

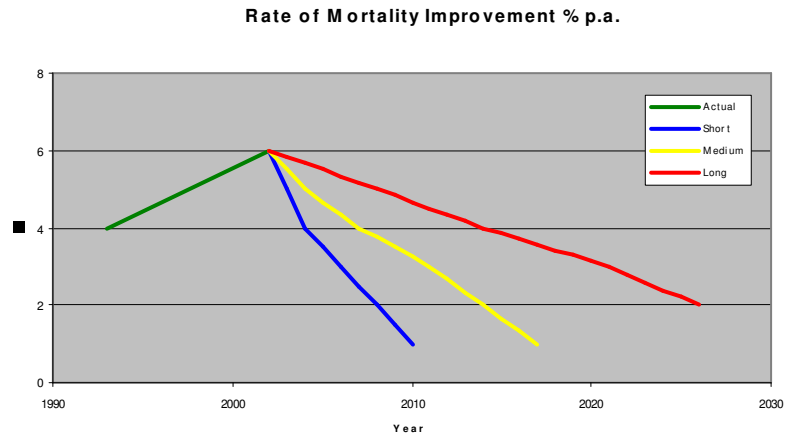
February seems to have been a very busy month for pension related news; I however hope to catch your attention with -

Prudent Mortality Assumptions

http://www.sias.org.uk/siaspapers/search/view_paper?id=LongevityRisk

On 18th February the Pensions Regulator (TPR) issued a consultation document on mortality assumptions covering both the base or starting point and continuing future improvements.

In mortality projections there are “short”, “medium” or “long” cohort projections (as illustrated opposite from my August 2006 Pension Snippets. Any similarity with TPR diagram on page 16 of the consultation is entirely co-incidental!) The PPF levy calculation is now based on the long cohort with a minimum improvement factor of 1.5% (males) and 1% (females) per annum. “Long” implies continuing high improvement rates and hence greater longevity and therefore it produces higher pension costs. The Regulator has set down a long cohort trigger point for potential further investigation, but it is only a trigger point. Hopefully advisers will be a little less blinkered in future by looking beyond the broad geographic categorisations or stereo-types and concentrate on amounts of pension and the full post code. It is not difficult to get helpful advice in this specialist area.



The above 2004 paper illustrates the cohort “mountain” (front cover) and the short, medium and long cohorts in “contour” format on page 56. The most dramatic projections are for those born in 1926 – illustrated above. How prudent are your projections or, continuing the mapping analogies, how steep is the “precipice”? And if you are on a ridge, does the looming escarpment go up or down? (Come to think of it, that sounds like an investment value warning!)

Conflicts of Interest

<http://www.thepensionsregulator.gov.uk/pdf/ConflictsOfInterestConsultation.pdf>

On 22nd February the Pensions Regulator issued another consultation document setting out draft guidance on conflicts of interest. This should be compulsory reading for all trustees and advisers. In particular it highlights –

1. The necessity of understanding conflicts of interest.
2. The need to have a policy to manage conflicts of interest.
3. The obligation to identify conflicts of interest.
4. The duty to evaluate, manage and avoid conflicts.
5. The significance of recognising and managing adviser conflicts of interest.

The sample, Conflicts Policy & Procedure Document, (CPPD) (Appendix D) looks set to be a standard and not just to reduce adviser conflicts and fees by otherwise drafting from scratch! More seriously adviser conflicts may arguably be tested by the reaction or approach to the mortality assumption and projection consultation above – denial, pedantic technical challenge, extra costs or proof of having no sponsoring company conflict?

Any advantage of appointing an independent trustee (page 28) could not of course be mentioned without a declaration of interest! In a similar vein, as some of my best friends are lawyers, I will hopefully be excused, whilst endorsing the need to get good legal advice (page 23), to warn about framing a question on getting Counsel’s Opinion or clearance from a court (page 29, also see below). “Is there any uncertainty or scope for doubt?” may produce a different answer to “Can I take a practical view or seek arbitration?”

And finally; Case law connoisseurs will appreciate the judicial “put-down” very politely issued to two expert actuarial witnesses <http://www.bailii.org/cgi-bin/markup.cgi?doc=/ew/cases/EWHC/Ch/2008/185.html&query=Alitalia&method=all> (see paragraphs 30 and 31). The corollary to actuaries not commenting in the meaning of a word like “secure” will of course be lawyers avoiding numbers – like asset and liability values, investment returns, probabilities (or should that be possibilities!) and costs (but not the indemnity there for!)

As always, for further comment, assistance, advisory or trustee services, contact me on 07714 064964 or via 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