



**Peter McEwen, Chairman**

**Andrew Waring, Chief Executive**

**MNOFP Trustees Limited**

Merchant Navy Officers Pension Fund

Summary of strategic reviews  
and valuation timetable

**23 July 2009**



# Agenda

1. Old Section Strategic Review
2. Old Section possible buy-in transaction overview
3. New Section Strategic Review and employer consultation
4. 2009 Actuarial Valuation Process and Timetable



**Andrew Waring, Chief Executive**  
**MNOFP Trustees Limited**

Merchant Navy Officers Pension Fund

Old Section Strategic Review

**23 July 2009**



# 2008 Strategic Review

- During 2008 the Trustee commenced a strategic review of the Fund.
- As part of the strategic review, the Trustee investigated the possibility of securing all of the Old Section liabilities via a buy-in.
- A buy-in policy is an insurance policy issued by an FSA authorised insurer.
- It is an investment of the Fund and
  - Is held by the trustees
  - does not discharge the scheme's obligations to provide the relevant benefits
  - simply matches some or all of the scheme's liabilities
- Liability of Participating Employers continues, even if the Trustee carries out a buy-in of all of the Fund's liabilities, although the level of risk in the scheme is greatly reduced.

**Buy-in:** the purchase of a bulk annuity held by the trustee of a pension fund as an investment of the scheme. The relationship between the member and the fund and also the sponsoring employer(s) and the fund does not change.

# Security of Members' benefits under a buy-in

- The Trustee's primary, but not sole, concern is the security of members' benefits.
  
- Security under the MNOFF
  - Pensions Regulator supervision
  - Old Section funding: employers obligation
  - employer covenant: Participating Employers and last man standing
  - inherent risks: e.g. investment and longevity
  - Pension Protection Fund (PPF)
  
- Additional security for a buy-in under insurance regime
  - Financial Services Authority (FSA) regulation
  - capital requirements for insurers
  - relative strength of insurers
  - Financial Services Compensation Scheme (FSCS)
  - collateral arrangements

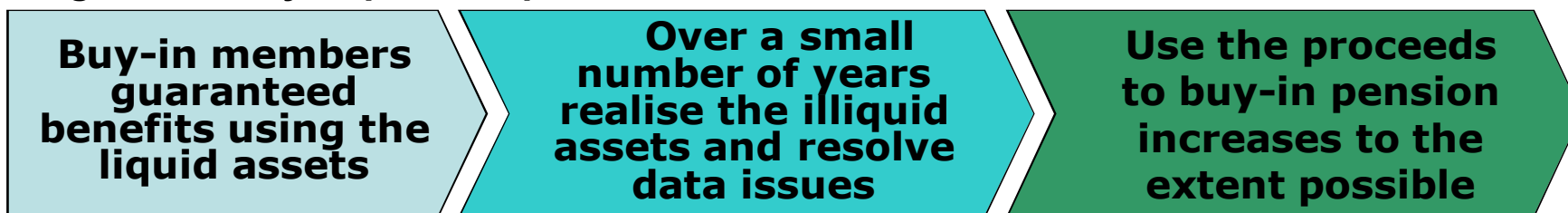
A buy-in substantially reduces the risk that members benefits will not be paid in full



