

Pensions Bulletin

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Boom in pension scheme buy-outs

An increasing number of pension scheme trustees are looking to transfer their defined benefit (DB) scheme's liabilities to insurance companies. A recent survey by Lane Clark & Peacock (LCP) has suggested that this 'buy-out' market could exceed £10 billion in 2008, a three-fold increase on 2007.

There are two main types of buy-out transaction in the current market:

- 'buy-ins' for continuing schemes, and
- full transfers that are designed to give employers a clean break from future pension liabilities.

The rise in buy-out business has been driven by a number of factors:

- New insurance companies coming into the market, which has increased competition and has helped to lower the cost of transactions. There are now over 15 providers (whereas before April 2006 there were only two).
- The Pensions Regulator now promotes through a Code of Practice and Recovery Plan review, the adoption of more prudent funding targets than were previously the norm. Trustees have been obliged to respond and this has resulted in stronger funding levels, meaning there is now a smaller gap between the on-going and the buy-out levels, particularly for pensioner members.
- Corporate bond yields have increased more than gilt yields, following the 'credit crunch' and this has reduced the cost of buy-out.
- The appetite of pension scheme trustees to remove interest rate, inflation and mortality risk from their schemes.

At The Pensions Trust, work has been undertaken with the Scheme Actuary and Investment Consultant in relation to the buy-in of Growth Plan pensioners with an insurance company. Growth Plan employers will be advised separately in detail about this.

In addition, The Pensions Trust has been in contact with all single employer scheme sponsors informing them of this development in the market. A 'pensioner buy-in employer day' is also due to be held in September 2008 for the attendance of interested scheme sponsors, which will cover the relevant issues in more detail.

Our multi-employer pension scheme committees will consider this investment possibility for our industry-wide schemes.



More details about pension scheme buy-outs can be found in Fact Sheet 1, [click here](#), available on our website (details on page 4). Copies of the LCP 'Pension Buyouts 2008' survey can be found at www.lcp.uk.com



The Pensions Trust

The Pensions Trust appoints new investment managers

The Pensions Trust has recently appointed three new investment managers to run equity mandates. These are:


- TT International;
- Marathon Asset Management, and
- RCM (Allianz).

The transfer of assets was completed at the end of June 2008 and means that the Trust's Global Equity Fund (GEF) is now structured as follows:

Manager	Mandate	Benchmark Weight %
Legal & General	Passive (Index Tracking) Global	16
State Street Global Advisors	Passive (Enhanced Indexation) US/UK	25
AXA Rosenberg	Active Pan European	20
TT International	Active UK	7
Lazard Asset Management	Active Global	12
RCM (Allianz)	Active Global	12
Marathon Asset Management	Active Asia/Japan	8

The decision to make these new appointments followed a review by the Trust's Investment Committee of the GEF following disappointing investment performance by two previous managers, Barclays Global Investors and Capital International.

The Pensions Trust has also completed the appointment of Mesirow Advanced Strategies to run a Fund of Hedge Funds mandate, initially for the Social Housing Pension Scheme (SHPS).

 For more details about these new appointments, please refer to Fact Sheet 2, [click here](#), available on our website.

Half of employers to auto-enrol staff before 2012

45% of employers are seriously considering the auto-enrolment of staff into their company pension scheme before Personal Accounts are introduced, research from Capita Hartshead reveals.

Participating employers within The Pensions Trust may want to consider introducing auto-enrolment prior to 2012. This would ensure that employers already meet one of the Personal Accounts requirements well in advance of the regulations coming into force.

The survey of over 270 public and private occupational pension schemes also showed that:

- 25% of employees were not members of their employer's pension scheme;
- only 5% of the employers said that they would close their current scheme in favour of Personal Accounts;
- 50% of employers said that the introduction of Personal Accounts would cause a review of existing pension arrangements; and
- 31% of employers would look to reduce scheme benefits, in order to hold down the costs of auto-enrolling employees into their company scheme.

Personal Accounts are currently being debated as part of the Pensions Bill 2008 that is currently making its way through Parliament. It is expected to become law later this year.

 For more details about auto-enrolment and Personal Accounts, please refer to Fact Sheet 3, [click here](#), available on our website.

Charities hit with £850,000 PPF bill

The Pensions Trust is bitterly disappointed by the announcement by the Pensions Protection Fund (PPF) in May, which will result in an estimated overall increase to scheme levies of £850,000 for the 2008/09 year.

This is in spite of the long-awaited recognition by the PPF and its supporting agencies that charities are less likely to become insolvent than commercial organisations.

The Pensions Trust had estimated total levies for 2008/09 based on the PPF's provisional 'scaling factor' of 1.6. The PPF uses the scaling factor to collect enough money to meet its target of £675 million from all eligible schemes.

We have now been told that the actual scaling factor for 2008/09 is 3.77, over twice that originally indicated by the PPF in November 2007. Whilst accepting that the provisional figure carried a caveat, the Trust is dismayed that the PPF could get this so wrong.

