



# Funding Defined Benefit Pension Schemes & The Funding Standard

## The IAPF's View

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*2<sup>nd</sup> October 2008*





# Agenda

- The Funding Standard – A Paradox?
- The Funding Standard – Does it Matter to Companies?
- IAPF's View of What Needs to Change
- Current Events

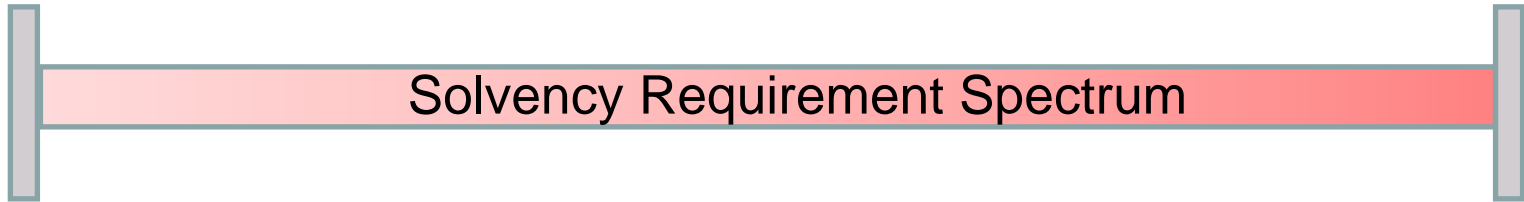




# Funding & Security – A Paradox

Very Onerous  
Requirements

No  
Requirements

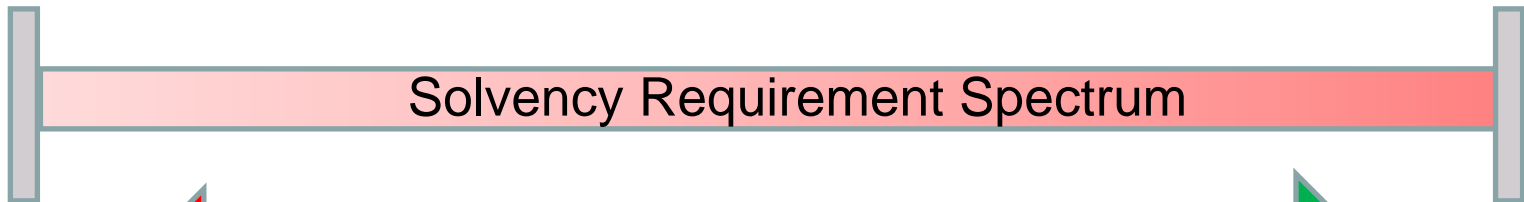




# Funding & Security – A Paradox

Very Onerous Requirements

No Requirements



**Harder to provide DB**



**Easier to provide DB**

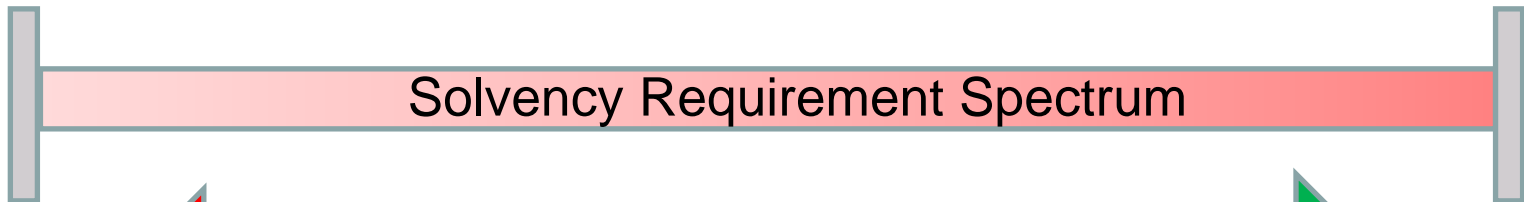




# Funding & Security – A Paradox

Very Onerous Requirements

No Requirements



The more rigorous security requirements are, the greater the risk that companies may not provide DB pensions





# The Funding Standard – Does It Matter To Companies?

Argument put forward in the Green Paper

*“It is clear that the funding standard is not the key influence driving costs and defined benefit closure. Rather the key influences are increases in underlying pension costs and the impact of FRS17”*





# The Funding Standard – Does It Matter To Companies?

FS not a key  
influence on  
cost?