## 2008 Old Section full buy-in overview

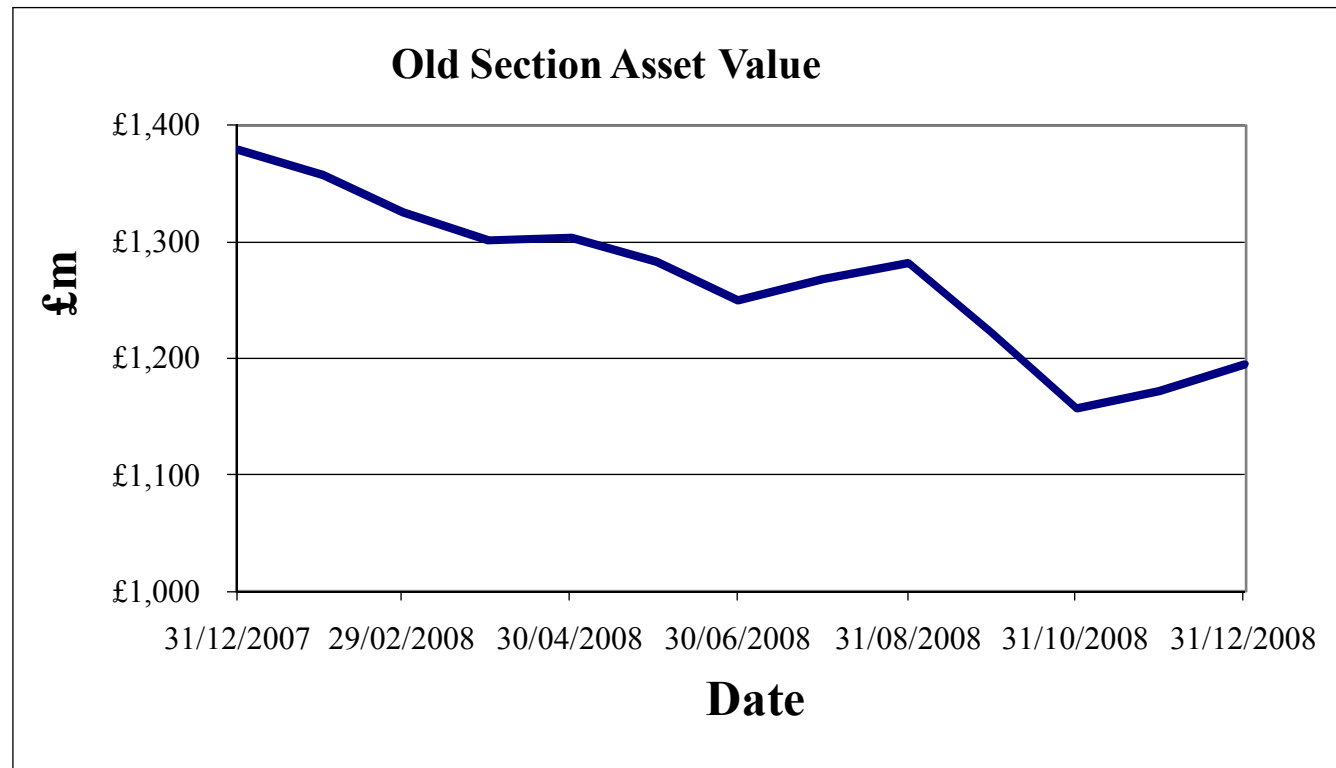
- A proportion of the Old Section assets are not readily realisable and this would have impacted on the timescales for completion of a full buy-in transaction.
- There were a number of data uncertainties which would be resolved over time in the normal course of events in an ongoing scheme, but which needed to be crystallised prior to completion of the buy-in. In particular, these were in relation to:
  - Deferred members who are over normal pension age but whose benefits have not been put into payment
  - Contingent widows' pensions for pensioners in payment
- A large amount of work has now been completed in relation to the data issues.

Original full buy-in process plan:



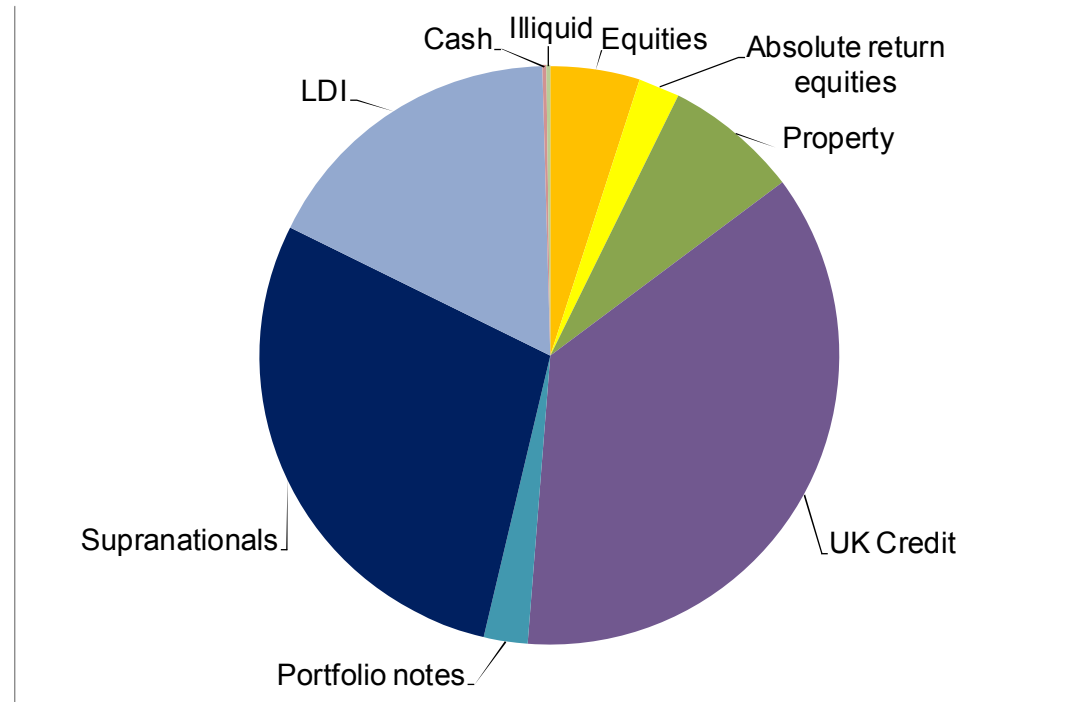
# 2008 Old Section full buy-in transaction overview

