

Pension Protection Fund (PPF) and Longevity

Those of you currently, prospectively or just potentially benefiting from compensation payments from the PPF may be interested to know that you are expected to live longer! The [PPF announcement](#) issued in August proposes a slightly revised assumption for the future improvement in mortality. The allowance for the annual improvement in mortality is proposed to increase from 1% to 1.25% per annum. Not a great leap for mankind but another small step for longevity! This proposed change comes with a slight weakening of the investment assumptions for real interest rates pre and post retirement, so no step back for PPF levy payers.

Insurance, Transparency, Accountability and Our National Debt

Bringing together some of the major problems of the day seemed justified if there was a solution. Firstly the problems –

- Pension fund sponsors and custodians continue to look to de-risk and insure.
- The disparity between defined benefit and defined contribution pensions promises.
- Concerns increase about the deficits in funded pension schemes.
- Concerns about the costs in unfunded public sector pension schemes.
- The National Debt rocketing with the recession and public pension promise costs being hidden.
- Quantitative easing masking a potential gilt issuance problem with implications for interest rates.

So, the obvious question is “What can be done about it?” My solution, picked up in a 1980's consulting actuaries' debate, is the issue by H M Government of longevity bonds. **Treasury M68 RPI 2046** could be the potential abbreviation for the Government backed promise to pay a £100 per annum coupon commencing in 2046, with RPI linking thereafter with the term being set by reference to the life expectancy of a 68 year old male set on commencement in 2046. Pleasingly this view is shared by the insurance industry and in particular in a Treasury backed paper “[Vision for the insurance industry in 2020](#)”. The advantages of a “market” in stocks encompassing a longevity element include –

- Reduced solvency worries for insurance companies ahead of “prudential” Solvency II reserving.
- Removal of any argument about a base for “prudent” pension scheme funding.
- Proper accountability of public sector pension promises.
- Greater transparency for accounting purposes.
- Greater transparency regarding the burdens falling on different generations of tax payers.
- Increased awareness of the risks of defined benefit v defined contribution arrangements.
- Such bonds would protect institutions as well as facilitate retail savings products.

Not quite utopia because nothing in the way we go about funding our debts will protect the exchange rate, international perceptions or fudge the realities of global competition, mobility of capital and resources.

Trustee Scrutiny

The Pensions Ombudsman recently delivered a new consideration for trustees. The case of [Anderson v Yell Pension Plan](#), centred on whether the trustees had appropriately questioned the company's viewpoint on the circumstances of Mr. Anderson's leaving service. The Scheme Rules indicated the decision was for the company but the Ombudsman decided the trustees had a duty to take a wider perspective. Don't take everything at face value! Sometimes questions need to be asked.

And finally; I am grateful to legal eagles, Biggart Baillie, for their alert to a “defining” piece of case law in the area of disability discrimination. In the House of Lords the case of [SCA Packaging Ltd v Boyle](#) included consideration of the definition of the word “likely”. The end result was a definition or meaning of “could well happen” and not “more probable than not” or “> 51%”. Pension practitioners may leap to the potential, or should I say likely, meaning of our undefined terms such as “prudent” and “appropriate”!

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