

Public Sector Pensions

With the announcement of John Hutton's quick but far reaching [review](#) of public sector pensions, the publication of the "Public Sector Pensions Commission" [Report](#) couldn't have been better timed. The Commission has its critics - mainly reflecting the alleged private sector bias of its backers. That said, the report contains very strong arguments around the transparency of public sector pension costs, the sustainability of current promises and challenges for the future. With unfunded liabilities in the £ trillions and as a tax payer, I recommend you take an interest. Unfunded public sector pension promises already dwarf the ballooning national debt irrespective of the basis used to measure the liabilities!

Whilst **capping** public sector employer cost increases and **sharing** extra costs with employees is already established, my only immediate thought is whether H M Treasury will continue to dictate a notional investment return of 3.5% per annum real return over prices? The 2007 Principal Civil Service Pension Scheme (PCSPS) actuarial valuation [report](#) is on the web; Might the 2010 review assumptions be influenced by Mr. Hutton's review? The Pensions Regulator's £2.25m 2009/10 [pension cost](#) was also based on this assumption without any mention of the word "prudent".

The Pensions Regulator is regulating

A very busy month for the Pensions Regulator (TPR), with the landmark first Contribution Notice in respect of the Bonas Group Pension Scheme which entered the Pension Protection Fund with a £5.1m deficit. The associated [Determinations Notice](#) is only 28 pages and well worth a read and a mention in trustee knowledge and understanding (TKU) under the headings of employer covenant assessment, conflicts of interest and corporate reconstruction!

TPR's pursuit of a Financial Support Direction (FSD) in connection with the Nortel insolvency also involves difficulties of overseas enforcement. The [Reasons of the Determination Notice](#) and a word search of "£" will reveal the much bigger scale of the case! Irrespective of the outcome, member benefits will be reduced.

The recent [Consultation](#) (Guidance on Transfer Incentives) pulls few punches with an opening statement that "Trustees should start from the presumption that such exercises and transfers are not in the members' interests, and should therefore approach any exercise cautiously and actively." "The regulator is concerned that members of pension schemes will be disadvantaged by incentive exercises, particularly if they are not conducted in a manner that makes it most likely members will make a fully informed choice." There are always extremes to such situations, from alleged blinkered attraction of brown envelopes of used £5 notes, to financially astute/educated individuals perfectly able to make informed decisions about their own investments, potentially involving companies they own, control or drive forward.

Finally to follow up on Steve Webb's [announcement](#) on extending CPI in public sector pensions to the private sector, TPR has issued a sensible and helpful [Statement](#). I confidently expect that there will be a lot of scrutiny of Scheme Rules, consideration of S67 Pensions Act 1995 and a few checks of each Scheme's amendment power! To add to the scope of complications I merely note that S67 is based on a leaving service test (see "accrued rights", S124).

Record Damages, Discount Rates and Justice

With thanks to solicitors Carey Olson and fellow actuary Dr. John Pollock, may I bring to your attention the highest ever award of damages in Guernsey and the setting of an adjusted discount rate? The [case](#), *Manuel Paul Helmot -v- Dylan Simon*, involved very sad circumstances of severe brain damage sustained in a cycling accident. The Royal Court of Guernsey considered [earnings](#) related losses and the necessary departure from the normal 2.5% per annum discount rate. (This is termed a real rate of interest, a return over price inflation). Ogden Working Party member, Rowland Hogg, former Government Actuary, Chris Daykin, and prominent economist Roger Bootle were amongst the expert witnesses. The Court considered it appropriate to depart from the standard [price](#) related discount rate of 2.5% set by the Lord Chancellor in 2001 and to adjust for specific Guernsey factors and for financial conditions. Insurers (responsible for most settlements) will undoubtedly watch for UK precedents, moving from 2.5% to 1% makes a big difference!

And finally; I trust you will excuse a further reference to the December 2007 PCSPS actuarial valuation report from Hewitt (now Aon Hewitt) (new MUFC Sponsors). Actuarial reports normally have to consider solvency, however, with £100bn liabilities, the strict actuarial guidance was deemed unnecessary. Sadly a failure of that scale and type is guaranteed to be termed a Greek Tragedy.

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