

## PREMIER PENSIONS MANAGEMENT

### TECHNICAL UPDATE: 09/09

#### Scheme Funding - Round 2

Virtually all Plans have now completed the first funding valuation under the new Scheme Specific Requirements and have set up a Recovery Plan to repair any deficit. Most Plans are now in the process of completing the second valuation or are likely to be addressing this within the next 18 months.

Many Plans are likely to be facing increased deficits as a result of falling asset values and deteriorating economic conditions. The Pensions Regulator has issued guidance directed at Trustees who are completing valuations in these difficult conditions.

#### Key points

- Many Employers are facing severe cash constraints in current financial conditions which will restrict their ability to make contributions to the Plan.
- Technical Provisions must continue to be set on a prudent basis and should not be compromised to make Recovery Plan contributions appear affordable.
- The current Accounting Standards (FRS17) no longer retains adequate levels of prudence and is unsuitable for setting the Technical Provisions.
- Any risk margins incorporated into the Technical Provisions must take account of the extent to which the Employer Covenant can support them.
- In assessing the Employer Covenant, Trustees should focus on specific areas and ask specific and detailed questions rather than trying to form a high level view of the strength of the employer
- Recovery Plans will need to be significantly more flexible and may need to be significantly longer or include some form of back-end loading in order to make the contributions affordable. In addition, Trustees should consider the use of contingent assets to provide additional security and the distribution of profits between all creditors and equity providers.

For a strong employer the Technical Provisions can reflect the strong ability of the employer to underwrite any risks that emerge from the actual experience of the Plan. This may well include an allowance for investment performance from the Plan assets which exceeds the risk free rate of return.

If the Employer Covenant is very weak (almost negligible) the Technical Provisions must be set on a basis which is effectively self sufficient. This appears to mean that all risks (including investment performance) have been minimised as far as possible. Furthermore, adequate allowance should be made in the Technical Provisions for future expenses which are expected to be incurred.

### **Employer Covenant**

In assessing the Employer Covenant, the Trustees will need to look at a number of issues and may need to get expert help and advice in making a credit and financial assessment of the Employer

In particular the Trustees will need to address the following questions:

- What are the Employer's legal obligations to the Fund?
- What is the effect of the Employer's Corporate Group structure?
- What is the Employer's ability to meet ongoing cash flow demands from the Plan as they fall due?
- What is the Employer's ability to stand behind any adverse experience for the Plan in an ongoing situation?
- What would be the Plan's position be on insolvency?
- Are there options to obtain further security?

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*This update includes general information and cannot be relied upon for individual schemes issues.  
You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Corinthian House,  
17 Lansdowne Road, Croydon, Surrey, CR0 2BX. DL: 020 8663 5822.  
Email: [paul.couchman@premierpensions.co.uk](mailto:paul.couchman@premierpensions.co.uk), if you require definitive advice*