FS not a key  
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closure?





# The Funding Standard – Does It Matter To Companies?

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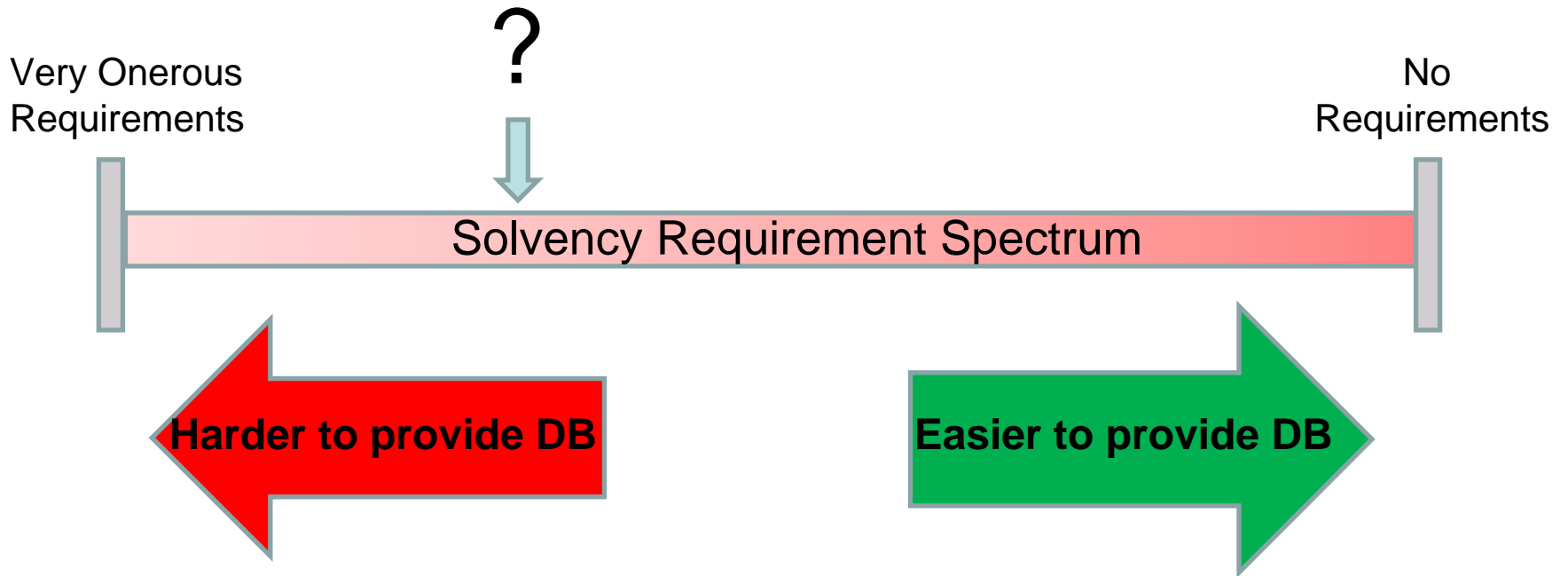
FS not a key  
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closure?

• **Cash Matters!**





# Where Should The Arrow Be?





# The IAPF's View



Principles



Practicalities





# The IAPF's View – Principles

The IAPF supports having balanced requirements around minimum funding but believes...

