

# ALLEN & OVERY

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## PENSION RISK – PROVIDING SOLUTIONS

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### *Pension Increase Exchange: new option for pension scheme members*

Allen & Overy advised the trustee of the **Britvic Pension Plan** on a two-phase exercise to allow members to exchange certain annual pension increases for a higher flat rate pension.

Phase one was a one-off exercise offering the option to pensioner members. Phase two is the potential implementation of the option for a member to make the exchange upon putting his or her pension into payment.

### *A win-win option?*

Britvic and the Trustees of the Britvic Pension Plan worked together closely to offer pensioner members the opportunity to exchange pension increases not required by statute in return for a higher flat rate pension. The exercise allowed pensioner members to receive a higher initial pension – but only if they felt it was right for them. The Britvic Pension Plan was able to reduce its pension liabilities by an estimated GBP7million as a result of the pensioner exercise.

The Trustees and Britvic worked closely together to make sure the offer was put to members in the right way. The Trustees followed the Code of Good Practice on Incentive Exercises closely and gave members free financial advice to assist them with the decision.

The offer had the benefit to members of a greater pension in the years immediately after the exchange. The actuarial value of the increased pension was lower than the value of the increases being given up, reducing the liabilities of the pension plan.

### *A future option*

The Trustees are also considering offering this option when a member chooses to put his or her pension into payment.

#### CONTACTS



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## Allen & Overy's role

This type of exercise has become a relatively well-known part of the trustee liability management toolkit – but the Trustees still had to navigate an intricate web of legislation, regulation and best practice guidance to deliver the most appropriate options for members.

There is no standard 'off the shelf' format – the Trustees had to consider a range of issues including the scheme membership profile, the structure of the offer, and the approach to communications and guidance. We advised the Trustees on a series of legal issues as they shaped the offer, and drafted amendments to the plan's governing documents to allow members to make the exchange.

Communications are a key element – we helped the Trustees to ensure that member letters were not only compliant but also met the latest best practice standards. To implement phase two, Allen & Overy is helping the Trustees to build the option into the plan's governing documentation and business as usual practices. The option will allow members a greater degree of choice and flexibility over the design of their benefits from the plan.

**Dinesh Visavadia, Head of Pensions and Benefits at Britvic plc**, said "The pension increase exchange option provides members of the Britvic Pension Plan with greater choice on the form of their pension benefits. Members can choose the option that works best for them. The exercise has the added benefit of limiting the plan's exposure to inflation risk."

**Dāna Burstow, Allen & Overy partner**, said "The Trustees and Britvic had to work together closely to implement the pension increase exchange. The Trustees and Britvic have a tradition of collaborating on pensions projects, which has been to the benefit of all concerned. It was our job as lawyers to come on board with that collaborative approach and find the right way for the option to be implemented."

*"A&O consistently delivers well-presented and focused advice that inspires confidence in its clients"*

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