.
- DB deficit contributions represent on average 1.1% of total revenue for FTSE350 companies.
- For 75 companies in the FTSE350, annual DB deficit contributions were higher than contributions being paid in respect of pension benefits being earned each year for current employees.
- Over the last 3 years, deficit contributions to DB schemes have consumed 4½ months' worth of cash generated by FTSE350 companies' core activities.
- 78 companies in the FTSE350 could have funded a buy-out of their pension scheme at the end of 2011 using their cash holdings. Of these, 24 companies could have done this using only the extra cash holdings built up over the course of the year.
- Schemes' equity holdings reduced from 49% to 43% as a result of falling equity values relative to bonds as well as gradual de-risking as schemes mature. For 16 companies, though, their schemes' equity holdings still exceed 50% of the market capitalisation of the Company.
- For 80% of companies changes in real yields have been a greater source of volatility than changes in equity markets.

The research project, carried out with input from the Centre for Global Finance at the University of the West of England, will allow businesses with DB schemes to benchmark themselves against their peers.

#### IORP DIRECTIVE REVIEW: CONSULTATION RESPONSES

The latest step in the review of the EU Directive on Institutions for Occupational Retirement Provision (IORP Directive), which borrows from the Solvency II framework for insurance companies, has been met with strong opposition.

The European Insurance and Occupational Pensions Authority (EIOPA) has consulted on the technical specifications for a quantitative impact study (QIS) (see [Pensions News – July 2012](#)). The response to the consultation from the National Association of Pension Funds (NAPF) warns that the proposals could damage pensions and the wider economy, and urges EU policy-makers to consider the issues fully. A NAPF spokesperson said they "are concerned that the quality of policy-making is being driven by the political timetable, rather than by a commitment to getting it right."

**Barnett Waddingham** has also submitted a response to EIOPA's consultation, urging the advisory body to go back to the drawing board. **Andrew Vaughan**, a partner at Barnett Waddingham, said: "We believe that the cost to small and medium-sized pension schemes of complying with the proposals will significantly outweigh any benefits in terms of improved solvency and governance. We urge EIOPA to go back to first principles and design an IORPs directive specifically for pension schemes."

## TPR: Survey of DC Pension Scheme Members

The Pensions Regulator (TPR) has published its "[Survey of DC pension scheme members](#)", a research report on understanding, engagement and perception among members of Defined Contribution (DC) occupational and work-based personal pension schemes.

It details the key findings from TPR's 2012 survey of DC pension scheme members. It does, however, note that some results should be treated with caution due to the low sample size.

The survey found that while 78% of active DC members consider their personal or occupational pension provision to be a key source of their retirement income, only 42% of recent annuity purchasers would recommend a pension scheme as a method of saving for retirement, compared with 46% who would recommend personal savings and investments.

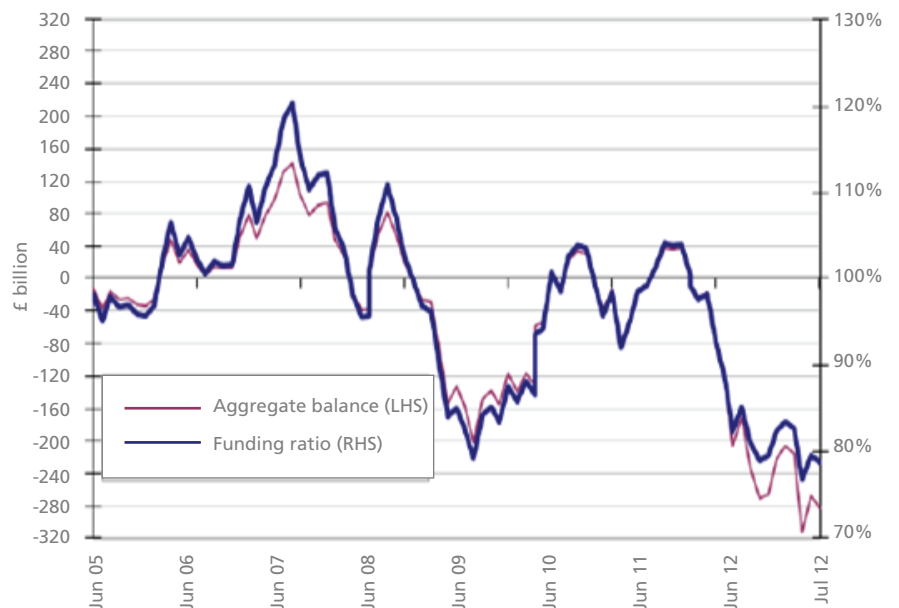
TPR also found that the main reasons employees declined to join their employer's DC pension scheme were that they did not expect to be in the job for very long, or that they couldn't afford the contributions.

## PPF: 7800 Index

The [latest update](#) of the PPF 7800 Index of schemes' funding on a s179 basis has been published.

The aggregate deficit of the 6,432 schemes in the index is estimated to have increased over the month to £283.0 billion at the end of July 2012 (compared to an aggregate deficit of £267.0 billion at the end of June 2012).

