**Health Professions Council**
**Finance & Resources Committee Meeting – 26th July 2007**

# CAPITA SCHEME VALUATION AT MARCH 2006 - PUBLIC PAPER

## Executive Summary and Recommendations

## 1. Introduction

## 2. Decision

The Committee is requested to note the document.

## 3. Background information

Entrust Pension Recovery Ltd ("Entrust") was appointed as the new sole corporate trustee of the Capita pension scheme under the Deed of Appointment – refer letter from Entrust to HPC, dated 27 June 2007 in Appendix One. The duties of the trustee include acting in the best interests of the members of the scheme. To date, no one representing the HPC employer has been contacted about Employer Group meetings.

A draft valuation as at 31 March 2006 of the Capita scheme was prepared by the Senior Actuary at Capita (dated 27 April 2007) to form the basis for further discussion with the Trustee. This includes an Actuarial Valuation (Initial Results), set of assumptions used, Summary of Membership, Summary of Assets, and Statement of Funding Principles, but doesn't yet represent a full formal valuation – refer Appendix One details. Within the Actuarial Valuation report, "Appendix B" identifies a range of Surpluses/(Deficits) of Scheme Assets less Scheme Liabilities at 31 March 2006 of £15.85M to (£2.89M), depending on the assumptions and methodology used.

Note in the Appendix One report, under section 5 on FRS 17 reporting, the Senior Actuary stated that the figures prepared for the Trustee to assist in considering the Pensions Regulator's trigger points cannot be replied on by employers for the purposes of FRS 17 reporting.

Note in the Appendix One report, under section 6, regarding whether the scheme will need to pay Pension Protection Fund (PPF) levies, the Senior Actuary stated that the Trustee's legal advisors were in correspondence with the Pension Protection Fund and further advice was awaited.

A copy of the Entrust letter and Capital Valuation was sent to HPC's external auditors, Baker Tilly (UK) LLP for their files.

## 4. Resource implications

Nil

## 5. Financial implications

Nil

## 6. Background papers
Nil

## 7. Appendices
Entrust letter and Capital Actuarial Valuation as at 31 March 2006

## 8. Date of paper
16th July 2007

entrust
pension recovery limited

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27 June 2007

Miss M Cheema
Financial Accountant
Health Professions Council (HPC)
Park House
184 Kennington Park Road
London
SE11 4BU

Our ref: PCK/E25132.32
Your ref:

Dear Sirs

**The Federated Flexiplan No.1 Pension Scheme ("the Scheme")**

1 **General**

The purpose of this letter is to introduce this company which is called Entrust Pension Recovery Limited ("Entrust") as the new sole corporate trustee of the Scheme having been appointed by Deed of Appointment dated 15 May 2007 and to consult with you in your capacity as an employer in relation to the Scheme with regard to certain matters.

2 **The Appointment**

The appointment was made by the previous trustee Capita Pension Trustees Limited with a view to placing the trusteeship into the hands of a company which is on the Pension Regulator's panel of independent trustees to act on behalf of the beneficiaries of the Scheme.

Entrust is a specialist pension trustee company whose duties as with any trustee of a pension scheme include the duty to act in the best interests of the members of the Scheme. Entrust is on the Pension Regulator's panel of independent trustees. It has over 12 years experience of acting as independent trustee of pension schemes.

3 **Employer Group**

Entrust has liaised extensively with a group of employers who have joined together in order to co-ordinate communication of Scheme related issues with Capita Hartshead Group and the trustees (both Capita Pension Trustees Limited the former trustee of the Scheme and Entrust). Mr Hugh Scurfield is Chairman of the employer's group. Mr Scurfield is immediate past deputy Chairman of Help the Hospices and is a retired actuary who has in the past served as President of the Institute of Actuaries. The employers' group is assisted by Mr Adam Stanley of Punter Southall on actuarial matters and Jennie Kreser of Thomas Eggar on pensions legal issues. Entrust is currently engaged in a series of meetings with the employers' group. They can be contacted at the following address:

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34-44 Britannia Street
London WC1X 9JG

Tel: 0207 520 8202
Fax:0207 278 1021

Email: rjackson@helpthehospices.org.uk

## 4 Consultation and Agreement

For some time now the draft actuarial valuation as at 31 March 2006 has been under consideration and now it is hoped that document can be finalised.

In this connection we wish to consult and reach agreement with you with regard to:

4.1 the methods and assumptions used to calculate the technical provisions of the Scheme which are recorded in the Statement of Funding Principles and used in the valuation; and

4.2 any other matter included in the Statement of Funding Principles.

To this end, please find enclosed a letter dated 27 April 2007 produced by the actuary to the Scheme which sets out the draft actuarial valuation results and explains the approach adopted in the valuation process. Please also find enclosed the draft Statement of Funding Principles.

Please note that Mr Adam Stanley of Punter Southall has confirmed in writing that he is satisfied with the method and assumptions adopted in this connection and has no further comments he wishes to raise. May I request that you kindly provide any comments or advice on the technical provisions, the valuation, Statement of Funding Principles or any other aspects of this exercise which you would like to draw to the attention of Entrust by Friday 6 July 2007 when we will be meeting to discuss the valuation with the actuary to the Scheme.

We trust this provides sufficient time in order to enable you to obtain and consider any advice which you may deem necessary in order to comment. Perhaps you would kindly let us know if you would like an extension for this purpose. Our aim is to complete this exercise during the course of July 2007. Unfortunately it has not been possible to do so by the statutory deadline of Friday 29 June 2007. The actuary to the Scheme has been instructed to inform the Pensions Regulator about this point.

