



Punter Southall  
GROUP



A unique combination of services

## Pension scheme de-risking

The credit crunch has brought home to many pension scheme trustees and employers the speed with which their risks can move against them. Trustees and employers should continue to review their strategies for removing risks from their schemes and to identify how and when to implement those strategies to optimise their benefit.

### Why consider de-risking your pension scheme?

Take control of pension risk over the future lifetime of your scheme

Reduce balance sheet volatility

Take advantage of competitive pricing

Manage the impact of longevity risk

Measure & manage the risks you are exposed to

Remain vigilant to the capabilities & pricing of newly emerging alternatives

# Punter Southall Group de-risking process

## Step 1 Decide on objectives

- **Prioritise the risks you want to measure**
  - Assess 'true' risk control
    - Where lies the power to make decisions?
  - Accounting disclosure
    - The risk of too great a deficit or an unrecognisable surplus
    - Protection of the profit and loss position
  - Cash requirements
    - Potential for cash contributions to impact on profit and dividend distribution

### Scoping the project

## Step 2 Assess menu of options available

- **Deferred pensioners**
  - Trivial commutations
  - Early retirement
  - Enhanced transfer values
- **Buy-out pensioners**
  - All pensioners matched by annuities
  - Annuities held by trustees as an asset
- **Remove liability risks**
  - Reduce longevity risk
  - Consider inflation and interest rate risk
  - Consider current investment strategies

### Member communication strategies

### Liaising with trustees

### Investment strategy & why it's important for the corporate sponsor

## Step 3 Feasibility report\* on buy-out

- Exploring initial advice on options available to product providers
- Examining variations including phased buy-out, profit risk/sharing
- Obtaining quotes, trustee negotiations
- Managing asset transition – identifying potential efficiencies

### Corporate sponsor & trustees

\* Scope of feasibility report to be agreed at the outset

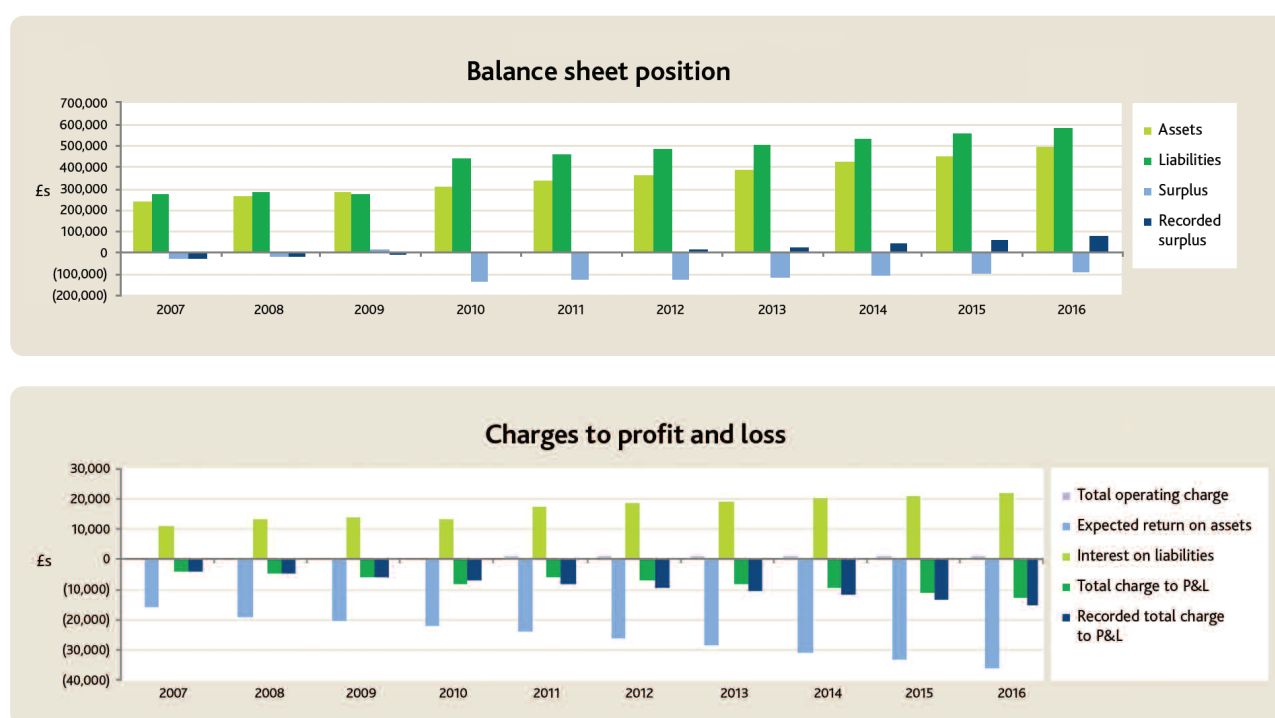
## Step 4 Understanding the impact of any changes

PS ProFit will project your balance sheet and profit and loss items for up to ten years by:

- using summary data to give you approximate trends;
- showing the impacts of changing key assumptions;
- simulating the effect of market movements;
- modelling the impact of scheme events such as liability reduction exercises, buy-outs etc;
- comparing projected results against those assuming that all assumptions remain at the current level; and
- producing results in clear and simple graphs (shown below).

