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WINDING UP SMALLER PENSION SCHEMES

TWO SEMINARS, 30 OCTOBER 1995 AND 17 NOVEMBER 1995

As a result of the analysis of the feedback forms from the March 1995 Closed Fund Seminars (*B.A.J.* **1,** III, 581-582, 1995), a full day seminar was held on 30 October 1995 at Staple Inn Hall to explore the practical problems associated with winding up smaller pension schemes. The demand for places was so great that it was repeated on 17 November 1995. Seventy-six people attended the first seminar and 56 the second. The organising committee was grateful to all the speakers who, at relatively short notice, readily agreed to repeat their talks.

The relevance of the subject matter was confirmed by the attendance, not only of actuaries from all areas of pensions work, but also of a number of pensions lawyers, and the proceedings were undoubtedly enriched by their active participation.

The emphasis of the proceedings was on the sharing of experience and possible solutions to problems. This was achieved by allocating half the time to workshops, and ensuring that all delegates attended a workshop on every topic. Discussion time was maximised by dispensing with 'reporting back' to plenary sessions. In the words of the chairman in his opening remarks, this was an occasion 'to discuss how and when we do things, not push back the frontiers of actuarial science'.

Nevertheless, there was a stimulating presentation from Mr Jeff Weeder and Mr Dennis Canham, actuaries employed by a large life office. They described a new contract offered by that office, designed to remove the investment uncertainty for both trustees and beneficiaries during the wind-up period. The concept is that the trustees purchase a bulk deferred annuity contract to secure the preservation liabilities for the non-pensioners, with each individual having the right to surrender his 'share' for not less than the 'cash equivalent' transfer value. The premium rates incorporate assumptions about the number of transfer values taken, but the main discussion, mostly on the second day, centred around the investment issues from the life office's viewpoint and the potential for the market place.

To reinforce the broadly-based style of the occasion, each seminar was launched with an overview from Mr John Bloxsome, from The Law Debenture Trust. Mr Bloxsome's objective was to identify the key landmarks within the process and the areas for decision and pitfall. He considered that, too often perhaps, little attention was given by trustees to planning the various stages in the process and, almost inevitably, they were not always careful to identify their fiduciary role (the 'many hats' syndrome). He called for a greater emphasis on communicating with the members, and saw much to be gained by verifying entitlements with them before finalising the exercise. He also put great value on involving the ultimate buy-out insurer at an early stage, and this provided an unrehearsed 'cue' for the talk from Mr Weeder and Mr Canham.

Much of the questioning and discussion from the floor centred on the inadequate documentation often encountered and the uncertain costs of, for example, independent trustees which have to be allowed for by actuaries in their calculations.

The workshops looked at the detailed problems under three main headings: Valuing and Distributing the Fund; Benefit Payments during the 'interim' Period; and Deficiency Regulations and GN19.

These gave the opportunity for wide-ranging discussions. Under the first heading, some actuaries felt that there is no requirement to value the liabilities any more conservatively than cash equivalents (and hence that any assets in excess represented 'surplus'); others felt that market-adjusted past service reserves are more appropriate. There was debate over whether or not pensioners (who usually receive insured annuities) should share in surpluses, and many participants must have felt some anxiety when it was pointed out that an independent trustee usually requires an allocation to pensioners. This gave rise to one of the major issues of the seminars — who decides: actuary or trustee? It was clear that most of the actuaries who deal with smaller insured schemes usually find themselves in the dubious position of making the decisions for their clients.

Other topics which gained attention were: should early retirement options be permitted during the interim period; when does the wind up actually begin; how long can one put off paying transfer values (one delegate was pleased to report that he had found the Inland Revenue more relaxed of late on the payment of 'on account' transfers); and who had signed a GN19 Certificate? (not many, it appeared, although there was some debate as to who is responsible for initiating them; some insurance companies do not finalise a wind up without one, even though the Regulations appear to be permissive).

The proceedings were concluded by Mr Geoff Booth, an actuary who had, for the past three years, spent most of his time acting as a trustee for one of the Maxwell pension funds. His theme was 'Communication', and his views were received by a highly supportive audience. In his recent role, it had become very clear to him that communication should be about what the trustees and members *want* to know, not what the 'expert' *thinks* they want to know. Like Mr Bloxsome, Mr Booth placed great emphasis on the need to *plan* a wind up, and this reflected much of the discussion that had taken place during the day. Even when the funding position is unclear at the outset of the wind up, it is still important to keep the members in the picture.

The two days appeared to have been welcomed by the participants, who freely shared their experiences, ideas and concerns. As these experiences grow, and with the developing willingness of the DSS to improve the process, today's problems may seem trivial tomorrow. As one participant remarked 'it would be nice if legislation required schemes to convert to money purchase on discontinuance!'. Food for thought?

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