- Whilst the necessary discussions with insurers continued and data cleansing was undertaken, the Old Section's assets reduced in value (as markets fell during the credit crunch) relative to the liabilities.
- It became no longer possible to secure the guaranteed benefits in full with the liquid assets at that time.



## Therefore.....2009 Partial pensioner buy-in

- A Journey Plan to securing Old Section liabilities was developed.
- Possibility of a partial buy-in whilst remaining on track to secure all of the Old Section liabilities over time.
- The Trustee has received quotations from insurers for a buy-in of some 60% of the pensioners but there is flexibility to increase or reduce this percentage.
- This level of buy-in is broadly based on the proportion of matching assets.



A partial pensioner buy-in should reduce the overall risk in the fund

# Partial pensioner buy-in: process overview

- A shortlist of insurers had been selected as part of the full buy-in investigations.
- Maintaining the momentum of the 2008 discussions the Trustee has engaged in detailed discussions with these insurers regarding the partial pensioner buy-in.
- The Trustee has reduced the shortlist further and is now working with a small number of providers with the aim of completing a partial buy-in this quarter.
- In making the final decisions as to whether to go ahead with the buy-in the Trustee's key considerations are:
  - Ensuring a high degree of security is provided by the insurer in order to protect members' benefits
  - Ensuring the price is such that the Trustee would still expect to secure all liabilities of the Old Section over time.



**Andrew Waring, Chief Executive**  
**MNOFP Trustees Limited**

Merchant Navy Officers Pension Fund

New Section strategic review

23 July 2009



# Background

## Strategic review

- The Trustee considered ways of reducing risk within the New Section and investigated;
  - which risks were seen to be most critical to all parties, and
  - the ‘cost’ of managing the risks
- The balance is likely to change over time, as economic conditions change and tactical market opportunities arise
- Typically, the greater the risk reduction the greater the ‘cost’

## Consultation with employers

- 14 employers (selected by the Chamber of Shipping) were consulted during the period from June to September 2008
- Employers consulted represented over 50% of the New Section liabilities (over 65% allowing for their share of the current orphan liability)

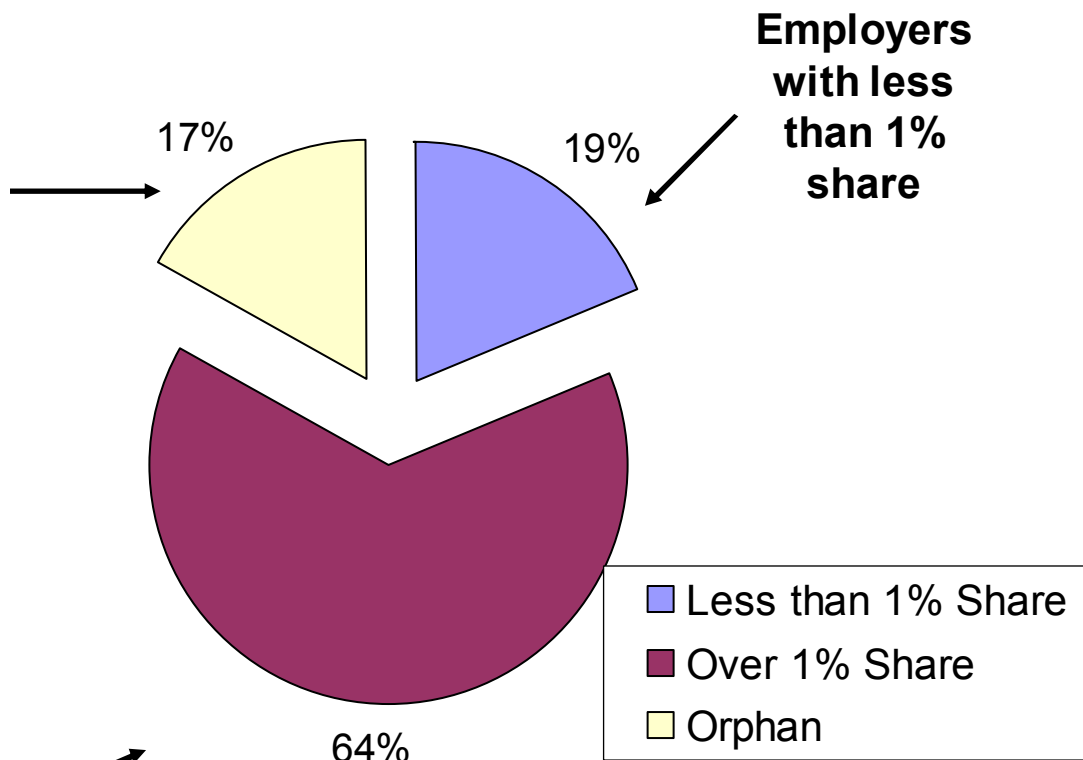
# 'Last man standing' nature of the Fund

