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If this issue of SPC News was forwarded to you, and you would like to receive a copy direct from us, please e-mail Carla Smidt at SPC

⇒⇒⇒ (carla.smidt@spc.uk.com)

SPC registers steep rise in profile

One of the aims set for SPC in our most recent survey of Members was to increase its media profile.

Just over a year ago, SPC engaged Smithfield as consultants, to assist in achieving this aim.

A media audit, conducted to coincide with the anniversary of their engagement, across a representative spread of pension and broader financial media, registered significant improvements in profile.

For the key findings, please click [here](#). ■

Death of Kay Weller

We are sad to report the death of Kay Weller on November 25th 2008.

Kay was Assistant to the Secretary from 1981 until her retirement in 1987 and helped out in the office on an occasional basis for several years thereafter. Her enthusiasm and efficiency were formidable and she will be much missed.

SPC was represented at her funeral and has made a donation to be shared among a number of causes devoted to children and overseas development, nominated by Kay. ■

SPC features at the Pensions Show

SPC ran two sessions at this year's Pensions Show at the London Excel on 19 November.

The first session was entitled: "Who is the right guardian of defined benefit promises?"

Our scene setter was Duncan Howorth (President, SPC and Managing Director, Jardine Lloyd Thompson Benefit Solutions) and we heard the views of Fraser Smart (Director, Northern Region, Buck Consultants), Emma Watkins (Business Development Manager, Metlife), and Kay Carberry (Assistant General Secretary, TUC). There were contributions from the floor and discussion moderated by Duncan Howorth.

Our second session was a panel discussion on "Who should be doing what to make defined contribution a success?"

This session was led by Sir James Hodge (Chairman, SPC), with contributions from Natalie Winter (Aberdeen Asset Management and Chairman SPC Investment Committee), Cathy Robertson (Standard Life and SPC Council), Jason Coates (Wragge & Co. and SPC PR Committee and Paul McGlone (Aon Consulting and SPC Council).

Featured were results of research commissioned by us from Populus, specifically for these sessions, and covered later in this issue.

A total of about 300 delegates attended the two sessions, gaining excellent exposure for SPC and its invited speakers.

Delegate feedback on the SPC sessions was excellent and we plan to repeat our participation at the 2009 Pensions Show. ■

SPC DISCUSSION PAPER:

Short-Term Easement for Employers with Defined Benefit Pension Schemes in the Current Financial Crisis

SPC has sent a note to Rosie Winterton, the Pensions Minister, suggesting some short-term easements for employers with defined benefit pension schemes.

For a copy of the covering letter from the SPC President, Duncan Howorth, together with the note, please click [here](#).

We hope both are of interest and of use to you. We will be meeting the Minister to follow up the note. ■

Outcomes from SPC participation in the Pensions Show



At our second session at the Pensions Show, we released the results of research on retirement incomes commissioned by SPC from Populus.

The results are on the SPC website and are also available by clicking [here](#).

During the second session, delegates were also asked to choose the three most important factors needed to make a success of defined contributions. In descending order of importance, the audience chose the following:-

- Facilitation of financial information and advice through the workplace
- Maintenance of light governance requirements
- Education on the mathematics of retirement

The audience was also asked to identify the greatest threat to effective DC provision. The results were as follows:-

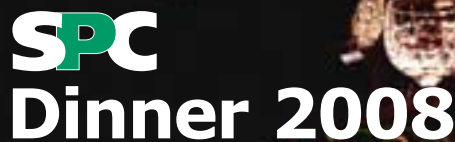
Insufficient contributions	58%
Failed expectations	15%
Misunderstanding of investment risk	12%
Default fund failures	8%
Prohibitive annuity rates	7%

The audience was then asked to indicate what was most urgently needed to mitigate these threats. The responses:-

Better and more member education	60%
Higher contributions	25%
Compulsory contributions	10%
More retirement option flexibility	5%

Finally, delegates were asked who should be responsible for the effectiveness of DC provision. The votes were as follows:-

The employer	50%
The government	20%
The member	15%
The provider	9%
The regulators	6%



SPC Dinner 2008

SPC had another successful Dinner on October 30th.

