

The Irish Association of Pension Funds



Trustee Network
'Funding Proposals'

Funding Proposals – Actuarial Perspective



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INTRODUCTION

The purpose of the presentation is to work through some of the requirements and processes involved in completing a Funding Proposal for submission to the Pensions Board

•Funding Proposals

- Are required when pension schemes are in deficit
- Outline the contributions required to remove the deficit in pension schemes



BACKGROUND

Section 42 (of the Pensions Act) requires the trustees to submit an Actuarial Funding Certificate

- The Scheme Actuary is required to state that the resources of the scheme (at the effective date) are sufficient and certify that the scheme satisfies the Funding Standard
 - Liabilities and assets valued in line with a prescribed basis
 - Every three years or within 12 months of the effective date of a negative Actuarial Statement
- Section 49(1) requires trustees to submit a Funding Proposal
- where an Actuarial Funding Certificate certifies that the scheme does not satisfy the Funding Standard



FUNDING PROPOSALS

What is a Funding Proposal?

- Contains a proposal designed to ensure the scheme could reasonably be expected to satisfy the Funding Standard at the effective date of the next Actuarial Funding Certificate
- Certified by the **Scheme Actuary**
- Signed by the **employer** and the **trustees**
- Submitted by the **trustees**

Term of Funding Proposals?

- Within 3 years (i.e. date of next Actuarial Funding Certificate)
- **Unless** the Pensions Board **specify a later date**, following an application under Section 49(3) of the Pensions Act.



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FUNDING PROPOSALS

- Funding Proposals can involve some / all of the following
 - Increased employer contributions
 - Increased employee contributions
 - Change of future benefit accrual
 - Reduction of accrued benefits (through a Section 50 application)



ASSUMPTIONS

The Actuarial Funding Certificate relates to the position in the event of a winding up of the scheme.

- The Scheme Actuary, therefore needs to account for priority rules in Funding Proposal calculations

There are different categories of beneficiary. Typically,

- Pensions in payment members are valued in line with market annuity rates.
 - Allowance can be made for an increase in the underlying yield
- Actives and deferred members are valued by reference to the Society of Actuaries in Ireland (SAI) transfer value basis
 - i.e. the transfer value (100% or non-reduced) normally calculated when members want to transfer to another scheme



ASSUMPTIONS

Limited range of assumptions allowed by reference to actuarial guidance (ASP PEN 2, ASP PEN 3, ASP PEN 4)

- Investment return assumptions on different asset classes
- Price and salary inflation
- Mortality, including allowance for improvements

Example

- overall investment return limit of the yield on an appropriate bond plus 3.5% pa (before allowance for expenses)



EXAMPLE

A scheme with a negative Actuarial Statement (AS) at 31 December 2008.

- Under normal rules
 - Actuarial Funding Certificate (AFC) required within 12 months, i.e. before 31 December 2009
 - If the AFC certifies failure to satisfy the Funding Standard, a Funding Proposal must be submitted with the AFC, i.e. before 31 December 2009

- Due to unprecedented market conditions
 - Deadline extension to between **31 December 2009** and **31 December 2010**
 - Depends on timing of AS or AFC to benefit from extension.



EXAMPLE

Basic steps involved in agreeing a Funding Proposal

- Scheme Actuary carries out a valuation in order to complete the Actuarial Funding Certificate
- The results are discussed with the trustees and the employer
- The Scheme Actuary will look at a range of options
 - Initially a 3 year Funding Proposal, and also
 - Section 49(3) application (i.e. greater than 3 year or extended) Funding Proposals [on a number of bases over various terms]
- Typically a partnership approach between trustees and employer
- The trustees and the employer agree on both the term and contribution structure for the Funding Proposal
- The trustees may need legal advice
- The employer may need separate actuarial / legal advice



POINTS TO NOTE

- The Scheme Actuary should notify the trustees (and the employer) of the key assumptions made in particular of the **factors to which the Funding Proposal is sensitive.**
- The Scheme Actuary should make it clear that if experience is out of line with the assumptions made, further advice will be required
- Proposed changes in legislation due to take place before the end date of the Funding Proposal must be considered and discussed with the trustees and employer.
- The assumed approach in respect of discretionary practices should be discussed and clearly stated.



POINTS TO NOTE

- The impact of potential retirements and advancement in priority should also be considered.
- The scheme's investment strategy should be reviewed
 - Impact on the Funding Proposal?
 - Higher bonds will result in a lower expected return on assets and higher contributions
- Sustainability of the funding programme and the strength of the sponsoring employer
- Member consent is not required



POINTS TO NOTE

- Communication with members
 - For Section 49(3) applications (i.e. extended Funding Proposals)
 - » Typically give undertaking (as part of the Section 49(3) application) to inform members other than through the trustees' report
 - For Section 50 applications
 - » Clear and Concise
 - » Reasons why the application is necessary
 - » Proposed benefit reductions by category of beneficiary
 - » Inform that observations by members can be made within one month of notice of same



TIME FRAME

- Negative Actuarial Statement (effective date 31/12/08)
 - Actuarial Funding Certificate (effective date 30/06/09)
 - Funding Proposal Analysis carried out by Actuary
 - Obtain legal advice on the Trust Deed
 - Trustees / Employer / Actuary meetings
 - Employer / Staff consultation
 - Staff education / briefing
 - Determination of “**agreeable**” proposal
 - Staff representative / union negotiations
 - Actuarial involvement to ensure feasible
 - Trustees / Employer / Actuary meetings
 - Obtain legal advice on the proposal terms
 - Finalise Funding Proposal for submission
 - Actuary prepares submission
 - Obtain final legal advice, if required
- Apr - Jun 2009
 - Jul - Aug 2009
 - Jul - Aug 2009
 - Jul - Aug 2009
 - Jul - Sep 2009
 - Oct - Nov 2009

 - Dec 2009 - Mar 2010

 - Apr - May 2010

 - June 2010

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