

# VALIANCE

## PENSIONS FUNDING ADVISOR

Issue 6

Bringing you the latest pensions funding news...

### Funding Barometer

Pensions & balance sheet volatility

#### Deficits Jump as Markets Plummet

In January pension schemes suffered the largest ever single daily increase in FRS17 deficits as stock markets plunged, according to Aon Consulting. Deficits of the 200 largest private UK defined benefit schemes soared from £2bn at the end of 2007 to £33bn in late January.

#### Equity Market Volatility

Whilst volatility continues to plague company balance sheets where the pension scheme has a large equity exposure, overall deficits may be less problematic. Rising corporate bond yields, reflecting the risk aversion also seen in equities, have served to reduce liability valuations, according to Buck Consultants.

### Working Relations

Pensions & employee / employer interactions

#### Private Equity Takeover Feared by 72% of Trustees

Research carried out by Aon Consulting found 72% of trustees would be concerned if their sponsoring company was taken over by a private equity firm. Despite these fears 21% said they have invested, or were considering investing, in private equity, a growing trend which may help trustees and private equity groups improve their mutual understanding of their issues, interests and intent.

#### ACA – DB Schemes Open

According to a report released by The Association of Consulting Actuaries (ACA) only one in five private sector defined benefit schemes are open to new employees. Public sector employees in open defined benefit schemes now out-number private sector employees by five to one.

#### Goodrich - Strike

Workers at aerospace company Goodrich held a second one-day strike after its final salary scheme was closed to new members. Figures show the scheme had a deficit of £40m in March 2006 and that it was 90% funded.

### Black Hole Observatory

How some companies are tackling pensions risks

#### Chrysalis - Paternoster

The £260m Chrysalis Group pension scheme has sold part of its pension fund to buyout firm Paternoster. Separately Paternoster has announced plans to raise an additional £500m of capital to take advantage of increasing demand.

#### Aga – Pensions Corporation

Buy out venture, Pensions Corporation, has increased its stake in oven manufacturer Aga to 20%. Aga has a pension fund of £770m and has lost about a quarter of its stock market value since August.

#### ABP Ending Pensions Holiday

Associated British Ports, the UK shipping terminal operator, has restarted payments to its £480m pension scheme after a four-year contribution holiday.

### Regulatory News

The pensions legal & regulatory context

#### TPR – ‘Long Cohort’ Consultation

The Pensions Regulator (TPR) announced consultation on introducing a longevity “trigger” for scheme valuations; if introduced this could force 99% of companies to strengthen their assumptions. Adopting mortality assumptions to avoid the trigger could add £75bn to UK pension scheme liabilities. Additionally, trustees and sponsors could be misled into believing that by funding at the trigger mortality level all mortality risks are covered.

#### Gilts-based Liability Valuation Proposals from IASB

The IASB’s proposals for companies reporting under IAS19 to value pension liabilities at the risk-free rate could add over £100bn to UK pension scheme deficits and reduce those schemes reporting a surplus from 40% to 2%.

#### IFRIC14, Pensions Capital Strategies, Compass Group

New guidance for interpretation of IAS19 accounting standard comes into force this year and could increase reported pensions deficits and costs. Compass Group is the first FTSE100 company to adjust its accounts, resulting in a £92m increase in its overall reported pensions deficit, according to Pensions Capital Strategies.


#### Shared Risk.....Backed by Hamish Wilson & the NAPF

Consultant Hamish Wilson & Co has come out in support of the ACA’s call for shared-risk schemes, urging recognition of the idea in the current Pensions Bill. The NAPF have backed consultation on this issue as well as on conditional pensions indexation. Both ideas would reduce risk and thus increase support for corporate pension schemes.

**We welcome your feedback;** please do contact us with any comments or queries - 020 7812 7355.

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