



# Growth Plan Bulletin

May 2007 Issue 4

## Welcome

Many thanks to all of you who completed and returned the Feedback Form, included with our third issue, to let us know what you thought of the Growth Plan (GP) Bulletins.

Although only 111 employers replied the vast majority told us that they found the content of the Bulletins useful. We will therefore continue to provide information on the GP, albeit in a slightly different format.

Some of the responses suggested that we should email issues of the Bulletin to save on paper. Whilst this is an admirable idea, not all of our smaller GP clients have an email address yet and previous exercises for smaller schemes have proved difficult, with updated email addresses not always advised to us and numerous emails 'bouncing back'.

As a compromise we have decided to incorporate the GP Bulletin into our six-monthly 'Update' magazine, which we send to all The Pensions Trust's employers. The autumn issue of Update will include a separate GP section covering all issues relevant to GP employers. The Update magazine can also be viewed or downloaded from our web-site shortly after issue.

Obviously we are pleased that the majority of GP employers who responded have indicated that they have found the Bulletin useful. As always we are open to suggestions for articles to ensure that the future GP section of the Update magazine remains useful and relevant to your needs. If you have any suggestions or questions please contact Pam Jenkinson:  
[pam.jenkinson@thepensionstrust.org.uk](mailto:pam.jenkinson@thepensionstrust.org.uk)

Please remember that The Pensions Trust cannot provide either financial advice to members or investment advice to employers and the content is provided for information and guidance. If you require any advice as to what is the best course of action for your organisation in any given situation then you should take appropriate advice from your own legal or pension advisers.

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# Funding Update

## 2005 Valuation Recovery Plan The 'Good News'

We advised in the last issue of the GP Bulletin that the Trustee had submitted a Recovery Plan to the Pensions Regulator setting out its proposal for eliminating the deficit via investment returns rather than via additional contributions.

We are pleased to report that the Pensions Regulator has now advised in a letter dated 6 March 2007 that it does not intend to take any action regarding the GP. This indicates The Pensions Regulator is satisfied with the Trustee's proposal for eliminating the deficit via investment returns. Therefore, there will be no need for the Trustee to levy additional contributions on employers at the present time.

## Funding Update as at 30 September 2006

We are now required to review the funding of the GP each year as well as undertake comprehensive triennial actuarial valuations, the next one of which will take place on 30 September 2008. The Scheme Actuary has recently provided us with the results of the annual review as at 30 September 2006. Copies of this report are available on request.

The Scheme Actuary has calculated the GP liabilities on both the ongoing technical provisions basis, i.e. the basis used for the purpose of the Actuarial Valuation, and the liabilities on the full buy-out basis, i.e. the basis used to calculate the employer debt on withdrawal. The results of the annual funding review as at 30 September 2006, together with a comparison with the results of the 2005 Actuarial Valuation, are shown in the table below:

We are pleased to report that the GP was fully funded on the ongoing technical provisions basis as at 30 September 2006 and that the buy-out funding position had also improved. Although the liabilities have increased this has been more than offset by the fact that our actual investment returns in 2005/06 were higher than the long term actuarial assumptions.

The improvement in the funding position is of course welcome and, all things being equal we would hope that this would be the case in most years. However, it would be imprudent to expect actual investment returns to be higher than the long term actuarial assumptions every year. It is also important to note that whilst the annual funding update does allow for changes in membership, benefit payments and investment returns since the last valuation, the assumptions used to carry out the calculations are the same as those used for the 2005 Actuarial Valuation.

Consequently we must stress that the improvement of 5 percentage points that we have seen in the buy-out funding level in the year between 30 September 2005 and 30 September 2006 cannot be expected every year.

## Accounting Treatment

Our guidance note on the accounting treatment of on-going pension costs and the potential debt on employer on withdrawal from a multi-employer pension scheme has been updated to include the results of the 2005 actuarial valuation and the feedback received from The Pensions Regulator. The new guidance note can be found by following the link on the home page of our website, [www.thepensionstrust.org.uk](http://www.thepensionstrust.org.uk)

|                   |                      | Assets<br>£m | Liabilities<br>£m | Funded<br>% |
|-------------------|----------------------|--------------|-------------------|-------------|
| 30 September 2005 | Technical Provisions | 675          | 704               | 96          |
|                   | Buy-out              | 675          | 900               | 75          |
| 30 September 2006 | Technical Provisions | 747          | 745               | 100         |
|                   | Buy-out              | 747          | 931               | 80          |

# Update on lobbying for exemptions from the Regulations

In previous editions of the GP Bulletin we have reported on the actions that we have taken to lobby the Government for a change in the Employer Debt on Withdrawal Regulations (the Regulations). Many employers have supported us by writing to their MPs and we thank all who have done this.

