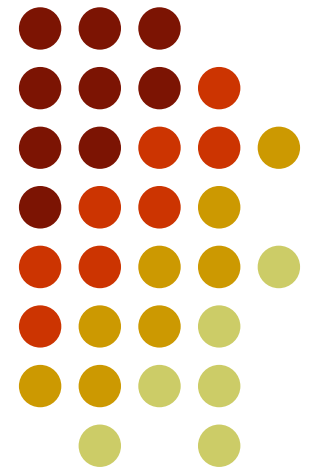


Pensions Archive Trust

Pensions : Lessons from the Past

Michael Pomery

31 January 2006

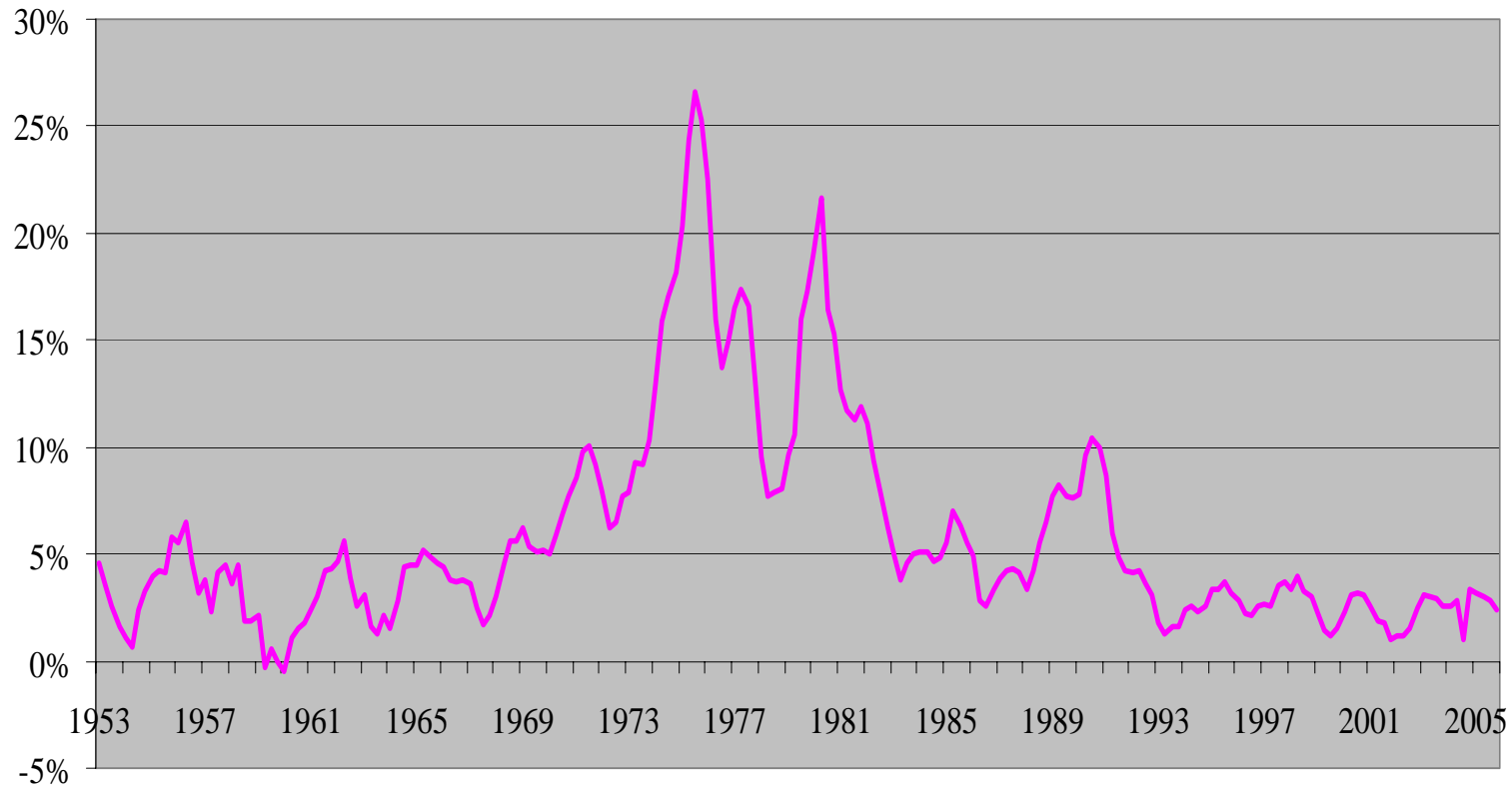


Cyclical ... or not?

