

First Actuarial strengthens collaborative relations between Trustees of the SBAC Pension Plan and the Employers



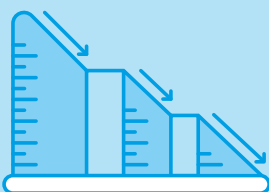
Key outcomes



Affordable employer contributions – thanks to First Actuarial’s pragmatic and bespoke approach to the valuation



Productive discussions between Trustees and Employers – First Actuarial’s collaborative style strengthened relations



Lower pension scheme running costs – with First Actuarial adhering to its fixed-fee approach

As a result of an unusual clause in their trust deeds, Trustees of the pension scheme sponsored by the Society of British Aerospace Companies (SBAC) funded their liabilities on a buy-out basis. This resulted in an onerous recovery plan for the Employers. First Actuarial found an innovative way to accommodate this rule in the valuation process, meeting the potentially conflicting objectives of Trustees and Employers.

The challenge

A clause that the Trustees felt required them to fund the pension scheme at a buy-out level

The Trustees had gone out to tender for actuarial, administration and investment services. “On several occasions the previous provider had failed to deliver work on time, and lacked a proactive approach,” says Trevor Sidebottom, Chair of the Pension Trustees’ Committee for the SBAC Pension Plan.

The Trustees shortlisted three companies and selected First Actuarial. “They were very personable,” says Trevor, “and we felt they would be more agile and responsive than our previous provider. That has certainly turned out to be the case.”

As part of the valuation process, First Actuarial examined an issue that had caused difficulties between the Trustees and Employers over several years. “Rule 3B of our trust deed states that the Trustees, in consultation with the Employers, should aim to

fund the Scheme on a buy-out basis,” explains Trevor.

This rule required the Scheme to be funded at a level similar to that needed by insurance companies when mitigating the many risks associated with pension liabilities. “This had always been a bone of contention with the Employers, because the rule gave power to the Trustees to determine deficit contributions,” says Trevor.

In practical terms, using a buy-out basis for funding purposes only made sense if the Scheme had short-term plans – within five years, for example – to transfer its liabilities to an insurance company. Although this had never been the case, previous valuations had left the Employers with a costly recovery plan over a 15-20 year period to cover the large deficit arising from cautious buy-out assumptions.

The solution

A pragmatic and compliant approach with cost savings for both Trustees and Employers

Keen to help the Trustees comply with rule 3B, while easing funding pressures for the Employers, First Actuarial proposed a number of changes:

▶ Resetting the notional timing of a potential buy-out

The first step was to establish when the Scheme's liabilities might be bought out by an insurance company. When First Actuarial asked the Trustees whether a buy-out would be affordable within the next five years, they replied that it wouldn't. The Trustees and Employers agreed that a more realistic timeframe was closer to 15 years.

The actuary then explained that in 15 years' time, most if not all of the members would have retired. This

would attract a more favourable pricing basis from an insurer because of the reduced risk and uncertainty.

This justified a change in the set of assumptions used to measure the liabilities – to a level more appropriate for a scheme exclusively comprised of retired members – reducing the deficit by millions of pounds. The Trustees were satisfied that they had not infringed rule 3B, because the valuation was still performed on a buy-out basis.

▶ Applying the Scheme's contingent asset

The Scheme also had a contingent asset in relation to the office building of the Principal Employer. This arrangement meant that in the event of the Employer's insolvency, a defined proportion of the building's value would belong to the Scheme. First Actuarial suggested subtracting that value from the valuation reserve, to reflect the reduction in liabilities

that the contingent asset represented.

"This was welcomed by the Employers because it lowered the cost of funding the liabilities," says Trevor. "It was one example of First Actuarial working proactively to ease the financial burden on the Employers, in a way that the Trustees could accept."

The outcome | Cost savings and improved relations all round

▶ A lighter financial burden on the Employer

With the revised funding basis and the use of the contingent asset, First Actuarial delivered significant cost savings for the Employers. "The recovery plan became much more manageable," says Trevor. "It gave the Employers more affordable annual contributions and eased the company cash flow."

Cost savings have also been made in the running of the Scheme. "First Actuarial's fees are lower than the previous provider and more predictable," says Trevor. "So the Employers, who have to meet those costs, benefit a great deal from First Actuarial's sound valuation and efficient administration work."

▶ Productive and proactive pension services

With First Actuarial on board, the Trustees enjoy vastly improved support. Actions are completed ahead of deadlines, and First

Actuarial is prepared to work flexibly. If a complex issue arises, a consultant will often visit the Trustees in person to talk it through.

▶ Greater Trustee confidence in meeting objectives

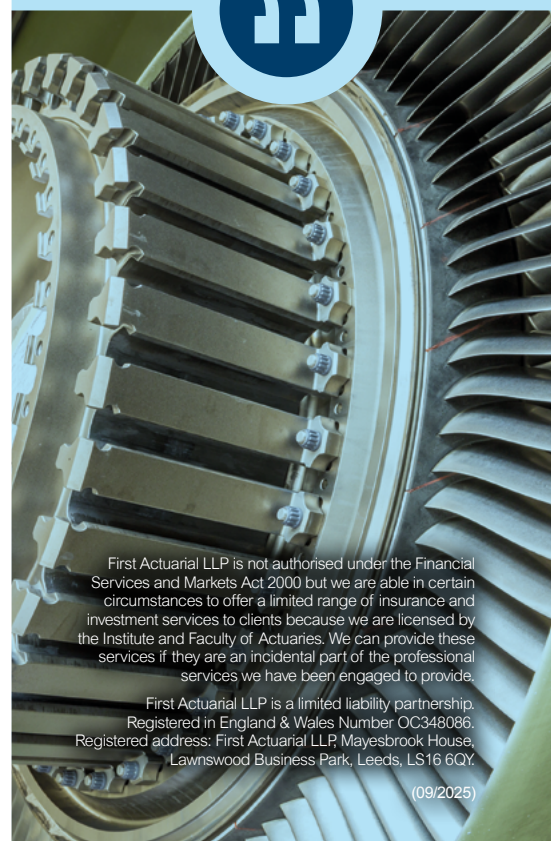
The Trustees' ultimate objective is to secure member benefits. First Actuarial's valuation methodology gave the Trustees a realistic and credible way of achieving this, without raising any concerns from The Pensions Regulator. "First

Actuarial has given both Employers and Trustees the confidence we need, not only in their calculations and valuations but in the very basis of the Scheme," says Trevor. "This is why we're extremely satisfied with the way they're supporting us."



"First Actuarial are very proactive. They respond quickly and get things done. They have proved to be competent and conscientious, and have a very professional and personable approach to business relations."

Trevor Sidebottom,
Chair of the Pension
Trustees' Committee for the
SBAC Pension Plan



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