

Pension Increase Exchange

A Case Study



JLT PENSION CAPITAL STRATEGIES

The client

A FTSE 350 Company had ceased accrual and was operating a £50 million defined benefit scheme with a moderate deficit (c. £15 million) on balance sheet (assessed in accordance with IAS19). The Company Pension Scheme contained £30 million of deferred pensioner liability and £20 million of pensioner liability.

The PCS solution

JLT Pension Capital Strategies (PCS) designed and implemented a Pension Increase Exchange exercise for the pensioner members which allowed all pensioner members the option of exchanging future pension increases (awarded in respect of pre 6 April 1997 service) for a higher, but non-increasing pension. The exchange took place with 60% of increases being used to fund higher pensions, the remainder being used to reduce the pension scheme deficit.

The results

Over 40% of members consented to the option and liabilities in respect of pensioners were reduced by almost £1 million. The saving here was treated as a P&L (Profit & Loss) gain in the year of the exercise.

At the same time, retirement options within the scheme were amended to allow retiring deferred pensioner members the option to exchange pension on retirement and to access a higher tax-free cash lump sum. Unsurprisingly, this option proved very popular amongst members as they retired. The company has made allowance for some of the expected savings in its balance sheet liability.

The Trustees, at the request of the company, are to make an allowance for the Pension Increase Exchange for deferred members in their next valuation, which could provide savings in the region of £2 million.

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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