- The MNOFP is a 'last man standing' pension fund
- If a sponsoring employer becomes insolvent then the liabilities associated to that employer become 'Orphan Liabilities' and become the responsibility of the remaining solvent employers of the MNOFP
- This means every fund member can effectively count on the covenant of ALL employers in assessing the security of their benefits
- In other words, a member's benefits would only not be paid in full once ALL employers of the MNOFP had become insolvent and the Fund was in deficit when the PPF would apply
- This means any decisions with regards to employers ability to 'exit' the fund by the Trustee has implications for ALL members and ALL remaining employers. Each employer has a responsibility to all members of the fund and the Trustee should not lightly take a decision which would result in members benefits becoming less secure or imposing liabilities on remaining employers.

# Make-up of New Section

**Over a number of years:**

- Several employers have become insolvent
- Orphan liabilities<sup>(1)</sup> are around 17% of total liabilities



**Employers with less than 1% share**

**Employers with over 1% share**

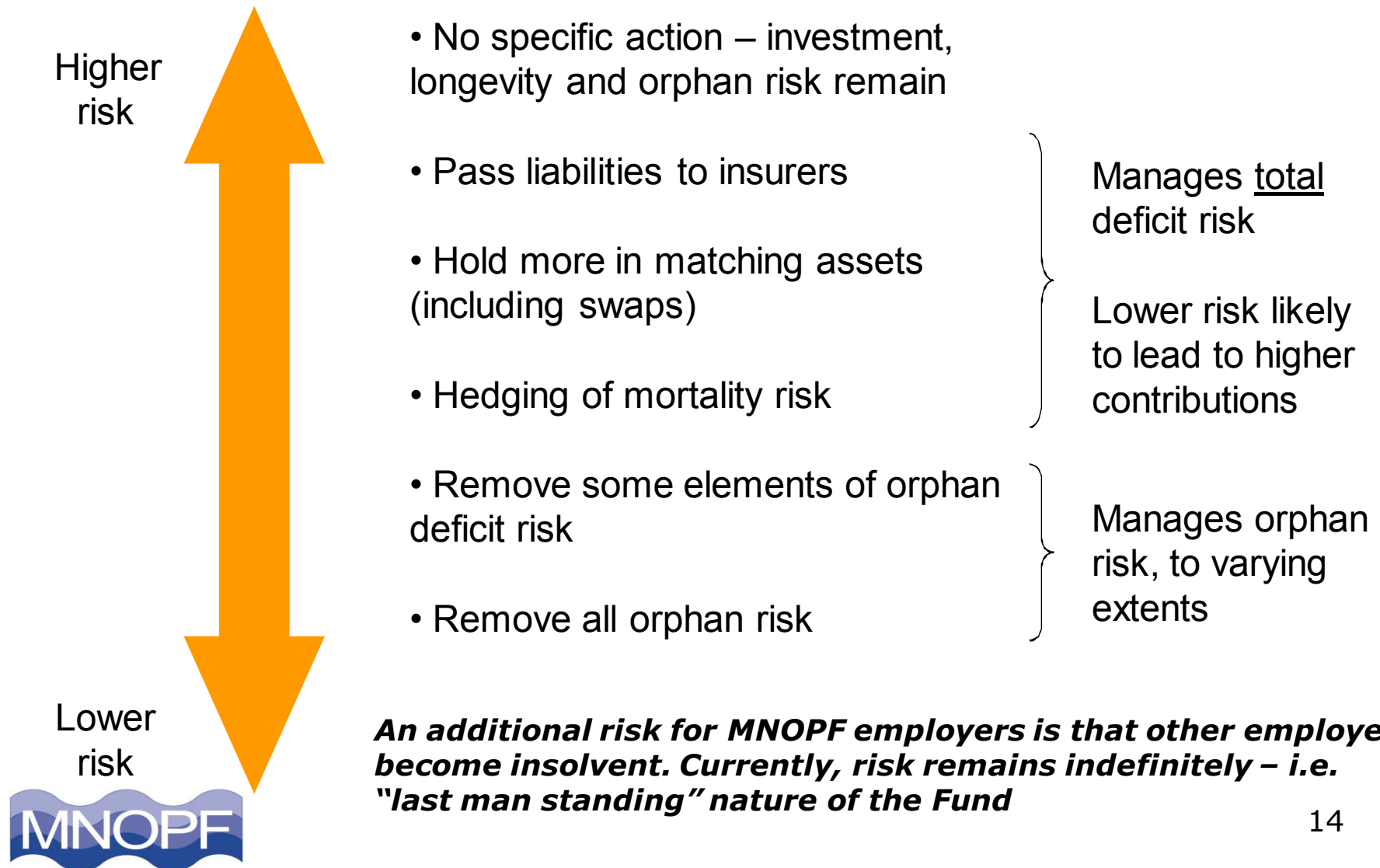
- The largest 3 employers cover 35% of the deficit (42% including the share of orphan liabilities)
- The largest 5 employers cover 45% of the deficit (54% including the share of orphan liabilities)
- The largest 10 employers cover 55% of the deficit (66% including the share of orphan liabilities)

