# Allan C Martin's Pension Snippets – November 2008

In what has been another incredible month for credit, banking and economic news, the pensions world has been pretty busy as well. May I just draw the following to your attention?

## Regulator Statement

The Pensions Regulator (TPR) issued a statement to trustees on 30th October about current financial pressures. This useful statement sets out their general position on asset losses, funding guidance, recovery plans, Regulator triggers and communication. The message is very much "steady as you go", however, TPR is keen to ensure that trustees monitor the situation, take appropriate advice, maintain a dialogue with sponsoring employers and communicate appropriately with members. Unfortunately recession will only increase the incidence of difficult Regulator decisions (conflicts) on protecting 100% of member scheme benefits and protecting the PPF!

## Pension Administration Costs

The cost of running a pension scheme is either high or horrendous depending on how recently the scheme fees, especially time cost fees, were looked at! A recent report , DWP Research Report No. 535, was a feasibility study on a possible large scale survey of the costs of running pension schemes. The report concluded that a large scale survey was feasible but it highlighted the variation in costs between different schemes and the difficulty in getting to the bottom of underlying costs. The findings included –

- Size matters; Unsurprisingly the bigger the scheme membership the lower the cost per member.
- Maturity; More mature schemes (higher proportion of pensioners) enjoy lower average costs.
- The more "active" the investment strategy or remit, the higher the investment management costs.
- Costs generally have been rising much faster than inflation, reflecting legislative requirements.

There is less evidence and agreement on

- Fund management costs per member reducing with scheme size.
- In house administration being cheaper than third party administration.
- The dividing line between investment and administration costs in a bundled service package.

The subject is not rocket science and all trustees will be able to compare providers and also the cost and potential advantages of changing advisers. My challenge is simply to calculate the present or capital value of running your scheme until the spouse or civil partner or dependant of your youngest member dies. Without taking too drastic a view on future cost increases, may I suggest just multiply last year's expenses by 25? A scary figure I'm sure. The next question is how that capital cost, plus the current fund, compares to the current buy out or wind up cost; after of course making appropriate allowance for the horrendous expense of wind up or transfer!

## Employer Covenant

In 1970's property investment exams, a good property investment was about position, position and position. In later years I learned that this became covenant, covenant and covenant! More recently trusteeship and pensions regulation has also become all about covenant, covenant and covenant.

I was therefore pleased to see that the Institute of Chartered Accountants of Scotland has issued a free Guide entitled "Getting the balance right in evaluating the employer covenant". I have always been somewhat sceptical about too much consideration of the willingness of anybody to pay their debts. I prefer to concentrate of the ability! The Guide is well structured in starting with a look at ability - the right employer, identifying appropriate and necessary information, evaluating the covenant cost effectively, looking at ongoing monitoring and the circumstances prompting re-assessment of the covenant. In the current climate all aspect are important!

**And finally;** I trust you will all excuse another personal matter creeping into this section. On the 31st of October I took a day's holiday and climbed the spectacular Sgurr Dearg, the Inaccessible Pinnacle, on Skye. This was my 284th and last munro (mountain over 3000ft). This near 3 year task, obsession some would say, followed the Faculty of Actuaries 150th anniversary challenge in 2006 to get an actuary to the top of every munro in Scotland.

*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*