CAPITA

case study

Advising pension scheme sponsors

Balancing the requirement for pension funding with the need for sustainable sponsor growth.

Background

Our client, the leader in wastewater treatments, needs to continually invest in order to remain competitive.

While they fully accept and appreciate their long term commitment to funding their legacy Defined Benefit pension scheme, they need to balance this against their need to invest in the business, for example in technologies, product and expansion overseas.

The last actuarial valuation of the scheme had left it with escalating recovery plan contributions, already standing at almost 7% of annual turnover. These were a barrier to its growth plans. It felt that there was insufficient balance in the risks taken by the business and the pension scheme.

How we helped

- We helped our client prepare a business case for the trustees for a reduction in recovery plan contributions, demonstrating the positive impact of the business plan on the employer covenant and the long term security of members' benefits.
- We identified the likely impact on the funding position of recent favourable scheme experience, taking onto into account market and interest rate movements and drew this to the sponsor's attention.
- With our help, our client also negotiated on the degree of prudence used by the trustees at the earlier valuation. The trustees were able to support a reduction in prudence in the valuation of the liabilities in some areas.
- A combination of recent favourable experience and a reduction in prudence resulted in a significant reduction in the funding deficit from that disclosed at the earlier valuation.
- We helped out our client negotiate with the trustees to use more realistic return assumptions in the recovery plan, than were adopted in the valuation of the liabilities and this reduced the required extension to the recovery period. We helped our client put in place mitigation for the trustees agreeing to a reduction in recovery plan contributions. A profit-related element of the recovery plan was agreed, along with guarantees regarding the use of funds intended to support growth of the company.
- Throughout the process we assisted our client in its detailed negotiations with the trustees to achieve the desired outcome.

The outcome

The sponsor released additional funds to enable it to pursue its growth plans, whilst maintaining its commitment to support the scheme at a reasonable cost.

The trustees were able to support an extended recovery plan on the basis of the likelihood of a stronger sponsor, with safeguards. The potential upside of additional contributions could help them achieve their funding objective within the original timescale.

The Pensions Regulator has implemented a new 'supporting sustainable growth' objective and has steered trustees towards a collaborative rather than a combative relationship with the sponsor.

Prudence should be tested. Whilst it's tempting to continue down the road mapped out by previous valuations, a fresh look can prove helpful for all parties.

Consider taking advantage of more favourable market conditions to review and revise recovery plans, even if mid-valuation cycle. Valuations can be brought forward.

Consider mitigation and contingency plans to support the scheme, for example, introducing an element of profit – related contributions may be appropriate.

Talk to the right people; solutions and thinking are constantly developing. Benefit from the experience of a specialist corporate adviser.

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