The venue was again The Dorchester. The principal guest was Nigel Waterson, MP, the Shadow Pensions Minister, who proposed the toast to SPC. The response was by Duncan Howorth, the SPC President. Ian King, Deputy Business Editor at The Time responded for the guests.

For a copy of the speech by Duncan Howorth, please click [here](#). ■



SPC London Evening Meetings

Details of our next meeting organised jointly with APL, are as follows:-

Date	Subject	Speakers	Venue
January 26 th 2009	Conflicts of interest	Joanna Smith & Jane Samsworth (Lovells/APL) and Mark Ashworth (Law Debenture /SPC)	Wragge & Co., 3 Waterhouse Square, Holborn, London EC1N 2SW

We are grateful to **Wragge & Co** for hosting the above meeting. The meeting is preceded by refreshments at 5.00 p.m.; the meeting begins at 5.30 p.m. and is expected to end at 6.45 p.m. following questions and answers.

Handouts are available for the following meetings.

Date	Subject	Speakers
September 25 th 2008	Is your Pensions Administrator in the Premier League?	Terry Ritchie and Girish Menezes (Capita Hartshead)
October 15 th 2008	Decumulation	Billy Burrows (MPL Wealth Management Limited)
November 13 th 2008	An Equity Analyst's View of Pension Liabilities	Peter Elwin (Cazenove)
November 18 th 2008	Supporting Employers on Pensions in a Changing Workplace	David Lebrecht (David Lebrecht Consulting)
December 17 th 2008	Investment Options for DC Members	Adam Potter and Hamish Wood (Aegon Scottish Equitable)

You can obtain a copy of each handout by clicking on the subject. ■

SPC Meetings in Scotland 2009



SPC organises meetings in Scotland jointly with NAPF and PMI. The current programme for 2009 is below:-

DATE	SUBJECT	SPEAKERS	*VENUE/TIME
February 26 th 2009	De-risking Pension Funds – Mortality/ Buyout	Buyout, Paternoster Ian Aley, Business Development Director Mortality Swap, Credit Suisse speaker – tbc	Edinburgh Breakfast 8.30 am for 9.00 am
March 5 th 2009	Governance	Steve Delo	Glasgow Evening 5.30 pm for 6.00 pm
April 2 nd 2009	Local Government Pension Changes	Graeme Muir	Edinburgh Evening 5.30 pm for 6.00 pm
May 7 th 2009	DC Issues	Rachel Vahey, (Aegon) Colin Steward (Citigroup) or speaker from Accenture	Glasgow Breakfast 8.30 am for 9.00 am
June 5 th 2009	Half day seminar focused on trustee issues followed by PMI and NAPF AGMs and lunch	Various speakers/ topics to be announced in 2009	Edinburgh - Hotel Half day seminar followed by AGM/ lunch

***Edinburgh:** Shepherd & Wedderburn, 1 Exchange Crescent, Conference Square, Edinburgh EH3 8UL

***Glasgow:** Hymans Robertson LLP, 20 Waterloo Street, Glasgow G2 6DB

SPC meets HMRC on wind-ups

SPC has met HMRC, to follow up SPC's paper of January 2008 to HMRC on winding up and benefits paid in two tranches and HMRC's initial response in June 2008. For a copy of SPC's paper, please click [here](#).

SPC's current main concern is to resolve the difficulties which HMRC requirements cause in reducing pensions during a wind up. The need to resolve these difficulties is acute. DWP and the Pensions Regulator are pressing for wind ups to be completed as quickly as possible, but this puts trustees in a difficult position, where a reduction in pensions might be necessary as part of the wind up, giving rise to unauthorised payments and therefore disadvantaging members.

HMRC confirmed that it intended to make regulations (now issued in draft for consultation), which would mean that reductions to benefits on wind up would no longer be classified as unauthorised payments. ■

Latest SPC online poll results

In our latest online poll of SPC Members we asked:

Which of the following is the most likely impact of recession on pension provision?