1. The bar (particularly at annuity cost) is too high and gives very little day to day headroom for what are long term investments
2. The priority rules must change
3. There should in very limited circumstances be State support

**Overall objective should be to provide high level of security for all members**





# The IAPF's View – Practicalities

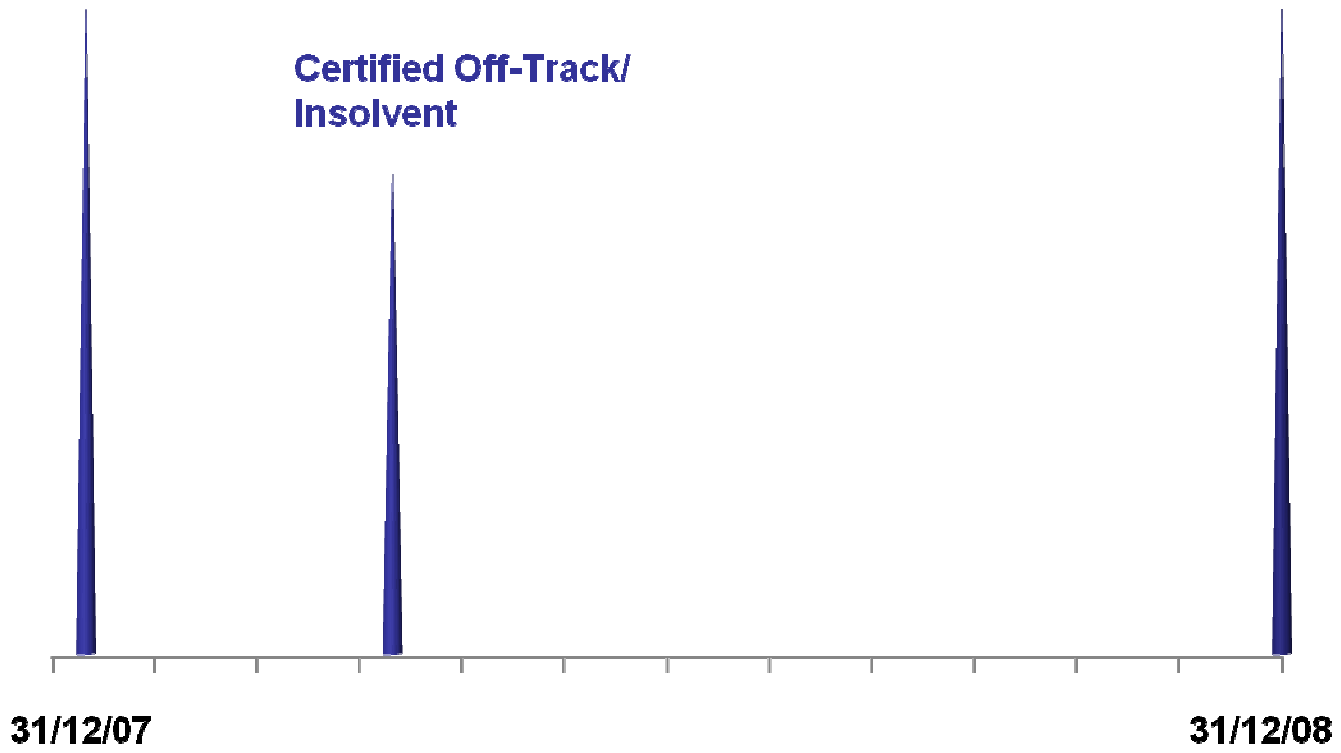




# Funding Proposal Process

Last TAR Date

Next TAR

