

Across the Atlantic

Senator Obama is now President Elect Obama. I note from his book “The Audacity of Hope”, published in 2006, some significant appreciation of pension issues and some potential future action.

- “We should acknowledge that defined benefit pension plans have been declining, but insist that companies fulfil any outstanding promises to their workers and retirees”
- “Bankruptcy laws should be amended so that companies can't just file for Chapter 11 to stiff workers. Moreover, new rules should force companies to properly fund their pension funds, in part so taxpayers don't end up footing the bill.”
- “Other experts have suggested the simple (and cost free) step of having employers automatically enrol their employees in the 401(k) plans” (personal pensions).

These issues however seem pretty trivial compared to the US housing, bank and insurance crises!

Molins plc

Molins plc makes tobacco and packaging machinery and provides related support services. They may not be a household name but they are notable from a pension perspective - given the size of their pension schemes relative to the size of the company. The company web site has details of the 2007 and more recent half year [results](#) to 30th June 2008. The “tail wagging the dog” statistics are –

- At 30th June 2008, Net Assets £39.5m, Pension Fund £326.1m (market cap. 27th November £10.4m)
- Half year profits were £2.3m of which £2.0m was the paper profit of a pension credit.
- The UK pension scheme surplus dropped over 6 months from £25.9m to £6.6m at 30th June 2008.
- Contributions in the period were £0.4m (regular cost) plus £0.6m (redundancy augmentations)
- At December 2007 the scheme was 66% invested in equities, property and hedge funds.

Arguably a difficult situation for any conflicted or non conflicted pension scheme trustee and for any company rating agency or share analyst. Also see below regarding the future calculation of the PPF levy.

Pension Protection Fund (PPF)

Some [conclusions](#) on the shape and amount of future PPF levies. I think that it helps looking at the PPF levy like taxation. Never totally fair but a cost that has to be spread amongst those that can afford! The headline facts were

1. The future levy to be more specific to individual scheme risk.
2. Levy bills to be allocated more fairly using a less volatile formula.
3. Investment strategies taken into account when calculating risk.
4. Both short and long term risk of employer going bust also assessed.

Point 3 was previously considered and dropped, but the recent equity market falls have no doubt prompted further consideration. This does however seem particularly difficult to implement. Trustees will undoubtedly find it difficult to ignore smart consultant suggestions or temporary actions to reduce employer costs/taxes!

(For those wondering about the reduction in the “scaling factor” from 3.77 to 2.22 between levy years 2008-09 to 2009-10, you need look no further than the September PPF [consultation](#) where pages 34-35 reconcile the two figures. The difference is almost totally down to the decline in scheme funding between October 2007 and March 2008, the old and new base or calculation points. Bigger deficits mean less scaling up is required!)

And finally; My thanks to legal eagles Pinsent Masons for pointing out the Financial Services Authority (FSA) [decision](#) that the word “indemnity” constitutes unacceptable **legal jargon**. Treating Customers Fairly (TCF) was featured in the September Snippets. It seems that Abbey Life have transgressed re. TCF by using the word “indemnify” when their customers may not understand the meaning of the word or the full implications. Another small step forward for plain English.

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