

PENSIONS UNDER THE MICROSCOPE



THE ASSOCIATION'S PENSIONS WORKING GROUP AIMS TO PROVIDE TREASURERS WITH A BETTER INSIGHT OF THE PENSIONS INDUSTRY. **TED HOEFLING** OF TAYLOR NELSON SOFRES EXPLAINS.

As the Association's Technical Committee reviewed potential topics for focus in 2002, pensions rapidly emerged as of significant interest. Rarely has this arcane subject been more vital or contemporary, raising concerns for employers, trustees, members and pensioners alike. That these matters have been exacerbated by the recent performance of the equity market is unquestioned. But there are a number of issues that pre-exist the market collapse and are likely to remain when and if the market recovers.

The Technical Committee is charged with promoting and defining best practice for the treasury profession and has a wide membership providing the potential for a broad but focused information base. This year, the Committee has defined a small number of topical subjects for close scrutiny. As the treasurer is primarily a risk manager, pensions are a highly appropriate item for review and, with that in mind, the Pensions Working Group (PWG) was formed this year.

GROUP PRACTICE. The mandate and aims of the PWG are to examine key topics within the wider pensions subject that are of general interest and direct relevance to treasurers. The deliverables of the group are discussion papers and articles to inform, advise and assist the treasurer. The group represents a broad range of experience and qualification, and, unsurprisingly, a significant proportion are practising treasurers working in commerce, industry and finance. This 'core' is materially enhanced by the presence of lawyers, accountants and tax practitioners.

At the inaugural meeting, it was quickly established that there were a number of specific topics that would be of interest to the practicing treasurer.

There are numerous aspects of risk that are constantly present and the enormity of the subject soon became apparent. It was therefore decided that a manageable number of specific aspects would have to be defined and smaller working parties be assigned to consider them in depth.

As expected, there were many ideas and concerns raised for consideration. But, as the discussions continued, it was clear that a small number of highly appropriate general areas could be identified. Therefore, four workstreams were defined, as follows:

- **Workstream 1:** The future of pensions provision.
- **Workstream 2:** The treasurer as trustee – to include potential conflicts of interest, investment strategies, relationship with investment managers and fund member education.
- **Workstream 3:** Accounting and measurement – to include comments on FRS 17 and IAS 19, actuarial valuation bases and effects of fund member profile.
- **Workstream 4:** Impact of pensions liabilities on credit-related aspects – to include rating agency approach to pensions liabilities, impact on loan covenants and implications for distributable profits.

Many of the topics covered by Workstream 1 are addressed within this month's Spotlight, which also features an article based on the comprehensive discussion paper produced by Workstream 2 on the treasurer as trustee. The full paper is available at ACTOnline. Workstream 3 is currently on hold pending the emergence of the revised IAS 39 and the delay in the implementation of FRS 17 has also affected the core of Workstream 4, as many of the credit-related issues raised such as distributable profits and covenants were accounts driven.

However, while the continuing uncertainty in the pensions world – caused, among others, by prevailing conditions in the equity market, concerns over the credit standing of providers and expected forthcoming changes to accounting and pensions rules – has brought with it difficulties in producing definitive resources, it has done nothing to dull interest in pensions risk management. It is clear that there are continuing concerns for all participants in the pensions sector and that this hot topic shows no sign of cooling in the foreseeable future. It is therefore expected that further articles and resources on pensions will emerge from the PWG over the coming year as developments arise.

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Any member or non-member still wishing to contribute to the PWG should contact technical@treasurers.co.uk.