**PS ProFit**  
FRS17 model

The effect of ASB proposals being implemented from 2010



Source: Illustrative example

A pensions accounting tool that helps corporate sponsors in setting and agreeing assumptions and allows them to:

- see how their net liability and profit and loss might change over time;
- know in advance the impact of extreme market movements (e.g. equity, property and bonds) to help directors understand the volatility of their accounting results;
- have knowledge of the significance of each assumption to help with setting assumptions;
- understand the impact of a liability reduction exercise on the balance sheet and on the profit and loss account; and
- determine the likely impact of proposed changes to accounting standards for the pensions disclosures in their annual accounts.

## Case study 1

### Problem

As part of the process of winding-up Scheme X, our broking team were asked to obtain quotes for buying out the benefits of the Scheme with an insurance company as required by law.

### Our solution

Following a review of the insurance companies that were deemed most appropriate for the size of the scheme, we ensured the membership data was to the standard required by the insurers chosen which meant the quotation process ran quickly and efficiently. Several quotes were obtained.

### Adding value

We began a negotiation process and managed to reduce the buy-out cost from the preferred insurer by approximately £200,000 from an initial price of approximately £10m. This led to the scheme holding more assets than were actually required to buy-out the benefits and hence the members' benefits were able to be enhanced.

## Case study 2

### Problem

Scheme Y had approximately £250m of liabilities on a Scheme Funding basis and were keen to reduce the risk they were exposed to. Following advice from Punter Southall the buy-out option did not appear to be feasible, as a de-risking strategy was proposed that better matched the client's objectives.

### Our solution

Following consultation from our investment team on alternative de-risking solutions, the trustees chose to implement a liability hedge for both interest rates and inflation. Using detailed liability information provided by Punter Southall, the P-Solve Risk Management Solution team were able to design a profile of swaps that would move in the same way as the liabilities, thus offsetting the movement in the liability value due to interest rates and inflation. This helped the scheme to stabilise their funding level and manage its risk budget. The design issues for this kind of hedge were discussed with the Trustees to aid their understanding and make sure the hedge was designed to meet the specific needs of the scheme. For example, in this case the trustees held a portfolio of gilts which also exhibit liability like properties and so the hedge was designed to take these into account.

### Adding value

By removing this unrewarded liability risk, i.e. risk that produces no expected return, the scheme was able to 'spend' their risk budget on rewarded risk that is expected to provide higher returns and potentially reduce the cost of funding the scheme.

## How Punter Southall Group delivers your de-risking solution



### Why Punter Southall Group

Punter Southall Group offers a unique combination of actuarial, pensions consultancy, investment and administration services. We are dedicated to providing end-to-end solutions for pension schemes and companies who sponsor them.

### Our proven track record

Our approach to innovative financial solutions has attracted clients from a broad spectrum of UK businesses, charities, unions and institutions. Our pension scheme clients range in size from around 20 members to over 100,000 members and from owner-managed businesses to industry-wide schemes.

### Award winning

Punter Southall is the only actuarial firm listed in the Managing Partners' Forum (MPF) '100 Best Professional Firms to Work For 2008' Report. This is a league table of professional firms ranked by employee engagement that surveyed over 700,000 employees and is used by The Sunday Times to compile their 'Best Companies To Work For' list.

In May 2008 Punter Southall's Transactions Services team was awarded '**Pensions and Actuarial Due Diligence Provider of the Year**' by ACQ Finance Magazine.

In October 2008, Punter Southall's Transactions Services team was also awarded '**Pensions Due Diligence Firm of the Year**' at the third annual Private Equity News Awards for Excellence in Advisory Services.

## Key facts about Punter Southall Group

700 staff in 12 locations throughout the UK

1,000 pension scheme companies and organisations taking pensions consultancy and investment advice

4,000 private clients

106,000 occupational pension scheme members administered by us

£90m Group turnover in 2007

£5bn assets under management

£20bn assets under advice

## How can we help you?

For further information contact Danny Vassiliades on 020 7839 8600, email [danny.vassiliades@puntersouthall.com](mailto:danny.vassiliades@puntersouthall.com) or get in touch with your usual Punter Southall contact.

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