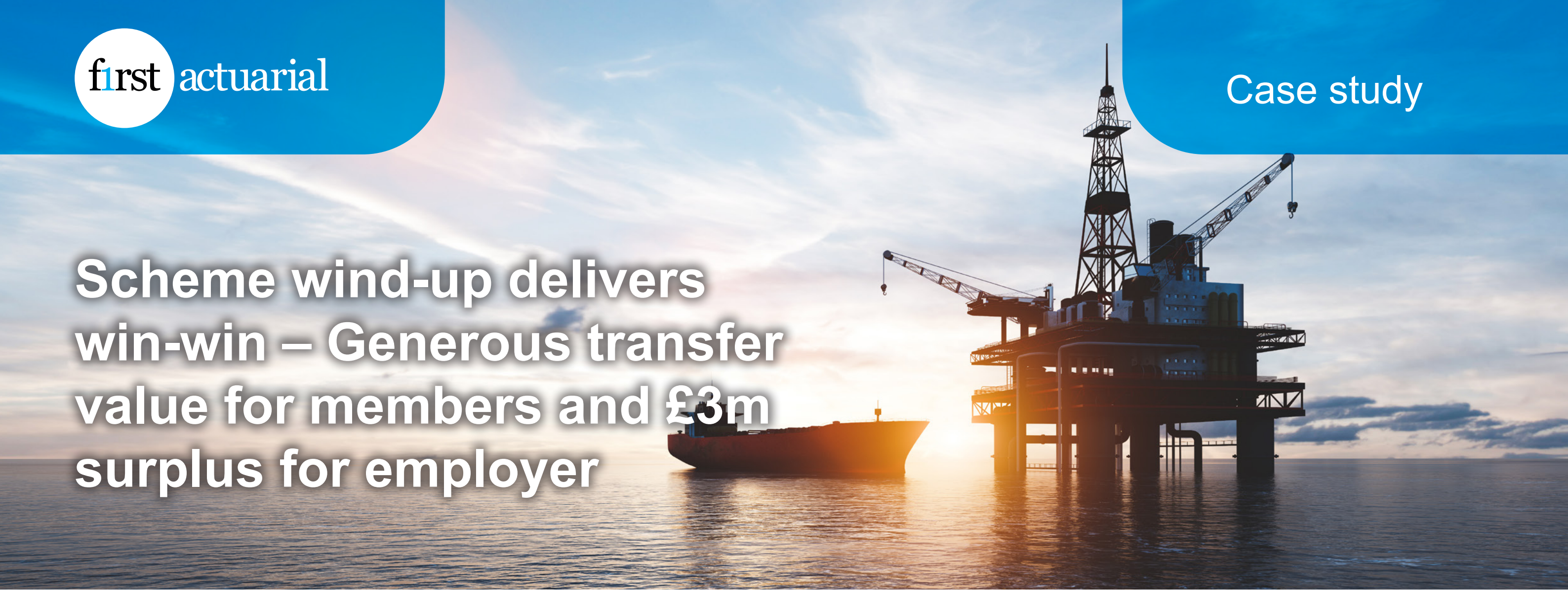

Case study

Scheme wind-up delivers win-win – Generous transfer value for members and £3m surplus for employer

Key outcomes

Members happy with both pension flexibility and expected benefits

Removal of all Scheme risks and liabilities with 100% take-up of transfer values

Cost-efficient wind-up process with a £3m net surplus for the Employer

Concerns about the mounting costs of a Defined Benefit (DB) Scheme in the oil and gas sector came to a head when a valuation revealed the need for 50% employer contributions. After presenting all the options, First Actuarial supported the Trustees through a successful Scheme wind-up that benefited both the company and members.

The challenge | Rising costs of running DB Scheme

The costs of running a DB Scheme were continually increasing for a company in the oil and gas industry.

