

Buyout/De-risking

A Case Study (1)



JLT PENSION CAPITAL STRATEGIES

The client

- Mature scheme closed to further accrual
- Around £500m liabilities; reasonably well funded
- Acquisitive sponsor, hence prior demands on cash

The issues

- Sponsor wishing to reduce exposure to DB risk via a buyout of older pensioner members
- But unwilling to fund transaction in advance
- Trustees asking for full pensioner buyout deficit to be paid in advance

The PCS solution

- Formal covenant review to comfort Trustees in their negotiation with the sponsor
- Buy out of all pensioner members to reduce absolute risk
- Transaction triggered once price met criteria jointly agreed by sponsor and Trustees
- Buyout debt to be paid over an extended period
- Revised investment strategy for the residual scheme

The results

- Scheme de-risked to a significant extent
- Both sponsor and Trustees satisfied with price charged for the liabilities given up
- More robust funding plan in place

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