The Pensions Trust has negotiated with the PPF and Dun & Bradstreet (the credit rating agency used by the PPF) to try to ensure that our employers are treated more fairly. Now we just have to hope that these efforts will, to some extent, mitigate the impact of this unforeseen increase in the levy scaling factor.

The additional levy for our three largest multi-employer schemes amounts to some £670,000. For these schemes in particular, the PPF levy is, to all intents and purposes, a charitable donation; the chances of 165 (Scottish Federation of Housing Associations Pension Scheme), 700 (Social Housing Pension Scheme) or 2,600 separate charities (the Growth Plan) all becoming insolvent in the same year is practically nil. This makes the announcement all the more galling.



More details about the PPF can be found in Fact Sheet 4, [click here](#), available on our website.

Lower life expectancy for pension scheme members

Occupational pension scheme members do not live as long as insurance company policyholders, a recent study by the Continuous Mortality Investigation (CMI) has revealed.

In common with most other pension funds, the mortality assumptions currently used for scheme valuations at The Pensions Trust are based on the only previously available data – that for insurance company policyholders.

However, the CMI study has resulted in new standard mortality tables and the Trust's Scheme Actuary is proposing to use these new tables for future scheme valuations.

In isolation, the new mortality tables would have a positive effect on scheme funding.

However, in addition to the CMI study, The Pensions Regulator has proposed a new approach for the mortality assumptions used in pension scheme valuations.

The Regulator has proposed that mortality assumptions should not be weaker than a certain level (which can be scheme specific) and that they should also include allowance for future improvements in life expectancy. These proposals offset the benefits shown in the new mortality tables.

The Trust's Actuary has indicated that the net effect is likely to be a slight worsening of a scheme's funding position.



More details about the CMI study and other announcements in the area of mortality can be found in Fact Sheet 5, [click here](#), available on our website.

The Pensions Trust will be present at:

- NHF Annual Conference and Social Housing Exhibition 2008 17-19 September 2008
- IAPS Annual Conference 22-24 September 2008
- NCVO Trustee Conference 2008 6 October 2008
- ACEVO Annual Conference 2008 28 November 2008

Further information on these exhibitions and conferences is available on our website at [News Room > Events](#)

The Pensions Trust reviews governance structure

The Trustee Board of The Pensions Trust has carried out a review of its governance structure.

As part of this review, the Board agreed that it should be able to co-opt Professional Directors to serve alongside the elected Directors in order to fill any identified skills gaps, and thus improve the governance of The Pensions Trust. Any Professional Directors will be selected by the elected Directors and will receive a fee for their services.

In addition, there will be a number of safeguards to protect the existing balance and ensure that the elected Directors retain control. Importantly all decisions, as now, would only be made with the majority support of both the Employer Nominated and Member Nominated Directors.

The Trustee has also reviewed the overall size of the Board and decided to reduce the number of elected Directors to ten, with five Employer Nominated and five Member Nominated Directors. Up to two Professional Directors can be co-opted.

The changes will be phased in over the next two years.



More details about the changes to the Trustee Board can be found in Fact Sheet 6, [click here](#), available on our website.

The Pensions Bulletin is a quarterly newsletter from The Pensions Trust. It can be viewed electronically on our website www.thepensionstrust.org.uk > Document Library > General > Pensions Bulletin.

The content of Pensions Bulletin is a summary of recent developments and is not intended to be comprehensive. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances or refer to source material, as appropriate.

Email your enquiries to bulletin@thepensionstrust.org.uk

Pre-retirement seminars

The Pensions Trust is introducing a new service to assist members approaching retirement.

At the request of participating employers, The Pensions Trust will arrange a one-day 'Pre-Retirement Seminar' for staff who are approaching retirement.

The cost of a one-day seminar is £75 per attendee with a maximum of 20 and a minimum of ten attendees at any seminar. All aspects of retirement will be discussed, not only the financial issues.

Employers can offer to pay for the cost of these seminars on behalf of their staff. Alternatively, if employers are unable to make this offer, the cost may be met by the members themselves. This would be a decision for each employer.

Our hope is that employers will be able to provide a local venue for seminars to allow these to be held all around the country. Where small employers have less than ten interested staff we will consider holding a seminar which gathers together the interested staff from several employers.

If this is a service that you feel you would be of interest to your staff, please contact pam.jenkinson@thepensionstrust.org.uk for further details and to discuss the possibility of a seminar in your area.

Growth Plan Employer Consultative Group Update

As reported in the last edition of Pensions Bulletin, the Growth Plan Employer Consultative Group has been established to act as a conduit for the views of employers regarding matters relating to scheme funding, investment and changes to the benefit structure.

The Group has met twice since its formation to discuss the launch of Growth Plan Series 4 and the Plan's investment strategy, in particular the proposal for securing Growth Plan pensioner liabilities with an insurance policy.

The feedback received has been most helpful and it is hoped that the Group will become an important part of the Growth Plan decision making process.