DEFINED CONTRIBUTION PENSION SCHEMES IN THE UNITED KINGDOM

BY R. KEY

(Synopsis of a paper presented to the Society on 18 December 1984)

DEFINED contribution or 'money purchase' pension schemes until recently attracted little attention. In particular the devastating effects of inflation in the 1970's might have killed off such schemes. Now, however, with inflation well within single figures, the defined contribution pension scheme is making its comeback.

The paper describes defined contribution schemes in their various basic forms:

(*a*) Fixed benefit—where contributions would purchase non profit endowment assurances or deferred annuities.
(*b*) With-profit benefits—similar to the above except that with profit endowment assurances or deferred annuities are purchased.
(*c*) Unit-linked—where contributions purchase a 'share' of the total fund. normally by the purchase of units in a unitized fund.

These are compared with defined benefit schemes.

The reasons why a defined contribution pension scheme might be established in preference to a defined benefit scheme are discussed by considering the extent to which each type assists the achievement of a selection of corporate objectives which might be set for a pension scheme.

Those discussed are:

(*a*) To assist with recruitment.
(*b*) To promote retention of staff.
(*c*) To provide a benefit to employees retiring after long service with the company which is sufficient to provide a reasonable standard of living.
(*d*) To concentrate resources on employees who stay with the company until retirement.
(*e*) To be seen to treat all members equitably.
(*f*) To operate a scheme which will be easily understood by its members.
(*g*) To operate a scheme which can be administered simply and at minimum cost.
(*h*) To concentrate resources on employees who are concerned about their pension provision.
(*i*) To provide the benefits cost-effectively.
(*j*) To enable the cost of the scheme to be controlled.

The operation of a scheme in practice is considered, covering some aspects of scheme design, and, in particular, the determination of contribution rates and

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benefits payable on withdrawal. The choice of investment media and investment manager is discussed. In both cases areas where actuarial advice may be required are noted.

The benefits which might emerge from final salary and defined contribution schemes are illustrated by comparing results obtained from a 'model scheme'.

Finally the paper analyses some ways in which the simple defined contribution pension scheme can be amended so as to achieve particular objectives which might not, of themselves, suggest the use of such a scheme. Those described are

(*a*) The use of age-related contributions.
(*b*) The use of service-related contributions.
(*c*) 'Matching' the company's contributions to those of the member.
(*d*) The incorporation of a final salary guarantee.
(*e*) Making use of a choice of investment funds.
(*f*) Investing a part of the contributions paid in the shares of the sponsoring company.

ACTUARIAL VALUATION OF PENSION SCHEMES

BY P. WORTHINGTON, F.I.A.

(Synopsis of a paper presented to the Society on 19 March 1985)

THE paper, concentrating on privately invested pension schemes, discusses the various purposes for which an actuarial valuation can be undertaken: consideration of the discontinuance position; provision of an Actuarial Certificate A; the ongoing actuarial valuation and, for the purposes of the pension, aspects of purchases and sales of companies and their subsidiaries.

The author considers that a discontinuance valuation should take into account the benefits to which members would be entitled were they normal withdrawals. The major reason being that the discontinuance certificate would then compare the benefits available to those who left just prior to any notional discontinuance with the ability of the scheme to continue to provide them. The author states that it is of great importance that any certificate given should set out clearly the benefits and assets taken into account in order that any reader should not be misled. The need to compare assets and liabilities as factually as possible means that the actuary will tend towards considering the cost of buying benefits from an insurance company rather than the cost of continuing the scheme on a closed basis. The incidence of expenses into the future would make calculations for a closed scheme difficult to substantiate. Some subjective judgements must be made and the requirement to publish the percentage cover, if less than 100%,