

The changing DB landscape

A combination of successive and harsh legislation, very difficult financial conditions and increasing longevity have sent defined benefit pension costs soaring and employers have voted with their feet. Employers have been paying increasing amounts in to their schemes to satisfy trustee and regulator demands but the goal posts keep moving. Many have turned their back on these gold plated schemes even for current employees.

So where does this leave employers with legacy defined benefit schemes? With many schemes now closed to new members, most employers are reluctant to divert valuable management time and resource to running what is effectively a side-line insurance company which has little or no relevance to current employees or trading activities. Moreover with running costs seemingly escalating out of control and accounting standards proposing increased liabilities shown in the financial statements, these schemes represent a major risk and inhibitor to corporate activity.

Decommissioning and de-risking

Many employers and trustees are increasingly looking at ways to manage out pension scheme risks and liabilities. Once a pension scheme is fully closed it is in all parties' interests for the risks and liabilities to be managed down in a controlled, efficient and cost effective way. Those who can afford it will secure the liabilities in the insurance market but for the rest this is just a "pipe dream" - there is no easily affordable 'silver bullet' solution for pension schemes. The various approaches instigated by employers (typically looking at decommissioning) and trustees (typically looking at de-risking) can lead to conflicts and a disjointed approach.

The Implemented De-risking Platform brings the solution employers and trustees have been looking for.

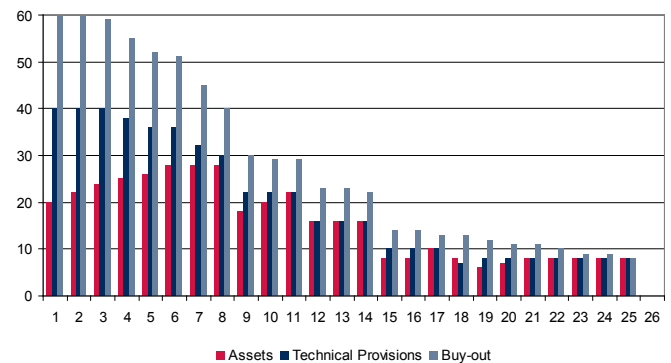
Details

The Implemented De-risking Platform enables the employer and the trustees to sign up jointly to a plan that targets an exit strategy within a given number of years in an efficient and cost effective manner. Many sponsors are working with their advisers to look at de-commissioning the liabilities and that is part of the process but it extends wider than just focusing on liabilities, by de-risking the other aspect of the scheme - the assets, and in particular how you would move over time to cover, or "match", the remaining liabilities whilst making your way along the longer-term path to eventually buying out the scheme.

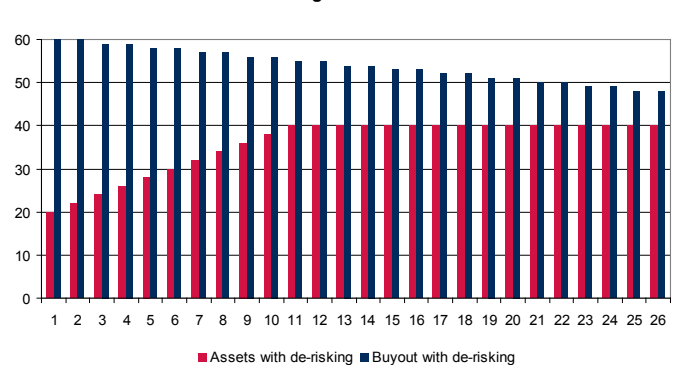
The platform incorporates a number of features designed to meet the objectives of both the trustees and the sponsor:

- A bundled product that targets scheme exit.
- An efficient actuarial and advisory service which meets a pension scheme's obligations.
- A focused administration service, including data cleanse streams, targeting scheme closure and settlement.
- Automatic and ongoing liability management through regular enhanced transfer values, pension increase exchanges, immediate vesting personal pensions and early retirement exercises;
- Automatic de-risking of investment strategy as asset performance allows
- Regular monitoring of progress against agreed strategy.

