



Punter Southall
TRANSACTION SERVICES

News alert

August 2009

ITV asks pensioners – income now, or later?

You may have seen in the press this week news of ITV taking steps to bridge some of the gap in their seemingly ever increasing pension deficit. ITV have written to pensioner members of their scheme offering them the opportunity to change the shape of their pension benefits with a view to improving the scheme's finances.

Their offer is not a new pension solution, and indeed we have been involved in several of these exercises. ITV are, however, pushing the boundaries on the potential savings that they can achieve.

The offer

For pension benefits built up after April 1997 legislation dictates that once in payment pensions must increase in line with inflation; benefits accrued before this date however do not have this requirement. If therefore a scheme provides non-statutory pre 1997 pension increases companies could contemplate an exercise like this. Essentially each member is presented with the option of either continuing with benefits in their current form or exchanging their existing increasing pre 1997 pension for a higher fixed annual pension. The increases attached to the pre 1997 pension could represent around 25% of the value of this pension so the impact of the exercise could be reasonably significant.

If the offer is taken up a reduction in the deficit would arise from the fact that only a portion of the value contained in the pension increases is used to provide the uplift offered on the member's current annual pension. The remainder is effectively a saving within the scheme. In the exercises that we have been involved with to date the typical value split has been 75% to the member and 25% to the scheme and we have seen take-up rates of around 20% of those members approached. ITV's proposal however gives the members only 60% of the value with the scheme benefiting from 40%. Whether or not this will lower the eventual take-up rate remains to be seen.

The advantages

Given the above commentary there is a clear financial advantage to companies in making an offer to exchange pension increases in that take-up acts to reduce the scheme deficit. There are however more subtle benefits; replacing increasing benefits with flat benefits reduces the level of risk inherent in the scheme, particularly where the increases are inflation linked, and further means that benefit payments can be better matched with investments. Importantly, from a company's point of view this is a cashless exercise. With the exception of the advice on feasibility and the member communication costs, no additional cash is required from a company.

For members whether or not they take-up the offer depends wholly on their retirement planning and cash preferences. For some the prospect of a higher pension now will be more valuable than increases in years far in the future, years which indeed members might envisage they will not reach.

These exercises are typically company driven though are likely to need some involvement from the scheme trustees, perhaps including their consent. We see no real reason for trustees to refuse to give consent where required since members are of course under no obligation to take-up the offer and the publicity associated with the ITV exercise might actually help to clear the way with trustees.

Where can I get further information?

If you would like any further information on these exercises or have any other pension related queries please contact Lesley-Anne Cameron on 020 7533 6966 or Richard Jones on 020 7533 6967.

This news alert is provided for general information only and should not be relied upon as advice on your specific circumstances.

©2009 Punter Southall Group Limited

For further information, visit our website at www.pstransactions.co.uk

ACQAWARDS2008
Pensions and Actuarial Due Diligence
Provider of the Year
Punter Southall Transaction Services

**ACQGLOBAL
AWARDS2009**
Pensions and Actuarial Due Diligence
Provider of the Year – UK
Punter Southall Transaction Services



BVCA The British Private
Equity and Venture
Capital Association