

Pension Deficits

After mentioning the £3.7bn deficit at BA last month, I feel bound to follow up with [details](#) of a much bigger deficit at British Telecom (BT). The headlines included the deficit, a staggering £9bn, but perhaps more importantly the 17 year recovery plan and the “substantial concerns” of the Pensions Regulator.

The deficit repayments start at £525m per annum, almost double the £280m per annum paid under the previous recovery plan from the December 2005 actuarial valuation. A week is a long time in politics and 3 years is a long time in the telecoms business. 17 years is an absolute age and it is very difficult to imagine how such long term contribution commitments can be backed by any certainty about competition, asset values, profits and cash flow. Interestingly any corporate disposals of more than £1bn, will involve one third of the net of tax proceeds being paid as additional pension contributions. Whilst trustees should never say no to additional funding or protection, this does strike me as indicative of there being no Plan B! Sadly I have been unsuccessful in trying to find public details of the BT funding assumptions (BA need to earn 2.5% per annum over gilts on their fund). Perhaps a keen pensions lawyer and/or colleagues will apply for a Freedom of Information request to enlighten us.

Record Keeping

The Pensions Regulator (TPR) has published a [consultation document](#) on pension scheme record keeping. The 38 pages contain a lot of common sense. One key point, close to a lot of sponsoring company or FD hearts, is that poor records cost money. For example, the purchase of annuities with poor data can cost up to 5% more - that is 5% of that scary multi £m purchase price or buy out (or increasingly buy in) price.

I suspect the impetus of this initiative stems from the long time and high cost of winding up pension schemes. Many small schemes have wound up in recent years with solvent employers and possibly hundreds of others have wound up with insolvent employers. The latter involve transfer to the Pension Protection Fund (PPF) or for earlier cases, the Financial Assistance Scheme (FAS). In such cases either levy payers (PPF) or tax payers (FAS) will be picking up the bill associated with poor data.

Trustees will be well advised to consider their own core or “common data” and the scheme specific “conditional data”. A key thought for most trustees and sponsoring employers will correctly be – “Don’t we pay XYZ to do this properly for us?” The problem will be legacy or transferred data and perhaps even those initiatives that you have previously put off for a rainy day. My only suggestion is to get things done sooner rather than later – imagine the rush and increased cost associated with a Regulator edict or a fine of a high profile transgressor!

With acknowledgement of a “He’d say that wouldn’t he” type comment, can I conclude by mentioning that actuaries have for decades had a professional obligation to report on the completeness or accuracy of data used in their triennial valuations? Therefore there may already be correspondence on gaps or inconsistencies in the scheme data. Those not publicly aired will not materially affect the valuation result, that is however not the same as affecting the members exact benefit entitlement!

Readers Digest

The Pensions Regulator has vetoed a restructuring plan of the UK arm of Readers Digest and it has gone into [administration](#). 117 employees in Swindon and Canary Wharf are affected but many more ex employees will be affected with the pension scheme deficit of £125m. The normal PPF restructuring requirement of cash + 33% of the equity of the new company (see June 2009 [guidance](#)) was apparently not justified. I don’t know whether another transatlantic recovery like Sea Containers is involved or whether there was just debate over the ongoing v insolvency value of assets. TPR is clearly getting tough in respect of their difficult job of protecting member benefits and the PPF.

And finally; The long recovery period for the BT deficit initially prompted thoughts of what the telecoms business might be like in 17 years time. It is however much easier just to look back 17 years when mobile phones were only phones, the phone and the battery weighed several pounds and Prime Minister John Major wasn’t bullying the illegitimates in or around his cabinet.

Feedback on Pension Snippets is also always welcome. For any comment, further assistance, advisory or trustee services, contact me on 07714 064964 or via allan@acmca.co.uk For further ACM/ACMCA detail, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at www.acmca.co.uk