We further confirm that we are mindful of our duty to consider with a receptive mind any comments which you may wish to make. We look forward to hearing from you in this connection.

5 **The Pensions Regulator**

As mentioned above, we wish to consult and reach agreement with you with regard to certain matters. However, there are ninety five employers in the Scheme. As a matter of practicality we anticipate it will not be possible to reach agreement with all ninety five employers simply due to the logistical difficulties this would involve. If that were to be the case, our legal advisers have suggested we should ask the Pensions Regulator to exercise its overriding power to impose the actuarial valuation and Statement of Funding Principles on the Scheme in the absence of employer/trustee agreement.

6 **Recent Changes - Investment**

Entrust, upon becoming appointed, sought investment advice from Capita Hartshead on the current investments of the Scheme. This advice has been considered and a change has been made to the investments of the Scheme as a consequence. The result is that a significant holding of shares or equities has been disposed of and the proceeds have been invested in fixed interest investments. The advice was provided having regard to the level of pensions which are currently being paid out of the Scheme.

7 **Member announcement**

I attach an announcement No. 1 (2007) that is being issued to members for your information. The purpose of the announcement is to update members on recent developments concerning the Scheme.

As a matter of logistics the announcements are being dispatched in batches (due to the volume of announcements involved) with the active members being dispatched first followed by deferred members and then pensioners to the addresses held on Capita Hartshead's records. At the time of writing there is a threatened possibility of industrial action by the Post Office. We hope this will not disrupt the process.

8 **Current funding position**

Employers will doubtless wish to understand the experience of the Scheme in the period since the April 2006 valuation. The Trustee and Actuary have sought quotations of the costs of securing pensions in payment. Once the results have been considered the Actuary will be in a position to provide an up to date view on the funding position of the Scheme which we will circulate to employers. We anticipate that this will be available over the next few weeks.

9 **Progress on further issues**

Please note that we are currently engaged in arranging further meetings with the employers' group in connection with other issues arising in relation to the Scheme. There will also be meetings open to all employers at which it is hoped to share in discussions and consultation about the future options available for the Scheme. We anticipate these meetings taking place later on in the summer and/or early autumn of this year. Many of the issues which will be discussed owe at least some of their origins to the move away from targeting which took place in the Summer of 2006. Please feel free to contact Mr Patrick Kennedy of Entrust in connection with any wider issues you may wish to draw to our attention.

In the meantime we look forward to receiving your comments as requested in paragraph 4 above.

Yours sincerely

Patrick Kennedy

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Director
For and on behalf of
Entrust Pension Recovery Limited

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Encl

CAPITA HARTSHEAD

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27 April 2007

Dear Jonathan

**Federated Flexiplan No 1: Actuarial Valuation as at 31 March 2006**

I am writing to the Trustees with initial results of the actuarial valuation as at 31 March 2006. These results are based on the assumptions and methodology detailed in my letter of 14 January as subsequently discussed. Where this letter does not explicitly state an assumption I have taken that stated in my letter of 14 January.

There are a number of outstanding data queries but these are not expected to materially alter the results.

**1. Process**

I have previously written to the Trustees about the valuation process. We have agreed to meet on 30 April to discuss this letter and it is both a legislative requirement and very important that the Trustee then has a detailed dialogue with the employers over the assumptions to be adopted. No parties other than the Trustee should rely on the findings of this letter for any purpose other than advice to the Trustee on the actuarial valuation.

**2. Valuation of liabilities**

In carrying out an actuarial valuation we compare the assets held in the Scheme against the amount of money required to provide for future benefits based on entitlements accrued at valuation date. If the assets are found to be inadequate to provide for future benefit payments, then the Scheme is said to be in deficit. If the assets are found to be in excess of those required, then the Scheme is said to be in surplus. In order to make this comparison assumptions need to be made about investment returns, how long pensioners live and other matters.

The figures for pensioner liabilities detailed in this report (i.e. the row of figures starting with £36,106,000 in Appendix B) are the amounts calculated as needing to be held at the valuation date, on the assumptions adopted, to provide for all future pension payments to existing pensioners only. (There are a number of pensioners where annuities have been purchased with insurance companies and these pensioners have been included as an asset and liability equal to the value shown in the audited accounts.)

Active and deferred members each have an amount of Pensions Capital. This is effectively a pot of money at the valuation date, part of which increases at 4% pa and part of which increases at 2% pa until members draw benefits. If the Scheme's investments perform well enough then additional bonuses may be added to these amounts. Since July 2006, no explicit bonuses have been awarded. Prior to July 2006 the Trustee had always provided a notional target pension, which had a value in excess of the Pensions Capital.

The liability value put on the Pensions Capital can be considered in two ways:

Firstly, as the current amount of the Pensions Capital. So for example at the valuation date the total Pensions Capital amounted to £40.2m. The Trustee might therefore consider that an amount of £40.2m is required to be held at the valuation date to meet the commitment to provide for future Pensions Capital payments.

Secondly, the Trustee might consider that the Scheme will earn investment returns in excess of the rate at which Pensions Capital increases, in which case the amount required to be held to meet future Pensions Capital payments can be less than the £40.2m. (If the Trustee considered that investment returns would fall short of the 4% / 2% pa then the amount required to be held would exceed the existing Pensions Capital.)