**NOTES**

- Orphan liability calculations are based on employer status as at September 2007
- 'Employer' refers to the aggregated participating employers within a corporate group



# General spectrum of risk management strategies



# Options discussed with employers

Employers were consulted on the following four risk reduction options (non-exhaustive and not mutually exclusive – other options also exist):

**Option 1:** Securing ‘own share’ of liabilities – future orphan risk remains

**Option 2:** Securing ‘own share’ of liabilities and some future orphan risk

**Option 3:** Secure all liabilities via ‘consortium’

Would need to fund in advance for any employers not willing to participate

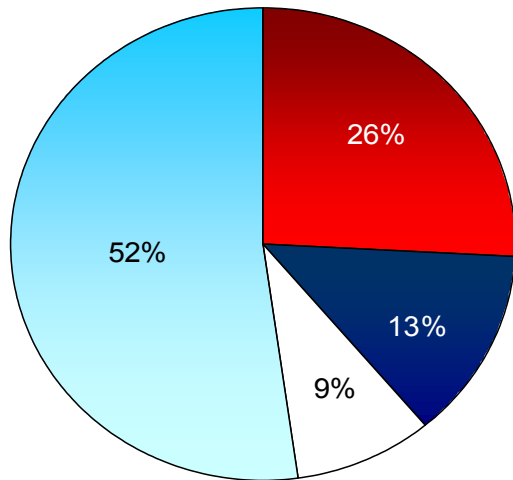
**Option 4:** Continue to operate the Fund ‘as is’ with continued management of ‘general’ risk

# Summary of feedback from employers

- Consultation very positively received by employers
- General points raised:
  - (Lack of) control and decision making influence
  - Lack of visibility on risks run within the MNOFP
  - Concern over potential future orphan liabilities
  - Section 75 debts
  - Desire to exit the fund
- Employers are seeking greater certainty and control over costs/risks

# New Section Employers – responses to options

Distribution of liabilities favouring each option



■ option 1 ■ option 2 □ option 3 ■ option 4

- Option 4 is the most popular with more than half of the liabilities favouring this option
- Around a quarter are in favour of Option 1
- Option 2 attracts some interest (broadly half that of Option 1)
- Option 3 is unsurprisingly the least popular

Option 4 supported continued risk management by the Trustees

## Other considerations

- 'Credit Crunch' impacted on affordability of achieving any form of settlement with a counter party (option 1 or 2).
- The Trustee considered situations where they could accept a bulk transfer to an employers own pension scheme within its fiduciary duties to the relevant members and indeed all members.
- Because of the last man standing nature of the scheme the Trustees found it difficult to agree to this without the employer remaining obligated to fund any future orphan liabilities i.e. employers would remain 'on the hook' for liabilities in relation to future sponsoring company insolvencies.
- The Trustee concluded this was unlikely to satisfy employer requests to exit and so ceased investigation of the option, but the Trustee will consider approaches on a case by case basis.
- The New Section strategic review continues through the March 2009 valuation.



