February 2013

IN4ORM

No relief for companies with pension deficits

As Britain heads into a triple dip recession there is no relief on the horizon for companies struggling to pay off pension deficits. According to figures published by Mercer on 6th February, pension scheme accounting deficits for the FTSE 350 companies stood at £75bn at the end of January.

The current pension regime requires companies to make contributions to plug the deficit but it has long been recognised that it would be more beneficial for the UK economy if companies could instead use this money for business investment, development and the creation of new jobs to lift the country out of recession.

Organisations such as the CBI and the National Association of Pension Funds have campaigned for a relaxation in the pension rules. However the Pensions Regulator takes the view that the current rules on Recovery Plans already allow sufficient flexibility to companies. The Regulator's view is not surprising given that it has a statutory duty to protect the Pension Protection Fund.

In January 2013 the DWP launched a call for evidence on two issues:-

1. Whether actuarial valuations should continue to use current market spot rates to calculate assets and liabilities or whether to allow smoothing over a longer period of time, and
2. Whether the Pensions Regulator should be given a new objective, or possibly a statutory duty, to consider the affordability of Recovery Plans to the employer.

In the meantime Solvency II continues to cast a dark shadow. This EU directive requires banks and insurance companies to hold much higher levels of capital reserves than previously. If this requirement were to be extended to UK final salary pension schemes, the additional cost to employers would be considerable. Last November pensions minister Steve Webb stated that UK pension scheme funding shortfalls are likely to increase by around £150bn if the European Commission were to go ahead with such a proposal. The UK government continues to lobby against the possibility of extending Solvency II to UK pension schemes.

We will keep you informed of developments on these two highly significant matters.

44 BENEFIT SOLUTIONS

This publication is for the general guidance of our clients only. It is not financial advice and it not an authoritative statement of law.
Registered office: **44 Benefit Solutions Ltd**, Elizabeth House, 73 High Street, Syston, Leicester, LE7 1GQ