"What are the roles and duties of the trustees?"

Administer the trust

- According to the trust deed and rules
- In accordance with trust law and prevailing legislation

- Acting in the best interests of all beneficiaries
- Not seeking to profit from their duties
- Being aware of conflicts of interest

- Being familiar with the TD&R, SIP and SFP
- Being familiar with the issues on which descisions are taken
- Taking professional advice on areas outside their expertise

Exercise discretion where required

- Set the scheme funding strategy
- Set the scheme investment strategy
- Price options
- Decide on early retirements / ill health early retirements
- Protect the scheme's tax free status

Day-to-day running

- Have regular meetings and minutes
- Administer benefits, including member records
- Communicate with members.

"What are the roles and duties of the employer?"

Meet obligations
- According to the trust deed and rules
- In accordance with trust law and prevailing legislation

Act in the best interests of shareholders
- Motivate staff using the scheme
- Avoid paying contributions that would be better spent elsewhere.

Setting scheme structure
- Initially setting benefit design
- Making rule amendments
- Augmenting benefits
- Appointing and removing trustees
- Winding up the scheme

Financing the scheme
- Agreeing funding plans with trustees
- Paying contributions
- Meeting costs above and beyond those met by members
- Making good underfunding on the MFR / SFO basis.

"What are the roles and duties of the scheme actuary?"

Acting professionally
- In accordance with legislation (Notably the Pensions Act 1995)
- In accordance with professional guidance

Provide advice
- As necessary under the trust deed and rules
- to the trustees as the primary client when requested.

Provide periodic certification
- Producing a valuation report
- Certifying the contribution schedule meets the MFR minimum
- Certify debt on employer
- Certify TV basis
- etc.

Report scheme problems
- Report to OPRA
- In non-fraud cases, keep the trustees informed

Transitional duties
- Provide letters of appointment and resignation
- Pass on details of reports to OPRA and non-reported breaches
- Pass on details of contracted out status
- Arrange relationship with auditor and other advising actuaries.

"What are the roles and duties of members?"

Provide contributions
- Pay employee contributions as detailed by the trust deed and rules
- Make AVCs.

Exercise discression
- Choose benefit options and timings
- Select investment options.

Advise Administrators
- Change in address
- Change in circumstances

"What should trustees consider when setting the funding basis?"

Trustees must act in accordance with their duties as set out in the trust deed and rules, trust law and prevailing legislation. They should be prudent, act in the best interests of all beneficiaries and seek specialist advice where required.

The first thing they should do is examine the wording of the trust deed and rules. This will be something like "Contributions necessary to provide the benefits."

The typical interpretation, ignoring practical issues, is to fund on an ongoing basis over the working life of an active member, or on a solvency basis over the company lifetime, if this is shorter. This means the trustees need to assess the employers strength. They should look at the credit rating, level of borrowing, the corporate structure and the companies future prospects.

There are also a number of practical issues the trustees need to consider

External advice
- Legal advice on the interpretation of the trust deed and rules
- Actuarial advice on concequence to the scheme

Employer Expectations
- What is the employers attitude to the scheme.
- What contributions did they expect to pay; what does the SFP suggest.
- Are they getting other advice, and what is it
- How much can the employer afford to pay.

Balance of Power
- What is the default position if no agreement is reached
- What happens if the employer refuses to contribute at the level requested
- Who / what can trigger a windup.
- What happens to outstanding debt on a windup.

Concequences

- How much additional funding would a request secure
- What if it makes the employer uncompetative, leading to loss of employment and a windup with no chance of recovering debt.

Disclosure to the employer

- Lower contributions now mean higher contributions later, and the risk of a cash injection being required later
- Lower contributions may result in a loss of confidence in the scheme.
- The employer should be abiding by their side of the trust deed and rule.
- The actuary should point out areas of concern to them.
- If the company refuses to pay sufficient amounts, the actuary may have to resign.

Future legislation

- PPF, removing problems with insolvency, etc.
- 2.5% LPI, decreasing cost of future accrual
- SFO, replacing the weak MFR basis.