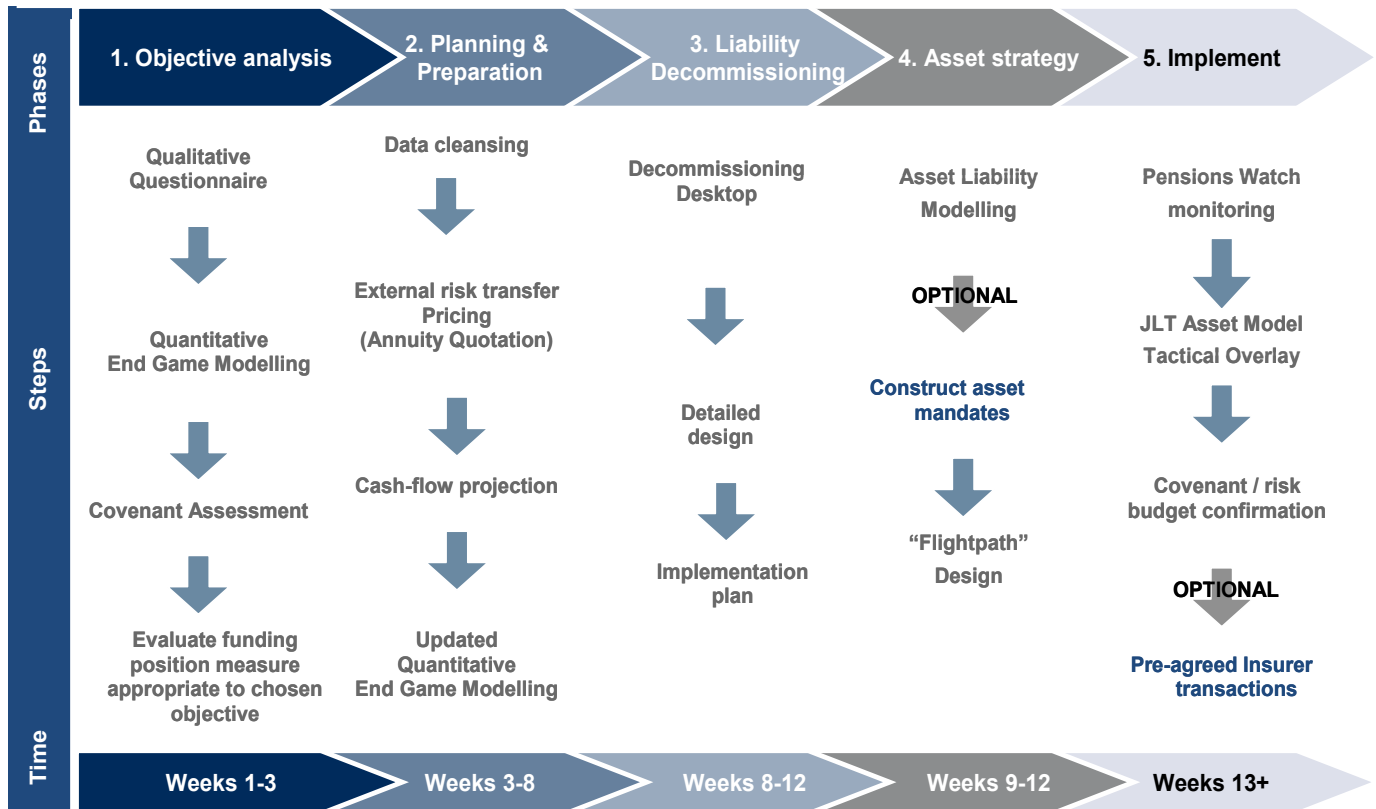
**"Decommissioning"
Managing down liabilities**



**De-risking
Assets against liabilities**



At the outset, objective analysis and detailed planning and preparation yield a long term strategy that is agreed by all parties. This might include an option to allow an existing pension scheme to be de-merged into new pension schemes for just deferred pensioners and/or current pensioners, so focusing on those members that no longer provide any economic value to the employer.



Why would sponsors and trustees use this platform?

The platform helps all parties to focus on an agreed end-game strategy in an efficient and cost effective way. Core services required by the trustees are provided on an efficient basis.

With up to date clean data the platform provides automatic and ongoing liability management through regular ETV, pension increase exchanges, immediate vesting personal pensions and early retirement exercises.

With a joined up investment consulting and actuarial funding plan triggers can be set to automatically move riskier assets designed for eating into deficits into safer matching assets, or even partially buying out liabilities through annuities, as and when deficits are removed and the financial conditions are right.

Next steps

For a demonstration of the output from the platform and discussion on how it can complement your current activities please contact your JLT consultant or Charles Cowling on 0161 242 5388, Rob Dales on 0113 203 5883 or Simon Taylor on 020 7895 7809.

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