We met representatives of the Department of Work and Pensions (DWP) and The Pensions Regulator on 21 February 2007 to discuss our concerns and to provide examples of the problems that the Regulations have created for employers. Representatives of the Charities Commission also attended the meeting and were able to support our arguments by raising examples of the impact of the Regulations on some charities that are not members of The Pensions Trust.

Although some limited progress was made regarding how to deal with the administration surrounding employer withdrawals, neither the DWP nor The Pensions Regulator appeared to accept the reasons why we believe that the GP should be exempt from the Regulations. The objective of the DWP is to make sure that employers support their defined benefit occupational pension schemes and that members receive the full benefits that they have been promised. Whilst it is accepted that the GP is not a typical defined benefit scheme, the DWP is concerned that allowing any form of exemption will create a loophole that could be exploited by employers in other pension schemes that want to avoid their pension liabilities.

There are still a number of other avenues that we are pursuing in order to improve the situation for employers, these include lobbying Government for a change in the definition of 'Money Purchase' scheme and for the Regulations to only apply to multi-employer schemes for associated employers. However, we must report that following our recent meeting with the DWP we are less optimistic about securing any major changes to the Regulations.

The National Association of Pension Funds (NAPF), the leading voice of workplace pensions in the UK, are helpfully involved in this as it effects other pension schemes.

We will continue to keep you up to date with progress via our newsletters and bulletins.



## PPF Levy Confirmation

The GP Pensions Protection Levy (PPF) invoice for the 2006/07 year was received on 12 March 2007 and the levy for the year amounts to £188,549.89. It is pleasing to note that as this is less than the estimate used for Actuarial Valuation results, it will have a small positive effect on the funding of the Plan. However, all schemes are expecting to see a substantial rise in their PPF levies for the 2007/08 due to changes in the calculation methodology.

We should not forget that for multi-employer schemes, where the possibility of ALL employers ceasing to participate is minute, this levy is bad value for money and amount to little less than a tax on the GP.

## Approximate Quarterly Employer Debt Updates

Employers may decide to disclose the potential liability for an employer debt on withdrawal in their accounts but some employers have told us that they want to know on a regular basis whether the debt is getting worse or getting better. Unfortunately the debt figures can vary quite considerably due to market conditions, particularly the yields on long dated Government bonds.

If we asked the Scheme Actuary to calculate on a regular basis the debt of each employer, the costs would be significant and the costs would have to be charged to GP. For the benefit of everybody in the Scheme we are anxious to keep cost this to an absolute minimum.

### Annual Updates

What we are proposing is that every year the Scheme Actuary will produce an updated calculation of buy-out debt split between all the participating employers and that will be carried out as at 30 September each year in line with the scheme year-end. Updated member data will be sent to the actuary for each 30 September but only in a valuation year will a full valuation be carried out by the Scheme Actuary. All employers will also be notified of this annual update in writing. The results of the annual update carried out as at 30 September 2006 can be found in a letter accompanying this Bulletin.

### Quarterly Approximations

The Scheme Actuary will then at each subsequent quarter provide approximate updates. This will be, as stated, approximate in order to keep the cost down but it should enable employers to track their individual debt liabilities.



The Scheme Actuary will estimate the overall buy-out deficit based on approximate investment performance and cash flow information and will make an allowance for movements in long term interest rates. We will also assume that each employer's percentage share of the total buy-out deficit remains at the level calculated by the latest annual calculation. Each employer's share of the deficit will then be calculated by applying the employer's percentage share as at the most recent annual update to the quarterly estimate of the buy out funding level of the Plan.

Overall, these calculations should provide a useful indication of the direction of the deficit for most employers. However, the approximate calculations will not take account of a number of items such as member movements and so should be used as a guideline only.

From the information we receive from the Scheme Actuary we will then be able to provide you with these approximate deficit figures upon request.

If you would like to receive quarterly employer debt on withdrawal updates please advise Pam Jenkinson of the email address that you would like this information issued to. Pam will compile a quarterly emailing list for all employers who advise that they wish to receive this.



## Advance Warning of Cessation Events is Required

During recent discussions with The Pensions Regulator it has become clear that the Trustee Board may only apportion a debt on withdrawal to another organisation, say in the case of an incorporation, if they have time to consider the case in advance of the actual cessation event occurring.

If the cessation event occurs before it can be considered by the Board, apportionment of the debt will not be an option. The alternatives would then be for the Trustee to enforce the full debt on withdrawal or enter into a Withdrawal Arrangement. A Withdrawal Arrangement is an agreement between the Trustee, the withdrawing employer and a guarantor that the debt will be deferred, subject to the guarantor providing a suitable guarantee. A Withdrawal Arrangement must be approved by The Pensions Regulator and The Pensions Regulator will only approve a Withdrawal Arrangement if it considers that this will make it 'more than likely' that the debt will be paid.