The vote was as follows:

The final demise of defined benefit	50%
The erosion of the attraction of defined contribution	26%
The creation of an opportunity to refresh pension design	21%
Rekindled awareness of the advantages of defined benefit	3%

Pre-Budget Report 2008

Lifetime and Annual Allowances

One of the key announcements relating to pensions in Alistair Darling's Pre-Budget Report on 24 November was a freeze on the Lifetime and Annual Allowances from 2010/11 to 2015/16 inclusive. Over this period, the LTA will be £1,800,000 and the AA will be £255,000.

This could affect decisions already taken by high earners over whether to elect for Primary or Enhanced Protection. In the case of the former, a person's own personal allowance increases in

line with the increase in the LTA, and will thus be frozen from 6 April 2010 until 5 April 2016. By contrast, under Enhanced Protection the value of an individual's benefits at 5 April 2006 can generally be increased in line with prices or earnings.

'Ordinary' members, who have grandfathered pre A-day cash will be affected by this change, as the grandfathered cash increases in line with the increases to the LTA.

We have written to HMRC to record our disappointment at the changes. For a copy of our letter, please click [here](#). ➔

Income tax changes

A new 45% higher rate income tax charge will be introduced on 6 April 2011. It will apply to incomes above £150,000.

For individuals whose pension benefits exceed the Lifetime Allowance, this also means that benefits taken in pension form could be taxed at this rate. This gives an effective rate of 58.75% (45% on 75% of the excess benefit), compared with the current 55%. The tax charge on the excess taken entirely as cash is a stand-alone charge of 55%. It remains to be seen whether this rate will be changed.

In line with this new higher rate of income tax, there will also be a commensurate new tax rate on dividend income. This increases from the current 32.5% to 37.5%.

There are also changes to personal tax allowances. From 6 April 2010, these will be restricted for those with incomes over £100,000. The personal allowance will be reduced at the rate of £1 of allowance lost for every £2 of income over £100,000, until the allowance is halved in value. This makes the personal allowance effectively worth the same for these high earners as for a basic rate taxpayer. From £140,000 of income, the remaining allowance is completely withdrawn at the same rate, so that very high earners gain no benefit from the personal allowance.

National Insurance Contributions

With effect from 6 April 2011, employer and employee rates of NICs will increase by 0.5%. At the same time, the point at

which individuals start to pay NICs will be aligned with the personal allowance. This increase will further improve the attractiveness of salary sacrifice arrangements. ■

2009/2010 Pension Protection Levy Consultation

We have responded to PPF's consultation document on the 2009-2010 levy.

For a copy of our response, please click [here](#).

We reported the publication of the consultation document in **SPC News No. 4, 2008**. ■

Pensions Regulator's 2012 regime communication plans

Representatives of SPC's Administration and Legislation Committees have had an informal meeting with the Pensions Regulator, to discuss its plans for communicating with employers on the new pension regime planned to be introduced in 2012.

The meeting concentrated on the Regulator's planning on registration of employers for auto-enrolment and current employer awareness of the 2012 regime. ■

Statutory requirement for revaluation of deferred pensions: delay in commencement of 2.5% annual cap

The latest Pensions Act contains provisions which will reduce the annual cap on the statutory revaluation requirement for deferred final salary pensions, from 5% to 2.5%. In the light of the slower than expected Parliamentary

progress of the preceding Pensions Bill, and the need for schemes to prepare for this change, DWP has agreed to bring the provisions into effect from April 6th, 2009 rather than January 1st, 2009, as previously planned. ■

Errors and inconsistencies in the employer debt regulations

We have written to DWP, setting out what we consider to be errors and inconsistencies in the employer debt regulations.

For a copy of our letter please click [here](#).

DWP has now sought our views on a number of technical amendments to the regulations. ■

Pensions on divorce: use of CETVS

The government gave a commitment in its response to the consultation on "Approaches to the Calculation of Pensions Transfer Values" (published in January 2007) to consider whether cash equivalent transfer values (CETVs) were the most appropriate method to value pension rights for divorce purposes.

The CETV methodology is used to calculate the value of a member's pension rights when transferring pension rights to another pension scheme and for divorce purposes. The same methodology is used to value pension rights for both transfers and pension sharing.

Using a different methodology would mean that some former spouses would be treated more favourably than, for example, scheme members who chose to transfer out their pension rights from their current scheme. The government has concluded that this would be unfair, and that the CETV methodology is therefore the most appropriate method for valuing pension rights both for transfers and divorce purposes.

