

Implemented De-risking

A Case Study



JLT PENSION CAPITAL STRATEGIES

The client

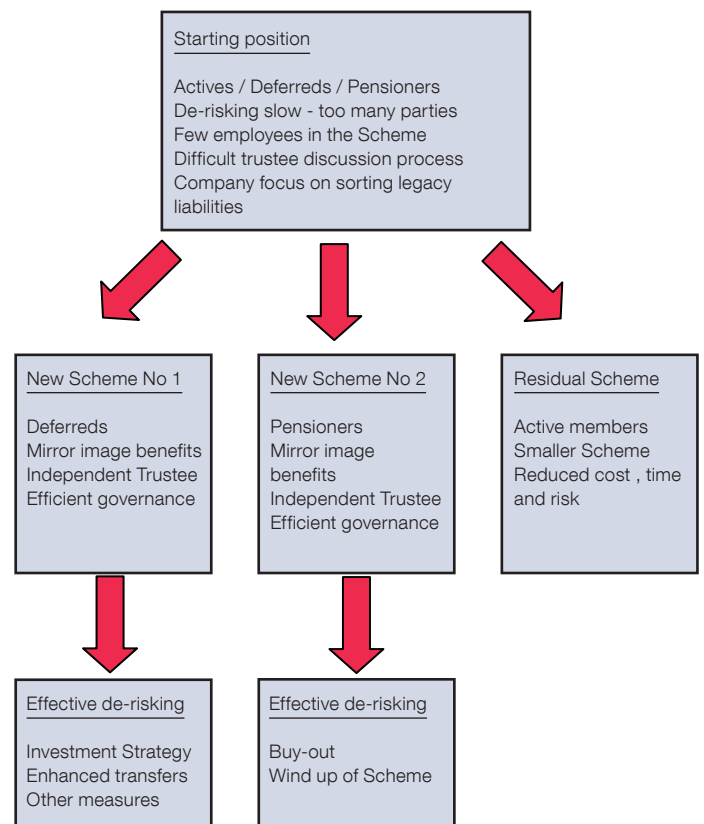
A UK company, subsidiary of a large European multi-national and sponsor of a large defined benefit pension scheme with active, deferred and pensioner members.

The issues

- The UK pension scheme had a long and convoluted history. The majority of members had no links with the current employer and their benefits related to employment with companies which were no longer part of the Group.
- The overseas parent company wanted to embark on a major de-risking strategy.
- They were committed to funding a large deficit but wanted reassurance that the pension scheme problems were being “sorted” once and for all.
- Proposals on pension scheme strategy and de-risking kept getting bogged down in discussions between the trustees, the company and the numerous advisers.
- This had resulted in tensions between the UK trustees and the overseas parent company.
- The UK management was keen to reduce its involvement in the management of the pension scheme but attempts to achieve this had proved fruitless.

The PCS solution

- We implemented a de-merger of the UK pension scheme, leaving active members in the existing scheme while transferring deferred and pensioner members to mirror image arrangements.
- We helped the sponsor and the trustees to set up an efficient Governance framework, including the appointment of an Independent Trustee to each of the new schemes. This was to ensure effective decision making and quick implementation of any agreed strategy.
- We carried out a detailed data cleanse exercise, in some cases having to unravel the provisions of historical mergers and de-mergers. This enabled us to correctly identify the schemes’ liabilities and get them ready for further de-risking.
- We helped the trustees devise a communication plan to keep members informed of developments as they happened, in order to minimise any concerns.
- We secured a buyout in respect of all members of the pensioners’ scheme, carefully negotiating specific points in the contract to best fit the trustees’ and sponsor’s plan for the future of the scheme.
- The advance preparation paid off as we were then able to wind up the pensioners’ scheme in record time.
- We assisted the deferred scheme in implementing a simplified investment strategy, reducing the level of risk in the scheme without sacrificing returns.
- An enhanced transfer value exercise has been proposed for the members of the deferred scheme. This is consistent with the trustees and sponsor policy to manage actively the remaining liabilities.



The results

For the sponsor:

- › A much smaller balance sheet exposure to pension scheme risk, plus reduced accounting volatility.
- › A substantial reduction in the company management time spent dealing with pension scheme issues.
- › A substantial reduction in ongoing expenses.

For the trustees and members:

- › Improved benefit security for pensioner members.
- › A better funded deferred scheme, with a sponsor fully committed to fund the residual deficit through a realistic plan.
- › A scheme with cleaner data and a more robust Governance system in place.

What helped us succeed

- A clear grasp of both the company and the trustees' objectives.
- Professional project management skills, coupled with a detailed understanding of the process underlying the successful implementation of each de-risking activity.
- Regular communication with all parties, to maintain clarity about each party's role and responsibilities.
- A close working relationship with other advisers.

Our relationship

Managing down liabilities is a sensitive and financially complex issue. From outset, we engaged senior management and trustees through formal and informal meetings and communications, whilst making our team available at all time for feedback and questions.

Once a process had been agreed, although client confidentiality remained paramount, our flexibility and pragmatic approach in bringing the right personalities and skills to the engagement ensured that the client was fully informed and comfortable throughout in successfully changing what they did and how they did it.

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