If a debt on withdrawal is enforced the Trustee has a statutory duty to pursue this and we will be counted as an ordinary creditor in any wind up of an organisation. However, where an organisation is ongoing, the Board is always sympathetic to the position of our clients and it may be possible for a payment schedule to be agreed if the Board is satisfied that the ongoing organisation will have the means to enter into such an agreement.

### Health Warning

There is no track record of how The Pensions Regulator will deal in practice with individual Withdrawal Arrangements and therefore a helpful outcome should not be assumed. Employers are strongly advised to consult The Pensions Trust BEFORE committing to any business re-organisation that could trigger a debt on withdrawal.



## Annual Funding Statements for Members

As employers will know, we are required to issue a funding statement to all members annually. The first of these was sent in September last year and the second will be issued by the end of June 2007.

The format of the statement has not changed since last year when the members were advised of the provisional results of the 2005 valuation. This statement will report the final results of the 2005 valuation.

This year's member's statement will explain that the assets of the Plan have increased significantly since the last valuation in 2002. This is as a result of continued contributions and strong investment growth. However, the liabilities of the Plan have also grown, mainly as a result of continued accrual of benefits, changes in forecast investment returns, the fact that people are living longer and the fact that the Trustee has made allowance for a more conservative investment strategy in the future. Overall this has led to a slight deterioration in the Plan's funding level.

We will confirm that the Trustee currently expects this deficit to be removed through investment performance, although this will be kept under review.

This year the statement must also include details of the estimated amount needed to ensure that all members' benefits could have been paid in full if the scheme had wound up as at 30 September 2005 and benefits secured under insurance policies (i.e. full buy-out basis). Inclusion of this information, which we are required to provide, does not imply that the Trustee is thinking of winding-up the scheme and is purely for information.

If the members have any questions regarding their Annual Funding Statement, they should contact the Money Purchase Team directly on 0131 341 1265 or [emp@thepensionstrust.org.uk](mailto:emp@thepensionstrust.org.uk), and if any approach you, you should point them in our direction for answers.

## Report on the feedback received at the GP Employer Forums

The feedback received from the five employer forums held in October and November 2006 was very positive about this initiative and The Pensions Trust's determined effort to communicate with employers via the forums and the GP Bulletin.

Most of the feedback consisted of specific information requests from the attending employers. However, the main request that arose, and mainly from the London forum, was for the formation of an informal user group, to be created, to allow participating employers to meet and discuss their positions regarding the GP. The Pensions Trust has given serious consideration to this request; however we have concluded that it would not be appropriate to use scheme funds to meet the cost of running an informal group. We are also concerned that an informal group would not be truly representative of all employers.

A small group of employer representatives met with representatives of The Pensions Trust on 17 January 2007 in London. We explained at that meeting that whilst no informal group could be supported using GP funds, if our current lobbying regarding the GP was unsuccessful, then it will be necessary, as with other defined benefit schemes, for employers to have a much greater role in the funding of the GP. It is likely that a formal committee will need to be a body elected by and from all the employer members so that it is mandated to consult with The Pensions Trust on funding matters on behalf of all employers. Any Committee would have to be formed prior to the next GP valuation in 2008.

Should this be necessary your organisation will receive forms requesting nominations for candidates and then subsequently, voting forms giving details of the candidates.

## More GP Employer Forums

The GP Employer Forums held in October and November 2006 received such positive feedback from the employers who attended that we have decided to run another set of Forums this year.

Three Forums will be held in July at the following locations:

| Date                  | Location   |
|-----------------------|--|
| Wednesday 4 July 2007 | The Pensions Trust, Verity House, 6 Canal Wharf, Leeds LS11 5BQ          |
| Thursday 12 July 2007 | The Pensions Trust, Verity House, 19 Haymarket Yards, Edinburgh EH12 5BH |
| Thursday 26 July 2007 | Methodist Central Hall, Storey's Gate, Westminster, London SW1H 9NH      |

Invitations for the Forums were issued on 20 April 2007 and the closing date for responses is 15 May 2007. Time and formal agenda will be circulated by mid-June, via email, to everyone who has indicated that they would like to attend.

If you have any queries regarding the Forums please contact Pam Jenkinson at [pam.jenkinson@thepensionstrust.org.uk](mailto:pam.jenkinson@thepensionstrust.org.uk).



# How to Contact Us

For day-to-day administration queries (e.g. enrolments, leavers, etc):

The Money Purchase Administration Team:

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For any questions on Flexible Retirement Plan enrolment:

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