

Corporate Pensions Bulletin

Why are companies reviewing pension plan design?

January 2006

Pension plan design is once again in the spotlight with the recent announcement by Rentokil Initial that it intends to close its final salary scheme to its existing members and provide defined contribution benefits in future.

Who will follow?

Rentokil is the first FTSE 100 company to go down this route and this naturally prompts the question as to whether more companies will follow suit. Announcements of alternative changes to their existing final salary arrangements have also been made recently by the Co-Op and Arcadia.

Is radical action required?

At Watson Wyatt we have seen an increasing number of companies question whether the actions they have taken so far to manage their pension risks are proving to be sufficient, and whether more radical action may now prove necessary.

On the other hand, there is no doubt that retaining defined benefit provision, for some or all employees, will continue to meet the business objective for some companies.

What will be key is finding (and maintaining) the right balance between providing an attractive remuneration package for employees and managing the cost and risk to the company.

What are the key drivers for change?

Companies are currently re-assessing that balance because of a range of issues, including:

- The increasing cost of funding defined benefit pensions, driven by:
 - Higher standards of funding now expected by the Pensions Regulator
 - Continuing improvements in longevity
 - The apparently inexorable decline in real bond yields.
- Fundamental changes in the 'pensions landscape':
 - The impact of International Accounting Standards on companies' balance sheets
 - The 'interference' of the Pensions Regulator in corporate activity
 - An increased awareness by employees of the value of their pension package; and
 - Increased focus on the retention of pension provision by unions.

What are the design outcomes?

We are increasingly re-addressing all of these issues with our clients with a wide variety of outcomes.

Some companies are minded to follow Rentokil's example; others are making refinements within their existing plan design; some are implementing 'middle ground' options, whilst others are happy to retain their current arrangements.

Whatever the outcome, few companies are willing to do nothing - even if it is to reconfirm their commitment to their current arrangements.

How can we help?

We would be very happy to share our experiences with you and explore your particular circumstances. Please contact your Watson Wyatt consultant, or call Steven Dicker on 0161 839 1600 or Andrew Reid on 020 7222 8033.

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