The trustees should consider these matters and seek further actuarial advice where necessary. For example recommending starting points in negotiations, the lowest amount the trustees should accept, what the funding level will become on various scenarios, implications of priority orders, implications for stability, and so on.

"What issues should trustees consider when setting an investment strategy?"

Trustees must act in accordance with their duties as set out in the trust deed and rules, trust law and prevailing legislation. They should be prudent, act in the best interests of all beneficiaries and seek specialist advice where required.

Their choice should therefore be based on the provisions of the trust deed and rules and statement of investment principles, if this is not being revised.

The strategy should be consistent with the funding basis

- A weak funding basis should give rise to an aggressive strategy. This has high levels of equities, venture capital or hedge funds. If successful, the surplus may benefit members or the employer.
- A strong funding basis should give rise to a cautious strategy. This has high levels of corporate bonds, gilts and annuities. It is likely that the investments will meet predicted returns.

The strategy is purely the responsibility of the trustees, but they should consult with the employer and consider the employers views.

There are also standard investment strategy considerations.

- Security - Matching asset classes with benefits.
- Yield
- Spread - Diversification across asset classes, geographies and in asset classes.
- Term - Generally long term to match benefits.
- Exchange
- Marketability - Particularly liquidity with a negative cash flow.
- Tax - And other expenses.

- In addition, size of fund, expertise, availiability of suitable assets, perception of assets, frictional costs of changing should be considered
- Performing ALM should be considered.

"What issues should trustees consider when setting a transfer value basis?"

Trustees must act in accordance with their duties as set out in the trust deed and rules, trust law and prevailing legislation. They should be prudent, act in the bes interests of all beneficiaries and seek specialist advice where required.

In this case, professional guidance in GN11 says that the transfer value must reflect the cost of meeting the benefit, and may allow for the assets being held.

If the scheme is fully funded, then the transfer value basis should lie between ongoing and solvency bases. Care should be taken where these do not reflect the scheme. For example, aggressive equity outperformance assumptions penalise younger members by not allowing for risks, and solvency bases allow for profit loadings, solvency margins, etc. giving higher values than appropriate.

If the scheme is overfunded, a standard transfer value is usually paid. This is because the employer is usually considered to have ownership of surplus, and the transferring member is considered t.. have given up their interest by transferring.

If the scheme is underfunded, a similar argument can apply - the employer or the PPF will guarantee the benefit so a full transfer value should be paid. Alternatively, the trustees may decide to reduce the benefit based on the employers covenant and the priority order. This should result in fewer TVs, as members can rely on the PPF to give full benefits. Employers may not like this as transfers out can be a good way of extinguishing liabilities.

Other relevant considerations include mortality and members dependants.

"What are the advantages and disadvantages to an employer of merging schemes?"

The advantages are as follows

Economies of scale
- Reduced admin costs, professional fees and investment management costs
- More purchasing power for investment funds and insurance contracts
- Less management time required; central control over admin

Corporate identity
- Benefit harmonisation aids corporate identity and employee mobility
- Group can exercise control over subsidaries.

Misc
- Some employees better off and so happier
- May be able to offset deficits against surpluses.

The disadvantages are as follows

Benefit structure
- May need benefit improvements to get trustee and union agreement
- Likely to lead to higher overall pension contributions
- Benefits may not be suitable for all employees

Frictional costs of merging
- Including communication exercises, admin harmonisation and independant advice
- Employees may be unhappy with changes.

Misc.
- It will be harder to separate the businesses if a sale takes place
- There may be issues over employment contracts.

"What are the advantages and disadvantages to members of merging schemes?"

Advantages which may occur

- Benefit improvements
- Conditional benefit improvements (ie people with lower salaries, etc.)
- Improved security
- Lower costs ultimately improving security
- Lower contributions
- No change in benefit structure giving continuity.
- Additional benefits from the government

Disadvantages which may occur

- Benefits getting worse
- Conditional benefit worsening
- Reduction in security
- Higher costs ultimately reducing security
- Higher contributions
- Reduction in government benefits.

When considering benefit improvements / worsening. we should include options on retirement (e.g. early retirement, commutation), underpins, investment options and so forth.