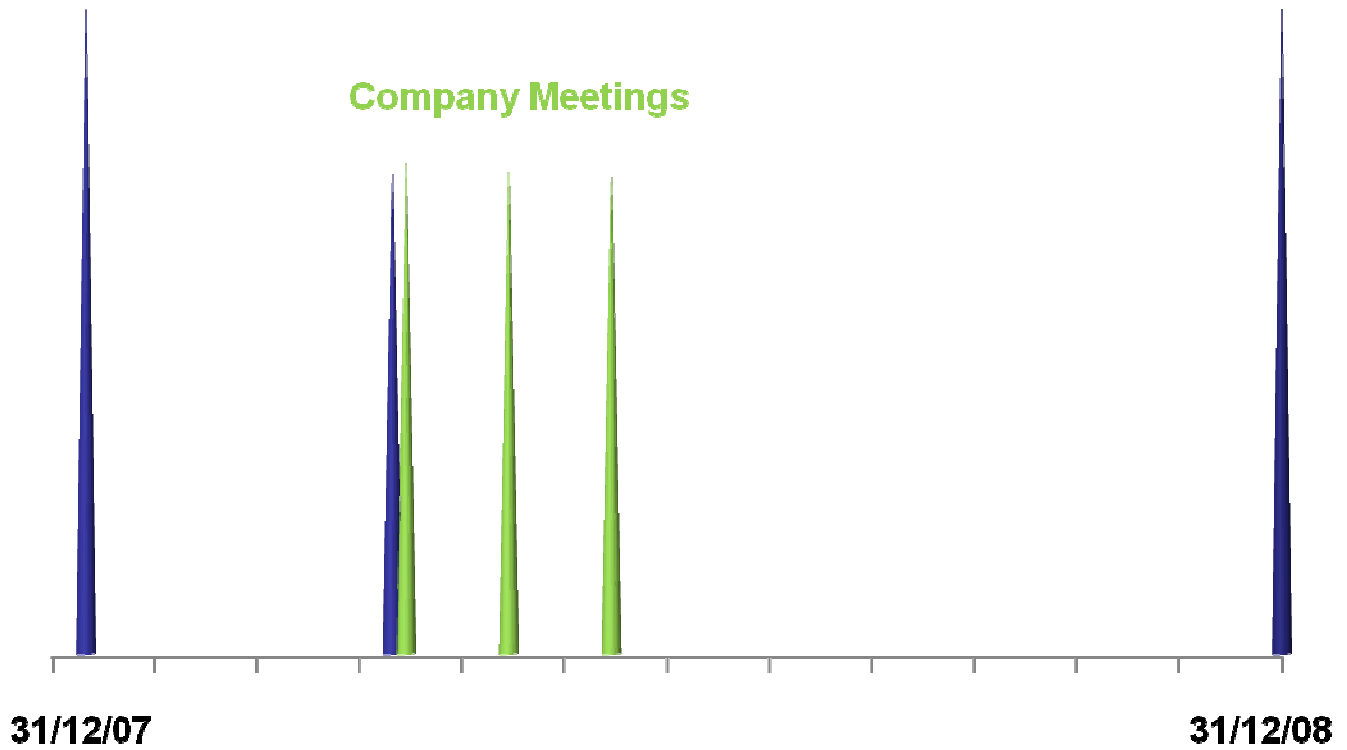




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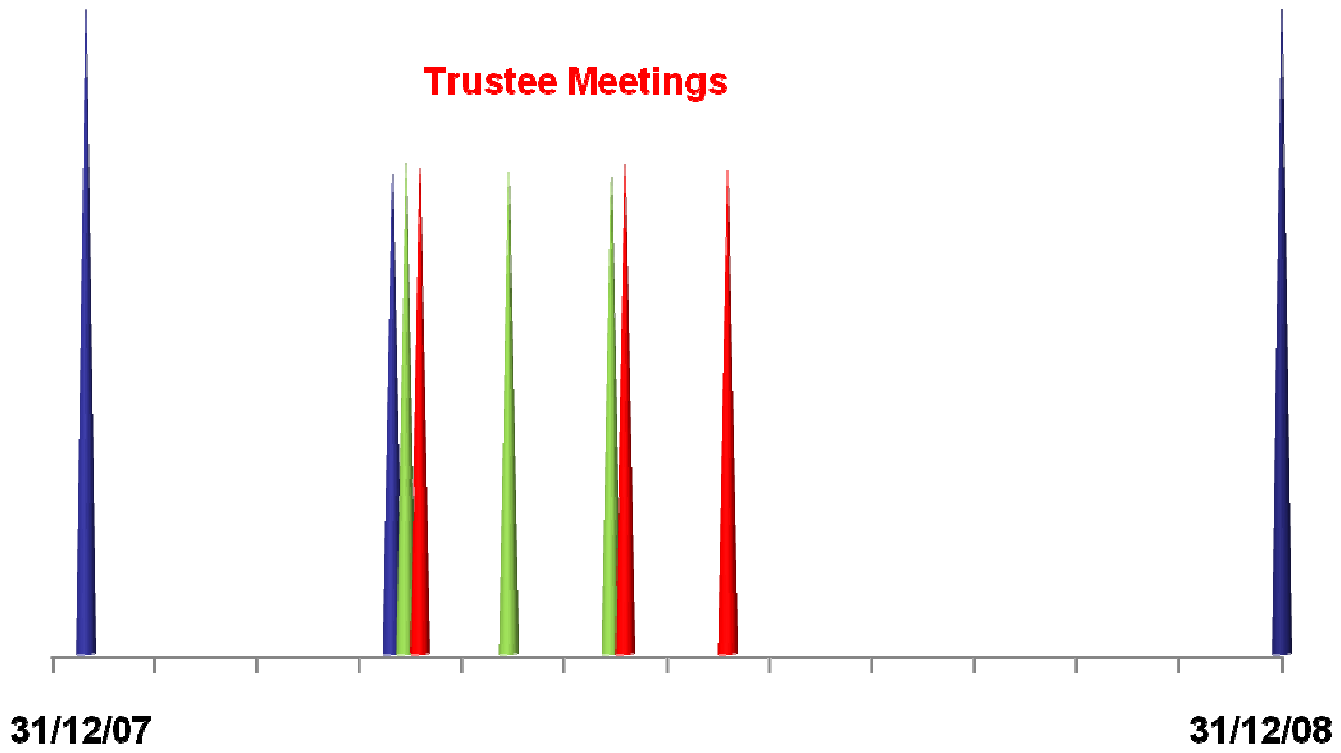




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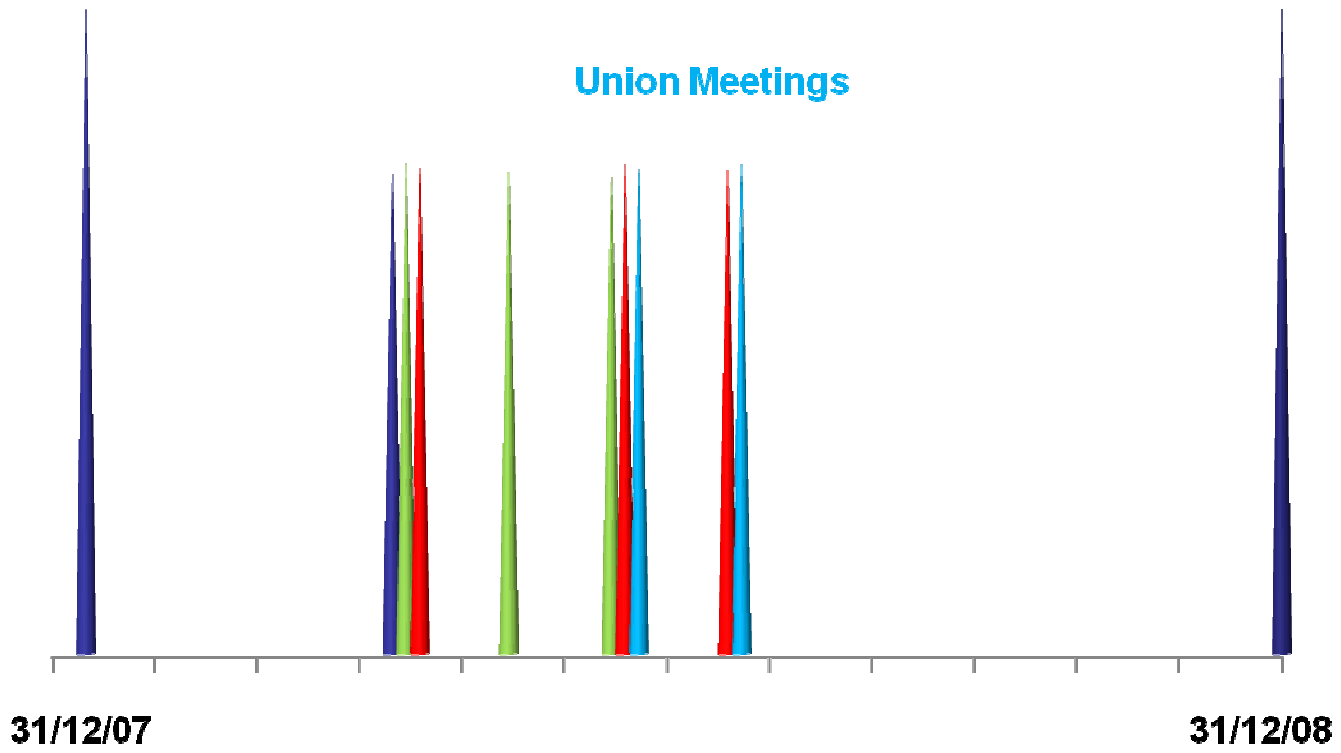