The position has worsened over the last year (there was an aggregate deficit of £78.0 billion at July 2011).



## PPF: SASP

The Pension Protection Fund (PPF) has [launched](#) a Specialist Administration Services Panel (SASP) to help pension schemes complete the PPF assessment and FAS wind-up period more efficiently.

This follows the establishment of the specialist [Actuarial Panel](#) in 2011. [Barnett Waddingham](#) is one of only five firms selected to be on both panels.

The PPF has published a [letter](#) to Trustees of schemes in an assessment period to introduce the SASP. The letter sets out the PPF's reasons for establishing the SASP, explains the cases when a Panel firm will be recommended to trustees and includes a Question and Answer leaflet.

## PPF: New Levy Framework... Be Prepared!

The PPF has published some materials on its website relating to the new levy framework (see [Pensions News: September 2011](#)) to help pension schemes understand invoices due to be issued from September 2012.

The materials include:

- [A guide to the Pension Protection Levy 2012/13](#) - an updated guide that explains the main changes introduced this year, including smoothing and stressing of assets and liabilities, and changes to the way in which insolvency risk is calculated,
- [example levy invoices](#)
- [additional Frequently Asked Questions \(FAQs\)](#)

The Bank of England (BoE) has published a paper analysing the effects of **quantitative easing (QE) on savers, pension funds and pensioners**. The paper estimates that QE has had a broadly neutral impact on typical fully funded DB schemes, since falls in gilt yields will have been offset by increases in other asset prices. However, there may have been an effect where assets liabilities are mismatched.

Many DB schemes are likely to have been in deficit before the financial crisis, or to hold mismatched assets and liabilities. Such schemes are likely to have seen deficits increase as a result of QE.

The BoE has defended QE's impact on pensions, claiming that "the main factor behind increased pension deficits and falls in annuity incomes has not been the Bank's asset purchases, but rather the fall in equity prices relative to Government bond prices. This fall in the relative price of equities was not caused by QE". It also suggests that "there have been other important global factors driving the reduction in yields apart from monetary policy".

## OTHER NEWS

## ONS: Health Expectancies

The Office for National Statistics (ONS) has published figures on UK males' and females' **Health Expectancies** at birth and at age 65. The figures estimate the average number of years individuals spend in very good or good health, and free from a limiting persistent illness and disability.

According to the figures, in 2008-10 the Healthy Life Expectancy (HLE) for both males and females at age 65 was around 57% of total life expectancy (10.1 out of 17.8 years for males; 11.6 out of 20.4 years for females) spent in very good or good general health.

Males and females in England and Wales and females in Scotland could expect to spend an increased proportion of their longer lives in very good or good health in 2008-10 from both ages compared to the three previous years.

## LIBOR Reforms

Martin Wheatley, Managing Director of the Financial Services Authority, Chief Executive-designate of The Financial Conduct Authority and head of an independent review into the London Interbank Offered Rate (LIBOR), has published a **discussion paper** setting out proposals for reforming the current framework for setting and governing LIBOR.

The review was set up in the wake of the rate-rigging scandal (see **Pensions News – July 2012** and our **information sheet**).

Options for reform set out in the discussion paper include improving the calculation of LIBOR, improving governance and reforming the regulatory framework. The paper also notes that it is likely markets will want to consider alternative benchmarks for at least some of the types of transactions that currently rely on LIBOR.



## You might also find our recent publications on the following topics useful:

- [RPI, CPI and the Formula Effect](#)
- [Investment Commentary July 2012](#)
- [FTSE100 Directors' Pensions Survey based on accounts up to 30 September 2011](#)
- [Impact on a company's share price of its final salary pension scheme](#)

We are running a series of seminars in September and October 2012 on getting the most out of DC schemes. Further details are set out below. Booking information can also be found on [our website](#).

Finally, there are a few spaces available at our next introductory trustee training day. The seminar, aimed at new trustees and those who would like a reminder of the basics, will be held in our [Bromsgrove office](#) on 14 November 2012. Booking information and course details can be found on [our website](#).

### Last chance to book

Getting the most out of your DC scheme seminar

There are still places available at our upcoming seminar that will detail how employees and employers can get the most out of their DC pension plans.

This seminar will cover various cost saving ideas for the company and provide an insight into what employees value from their pension and their wider remuneration package. We will look at the competition between pension providers and give an insight into how the providers are evolving their propositions to compete for companies' business.

The seminars are taking place across the UK on the following dates:

- Amersham - 26 September (evening)
- Birmingham - 26 September (morning)
- Cheltenham - 27 September (evening)
- Leeds - 3 October (morning)
- Liverpool - 2 October (morning)
- London - 27 September (evening)

To book a place on one of the seminars please email:  
[seminars@barnett-waddingham.co.uk](mailto:seminars@barnett-waddingham.co.uk)

For further information on any of the topics in this bulletin, please speak to your usual Barnett Waddingham consultant, or visit our website [www.barnett-waddingham.co.uk](http://www.barnett-waddingham.co.uk)

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September 2012 | BW0391

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