

VALIANCE

PENSIONS FUNDING ADVISOR

Issue 5

Bringing you the latest pensions funding news...

Funding Barometer

Pensions & balance sheet volatility

Watson Wyatt

Watson Wyatt has commented on the bank losses from the credit squeeze that are causing some credit ratings to be downgraded. This is pushing up the price of insurance against banks' payment defaults and increasing the cost to pension funds of matching liabilities using swaps. Additionally, the credit crisis is delaying the execution of derivatives-based liability hedging strategies. The consulting firm said that the International Swaps and Derivatives Association (ISDA) agreements and documentation required to execute such transactions are now taking significantly longer to process because they contain more onerous conditions. (Ed. – increased LIBOR spread volatility has also increased the cost and short term uncertainty of LDI strategies, turning a “double” whammy from the “credit crunch” into a “triple” effect).

Mercer

Over 250 pension schemes surveyed by Mercer expect, on average, to eliminate their deficit in 6.5 years – two years less than in the previous survey. Furthermore 80% are indicating an intended funding target at least as prudent as the FRS17 accounting standard.

Working Relations

Pensions & employee / employer interactions

BAA

1- and 2-day strikes expected at BAA airports over, inter alia, the proposed closure to new entrants of BAA's final salary scheme, have been called off as the firm backed down over its plans.

Alexander Forbes

Nearly 2/3rds of employers see pension provision as part of their corporate and social responsibility to staff, according to the firm's *Return on Pensions Expenditure* survey.

Black Hole Observatory

How some companies are tackling pensions risks

Associated British Engineering (ABE)

ABE is in negotiations with trustees over plans to divide up its pension scheme to isolate a subsidiary scheme in wind-up.

Rolls Royce

Rolls Royce Group paid special contributions of £500m into its 3 main UK defined benefit schemes last year as part of a strategy to reduce overall deficits. The contributions had been conditional on the schemes closing to new members and adopting a better-matched investment strategy. The company confirmed that the revised lower risk investment strategies have largely been implemented, triggering the final contribution payments into the schemes.

P&O

The £1.3bn P&O pension fund has offloaded benefit responsibility for existing pensioners to buyout firm Paternoster. The shipping group will continue to manage benefit arrangements for more than 6,000 members who are still employed with the company.

Aon

Aon's quarterly survey of the bulk annuity market shows quotation levels have been on an upward trend. Only a small percentage of these quotations need to be converted during 2008 for the market to start growing. Signs of momentum building could fuel further interest in the market.

British Vita

British Vita scheme trustees have reached a settlement with their sponsor, British Vita Unlimited (owned by private equity house Texas Pacific Group), over lump sum contributions of around £50m.

Regulatory News

The pensions legal & regulatory context


Sea Containers

The Pensions Regulator's attempt to issue a financial support directive (FSD) against Sea Containers could be scuppered due to “disjointed regulation”. The Regulator issued (and Sea Containers appealed) an FSD when the firm applied for Chapter 11 bankruptcy proceedings in the US. However, Sea Containers could be declared bankrupt before the FSD process is resolved – as an FSD cannot be issued until the appeals process has been completed.

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

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