**Peter McEwen, Chairman**  
**MNOFP Trustees Limited**

Merchant Navy Officers Pension Fund

Old and New Section Valuation  
timetable and process

**23 July 2009**



## New Section: Recent Valuations – Ongoing Basis

|                          | Full Valuation<br>31 March 2003 | Full Valuation<br>31 March 2006 | Interim Update<br>31 March 2008 |
|--------------------------|---------------------------------|---------------------------------|---------------------------------|
| <b>Liabilities</b>       | £1,365m                         | £2,082m                         | £2,082m                         |
| <b>Assets</b>            | £1,171m                         | £1,931m                         | £1,999m                         |
| <b>Surplus/(Deficit)</b> | (£194m)                         | *(£151m)                        | **(£83m)                        |

**Future service benefits: joint contribution 19.2% - fixed broadly to avoid any cross subsidy and subject to review in current Valuation**

**\* Additional to the £194m deficit**

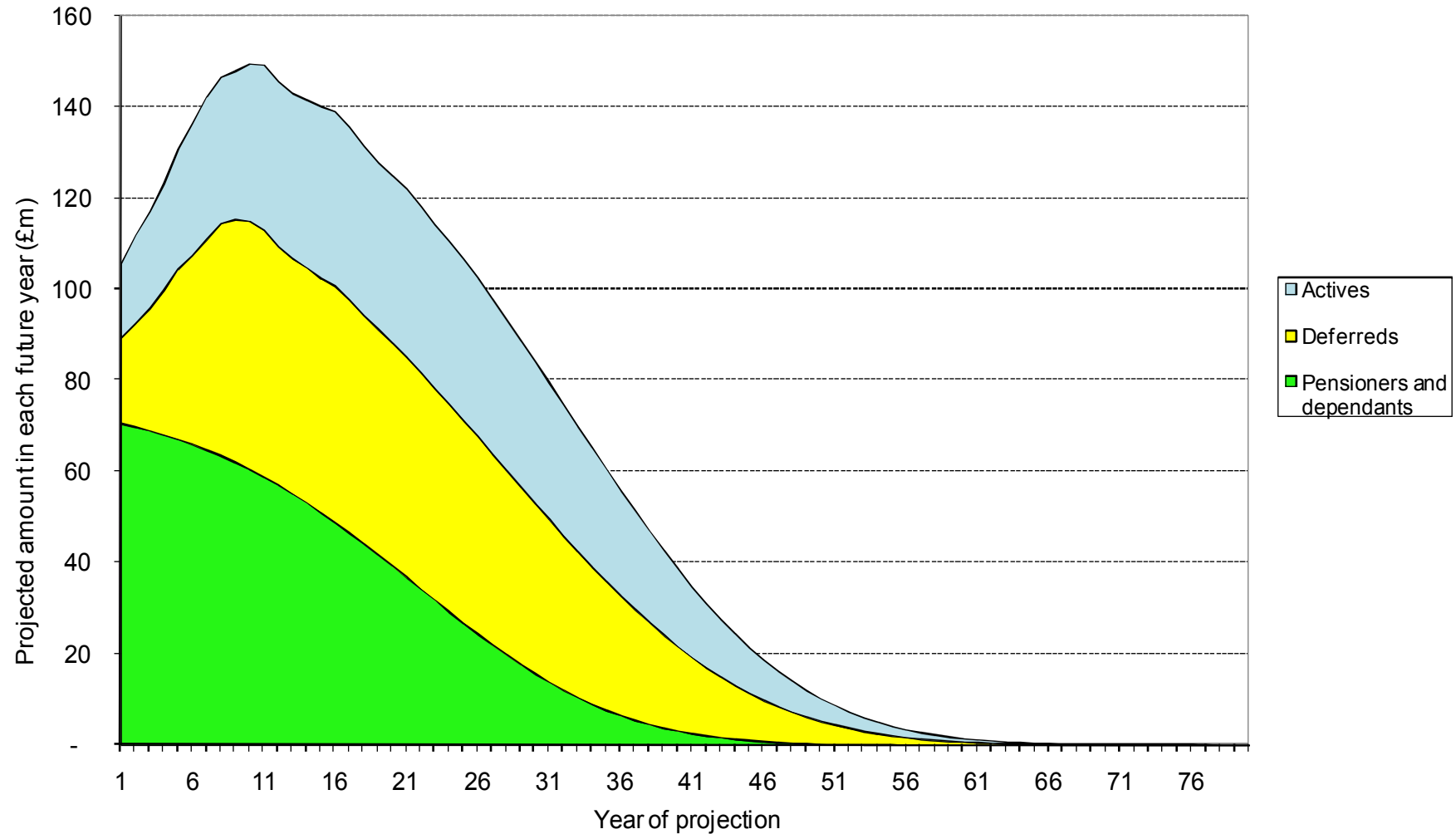
**\*\* Additional to the £194m and £151m deficits**