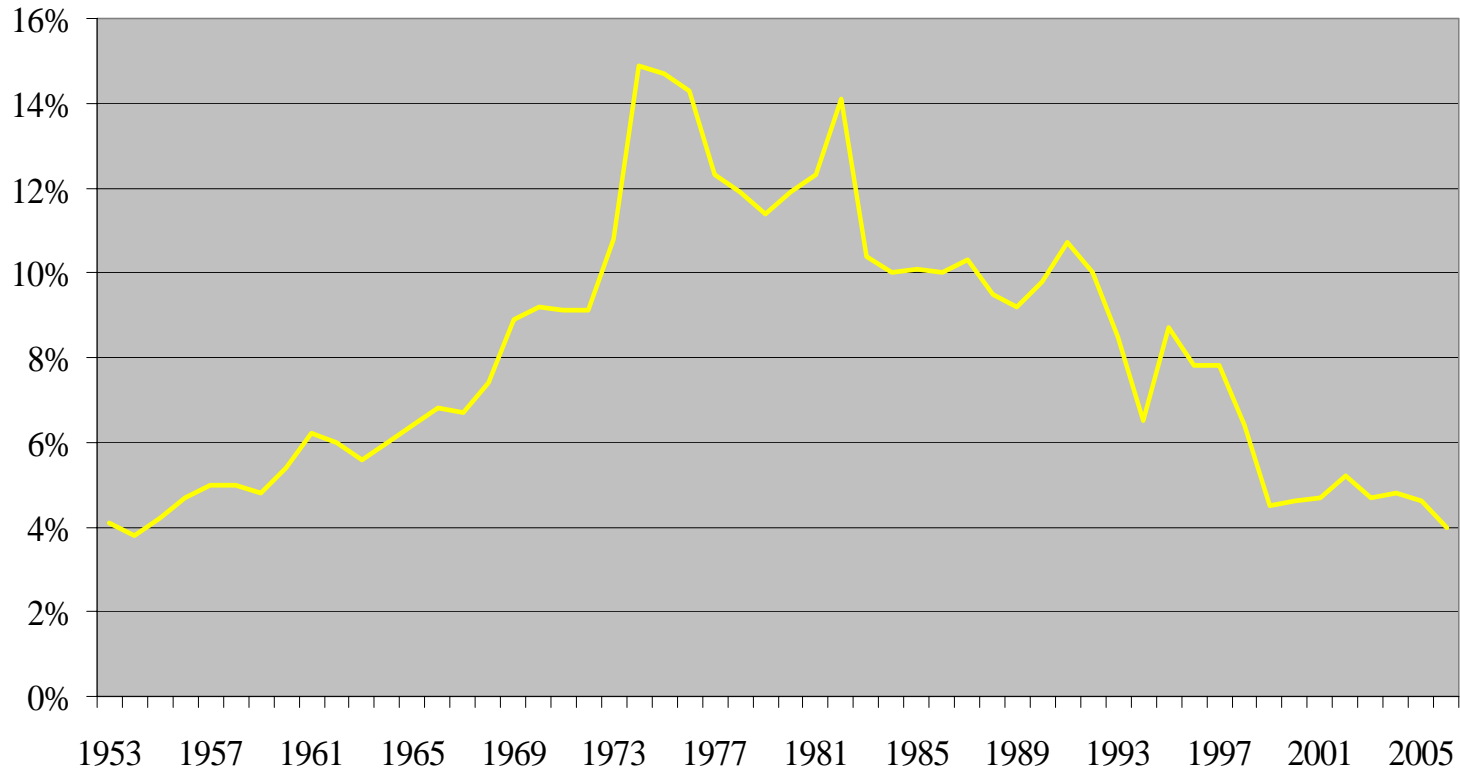
- Life expectancy
- Inflation



UK Inflation 1953 to 2005



Yield on Consols 1953-2005



Cyclical ... or not?