The latest triennial valuation accelerated this trend. It revealed the need to pay employer contributions of around 50% to keep the Scheme open while continuing to purchase annuities as members retired. This finding came as a shock to both the Employer and the Trustees.

The Scheme was well funded, and the company was keen to continue to offer a high-quality pension arrangement to its staff. However, they were unable to tolerate the mounting costs and asked the Trustees to work with them in considering options.

The solution | Smooth wind-up with 100% take-up of transfer values

First Actuarial set out the options open to the Employer to make cost reductions and reduce ongoing risks and liabilities. These included changes to member contributions, benefit structures and retirement ages. The Employer considered these, but decided that the Scheme was no longer sustainable. They made the decision to close the DB Scheme to future accruals.

A Defined Contribution (DC) Scheme was set up in its place. It offered generous employer contributions, which fostered trust between the company and Scheme members.

Winding up the Scheme

As the Scheme was well funded, First Actuarial suggested that winding up the Scheme might be a viable option. A wind-up would offer the considerable advantage of eliminating risks and liabilities associated with the Scheme. However, a wind-up would have still required an additional cash injection from the company.

Given that all Scheme members were now deferred and all pensioners had been secured with annuities, First Actuarial suggested that offering transfer values close to the buy-out cost might be attractive to both members and the company.

Setting the transfer value

The company decided to explore this option and appointed a company adviser. First Actuarial supported the company adviser by producing a range of potential transfer value options, projected member benefits, and an assessment of the impact on the cost of eventual wind-up under different take-up rates.

The adviser then recommended to the company which level of transfer values to offer to the members. This balanced the likelihood of member take-up with the desire to save money by reducing the expenses of winding-up the Scheme. The transfer value selected was around 85-90% of the cost of a buy-out.

Because the offer was a generous one, the expectation was that around half the membership would take it.

First Actuarial again worked closely with the company adviser to provide the data analysis needed for them to give members sound advice.

As Scheme administrators, First Actuarial drafted and sent all communications to members and advised the Trustees on suitable additions to the standard wording, to make sure members understood the offer being made. An independent financial adviser then took each member through their options so they could make an informed decision.

Achieving 100% uptake

To everyone's surprise, the uptake of the transfer values was 100%. The independent adviser commented that with the high transfer values, members could gain equivalent pension benefits with very low investment risk. Members would also get increased flexibility and the opportunity for significantly higher benefits if they were prepared to take more risk.

Although the uptake was a surprise, the high transfer values had made a positive outcome much more likely. Trust in the Employer, as a result of its equitable approach to closing the Scheme, also played a part for current employees.

Completing the wind-up

Following this exercise, First Actuarial proceeded to support the Trustees in winding up the DB Scheme. This included an audit of the Scheme's secured pensioners, which uncovered a number of old annuities that didn't allow for entitlements to spouse pensions.

Removing this spouse pension liability was challenging as no insurer was willing to take it on. Because the amounts varied, First Actuarial took a bespoke approach to each individual pension.

The outcome | A win-win for Employer and Scheme members

Membership happy with both pension flexibility and replicated benefits

Members have gained pension flexibility while being able to replicate their DB Scheme benefits with minimal investment risk. The independent financial adviser helped members make an informed choice by explaining the options and showing how much investment return would be needed to deliver equivalent benefits.

Removal of all risks and liabilities with 100% take-up of transfer values

With 100% take-up, all the company's risks and liabilities associated with the DB Scheme were removed. Despite the healthy funding surplus of the Scheme, risks due to market volatility and longer life expectancy would have been ever-present. First Actuarial also provided pragmatic solutions to extinguish the additional spouse pension liabilities that had previously not been insured.

Cost-efficient wind-up process with a £3m net surplus for the Employer

First Actuarial wound up the company's Defined Benefit Scheme quickly and efficiently. The company has no ongoing Scheme costs, and a large financial surplus came out of the eventual wind-up – a refund of £3m. This compared extremely favourably with the original option to buy-out, which would have required an additional contribution from the company of around £2m.