

## Controlling your costs - some issues to consider

### Salary Sacrifice

If you are running any form of pension arrangement to which your employees contribute then Salary Sacrifice is worth considering. Basically, the employees agree to a reduction in pay in exchange for an equivalent employer pension contribution.

As the amount of pay is reduced, savings arise for both the employee and the employer in the form of reduced National Insurance (NI) contributions. Some employers choose to incentivise such arrangements by sharing part of the NI saving with the employees. Care must be taken to document the arrangement in accordance with legal and taxation guidance and also to deal with any knock on consequences for any earnings related benefits such as maternity pay and state pensions.

### Group Income Protection

The duration of benefit payments under a standard Group Income Protection (GIP) policy is usually up to 'expected normal retirement age'. However, research has shown that the average length of time an employee spends in a job is currently between 5 and 7 years.

A limited term GIP policy would limit the period over which a claim is paid to, say, 7 years (or normal retirement age if earlier) and hence reduce the premiums payable.

### Insuring group death benefits

The group risk market is very competitive and by conducting a review of comparable insurers' premiums it is usually possible to make savings. In addition, some providers offer enhanced terms depending on the size of an employer. Savings can also be achieved by restructuring the existing level of benefits provided to employees.

For example, changing from a lump sum of 4 x salary and provision for dependants' pensions to, say, a lump sum of 8 or 10 x salary may produce a saving in premium whilst providing a benefit that is more appreciated by employees.

### Re-negotiate charges on group personal pensions

When Stakeholder Plans were introduced most providers repriced their Group Personal Pension Plans (GPPs) to ensure they remained competitive. The charges under old GPPs can often be renegotiated to a lower level by an adviser. The savings can then be passed on to the members, be used to justify a reduction in contributions, or be used to pay commission to an adviser (with no net effect on the members). Any commission paid can be offset against the adviser's fees, thereby reducing employer costs.

### Maximise the returns on your deposits

The Bank of England Base Rate fell to 0.5% at the start of March having been 5.5% in December 2007. With Base Rate now so low, a small increase in the interest rate applicable to your deposits can make a big difference in the absolute return you make. Investors with 'money market funds' also need to factor in any initial and/or annual investment charges. It is possible that some investors may now even be earning a negative return!

We have a range of immediate access bank deposits available to our clients. Interest is payable on a daily basis and there is no initial/annual or exit charge applicable.

The three arrangements we have currently negotiated, all of which allow instant access, are

- Bank of Scotland: 0.3% or 0.2% below Base Rate;
- Scottish Widows: Under £50,000 1.75%, over £50,000 2.00%; and
- Anglo Irish Bank: 3.00%.

Other rates are available for fixed term deposits.

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### Reducing Investment Manager Fees

It is a sad fact that many active investment managers track their benchmark far more closely than investors would wish. This means investors can end up paying active management fees for something they could manage more efficiently using passive index tracking funds. If you are paying for active management you should receive genuine active investment management. If you are getting benchmark returns, or worse, why pay more than you need when you could save money by using passive funds? An improved net investment return could increase benefits or be used to reduce employer costs.

### Reviewing Pension Benefits

For those employers still providing accrual in defined benefit arrangements, reviewing the level of benefits being provided, the risks associated with these accruals and their integration with the state system can lead to a transfer of risk and/or a saving in employer costs. We can provide independent advice on the different options available to employers reviewing their pension arrangements, including the financial and risk consequences of each option.

### Transfer Exercises

Employers and trustees may be able to agree a basis under which deferred members are offered enhanced transfer values and/or cash to transfer out of their scheme. For schemes with large deferred pensioner populations or a significant proportion of their liabilities concentrated on a small number of individuals, a carefully managed transfer exercise can have the advantage of reducing the immediate level of contributions payable by the employer and may reduce risk for the employer, the trustees and/or the members.

### Valuation Negotiations

The second round of valuations under the 'new' funding regime are now due but this time against a very different economic background. Alternative approaches can be considered that help to reduce the immediate cash call an employer needs to make. In some cases this may only defer the payment but will give the employer some much needed breathing space at these particularly difficult times.

### PPF Levy

The Pension Protection Fund (PPF) levy has further increased the costs of running defined benefit pension schemes. However, employers and/or trustees can take a number of steps to reduce the levy. Options include putting in place contingent assets or a group guarantee. Employers may also be able to improve their Dun and Bradstreet (D&B) failure score. We have built up considerable expertise in this area and can assist our clients in optimising their score. In particular we have carried out a detailed analysis of the underlying D&B scoring system and have identified the weightings given by D&B to different factors.

### Review your pensioners

From time to time trustees should check that their pensioners are still alive, that ill health retirees are still eligible for their pension and that widows and widowers haven't remarried (if the rules state pensions should cease in this circumstance). In addition it may be worth carrying out investigations into the health of any of your larger pensioner liabilities to see if cost advantageous terms might be available in the annuity market through impaired life annuities.

**If you would like to discuss any of the above points in more detail and how Barnett Waddingham may be able to help you please contact your usual Barnett Waddingham consultant.**

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