# Old Section: Recent Valuations – Ongoing basis

|                          | <b>Full Valuation<br/>31 March 2003</b> | <b>Full Valuation<br/>31 March 2006</b> | <b>Interim Update<br/>31 March 2008</b> |
|--------------------------|---|---|---|
| <b>Liabilities</b>       | <b>£1,149m</b>                          | <b>£1,376m</b>                          | <b>£1,300m</b>                          |
| <b>Assets</b>            | <b>£1,316m</b>                          | <b>£1,473m</b>                          | <b>£1,295m</b>                          |
| <b>Surplus/(Deficit)</b> | <b>£167m</b>                            | <b>£97m</b>                             | <b>(£5m)</b>                            |

# New Section: Liability cashflows

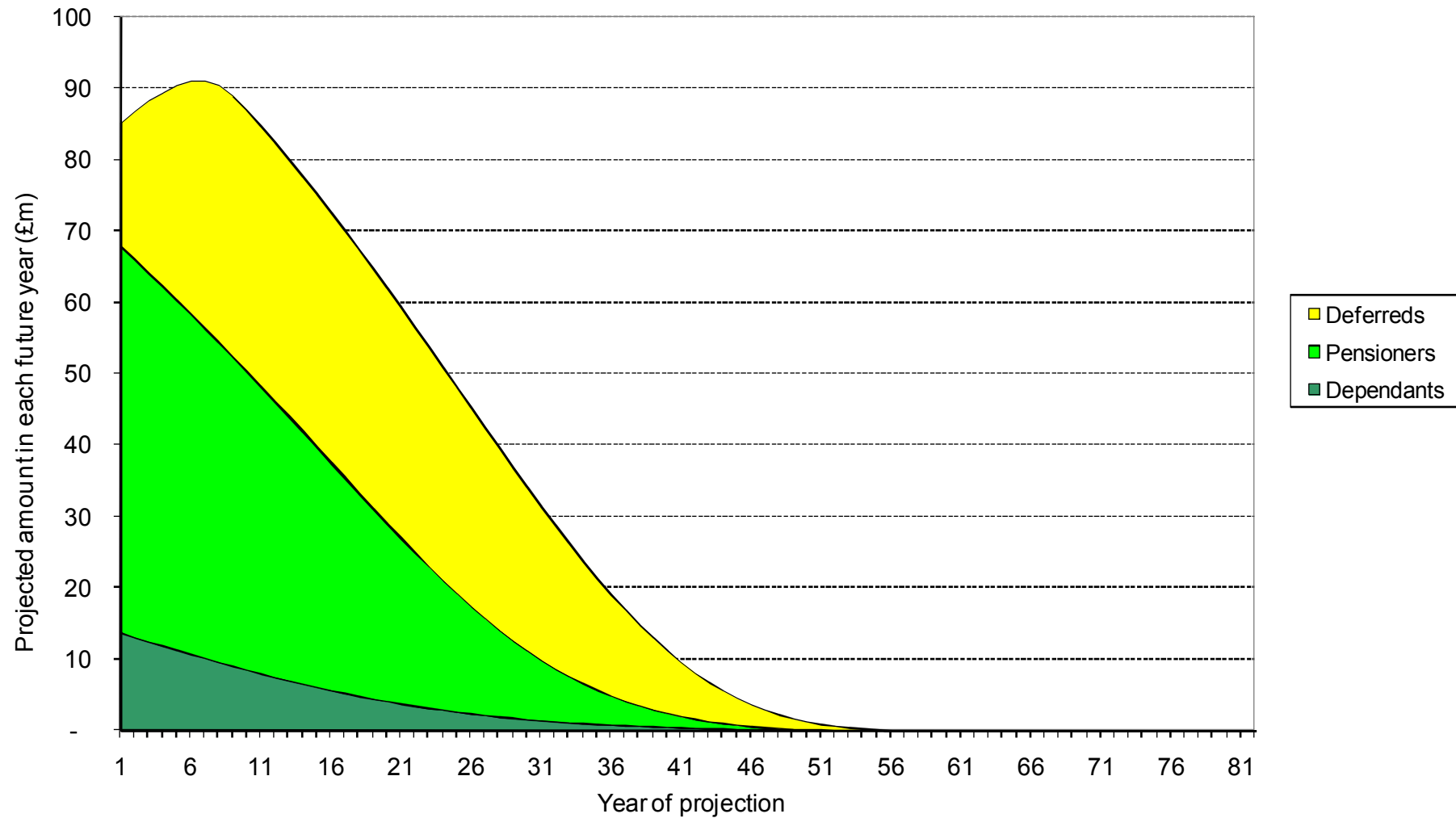
Merchant Navy New Section - Projected Cashflows from 31 March 2009



Note: the cashflows shown above are based on membership data as at 31 March 2006 and do not accurately reflect changes since then. They are intended only to show the broad shape of the liability cashflows.