- Life expectancy
- Inflation
- DB to DC
- Changes in society

Pension Scheme Failure



- Risk
- Insolvency
- Historical context
 - “Escape clause”
 - Initial deficits
 - No minimum funding

Minimum Funding



- Goode
- MFR

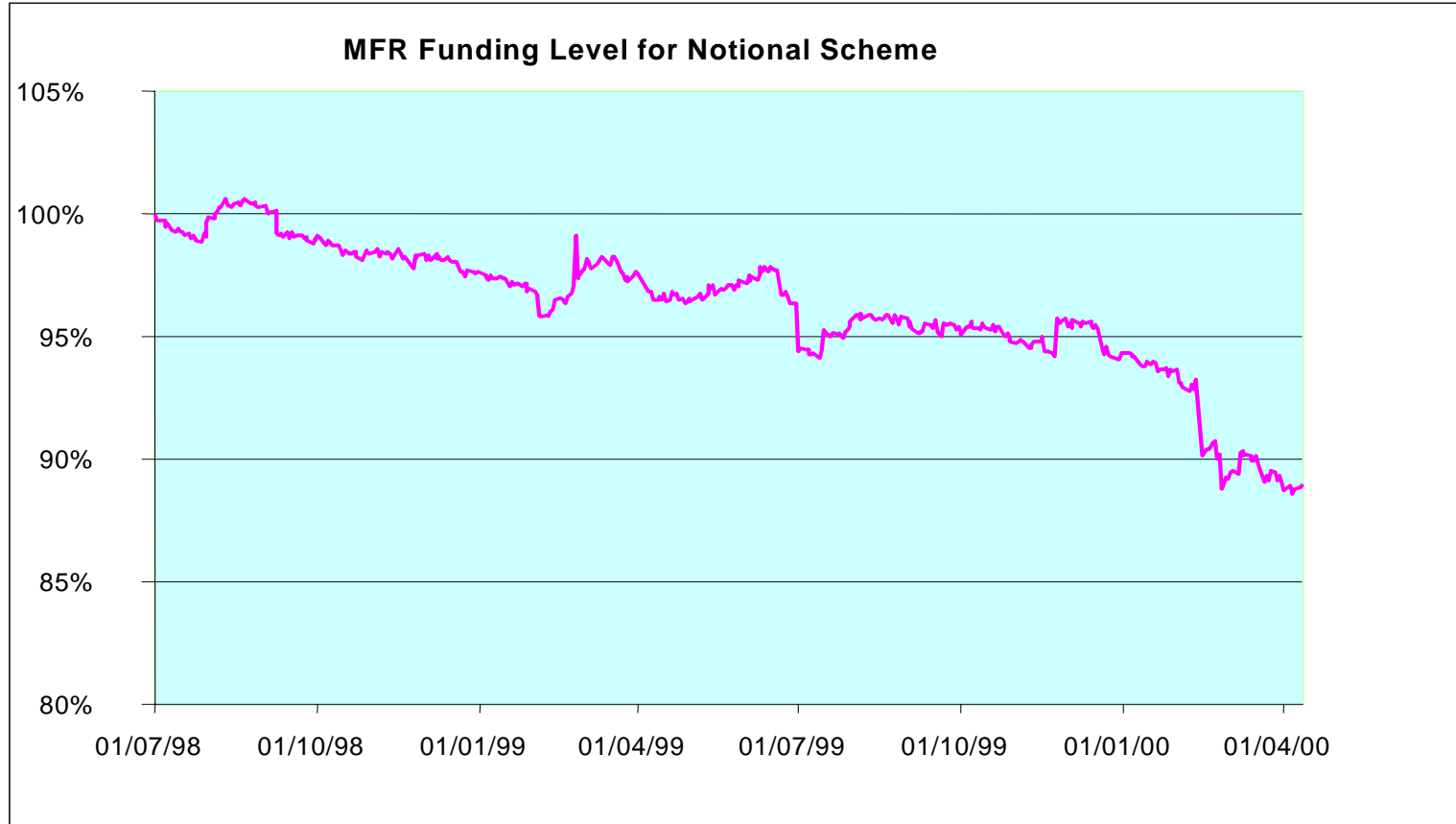
“The certification of the adequacy of rates of contributions for the purposes of meeting the MFR is not a certification of their adequacy for the purpose of securing the scheme’s liabilities by the purchase of annuities, if the scheme were wound up.”