"What issues should trustees consider in the event of a merger?"

Trustees must act in accordance with their duties as set out in the trust deed and rules, trust law and prevailing legislation. They should be prudent, act in the best interests of all beneficiaries and seek specialist advice where required.

The trustees of the selling scheme need to check the trust deed and rules to determine if the scheme can transfer members, who determines if the bulk transfer takes place, how the bulk transfer should be calculated, and who controls changes to the trust deed and ru

They will need to check that the benefits granted in the new scheme are suitable, determine whether member consent is required and check if the scheme actuary can sign the necessary certification. They should consider ring-fencing any transferred surplus, seeking assurances about discretionary increases, and the balance of powers in the schemes

The trustees of the recieving scheme need to check the trust deed and rules to determin if they are able to accept transfers, if they can reject them, what benefits must be granted to transferring members, and who controls changes to the trust deed and rules

They will need to check that enough money has been paid into the scheme to cover the benefits and demand more if necessary. They may wish to ensure that any current surplus is ringfenced for the current members, or negotiate benefit improvements or protection for future discretionary increases for their current members. When considering this change in security, they should remember the priority order.

Additional considerations for both sides include doing due diligence on the other side, arranging future trustee and administration arrangements and communicating with the membership of the schemes.

When a money purchase scheme is being transferred, investment options and options at retirement, and expenses should be considered.

"What issues should an actuary consider when providing an actuarial certificate to allow a bulk transfer to take place without consent?"

The actuary should follow professional guidance set out in GN16.
They should determine they are the scheme actuary and that they have sufficient data.

Guaranteed benefits
- Must be broadly no less favourable
- Do not need to be identical

Discretionary practices
- Must be broadly no less favourable
- Need "good cause to believe" this is true (ie stated policy)

Security of accrued benefits
- Both of guaranteed and discretionary benefits.
- Is there likely to be a significant reduction
- Review the ongoing funding position and the solvency position before and after the merger
- Consider changes in wind up provisions
- Consider how the PPF may affect things.

The actuary should point out that while the certificate permits them to transfe[r] subject to legal advice and other considerations, ultimately it is their consideration.

"What are the features and purposes of different types of valuation?"

The general purpose of valuations is to look at, under various scenarios
- What proportion of the promised benefits can be paid
- What contributions would need to be paid in the future

The ongoing basis assumes that the scheme continues over the long term. Allowance is made for continuing accrual and benefits are assumed to be paid from the scheme. It assumes assets return as gilts with an equity outperformance assumption, that inflation matches the long term expectation and that salaries continue to increase. Assets are typically valued at market level and are sometimes smoothed.
The purpose is to determine the level of contributions required over the long term to cover future accrual and make good any surplus or deficit.

The buyout basis assumes that the scheme is wound up, accrual ceaces, and immediate and deferred annuities are bought for all members from insurance companies.
The basis depends on how these are valued - typically based on the prices of long term fixed interest and index linked stocks with allowance for expenses, administration costs, profit margins, reinvestment of income, future mortality improvements, etc.
The limited market means these tend to be expensive in the United Kingdom.
The valuation determines the level of guaranteed cover for each category of benefit.

The MFR is a statutory basis introduced by the Pensions Act 1995, due to be replaced by scheme specific funding. Liabilities are valued on proscribed assumptions with the market value of assets adjusted to reflect current market conditions.
This sets a minimum level of contribution to be paid by the employer.

"What issues should be considered when setting a basis?"

Method
- Attained age or projected unit
- Position of the pension scheme within the company

Assets
- How should the assets be measured
- Case for smoothing (although assumptions should also be smoothed).

Discount rate
- Reflect assets held (possible review of investment strategy).
- Pre retirement typically greater than post retirement.

Salary Increases
- Reflect recent experiences with basic / gross pay and promotional increases.

Revaluation
- Apply to all pensions; assumptions about discretionary increases

Mortality
- Does the scheme have significant experience and how does it compare

Commutation
- What commutation assumptions have been made

Misc
- Early retirement, withdrawal, proportion married and dependants.