Actuarial Aspects of The Omega Pharma Case

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Agenda

What I intend to cover today:

- The actuarial basis used and the steps to determining the basis
- Touch on some of the main actuarial areas covered in the trial

What I don't intend to cover today:

- Legal aspects or actuarial interpretations of the 2 judgments
- All of the different arguments and counter arguments
- Any areas or facts not covered in the trial

Sequence of Events

- In Sept 2012 - Employer announced redundancies and their intention that the pension scheme would be wound down
- 1 Oct 2012 - Employer served notice on trustees of intention to discontinue contributions
- During Oct 2012 - Trustees held several meetings and obtained legal and actuarial advice
- 26 Oct 2012 - Trustees wrote to employer advising of sum required (€3.01m) to secure the Scheme's benefits and formally requested Consultation
- 22 November 2012 - Further letter issued to employer
- 7 December 2012 - Contribution demand served on the employers

€3.01m subsequently changed to €2.23m following transfer out of 2 members before expiry of notice period

Sequence of Events

At the Trustee meetings:

- Trustees were taken through the relevant provisions of the Trust Deed and Rules
- Information on the value of benefits assessed on the Standard Transfer Value and Deferred Annuity Buy-Out basis was provided

The discussions culminated in the Trustees requesting actuarial advice on the amount of money required:

> *"to support and maintain the Fund in order to provide the benefits under the Scheme"*

Starting Point

- I expressed the view that the Standard Transfer Value basis was unlikely to provide the benefits
- In advising on what would be required to provide the benefits, I started with the Standard Transfer Value (STV) basis and focussed on two features which if changed, would increase the prospect that members' deferred pensions would be provided:
  - Pre retirement discount rate
  - Valuation of pension at point of retirement

Determining a Basis

In general, determining an actuarial basis to use can be broken down into:

A. The Approach/Principles to be Adopted

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B. The Exercise of Professional Judgment as Required

Valuing Pension at Retirement

Key Elements of Approach/Principles Used?	• Incorporating allowance for annuity rates
Key Areas Requiring Exercise of Professional Judgment?	• Estimating what future annuity prices will be

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Valuing Pension at Retirement

- Explained if someone wanted to provide a pension at retirement, they would have to purchase an annuity
- Explained that:
  - For someone close to age 65, the cost of an annuity then available in the market was 26% higher than the annuity factor allowed for in the STV basis
  - For someone under age 55, the cost of an annuity then available in the market at age 65 was 49% higher than the annuity factor at retirement allowed for in the STV basis
- Proposed that allowance be made for annuity rates
- Included allowance for yield reversion of 1% spread evenly over a period of 10 years

Pre-Retirement Discount Rate

Key Elements of Approach/Principles Used?	• Use of least risk return as key anchor/reference point • Inclusion of some allowance for risk premium
Key Areas Requiring Exercise of Professional Judgment?	• Level of risk premium to allow for in the basis

Pre-Retirement Discount Rate

- Least risk return – long dated German bond yield was 2.43%
- I looked at yields on other bonds and bond indices
- Prepared figures using a discount rate based on:
  - yield on Merrill Lynch EMU Gov't bond 10+ Index,
  - yield on Merrill Lynch EMU Gov't bond 10+ Index plus 0.5%,
  - yield on Merrill Lynch EMU Gov't bond 10+ Index minus 0.5%
- Explained no one right answer and that risk premium was like a button which dials up or down the prudence of the basis
- Was requested by trustees following discussions to recommend one basis
- Recommended discount rate (3.6%) based on Merrill Lynch index

iapf Areas Covered in the Trial Included..

- Discount rate:
  - Reasonableness of discount rate of 7%
  - Range of reasonable values
  - If SAI recommended a discount rate of 7% for Standard Transfer Values, shouldn't I have used this rate
  - Allowing for uncertainty of DB system generally in determining the discount rate
- Will Standard Transfer Values provide the benefits
- Whether the Standard Transfer Value basis is a benchmark for wind ups
- What has happened in other wind ups

Areas Covered (Cont'd.)

- Relevant sections of Pensions Act (particularly Clauses 44, 46 and 48)
- Actuarial guidance (ASP PEN 1) governing actuarial valuations and in particular requirement to estimate discontinuance liabilities
- Actuarial Guidance (ASP PEN 2) and whether scope to quote transfer values higher than Standard Transfer Values

Ultimately…

- From my perspective:
  - the main task was to provide advice and a recommendation on the question asked by the Trustees regarding the amount of money required *“to support and maintain the Fund in order to provide the benefits under the Scheme”*
  - the question was a difficult question given the uncertainty of future outcomes and
  - to carry out the task it was important to consider both the approach/principles that should be used and to exercise appropriate professional judgment

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Thank You