MFR



- Abolition of ACT
- Dividend yields
 - Share buy backs
 - Vodafone, etc

MFR Funding Level



MFR



- Abolition of ACT
- Dividend yields
 - Share buy backs
 - Vodafone, etc
- Misconceptions
- MFR review 1999/2000

Funding and Solvency



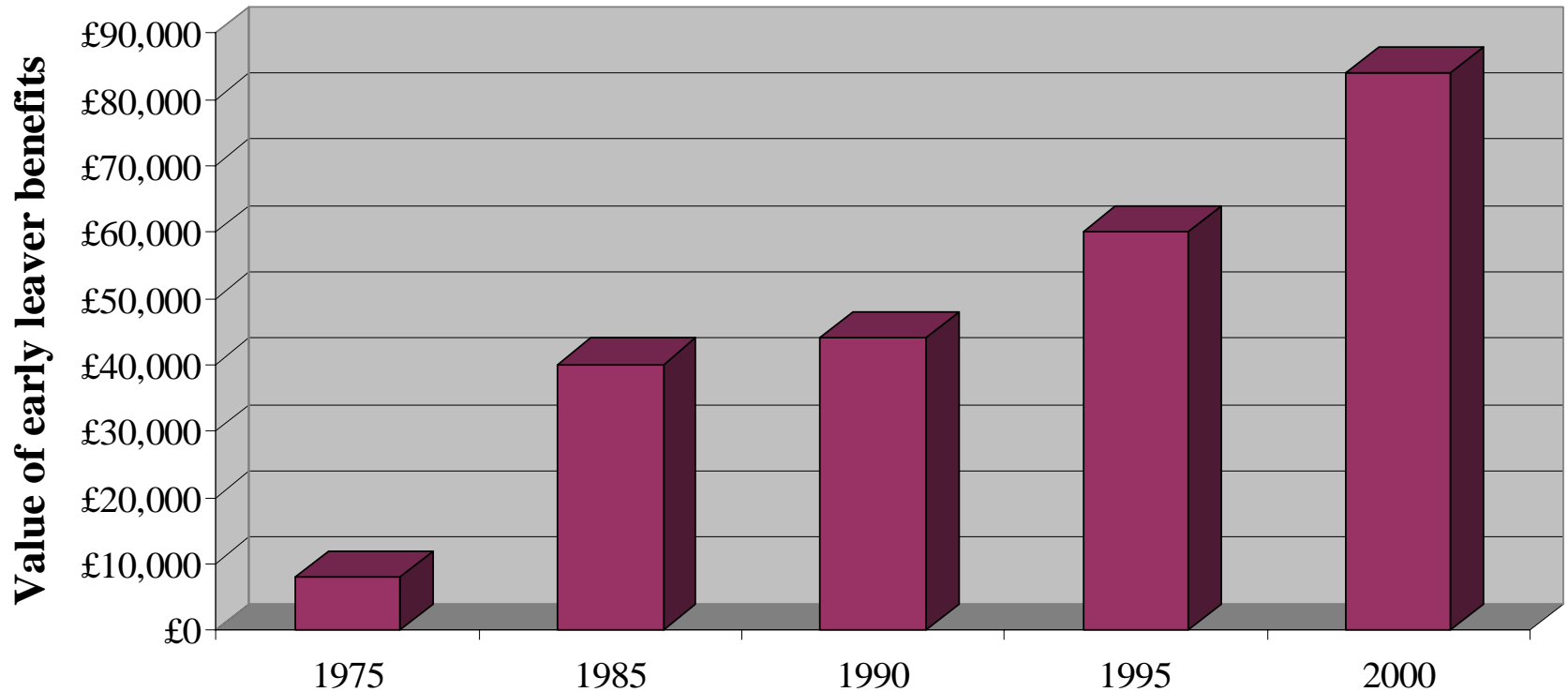
- Investment in equities
- Stable employer contributions
- Stable member security

