

### Recovery Plans

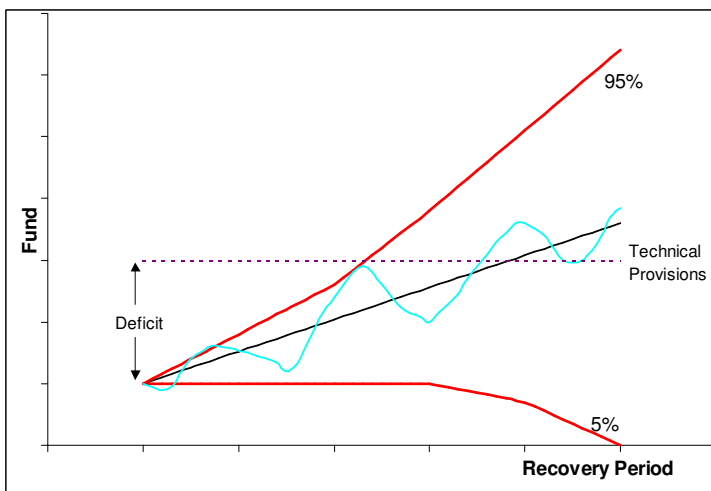
At the beginning of March 2007 the Pensions Regulator (TPR) had apparently received only around 200 recovery plans under the new funding regime applying from September 2005. 53% had caught one or more TPR “triggers” for further scrutiny, but only 2 are subject to ongoing discussion. The key points being made are –

- Technical provisions are most likely to trigger scrutiny and they must be set after taking account of the employer covenant.
- Tangible evidence of employer covenant may be requested. The independence and qualifications of those involved in the covenant reports are liable to be checked.
- Recovery periods over 10 years may well be justified but again tangible evidence may be requested.
- Projected mortality improvements are expected and evidence of any geographic variations must be justified.
- For completeness and risk purposes, a small sample of non-trigger cases is being checked.

The necessarily *prudent* technical provisions seem pretty sacrosanct, with more pragmatic or *appropriate* recovery plans being accepted. The prudence of the investment strategy is considered below

### Prudent and Mismatched Investment

With the preponderance of bond-based technical provisions and mismatched equity assets used to achieve the recovery, I thought another reference to “risk v return” and variation was justified! Apologies if this seems like a hobby-horse, however, I cannot think of a more important element of pension scheme Trustee (and Employer) Knowledge & Understanding (TEKU)! The diagram illustrates a typical recovery plan, with fluctuating equity performance (light green) shown against the target of an assumed stationary bond target. In practice both fluctuate but the relative performance makes for a simpler diagram. The red lines represent 5% and 95% extremes.



The historical variation in returns from equities against bonds is readily available. It is easy to model this to give the range of outcomes and the probability of achieving a particular target in a particular period. A caveat is perhaps appropriate – scheme cash-flows can be very influential in the result. There is an obvious challenge especially if you have a friend who may have a similar problem! What is the probability of not achieving the recovery plan? Is that a “prudent” probability? Although I can’t confirm the exact degree of comparable TPR scrutiny, I can confirm their awareness of such projections and challenges (from my own discussions with them!)

### Blyth & Blyth

[www.bailii.org](http://www.bailii.org) (search PS Independent Trustees; in Scotland)

In May 2003 I noted the BBC news headlines of this insolvent Edinburgh based firm of consulting engineers. The first major round in the emerging Court of Session litigation now is available from the above link. Lord Glennie has outlined in 115 paragraphs significant detail of the alleged transgressions of the trustees and their Scheme Actuary. I will leave others more legally qualified to comment on the £6m claim. In the meantime, anybody with the time and inclination can read of the allegations of conflicts of interest, investment mismatching, MFR fudging, priority hopping on early retirement and more generally of the responsibilities of being a pension scheme trustee. A very serious bit of TKU!

**And finally**; an obscure pub quiz question, or perhaps just one for your office researcher! When does entry to the Pension Protection Fund (PPF) enhance or augment your benefits? The answer is when you have an unrevalued pre-1986 deferred benefit. The PPF will add limited price revaluation before retirement – 3 or 4 years future revaluation will overcome the 10% cut back to the 90% level. Perhaps not the sort of knowledge to boast about!

As always, for further comment, assistance, advisory or trustee services, please contact me on 07714 064964 or via [allan@acmca.co.uk](mailto:allan@acmca.co.uk) Feedback on Pension Snippets is always welcome. For further details, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at [www.acmca.co.uk](http://www.acmca.co.uk)