The government has also considered whether the trustees of occupational pension schemes should be required to offer former spouses membership of the scheme and has concluded (as it did in 1999) that trustees should be free to choose whether to accept former spouses as members of that scheme. ■

Reference scheme test and lifetime allowance lump sums

We have corresponded with DWP on the interaction of the reference scheme test and lifetime allowance lump sums.

A copy of the correspondence is available by clicking [here](#).

We intend to follow up the DWP response. ■

Pensions Regulator Review of the Trustee Knowledge and Understanding Code of Practice and Scope Guidance

The Pensions Regulator is consulting on its review of the Trustee Knowledge and Understanding Code and Scope Guidance.

A copy of its consultation paper is available by clicking [here](#).

At the time of preparing this issue of SPC News, we had the consultation paper under consideration. ■

SPC comments on contracting out amendment regulations

We have responded to the draft Occupational Pension Schemes (Contracting Out) (Amendment) Regulations 2008, which set out proposed provisions for converting GMPs to scheme benefits.

Our response is available by clicking [here](#).

For a copy of the draft regulations, please click [here](#). ■

Review of the employer requirement to consult

We have responded to DWP's review of the requirements on employers to consult.

For a copy of our response please click [here](#).

The DWP review document is available by clicking [here](#). ■

Government extends pensions regulator's anti avoidance powers

The Pensions Regulator's anti avoidance powers in the Pensions Act 2004 have been extended. DWP consulted on these changes in April 2008, and on 21 October 2008 amendments were tabled to the Pensions Bill to implement a revised version of the moral hazard powers. The Pensions Bill has now become an Act.

The main changes from those proposed in April concern Contribution Notices and material detriment.

One of the most controversial aspects of the proposals in April was the widening of the circumstances in which the Regulator can impose a Contribution Notice (CN). Currently a CN can be triggered only where an act, or failure to act interferes with the Section 75 debt mechanism. As drafted, the Bill also allowed a CN to be triggered where an alternative "material detriment" test is met. This test is met "if the Regulator is of the opinion that the act or failure has detrimentally affected in a material way the likelihood of accrued scheme benefits being received". This could potentially be widely applied.

Accordingly, safeguards are to be introduced: a CN cannot be issued where the party can demonstrate that the risk to scheme benefits was considered, and that either all reasonable steps were taken to eliminate that risk or it was reasonable to conclude that no detriment would occur. Additionally, the Regulator must issue a statutory Code of Practice regarding the application of the new test. Draft Content for the Code, published on 20 October 2008, provides a draft list of circumstances in which the new CN power would be used. The Code will have to be taken into account by the Determinations Panel of the Regulator, and a Court or Tribunal. Regulations regarding the material detriment test may also be issued.

Most of the legislative changes are intended to be retrospective to 14 April 2008. The Regulator issued a statement

on 25 April 2008, setting out how it would operate some of the amended powers in the interim. In relation to the new material detriment test, the government's stated intention is that

the legislation will not come into effect until the Regulator's Code comes into force, but the legislative amendments appear to bring these provisions into effect from 14 April 2008 also. ■

Pension Protection Fund: Consultation on the Future Development of the Pension Protection Levy

The Pension Protection Fund has issued a consultation document on the future development of the Pension Protection Levy. For a copy, click [here](#).

A significant proportion of PPF's total levy estimate reflects long-term risks, a large part of which relates to schemes, which initially are well funded and/or whose sponsors enjoy strong solvency. Although these schemes may appear secure, deficits can worsen and sponsor solvency can decline, either through a general economic downturn or a company specific problem. PPF indicates that the ratio of long-term risk to short-term risk is significantly lower in the case of weaker schemes than for stronger schemes – though weaker schemes' absolute risks remain higher, both short-term and long-term.

PPF currently allows for long-term risk in setting the overall level of the levy, but not in dividing the levy between levy payers.

As the distribution of risk alters significantly if a long-term risk measurement is used, and as PPF's liabilities are long term in nature, it

believes that taking the longer term into account in the distribution would produce a fairer distribution of the levy.