I have presented figures taking both these approaches. In all cases I have assumed that at retirement the Pensions Capital is used to secure a pension with an insurance company so that there is no need to consider how long existing active and deferred members live in retirement, because the mortality risk will be transferred to the insurance company.

The valuation of the Pensions Capital needs to be considered in the context of the investment strategy. If the investment strategy is to hold equities to match the liability to pay Pensions Capital then some allowance for equity type returns is reasonable. However, if the Scheme were to hold solely gilts/bonds in respect of Pensions Capital then the known return on these investments has to be used to place a value on the Pensions Capital. Section 9 later in this letter has further comments on the sensitivity of the results to this assumption.

Notional target pensions are no longer provided and have therefore not been considered in this valuation.

### 3. Assumptions and results

The results quoted in this letter only consider the liabilities in respect of contributions paid to date and do not consider the additional liabilities that will accrue in respect of future contributions. As future contributions are paid they will generate additional Pensions Capital amounts that will grow at 2% pa. Provided future investment returns after Scheme expenses exceed 2%pa then future contributions will be sufficient to support the additional Pensions Capital they give rise to. However if investment returns fall below 2% pa, extra funding will be required to maintain Pensions Capital.

In Appendix B I have quoted initial valuation results on the following bases:

**A** Set A results are from the 31.3.05 actuarial valuation and use the assumptions set out in that report. In particular the liabilities for active and deferred members have been taken as the amount of the Pensions Capital at the valuation date.

**B** Set B results are also from the 31.3.05 actuarial valuation. These differ from Set A in that the liabilities for active and deferred members are calculated as the funds required at the valuation date to provide for future Pensions Capital payments on the assumption that an investment return of 6.7% pa (before expenses) is earned (i.e. the Pensions Capital is accumulated to age 60 at 2%/4%pa and then discounted back to the valuation date at 6.7%pa less expenses).

**C** Set C onwards are results as at 31 March 2006.

Set C is based on the same assumptions as Set B and therefore gives a consistent comparison between valuations.

**D** Set D is based on a core set of initial assumptions (Core 1) as detailed in the following tables:

| **Financial Assumptions** | **per annum** |
|---|---|
| Pension increases in payment:<br>Pre 97 pensions<br>Post 97 pensions | <br>0.0%<br>2.6% |
| Gross Investment return prior to retirement | 6.3% |
| Gross Investment return after retirement | 4.5% |
| Allowance for expenses | 1.3% |

| **Demographic Assumptions** | |
|---|---|
| Allowance for early retirement | All members are assumed to retire at age 60 |
| Mortality for current pensioners | PA92 tables projected on a medium cohort basis for each individual's date of birth, but with each pensioner treated as having the life expectancy of a pensioner two years' older (as discussed in Section 6). |
| Mortality prior to reaching retirement age | None |
| Proportions with dependant partners:<br><br>Males<br>Females | <br><br>80%<br>70% |
| Allowance for members to transfer benefits out of the Scheme prior to retirement | None |
| Basis of calculation of pension at retirement | The amount of pension that can be purchased on retirement based on a member's Pensions Capital. |

**E** This is on the same assumptions as Set D (Core 1) except that for the valuation of the Pensions Capital I have taken the amount of the Pensions Capital at the valuation date rather than calculate the amount required to be held at the valuation date to provide for future Pensions Capital payments. I have described this as Core 2.

**F** An FRS17 set of assumptions (as discussed in Section 5)

**G1/G2** Pension Protection Fund "Section 179" basis (as discussed in Section 6)

In all cases the assets have been taken at their market value as shown in the audited accounts.

## 4. The Pensions Regulator's trigger points

The Pensions Regulator has established two trigger points to assist in identifying which schemes they may wish to take a closer look at. These triggers are:

- Schemes will be expected to disclose values for the technical provisions which lie in the range of FRS17 liabilities to Pension Protection Fund (PPF) liabilities.

- Schemes will be expected to meet any deficits within ten years.

It is important to note that these are triggers not targets and the Pensions Regulator may investigate some schemes that meet these standards and may decide not to investigate other schemes that fail to meet these standards.

I would also observe that the Scheme is rather unusual in its nature and the Trustee should not therefore assume that a valuation result which gives a surplus/deficit similar to the FRS17 and PPF liabilities is something which can automatically be assumed to be prudent. Further advice on FRS17 and PPF liabilities are set out in the following sections.

## 5. FRS17

FRS17 figures are not currently provided for the Scheme as a whole. Nevertheless, in order to be of assistance to the Trustee, I have prepared some numbers on the FRS17 methodology, adopting what would have been reasonable assumptions to use for FRS17. The assumptions adopted are as follows:

| | |
|---|---|
| Discount rate | 4.95% pa |
| Pension increases (where applicable) | 2.6% pa |
| Demographic Assumptions | As per core assumptions |

The value for liabilities (i.e. current pensions in payment plus the value of existing Pensions Capital) is set out in Appendix B. It is important to note two particular points about these results:

- These figures have been prepared for the Trustee to assist in considering the Pensions Regulator's trigger points. These numbers are not necessarily the same as those that would be adopted by the employers if I was providing FRS17 disclosures and whilst they can be relied on by the Trustee for consideration of the trigger points they cannot be relied on by employers for the purpose of FRS17.

- In 2006 total Scheme expenses exceeded £1m. Consistent with the FRS17 methodology, no allowance is made for Scheme expenses. In considering the appropriateness of FRS17 in judging a funding standard the Trustee needs to consider how future expenses will be met.

