

**Equalisation (again)**

A landmark Court of Session [decision](#) involving the Low & Bonar Pension Scheme was published at the beginning of April. The decision centred on the word “deed” (small “d”) and it’s more general meaning under Scots Law.

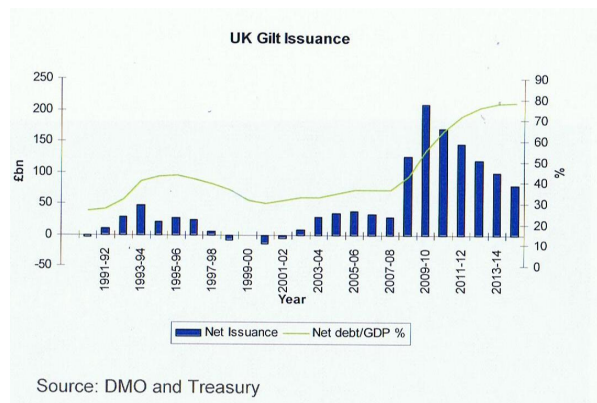
Lord Drummond Young said that in order to meet the requirements of the Scheme’s power of amendment by deed, the procedures followed to effect the change, (1) needed to have some degree of formality and (2) must demonstrate an intention to create a legal relation. The decision was that, although there was no formal Amending Trust Deed, the two conditions had been met and the Scheme was held to have been effectively equalised. This reduced the Scheme funding cost by many £ms as the effective date of equalisation remained in July 1991, rather than August 2002. The decision adds significantly to equalisation case law but it is limited to Schemes governed by Scots Law.

[William Grant](#) is another equalisation case with a potential Barber window period being extended from 1993/94 to 2001. It is slightly more recent (by 9 days) and involves the same defender. This preliminary hearing just refused to dismiss the defender’s motion that there was no case to answer. A Low & Bonar case law search may in future reveal a host of subsequent cases involving company board resolutions and defending consultants!

**Our Post Election [Debt Burden](#)**

The gilt issuance (HM Government IOUs) in 2009/10 was more than £200bn. The quantitative easing measures in the same period equalled a similar amount. The Debt Management Office (DMO) has all the scary [statistics](#), like the £4.8bn raised on Wednesday 28<sup>th</sup> of April via a very short dated loan being repaid in 2013. Tuesday 11<sup>th</sup> of May will see another £2.25bn of stock for repayment in 2027. Perhaps in future we’ll have morning and afternoon auctions. The early years of this century surprisingly didn’t produce political comments of “You’ve never had it so good”.

The net supply of gilts is illustrated opposite (with refinements courtesy of Mercer). The Bank of England has obviously taken care of the last fiscal year, but what about next year? Overseas investors may clearly have worries over their currency risk, particularly given the geographic and economic proximity to Greece, Portugal, Ireland and Spain. Given the Greek tragedy, perhaps currency devaluation is not that bad. Insurers and banks seem likely potential buyers and given that HM Government control their funding and reserving rules, changes are possible. Pension funds are slightly different, but even subtle funding requirement or risk management changes could have a big impact.



**Going for Broke (in California)**

Stanford's Institute for Economic Policy Research ([SIEPR Highlights](#)) has released a study suggesting a more than \$500bn unfunded liability for California's three biggest pension funds. The funds are Calpers, (Public Employees), CalSTRS (State Teachers) and UCRS (University of California Retirement System). The shortfall is about six times the size of this year's California state budget and seven times more than the state’s outstanding issued debt.

The debated deficit and the management of it centred on the investment return assumed. The deficit all but disappears if the expected rate of return on the invested assets is used. In commentary there is emphasis on this “expected” but not guaranteed return. If risk free rates of return are used the very scary deficit emerges as does a pretty high future contribution rate for future benefit accrual. It will be interesting to see if the long promised accounting of unfunded UK public sector pensions reveals similar figures - with the associated cost pressures on public sector pension promises!

**And finally;** a sad and personal item this month. Marjorie Martin (Mum) passed away suddenly but peacefully late last month after 86 very happy years. Marjorie was part of the golden cohort who initially suffered but ultimately benefited from war time austerity and food rationing. She got luckier the harder she worked. My thanks go to numerous friends, relatives and business contacts for their kind support over the recent week or so.

*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](mailto: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](http://www.acmca.co.uk)*