

Buyout/De-risking

A Case Study (3)



JLT PENSION CAPITAL STRATEGIES

The client

- Closed Defined Benefit Scheme of substantial size with active, deferred and pensioner members.
- Over £1bn worth of liabilities, calculated on the Scheme's funding basis; also a significant deficit on the same basis.
- Small Private Equity sponsor, with no DB expertise on main Board (or desire to engage in the management of a DB liability)

The issues

- Extremely conservative funding basis
- Annual actuarial valuations, leading to volatile (and ever increasing) ongoing and recovery contributions
- Substantial running costs
- High opportunity cost for parent, as demands on cash were curtailing market activity

The PCS solution

- Transfer actives to another scheme run by the same employer
- Carry out Early Retirement & Enhanced Transfer Value exercises for deferred members, funding with current year's contributions
- Buy out pensioner members – immediate payment to insurer equal to share of fund; residual payments to be made over a period of up to 5 years

The results

- A substantially smaller scheme with deferred members only
- Reduced contribution volatility, plus much reduced contributions after 5 years
- Running costs reduced to a minimum

JLT Pension Capital Strategies

6 Crutched Friars

London EC3N 2PH

Tel 020 7528 4892

Fax 020 7309 8330

Email solutions@pensionstrategies.co.uk

Web www.jltpcs.com

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