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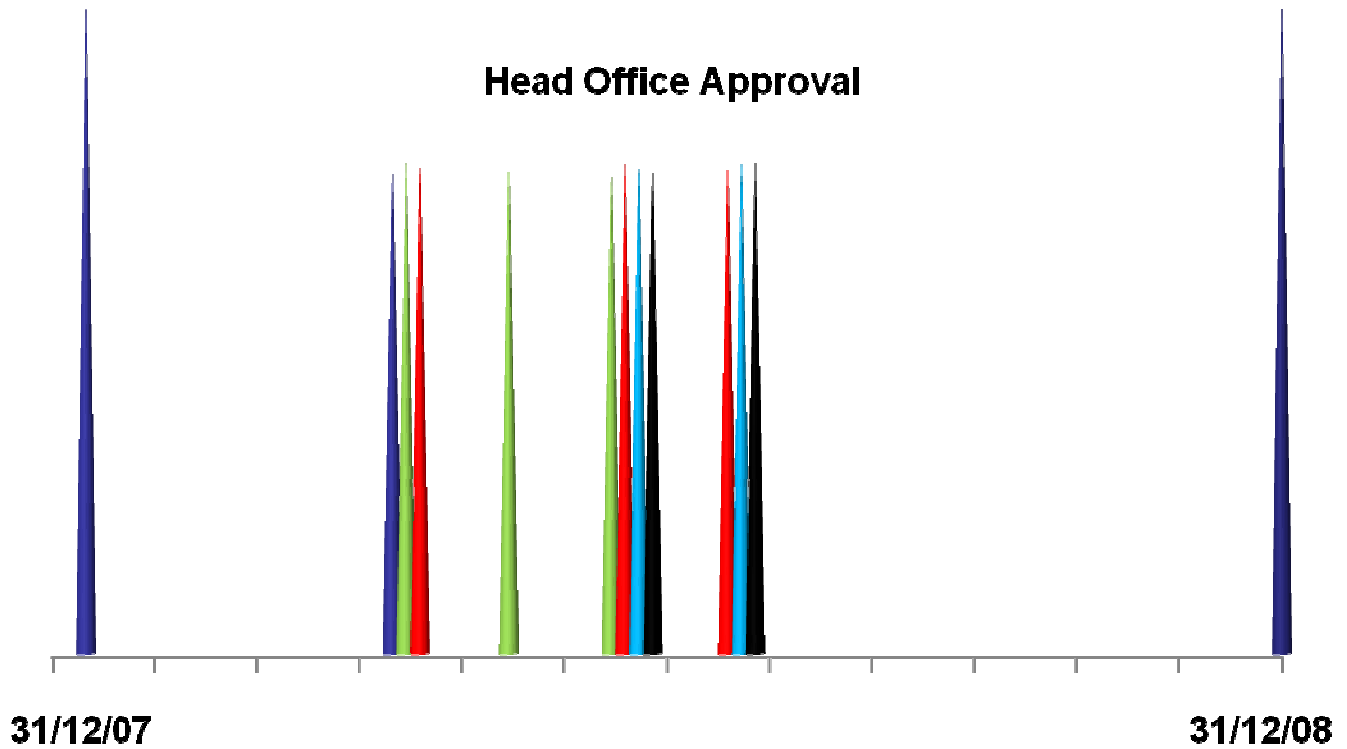


