Solvency II’s discount rate would hurt FTSE 100 pensions: Deloitte survey

By Editor Test *Wed, Apr 4, 2012*

Using a risk-free rate to estimate pension asset growth would increase pension under-fundedness by 20% to 50%, Deloitte survey shows.

The adoption of Solvency II-based accounting rules in a revised IORP (Institutions for Occupational Retirement Provision) Directive could significantly increase the pension liabilities of FTSE 100 companies, according to Deloitte. (This report first appeared in IPE.com.)

Three-quarters of respondents to Deloitte’s recent survey of pension executives showed that 75% of respondents believe that using the risk-free discount rate to estimate funding sufficiency, as required under Solvency II, would effectively increase gross liabilities by 20-50%, or £1bn-2.5bn for the average FTSE 100 company.

In a speech at the House of Commons in London, Matti Leppälä, secretary general at the European Federation for Retirement Provision (EFRP), said that the risk-free mandate would have a disastrous impact on pension plans in Europe.

“Currently, this kind of discount rate is used in only five member states. In other member states, IORPs are currently obliged to value their liabilities according to a fixed discount rate or a discount rate that is based on the expected return on assets,” he said.

“For an IORP that currently has to discount its liabilities according to a fixed-interest rate of 4%, a transition to a risk-free interest rate (currently around 2.6%) would imply an increase in the value of the liabilities of more than 20%.”