

Please reply to:

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The Hundred Group
of Finance Directors

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Mr W Galvin
Chief Executive
The Pensions Regulator
Napier House
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Dear Bill,

Forthcoming statement on pension scheme funding

Thank you again for taking the time to meet me in January this year. I felt that we had a useful and productive meeting.

Following on from one of the themes of that meeting, I am now writing with regard to your forthcoming statement on pension scheme funding. Although there is no formal consultation on the contents of this statement, I am aware that you have been taking soundings from the larger actuarial firms, and I thought that you might also find it helpful to have some thoughts from the Hundred Group's Pensions Committee.

Overall, we recognise the Pensions Regulator's objectives of ensuring appropriate scheme funding in difficult financial conditions. We believe that it is key that financial regulation should be prepared to adapt to reflect changing short-term economic conditions.

In particular, we would note that, whilst quantitative easing has had a detrimental effect on pension scheme funding, it is also likely to result in companies having a stronger sponsor covenant, and it will be important for the Pensions Regulator to reflect this, both in its statement and in its ongoing regulation of pension schemes.

Also, our experience has been that over the last few years, there has been an increasing convergence of interests between trustees and employers. It is essential that the statement is worded so as not to have a counter-productive and detrimental effect on this relationship which is to the benefit of all parties, in particular pension scheme members. For example, trustees should not feel that they are obliged to take firm positions in funding negotiations only because of strict criteria being applied in a pension regulator's statements.

The statement should make clear that trustees should continue to make decisions on a scheme-specific basis, and not by reference to some arbitrary default, such as ten year recovery plans. In fact, we would question whether the funding triggers still have any positive value in the regulation of scheme funding and whether they might usefully be withdrawn, leaving trustees and employers free to agree matters on a scheme-specific basis.

We would also hope that the statement will give reassurance to pension scheme trustees that they can agree to a lengthening of recovery periods, in cases where the recovery period agreed at the last valuation is no longer practicable, without fear of regulatory intervention or sanction.

We hope that these comments are helpful and fit with the Pensions Regulator's own views as to its forthcoming statement. We would be happy to discuss any of these points further with you if that would be useful.

Yours sincerely,



Philip Broadley

Chairman

The Hundred Group – Pensions Committee