

The Budget;

Some good news. The Finance Bill 2009 will allow compensation payments by the Financial Assistance Scheme (FAS) to be given broadly the same tax treatment as if they were made by a tax approved pension scheme. Given FAS compensation replaces payments from schemes for insolvent employers; this is only fair.

But; some more administrative complexity. From April 2011 pension contribution tax relief will be limited for “high earners” - those earning over £150,000 per annum. The relief will be tapered down from 40% at £150,000 so that it is effectively 20% at £180,000. Special anti avoidance rules will apply to catch any immediate contributions after the Budget on 22nd April. Special provisions also apply to defined benefit promises so don't double the accrual rate on half the salary!

And those borrowings. A week is a long time in politics (Harold Wilson 1972) but a month is also a pretty short time in terms of our public finances. Last month's Snippets referred to H M Treasury's March estimate of (our) £146.5bn borrowing through sales of gilts this fiscal year. It has now jumped to £220bn, the highest percentage of gross domestic product (GDP) ever in peace time history. If that doesn't raise interest rates, some economics text book may have to be re-written. Better watch out for inflation and exchange rates as well!

Insuring Pensions

The Association of British Insurers (ABI) has published a [bulletin](#) about the £7bn we spent on bulk annuity purchases in 2008 with their insurance company members. Why did “we” spend so much?

- Increasing life expectancy, increasing pension scheme regulation and higher administration costs.
- The accounting requirement to put pension scheme liabilities on the company Balance Sheet (albeit a small number of companies seem happy to ignore this accounting requirement and have qualified accounts not showing a 100% true and fair view!)
- Finance directors also have a desire to reduce volatility in the Profit & Loss Account.

Why didn't “we” spend more? Such buy out solutions come at a high price although looking back many such costs now look like a bargain. A lot of pension schemes are currently looking to de-risk their investments by diversification and by matching cash flows. My challenge in such a scenario is why not exactly match the liability cash flows by buying annuities (bond investments with a longevity hedge).

What happens if the insurance company goes bust? Good question, especially after the recent experience of AA rated clearing banks! The appropriateness of insurance company buy out is thankfully enshrined in UK pensions law. Pension scheme trustees can only discharge their liabilities by purchasing annuities with a UK insurer. UK insurers are very heavily regulated by the Financial Services Authority (But so were banks you say!). The insurance company reserves and shareholder returns are not however massively geared like the banks were. The premiums paid provide the initial reserves and these must be supplemented by additional reserves for any mismatched assets (non gilts) and they are then cushioned by shareholder capital. Even after all that, there is still the Financial Services Compensation Scheme (FSCS) which promises 90% compensation - without monetary limit like the Pension Protection Fund (PPF).

I also understand that if you happen to have around £0.5bn to spend you can be reasonably sure you have enough financial clout to get a segregated or ring fenced portion of the insurance company assets - your own insurance company within a much bigger insurance company. If you are still worried, choosing an insurer underwriting life assurance may be advantageous as increasing longevity for that tranche of business is profit! These investments don't have hedge fund level charges so they will have to be bought, rather than being sold!

And finally; The Pensions Regulator (TPR) has published the outcome of the February 2009 Determinations Panel decision to put an independent trustee in to the [Graphex](#) Limited Pension & Life Assurance Scheme. A very knowledgeable whistle blower clearly briefed TPR. The inter company director email included the gems “The main creditors losing out are the tax man and the pension scheme ...” and, “if everything goes to plan we'll buy back the assets for £150K without the pension liability ...”. A pretty fair cop gov!

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