

## PREMIER PENSIONS MANAGEMENT

### LEGISLATION UPDATE : 03/08

#### **Pension Regulator – New Trigger Point**

The Pensions Regulator has recently announced (subject to consultation) a further “trigger point” in respect of life expectancy. This trigger point will apply to the Technical Provisions and complements the existing trigger points (namely FRS17 liabilities and S179 liabilities).

Most valuations are based on up to date life expectancy tables but also include an allowance for future improvements. The trigger point is designed to look specifically at the level of future improvements.

Most valuations currently make some allowance for future improvements (in some cases significant) and typically would assume that someone currently aged 40 would live to between ages 88-90.

The main problem with the current allowance for improvements is that they start to reduce after 2020 and become largely insignificant beyond about 2040. Hence, the allowance for future improvements for members below age 50 may prove to be inadequate.

The “trigger point” indicates that a greater allowance for improvements after 2040 should be made by introducing a long term minimum improvement of 1% per annum. In practice this could add 1.5 - 2.5 years to the life expectancy of younger scheme members.

#### **Technical Provisions**

Often the bulk of the liabilities (Technical Provisions) are concentrated around members close to retirement and these members will not be greatly affected. Hence, if there are relatively few younger members then the overall impact of this “trigger point” (or the cost of increasing the Technical Provisions to this level) may not be significant.

However, the effect for younger members would be much more significant. Typically the increased cost is around 3% - 4% for each extra year of life. Hence, an increased life expectancy of 2.5 years could lead to an increase in the expected cost of around 10%.

A plan with an average age of 40-45 may need to consider an increase to the Technical Provisions of around 10% - in order to meet this new “trigger point”.

	Current Allowance	Minimum Improvement
<b>Assets (£m)</b>	9.0	9.0
<b>Liabilities (£m)</b>	10.0	11.0
<b>Deficit (£m)</b>	1.0	2.0
<b>Funding Level</b>	90%	82%

The deficit increases not by 10% but by 100%.

To put this into perspective, the impact of these changes (for plans with large number of younger members) could be as significant as the life expectancy changes brought in around 2002 when allowance for significant improvements at certain ages (known as the cohort effect) were introduced into pension plan valuations.

While this is only a trigger point, we would expect that it will lead to changes in valuation assumptions, in order to recognise the potential for further improvements to life expectancy.

The Pension Protection Fund has also proposed some changes to life expectancy in the calculation of the pension protection levy from April 2008. This follows a similar approach of allowing for a minimum level of increase each year going forward.

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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, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email: [paul.couchman@premierpensions.co.uk](mailto:paul.couchman@premierpensions.co.uk), if you require definitive advice*