PPF considers that the proposals in its document offer a way to improve fairness, as they would result in a more scheme specific measurement of risk. They aim to:-

- Continue to recognise short-term risk – to cover the claims PPF expects under normal circumstances;
- Add a component to the risk-based levy to reflect a scheme's contribution to these long-term risks, including through its investment strategy;
- Provide the potential to reduce, in due course, the scheme-based levy;
- Potentially offer lower volatility in individual bills (relative to using the current formula) as schemes' levy bills will be less geared to changes in market conditions.

At the time of preparing this issue of SPC News, we had the consultation document under consideration. ■

DWP's forthcoming draft regulations and consultations

DWP has provided us with an updated list of forthcoming draft regulations and consultations. For a copy, please click [here](#). ■

Professional indemnity insurance: increase in minimum indemnity limits

FSA has proposed amendments to the Professional Indemnity Insurance (PII) requirements in the Prudential sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries (MIPRU) and Interim Prudential sourcebook for Investment Businesses (IPRU(INV)). These changes will allow the UK to comply with the requirement in the Insurance Mediation Directive (IMD) to adjust the PII minimum indemnity limits in line with movements in the European Index of Consumer Prices (EICP).

As the EICP has increased by 12.02 per cent over the five year period since the IMD came into force, the new PII minimum indemnity limits for firms subject to this Directive must be raised to:

- €1,120,200 for a single claim (currently €1 million); and
- €1,680,300 in aggregate (currently €1.5 million).

The PII minimum indemnity limits for firms subject to the IMD are currently contained in MIPRU Chapter 3 and

IPRU(INV) Chapters 9 and 13. FSA therefore proposes to substitute the existing requirements for firms subject to the IMD with these revised amounts. PII indemnity limits for firms not subject to the IMD remain unaffected.

FSA expects that these changes will come into effect from 1 March 2009 and will apply to new policies (including those extended or renewed) entered into from this date. Policies entered into before this date will be subject to the current PII indemnity limits. ■

Update on local government pension scheme investment survey

We have received from CIPFA an update on the Local Government Pension Scheme investment survey.

Based on the findings of a survey of Local Government Pension Scheme managers, CIPFA (The Chartered Institute of Public Finance and Accountancy) will recommend that changes are needed to simplify and

modernise the LGPS investment regulations.

In its report to the CIPFA Pensions Panel (which commissioned the work), a group of senior LGPS managers is considering a number of detailed recommendations aimed at clarifying the rules on permitted investments and borrowing, and

the use of overseas investment managers.

CIPFA plans to work with both the Department for Communities and Local Government and LGPS administrators to use the suggested changes to improve investment management within a stronger, modern investment framework. ■

Government response on updating the Myners principles

The government has published its response to its consultation on updating the Myners Principles.

For a copy, please click [here](#). ■

EU consultation on harmonisation of solvency rules



We have responded to the European Commission's consultation on harmonisation of solvency rules.

For a copy of the response, please click [here](#).

We reported the publication of the Commission's consultation paper in [SPC News No. 5, 2008](#). ■

The Society of Pension Consultants

St Bartholomew House
92 Fleet Street
London EC4Y 1DG

TELEPHONE: 020 7353 1688

FACSIMILE: 020 7353 9296

EMAIL: john.mortimer@spc.uk.com

WEB: <http://www.spc.uk.com>

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Oonagh McDevitt (Eversheds)
and contributors from Mercer

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About **SPC**

SPC is the representative body for the providers of advice and services needed to establish and operate occupational and personal pension schemes and related benefit provision. Our Members include accounting firms, solicitors, life offices, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. Slightly more than half the Members are consultants and actuaries. SPC is the only body to focus on the whole range of pension related functions across the whole range of non-State provision, through such a wide spread of providers of advice and services. We have no remit to represent any particular type of provision.

The overwhelming majority of the 500 largest UK pension funds use the services of one or more of SPC's Members. Many thousands of individuals and smaller funds also do so. SPC's growing membership collectively employ some 15,000 people providing pension-related advice and services.

SPC's fundamental aims are:

- (a) to draw upon the knowledge and experience of Members, so as to contribute to legislation and other general developments affecting pensions and related benefits, and
- (b) to provide Members with services useful to their business.