**6. Pension Protection Fund (PPF)**

For a defined benefit scheme an actuarial valuation has to be carried out for the PPF on a prescribed methodology and set of assumptions. This valuation is then used by the PPF to set the Scheme's levies as well as by the Pensions Regulator as a trigger point.

The PPF have stated that in their view the Scheme is not required to pay levies and members are not protected in the event of insolvency. However, this conclusion appears to have been reached possibly without the benefit of having all the facts. As you are aware, the Trustee's legal advisors are in correspondence with the PPF and further advice is awaited.

For the purpose of this letter I have assumed that the Scheme is subject to the PPF and prepared numbers accordingly. It is not entirely clear what assumptions / methodology is required in these unusual circumstances and I have therefore shown a range of liabilities pending clarification with the PPF.

## 7. Mortality

Many schemes are now adopting a standard mortality table known as "PA92 Year of Birth Medium Cohort". This is possibly the table in most common use by actuaries for current actuarial valuations, is prescribed for valuations for the PPF and it appears that the Pensions Regulator will expect to see justification for any departures from this table. I consider this to be an appropriate starting point for this valuation when valuing the pensions in payment.

I have examined the mortality experience of the Scheme over the three years to 31 March 2006 and also considered subsequent experience. Over the three years to 31 March 2006 the experience has been as follows:

| | |
|---|---|
| Pensioners who have died over period: | 76 |
| Expected deaths on: | |
| PA92 Year of Birth medium cohort: | 41 |
| If pensioners are treated as if they have the life expectancy of an individual five years older than they are | 72 |
| Treated as two years older than they are | 51 |

The above evidence suggests that pensioners do not appear to be living as long as the standard table suggests. However, there is little other evidence available to confirm this finding. I believe it would be reasonable, whilst remaining prudent, to treat all pensioners as two years older than they are and I have prepared numbers on this basis.

It is important to note that actual experience could depart significantly from the assumptions made. I have therefore prepared some further figures to show the impact of assuming pensioners are treated as even older.

## 8. Solvency position on winding up

Since June 2003 it has been a requirement that were the Scheme to be wound up the participating employers would be required to contribute whatever additional funds are required to enable the Scheme to secure all members' benefits in full with an insurance company. For pensioners these benefits would be the existing level of pensions and any guaranteed future increases with no allowance for future discretionary increases. For active and deferred members the benefits would be the Pensions Capital with the promised 4% pa or 2% pa future increases up to retirement date as appropriate.

I am currently waiting on an up to date quotation from Legal and General for the cost of securing all the benefits on winding up and will write further on this when I am able to do so. There are some indications that the pensioners may cost less to buy out with an insurance company than some of the figures included in Appendix B for the cost of providing the pensioners through the Scheme. This may well arise in part because an insurance company's expenses for a bulk annuity contract may be lower than the expenses currently being charged under the Scheme.

## 9. Analysis of results and post valuation developments

The valuation discloses a significant improvement in the financial position of the Scheme. This is almost entirely down to the Scheme's investment return which over the year to 31 March 2006 was 20% after expenses compared against 2% over three years to 31 March 2005 and 5.4% pa assumed for some calculations at the previous actuarial valuation. Over the year to 31 March 2007 we have estimated that based on returns on the FTSE All Share Index and on long-dated gilts, the Scheme will have achieved an investment return of very approximately 5% after expenses.

This improvement in the financial position has been partially offset by the impact of retiring members drawing pensions based on former target pensions in excess of what their Pensions Capital will secure.

## 10. Sensitivity of the valuation results to changes in assumptions

The valuation results depend on the assumptions and there is a wide range of assumptions which might be adopted. We have carried out further calculations to illustrate the impact of changing the valuation assumptions. The following figures show the approximate impact of the results on both Core 1 and Core 2 (sets D and E).

- If each pensioner is assumed to have the life expectancy of someone three years older than otherwise assumed then the surplus increases by £3.0m.
- If investment returns on assets held to match pensioners are assumed to be 0.5% lower then the surplus decreases by approximately £1.9m.

In Section 2 I mentioned the importance of considering the assumed investment return before retirement in the context of the investment strategy adopted. The Core 1 assumptions assume an investment return before retirement of 6.3%. Following the logic set out in the initial valuation assumptions letter this implicitly assumes an investment strategy which holds at least 50% equities. If the assumption was changed the results change as follows:

- If a rate of 8.4% is taken (i.e. 100% equities) the surplus increases by £5.7m
- If a rate of 4.5% is taken (i.e. 100% gilts/bonds) the surplus decreases by £6.7m

## 11. Investment strategy and risk

The Trustee is currently taking advice on investment strategy and there are two key issues the Trustee needs to consider.

Firstly, whether or not existing pensions should continue to be paid from the Scheme or secured with an insurance company (a small proportion of older pensions and all current retirements are already secured with insurance companies).

Secondly, the investment strategy to be followed in respect of Pensions Capital. At present the assets backing the Pensions Capital are predominantly equities. The following issues should be considered if a policy of holding mainly equities is to be continued:

- The investment return is expected to be higher than for bonds or gilts.
- However there is a significant degree of risk that should equity investments fall in value, members would get smaller or no bonuses on their Pensions Capital.
- Equities are generally considered a good match for inflation or salary linked liabilities, whereas Pensions Capital is a fixed liability. This will increase the risk of being unable to meet Pensions Capital in sustained periods of low or negative inflation.
- If need be, the employers would be required to provide additional funding to ensure that the 4% / 2% pa guaranteed investment return is provided.