# Old Section: Liability cashflows

Merchant Navy Old Section - Projected Cashflows from 31 March 2009



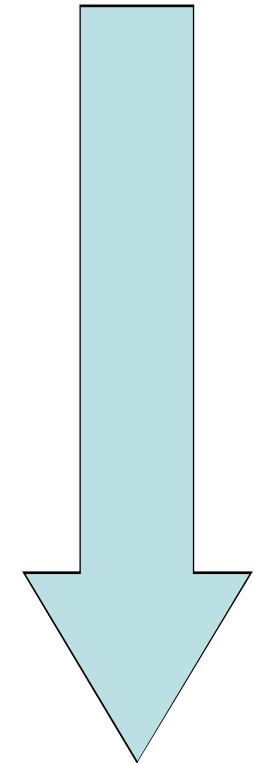
Note: the cashflows shown above are based on membership data as at 31 March 2006 and do not accurately reflect changes since then. They are intended only to show the broad shape of the liability cashflows.

# Regulation

- Trustee must consult with employers on assumptions and contributions
- Decision on assumptions and contributions ultimately lies with the Trustee
- Trustee set the required contributions having regard to Actuary's advice
- Regulator will assess funding 'Recovery Plan' and contributions using their triggers and request further information from the Trustee if required

# Valuation Timetable – Preparatory Work

- |   |              |
|---|--------------|
| ■ Membership data to Actuary                      | end May 2009 |
| ■ Review of employer covenant                     | Jun – Dec 09 |
| ■ Review of investment strategies                 | Jun – Dec 09 |
| ■ Calculation of employers' shares of liabilities | Jun – Dec 09 |



# Valuation Timetable – Preliminary Results

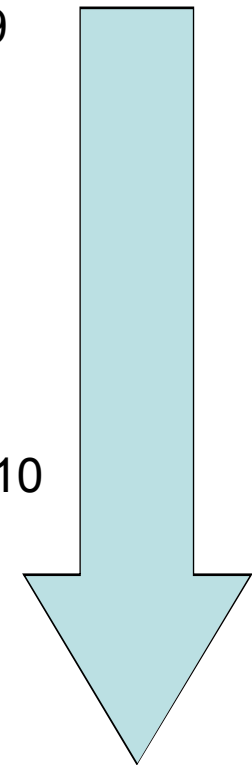
- Preliminary figures and discussions on changes since last valuation/assumptions
- Consultation letter to employers
- Consider issues arising from consultation
- Prepare draft Recovery Plan

From Sept 2009

Oct/Nov 2009

Dec 2009/Jan 2010

From Jan 2010



# Valuation Timetable – Finalisation

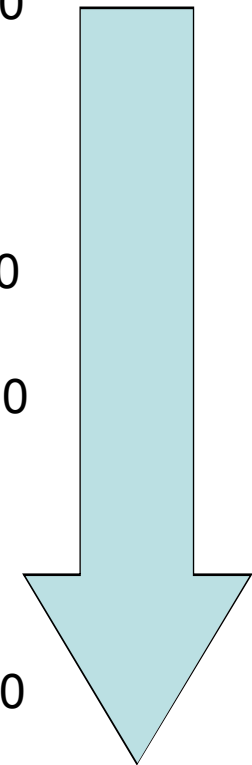
- Formal decisions made on Valuations, Recovery Plan and deficit contribution collection policy
- Communicate formal decisions to employers
- Sign valuation reports, schedules of contributions etc
- Invoice deficit contributions for payment at a due date of 30 Sept 2010

Mar 2010

Apr 2010

May 2010

Aug 2010



# Valuation Outcome

- Old Section
- New Section
- Recovery Plan
  - consider length of recovery period and loading
  - review credit terms (more stringently than in 2006?) depending on creditworthiness of employer
  - more use of credit support arrangements

# Important information

- This presentation was produced to provide summary information to the participating employers of the MNOFP
- The information contained within this presentation is confidential and should not be distributed further without the prior written consent of the Trustee
- Any figures or graphs in this presentation have been produced for reference only and should not be relied upon
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