Pension Fund Deficits



- Background causes
 - Automatic increases

Escalating Cost of Pensions

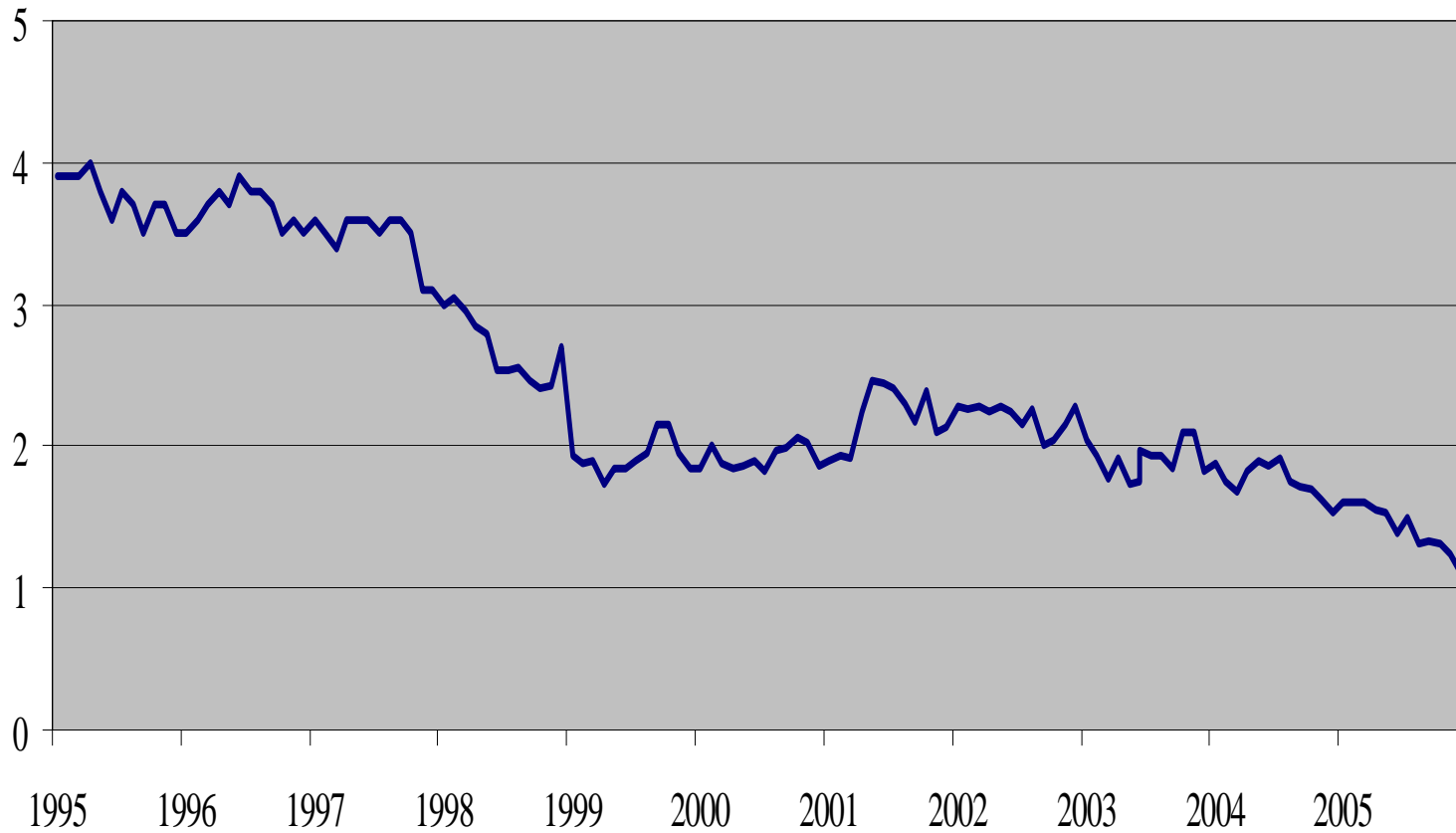




Pension Fund Deficits

- Background causes
 - Automatic increases
 - Improvements out of “surplus”
 - ACT withdrawal
- Primary causes
 - Falling long term interest rates

Long Dated ILG Yields 1995-2005





Pension Fund Deficits

- Background causes
 - Automatic increases
 - Improvements out of “surplus”
 - ACT withdrawal
- Primary causes
 - Falling long term interest rates
 - Increasing longevity
 - Equity market slump

The Future is Uncertain



- Communication challenges
- Building in adaptability
- We've been here before

An Appeal to Statesmanship



“Pensions are different from any other problem with which Parliament has to deal. Promises of pensions are given now but the cost of their fulfilment grows through the years into the distant future and an unexpectedly large proportion of the future national income can become committed. The voice of the future is noticeably absent from present discussions: our responsibility as actuaries is to make that voice heard.”

An Appeal to Statesmanship



“We recommend the setting up of a National Pensions Council – an authoritative and independent body to guide the country through the financial, economic and technical aspects of this peculiarly difficult problem. Ultimate decisions must rest with Parliament but only after thorough and quiet examination by an independent body.”

Conclusions



- The future is uncertain
- Cyclical ... or not?
- Social changes matter
- Good communication is vital

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