An alternative approach is to hold a portfolio of bonds / gilts that quite closely matches the expected outgo of Pensions Capital. Such an approach would:

- Produce a modest but known future investment return (in nominal terms, i.e. ignoring the effects of inflation) assuming the investments are held to maturity.
- Have a low degree of investment risk (but some risk of default by bond issuers would remain).
- Have a degree of risk that the pattern of retirements does not match that assumed leading to investments needing to be sold early when their price is temporarily depressed.
- Tend to produce low returns to members but with a lower risk that the employers need to provide extra funding.

In practice I would expect an approach somewhere between these two extremes to be adopted.

## 12. Concluding comments

In summary:

- The Trustee must discuss the assumptions with the employers (I have previously advised on the extent to which the Trustee needs to reach agreement with the employers).

- The assumptions must be chosen prudently.

- The Pensions Regulator has issued guidance on the trigger points they will use in judging the strength of funding of pension schemes.

- The statutory deadline for completion of the valuation and all certifications is 30 June 2007.

The Trustee will need to agree with the employers a Statement of Funding Principles, a Schedule of Contributions and, if there is a deficit, a Recovery Plan. Once initial discussions have taken place with the Trustee and employers I will produce drafts of these documents and a draft valuation report.

In addition to completing the valuation the Trustee needs to consider the investment strategy and what if any additional amounts are provided to members to reflect any surplus disclosed by the valuation. Whilst these matters are clearly impacted on by the valuation results I believe they should form part of a separate report, and need to be considered in the context of the cost of securing benefits with an insurance company.

I look forward to discussing these results with you on 30 April.

Yours sincerely

PJ Bard

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Senior Actuary
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Please note that this letter does not represent a full formal actuarial valuation report on the Scheme and its purpose is to form the basis for further discussion with the Trustee. In due course I will provide a full formal report which includes all the information required under the guidance note, GN9: Funding Defined Benefits – Presentation of Actuarial Advice, as issued by the Faculty and Institute of Actuaries and adopted by the Board for Actuarial Standards.

**Appendix A**

**Federated Flexiplan No. 1**

## 1. SUMMARY OF MEMBERSHIP AS AT 31 MARCH 2006

The data used in the valuation has been provided by the Scheme's administrators and is summarised as follows:

### Active Members

| | Number | | Pensions Capital (£'000) | |
|---|---|---|---|---|
| | 31 March 2006 | 31 March 2005 | 31 March 2006 | 31 March 2005 |
| Pre 2003 | - | - | 15,560 | 17,112 |
| Post 2003 | - | - | 11,359 | 7,647 |
| Total | 1,284 | 1,206 | 26,919 | 24,759 |
| Average Age | 47.3 | 47.7 | - | - |

### Deferred Pensioners / Postponed Retirement

| | Number | | Pensions Capital (£'000) | |
|---|---|---|---|---|
| | 31 March 2006 | 31 March 2005 | 31 March 2006 | 31 March 2005 |
| Pre 2003 | - | - | 12,117 | 11,671 |
| Post 2003 | - | - | 1,205 | 589 |
| Total | 991 | 968 | 13,322 | 12,260 |
| Average Age | 48.4 | 48.2 | - | - |

### Pensioners

| | Number | | Annual Pensions (£'000) | |
|---|---|---|---|---|
| | 31 March 2006 | 31 March 2005 | 31 March 2006 | 31 March 2005 |
| Total | 1,203 | 1,159 | 2,798 | 2,666 |
| Insured pensioners | 278 | 297 | 497 | 546 |
| Average Age | 70.2 | 70.2 | - | - |

## 2. SUMMARY OF ASSETS AS AT 31 MARCH 2006

I have been supplied with audited accounts as at 31 March 2006 detailing the following assets:

| | £ |
|---|---|
| BGI | 46,774,379 |
| Frank Russell | 20,351,414 |
| Scottish Equitable | 12,320,869 |
| Insured annuities | 4,516,000 |
| Net current assets | 217,655 |
| Total including insured annuities | 84,180,317 |
| Total excluding insured annuities | 79,664,317 |

The BGI (Barclays Global Investors Limited) funds are invested approximately 81% of equities and 19% in corporate bonds.

Frank Russell funds are invested approximately 84% in equities and 16% in bonds.

The Scottish Equitable investments are split almost equally between corporate bonds and long gilts.

The total assets of the Scheme are split approximately two-thirds equities and one-third bonds / gilts.

In carrying out the actuarial valuation I have relied on the accuracy of the membership and asset information provided.

**Appendix B**

**Federated Flexiplan No. 1**

**ACTUARIAL VALUATION AS AT 31 MARCH 2006: INITIAL RESULTS**

| Valuation date | £000's 31/3/05 A | £000's 31/3/05 B | £000's 31/3/06 C | £000's 31/3/06 D (Core I) | £000's 31/3/06 E(Core 2) | £000's 31/3/06 F | £000's 31/3/06 G1 | £000's 31/3/06 G2 |
|---|---|---|---|---|---|---|---|---|
| **Value of assets** | 69,432 | 69,432 | 84,180 | 84,180 | 84,180 | 84,180 | 84,180 | 84,180 |
| **Actives** | 24,759 | 20,416 | 21,850 | 22,618 | 26,919 | 22,271 | 23,367 | 32,176 |
| **Deferreds** | 12,260 | 10,443 | 11,298 | 11,768 | 13,322 | 11,556 | 11,424 | 17,820 |
| **Pensioners** | 36,106 | 36,106 | 39,731 | 41,260 | 41,260 | 34,495 | 33,358 | 33,358 |
| **PPF expenses** | - | - | - | - | - | - | 3,415 | 3,719 |
| **Total Liabilities** | 73,125 | 66,965 | 72,879 | 75,646 | 81,501 | 68,322 | 71,564 | 87,073 |
| **Surplus / (Deficit)** | (3,693) | 2,467 | 11,301 | 8,534 | 2,679 | 15,858 | 12,616 | (2,893) |

