



THE PCS ALERT

The latest in DB Pensions

PCS ANNOUNCES THE LAUNCH OF A NEW INSURED INVESTMENT OPTION TO REVOLUTIONISE THE OPERATION OF PENSION SCHEMES

Dear Sid

At last, there is a new insured investment option for pension schemes that will allow companies to reduce and remove balance sheet volatility at a price likely to be attractive to many. It will also offer pension scheme trustees a much simpler and cost-effective way to improve the matching of assets to liabilities.

The last few years have seen increasing pressure on companies and trustees to reduce pension risk and match assets to liabilities. There has been a lack of attractive investment options to enable this. Most investment options suffer from the problem that either they are not a very good match for the liabilities or, in the case of some of the derivative solutions being offered by banks, they are too complicated for pension scheme trustees (and even some advisers).

At the same time, in the last two years or so, there has been a huge growth in companies offering pension buy-out solutions in one shape or form. A buy-out solution will still be the aspiration for many company pension schemes. But buy-outs suffer from the fundamental problem that they are too expensive for most sponsors of pension schemes.

The solution

This exciting new investment option, provided through a new insurance company, Tactica Assurance Limited, has the advantage of great simplicity:

- There is an option to match all or part of the liabilities – the scheme simply chooses which liabilities it wants to match;
- The IAS19 value of the chosen liabilities is switched into a policy with Tactica Assurance Limited;
- The Tactica policy guarantees all the cash flows for the selected liabilities for the next 10 years. It also guarantees that the value of the policy will equal the IAS19 value of the liabilities at all times during the next 10 years;
- At the end of the life of the policy, assets equal to the IAS19 value of the remaining liabilities are returned to the pension scheme.

The policy can therefore be used in many different ways:

- As an attractive alternative to investing in index-linked gilts;
- As a much simpler alternative to implementing matching strategies using complicated banking solutions;
- For schemes that want to match 100% of liabilities, it is a much cheaper alternative to buy-out for removing balance sheet volatility.

The advantages

The Tactica policy has many advantages, for shareholders, for management and for trustees alike:

- Pension schemes have become a huge drain on management time. This policy can free up management to concentrate on running the business. Trustees too can be relieved of the burden of looking after the funding and investment strategy;
- Pension scheme volatility on companies' balance sheets can become a thing of the past;
- It can be used as part of an existing investment strategy as a better alternative to the current bond portfolio;
- It can be used to implement a structured policy of gradually reducing risk;
- Not only is investment risk substantially removed, but also other risks, such as mortality, are removed for 10 years;
- The danger of irrecoverable surpluses arising can be avoided;
- The time and effort trustees (and companies) need to spend looking after the pension scheme investment strategy is much reduced, with knock-on reductions in adviser fees.

New insured investment option will:

- Significantly reduce risk and volatility
- Guarantee all cash flows for 10 years
- Guarantee assets equal to IAS19 liabilities at all times for next 10 years
- Allow management to focus once again on running the business
- Lifts major burden off trustees

Other options

Variations on the basic policy will also be available which will:

- allow schemes in surplus either to lock in the surplus as well or to invest the surplus in higher return generating assets;
- allow schemes in deficit to match a large proportion of their IAS19 liabilities, but continue to invest some assets in higher risk / higher return assets designed to make good the deficit; or
- allow a scheme in deficit to be fully matched, with the existing schedule of contributions being replaced by a series of fixed premiums.

For a scheme in deficit there will also be an option to allow the deficit funding to be reassessed should it no longer be needed (e.g. because the demographic experience has been more favourable than expected).

Other key flexibilities include:

- Annual options to extend the lifetime of the policy;
- Annual options to increase the coverage of the policy (e.g. to cover the new accrual of benefits).

So where is the catch?

Well there isn't one. We believe the very complicated job of matching assets to liabilities is much better left to experts who have accepted a transfer of the risks. This new investment option delivers exactly what it says on the tin. Companies and trustees no longer need to worry whether their asset matching strategy will work. The policy guarantees that the value of the assets will always equal the IAS19 value of the relevant liabilities. Unfortunately, at present, this solution is only available for pension schemes looking to match out at least £100million of liabilities.

In summary

We believe this new insured investment solution provides the solution that finance directors have been long awaiting – an opportunity to remove pension scheme volatility from the company's balance sheet in a simple way and at an affordable price. Moreover it means that both management and trustees alike can concentrate on other important matters, confident that they have resolved the funding and investment strategy of the pension scheme.

For more details on this new solution, please contact Charles Cowling on 0161 242 5388 or Rob Dales on 0113 203 5883.

Yours sincerely




For further information on the services PCS can offer you, please email us at solutions@pensionstrategies.co.uk or visit our website at www.pensionstrategies.co.uk to register your interest. Alternatively call Charles Cowling on 0161 242 5388 or Rob Dales on 0113 203 5883.

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