# Funding Proposal Process

Last TAR Date

Next TAR

Head Office Approval



31/12/07

31/12/08

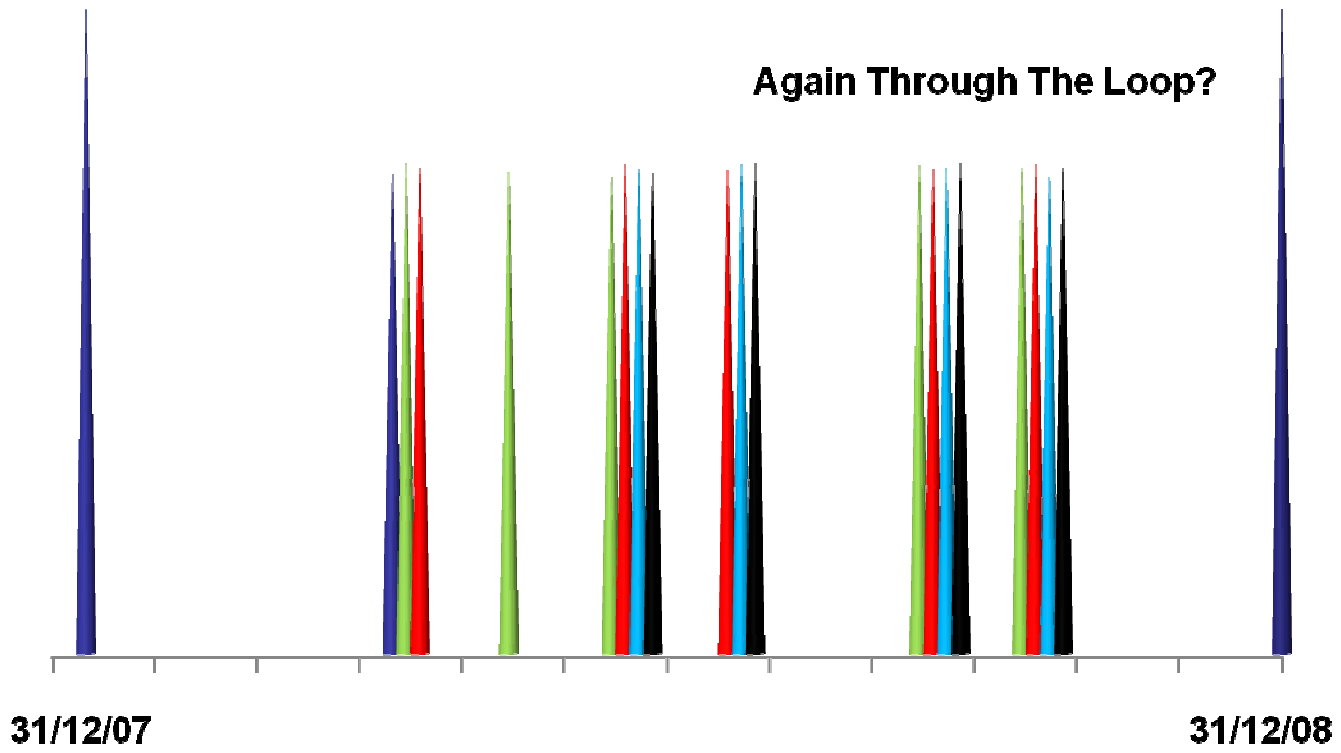




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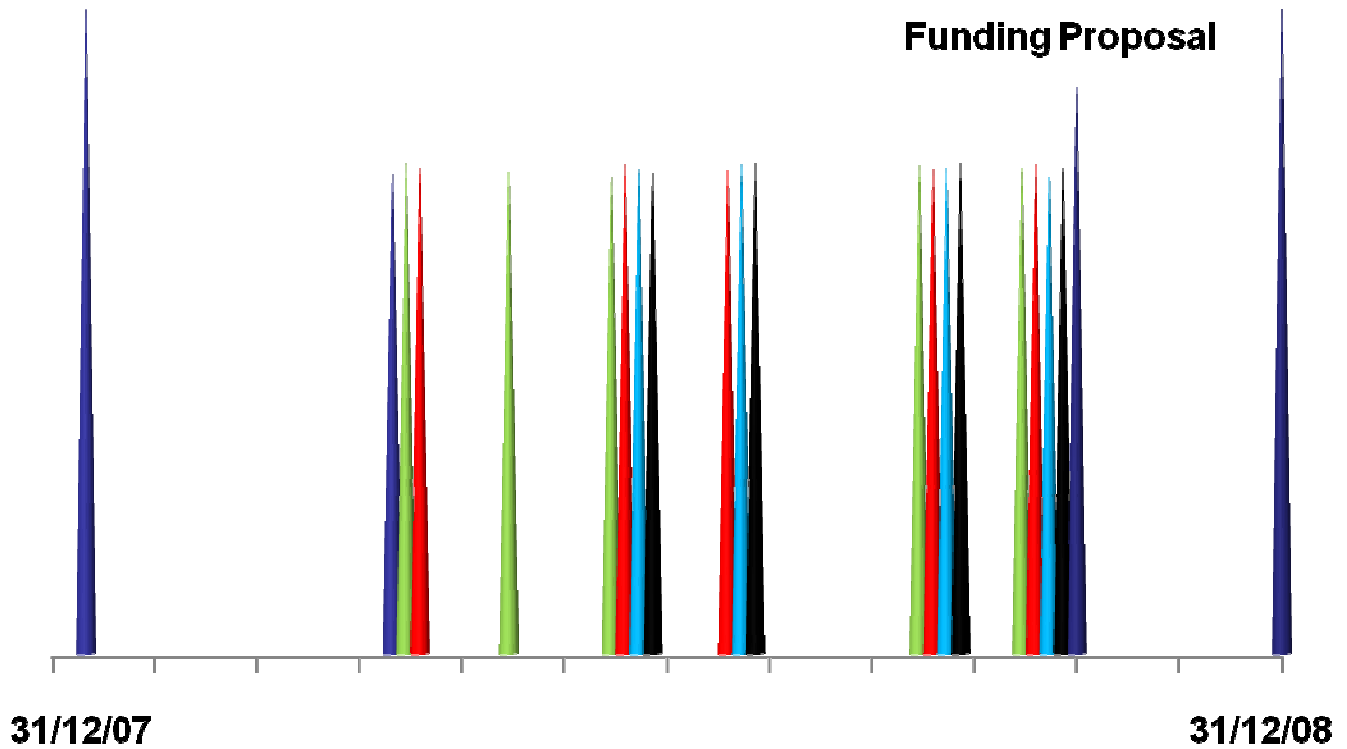


# Funding Proposal Process

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Funding Proposal



31/12/07

31/12/08





# The IAPF's View – Practicalities

- At the best of times, the practicalities can be very frustrating and costly and can adversely affect employer goodwill towards providing DB benefits
- Currently, very difficult to operate – like building on sand
- Ultimately not in the interests of members and should be simplified





# The Current Position

- Green paper quoted just over 1 out of every 4 DB schemes did not meet the funding standard at the end of 2006
- Anecdotally, over 3 out of every 4 DB schemes probably now fail the funding standard
- We've moved from a debate in a calmer climate to one in the eye of a storm
- As well as increasing the urgency for change this also..
  - Increases the need for short term flexibility and
  - Requires addressing the practical issue of how to hit a moving target





# In Conclusion

- Status quo is not viable
- The issue is urgent
- A change in the right direction is more important than its precise nature
- Greater flexibility is needed in the short term