A 2005 valuation: current amount of Pensions Capital

B: 2005 valuation: amount required to provide Pensions Capital at retirement assuming an investment return of 6.7% less expenses

C: 2006 results on set B assumptions

D: 2006 results on Core 1 assumptions set out in Section 3

E: 2006 results as per Set D (Core 1) but with Pensions Capital included at current amount

F: Hypothetical FRS 17 results

G1/G2: Possible range of results on PPF valuation

# Federated Flexiplan No. 1 ("the Scheme")

## STATEMENT OF FUNDING PRINCIPLES

### 1. INTRODUCTION

**Purpose**

This statement has been prepared by the Trustee of the Scheme to record their objectives and policies in relation to the funding of the Scheme and to comply with Section 223 of the Pensions Act 2004 (the Act).

**Consultation and advice**

The Trustee consulted the participating employers about the content of this statement, and after taking the advice of the Scheme Actuary as required under Section 230 of the Act.

**Review**

This statement will be reviewed, and if necessary revised, by the Trustee no later than 15 months after the effective date of each future actuarial valuation and after any events materially affecting the Scheme.

### 2. STATUTORY FUNDING OBJECTIVE

**Funding objective**

Under Section 222 of the Act the Trustee is required to adopt a Statutory Funding Objective. The Statutory Funding Objective is that the Scheme must have sufficient and appropriate assets to cover the expected cost of providing members' past service benefits – the Scheme's Technical Provisions.

**Benefits Payable**

For existing pensioners the benefits valued are the existing pensions plus, where applicable, pension increases and spouse's pensions.

For active and deferred members the benefits valued are the amounts of Pensions Capital at retirement. It is assumed that at retirement Pensions Capital will be used to secure a pension with an insurance company so for active and deferred members no assumptions are required as to mortality and interest rates etc after retirement.

**Policy for securing objective**

The policy for securing the appropriateness of the assets is included in the Trustee's Statement of Investment Principles.

To ensure sufficiency of the assets, the Trustee will seek contributions from the participating employers at such rates as they determine, on the advice of the Scheme Actuary, to meet the expected cost of the benefits payable.

To assess the expected cost of the benefits the Trustee will obtain regular actuarial valuations of the Scheme from the Scheme Actuary. The Trustee will choose an appropriate funding method, together with a prudent set of actuarial assumptions.

**Consultation**

The Trustee will consult with the participating employers before deciding on the method and assumptions to be used in the actuarial valuation and before determining the level of contributions payable. In the absence of agreement with the participating employers the Trustee will refer to the provisions in the Scheme Rules and any overriding legislation.

## 3. ACTUARIAL VALUATIONS

**Frequency**

An actuarial valuation is due to be carried out as at 31 March 2006 and will in normal circumstances be carried out every three years thereafter. A short form actuarial report, using approximate methods, will be obtained as at 31 March in each year in which a full valuation is not obtained.

**Out of sequence valuations**

The Trustee may call for a full actuarial valuation when, after considering the actuary's advice, they are of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions.

## 4. RECTIFYING A FUNDING SHORTFALL

**Policy**

If the amount of the Scheme's assets is less than the expected cost of providing members' past service benefits at the effective date of any actuarial valuation, a Recovery Plan will be put in place that requires additional contributions.

**Recovery Period**

The funding shortfalls identified at an actuarial valuation should be eliminated as quickly as the participating employers can reasonably afford by the payment of additional contributions. In determining the actual recovery period at any particular valuation the Trustee is to take into account the following factors:

1. the size of the funding shortfall;
2. where practical, the Trustee's assessment of the financial covenant of the participating employers.

The Trustee normally expects the recovery period to be no longer than ten years.

The assumptions to be used in these calculations may be different to those set out for calculating the Technical Provisions.

## 5. FUNDING METHOD AND ASSUMPTIONS

**Method**

The Projected Unit Method will be adopted for determining the Technical Provisions.

**Actuarial assumptions**

The assumptions to be used are either financial or demographic. Legislation requires that the selected assumptions are prudent and it is intended that they include a margin for adverse deviation.

**Discount rate**

The rate of interest used to discount future payments of benefits will be based on:

1. Post retirement, the return available on good quality corporate and Government bonds of suitable duration at the valuation date, less an allowance for investment manager, administration and other expenses.
2. Pre retirement, the return available on good quality corporate and Government bonds of suitable duration, less an allowance for investment manager, administration and other expenses, plus a margin to allow for a proportion of the expected higher return available under the Scheme's actual investment strategy.

**Price inflation**

Price inflation will be based on the difference between the yield on government fixed interest and index linked bonds at the valuation date.

**Pension Increases**

Increases to pensions post retirement will be based on the level of price inflation at the valuation date and the provisions in the Scheme Rules. Where pension increases are subject to a cap an appropriate adjustment is made to allow for this cap.

**Mortality**

The mortality assumptions will be based on the information published by the Continuous Mortality Investigation ("CMI") Bureau of the Actuarial profession. Tables relating to life office pensioners will be used to reflect post retirement mortality, and tables specific to individual members' years of birth will be adopted. Future improvements in mortality will be reflected by adopting "medium cohort" factors issued by the CMI. These standard tables will then be adjusted to reflect in part the actual experience of the Scheme.

**Other** Other assumptions will reflect the Trustee's best estimate of future experience, after taking actuarial advice and taking account of past experience.

## 6. DISCRETIONARY INCREASES

**Policy** Discretionary increases are allowable under the rules of the Scheme, with the consent of the participating employers.

However, there is no longer an established custom of providing increases for pensions that accrued before 6 April 1997 (in excess of Guaranteed Minimum Pensions ("GMP")). Therefore, for the purposes of the ongoing funding contributions (calculated in accordance with this statement) no provision is made for future discretionary increases in the expected cost of members' past service benefits.

## 7. PAYMENTS

**Payments in** No parties other than the participating employers and employees are expected to make contributions to the Scheme.

**Payments out** The Scheme's assets may be used to meet benefit payments to members and their beneficiaries and to pay scheme expenses, pension scheme levies and premiums in respect of any insured benefits.

**Surplus refund** The Scheme can only make payments to the participating employers if the Scheme is winding up and all members and beneficiaries have first of all been provided with a maximum level of benefits detailed in the rules of the Scheme.

## 8. CASH EQUIVALENT TRANSFER VALUES (CETVs)

**Availability** Members may elect to leave the Scheme and take a transfer value to another pension arrangement.

**Value** The transfer value is required by legislation to represent the "cash equivalent" value of the benefits being transferred.

**Reduced CETV** Current legislation permits the reduction of CETVs if a Scheme is under funded. In order to reduce CETVs the Trustee must obtain a report (often referred to as a GN11 Report) from the Scheme Actuary showing the extent of under funding and stating the maximum amount by which CETVs may be reduced.

The Trustees have not deemed it necessary to commission such a report.

This statement has been prepared in June 2007.

Signed: ____________________________

On behalf of the Trustee

Dated: ________________

In view of the unusual nature of the Scheme and the likelihood of obtaining each participating employers signature the Trustee has decided that whilst it will consult with the participating employers it will not seek to obtain each participating employers signature to this document.

## Appendix: Actuarial Assumptions

| **Financial assumptions** | **Derivation** |
|---|---|
| Price inflation | Expectation of long term future inflation set having regard to the difference between yields on fixed interest and index linked Government bonds (Gilts) at the valuation date.<br><br>This produces a figure of 2.90% p.a. at 31 March 2006. |
| Benefit increases: | |
| ➲ pre retirement | Set equal to the minimum level of interest as specified in the Scheme rules of 4% pa for Pensions Capital accrued on contributions paid prior to April 2003 and 2% for Pensions Capital accrued on contributions paid after April 2003. |
| ➲ post retirement | Post 5.4.1997 Pension — Derived using the price inflation above, adjusted to reflect the 0% floor and 5% cap.<br><br>This produces a figure of 2.60% p.a. at 31 March 2006. |
| Discount rate: | |
| ➲ post retirement | Based on the mid point between the yield on 20 year gilts and over 15 year AA corporate bonds (less a default risk allowance).<br><br>This produces a figure of 4.50% p.a. at 31 March 2006.<br><br>This rate is then reduced for expenses as detailed below. |
| ➲ pre retirement | Assumed to be equal to the post retirement return + 1.80% p.a. as an allowance for a proportion of higher returning equity to be held reflecting the Scheme's asset distribution.<br><br>This produces a figure of 6.30% p.a. at 31 March 2006.<br><br>This rate is then reduced for expenses as detailed below. |

**Demographic assumptions**

| | |
|---|---|
| Mortality: | |
| ➲ Post retirement | PMA92/PFA92 medium cohort tables based on individuals' year of birth rated up by two years |
| ➲ Pre retirement | No allowance |
| Retirements | Members are assumed to retire on their Normal Retirement Date. This is set by the member's Employer. |
| Withdrawals | No allowance made |
| Exchanging Pension for Cash | No allowance made |
| Expenses | An allowance of 1.3%pa of the Scheme's assets is made for expenses. |

| **Sample life expectancies** | **Males** | **Females** |
|---|---|---|
| Average future life expectancy (in years) for a pensioner aged 60 in 2006. | 25 | 28 |

# THE FEDERATED FLEXIPLAN NO. 1 PENSION SCHEME

**ANNOUNCEMENT NO. 1 (2007)**

**TO :** **ALL MEMBERS OF THE FEDERATED FLEXIPLAN NO.1 PENSION SCHEME ("THE SCHEME")**

**FROM :** **ENTRUST PENSION RECOVERY LIMITED ("ENTRUST")**

**CONTENT:** **THIS ANNOUNCEMENT IS FOR YOUR INFORMATION ONLY - YOU DO NOT NEED TO TAKE ANY ACTION IN RELATION TO IT**

## 1 General

The purpose of this announcement is to update you on recent developments concerning the Scheme. You do not need to take any action but if you have any queries please do not hesitate to contact the individuals listed at the end of this announcement.

## 2 Recent changes - Trusteeship

The first change is to the trusteeship of the Scheme and consists of the appointment of Entrust as a sole corporate trustee of the Scheme in place of the previous trustee Capita Pension Trustees Limited by Deed of Appointment dated 15 May 2007.

The appointment was made by the previous trustee Capita Pension Trustees Limited with a view to placing the trusteeship into the hands of a company which is on the Pension Regulator's panel of independent trustees to act on behalf of the beneficiaries of the Scheme. Entrust is a specialist trustee company whose duties as with any trustee of a pension scheme include the duty to act in the best interests of the beneficiaries of a scheme. It has over 12 years experience of acting as independent trustee of pension schemes. It is not connected or associated with the Capita Group.

## 3 Recent Changes - Investment

Entrust, upon becoming appointed, sought investment advice from Capita Hartshead on the current investments of the Scheme. This advice has been considered and a change has been made to the investments of the Scheme as a consequence. The result is that a significant holding of shares or equities has been disposed of and the proceeds have been invested in fixed interest investments. The advice was provided having regard to the level of pensions which are currently being paid out of the Scheme.

## 4 Actuarial Valuation

The draft actuarial valuation of the Scheme as at 31 March 2006 has been under consideration for some time. Entrust is currently engaged in consultation with the employers in relation to the methods and assumptions used to calculate the technical provisions of the Scheme which are recorded in the Statement of Funding Principles and used in the valuation and any other matters included in the Statement of Funding Principles. It is hoped that this process will be completed in the next few weeks so that the valuation can be formally adopted.

The Scheme actuary Mr Peter Barnard of Capita Hartshead has been engaged in the actuarial valuation exercise. Comments from Mr Adam Stanley who advises the employers' group (mentioned below) have also been received on this exercise.

## 5 Employers' group

Following the decision of the previous trustee, Capita Pension Trustees Limited to move away from the targeting of benefits in the Summer of 2006 an employers' group was established to help coordinate the process of effective communication between the trustee of the Scheme, its advisers and the employers regarding a number of ongoing issues for the Scheme.

The Chairman of the employers' group is Mr Hugh Scurfield who is immediate past deputy Chairman of Help The Hospices and also former President of the Institute of Actuaries. Mr Adam Stanley, an actuary from Punter Southall, assists the employers' group on actuarial matters and Jennie Kreser of Thomas Eggar has been engaged to provide the employers' group with support on pensions legal issues. The employers' group represents those employers who have joined the group rather than the members of the Scheme. The contact details for the employers' group are as follows:

Rowena Jackson
Help The Hospices
Hospice House
34-44 Britannia Street
London WC1X 9JG

Tel: 0207 520 8202
Fax: 0207 278 1021

Email: rjackson@helpthehospices.org.uk

It is hoped to liaise further with the employers' group and make progress with regard to issues relevant to the Scheme in the forthcoming weeks and months.

## 6 Pensions Organisations

We set out for your information on the attached sheet the details of four organisations involved with pensions.

## 7 Contact details

It is important that we remain able to contact you in the future. If you change address, or your name, perhaps through marriage, or know a member who has not received this Announcement, please inform the Scheme administrators in writing at the following address:

The Flexiplan 1 Administration Team
Capita Hartshead
Queensgate
121 Suffolk Street
Queensway
Birmingham B1 1LX

Email: enquiries-flexiplan1@capita.co.uk

8 **Next steps**

As mentioned above, this Announcement is for your information and you do not need to take any action at this stage. We will issue further announcements to members as matters progress.

If you require any further information about the Scheme generally please write to the administrators at the address set out above. If you wish to contact Entrust the details are as follows:-

Entrust Pension Recovery Limited
c/o Mr P Kennedy
St James's Court
Brown Street
Manchester
M2 2JF

Email : Patrick.kennedy@entrustpension.com

Please mark any letters or emails clearly "Federated Flexiplan No.1 Pension Scheme".

Patrick Kennedy

............................................................ **27/06/2007**
**Director**
**For and on behalf of**
**Entrust Pension Recovery Limited**

1 **The Pensions Advisory Service (TPAS)**

TPAS (formerly OPAS) is an independent body which is financed in part by the Department for Work and Pensions. Pension Scheme members and their dependants may apply at any time to TPAS about any pensions query they may have or difficulty they may have failed to resolve with the trustee or administrators of the Scheme. In most cases complaints will, of course, be resolved internally without the need to refer matter to TPAS. If TPAS is unable to settle the matter then it will be able to refer the matter to the Pensions Ombudsman (see below). TPAS may be contacted at:

11 Belgrave Road
London
SW1V 1RB
TPAS operates a national telephone helpline on 0845 601 2923.

2 **Pensions Ombudsman**

The Ombudsman has the power to investigate any complaints and settle disputes between the trustees and managers or employers and the complainant. He will usually only become involved if TPAS has been unsuccessful in sorting out the problem. Complaints must normally be referred to the Ombudsman within 3 years of the act or omission occurring. The Ombudsman may be contacted at the same address as TPAS (see above).

3 **The Pensions Regulator**

The Pensions Regulator was established on 6 April 2005 in place of the Occupational Pensions Regulatory Authority, with wide ranging powers to oversee and, if appropriate, intervene in the running of pension schemes where trustees, employers or professional advisers fail in their duties.

The Pensions Regulator is required to collect certain information from schemes and to maintain up to date records so that individuals can trace their past deferred pension rights.

The Scheme has been registered with the Pensions Regulator, who may be contacted at:-

Napier House
Trafalgar Place
Brighton
BN1 4DW

Tel : 0870 606 3636
Email: customersupport@thepensionsregulator.gov.uk

4 **The Pension Tracing Service**

Individuals who wish to trace past deferred pension rights can contact the Pension Tracing Service at:

The Pension Service
Tyneview Park
Whitley Road
Newcastle-upon-Tyne NE98 1BA