Case study

Kick starting a stalling pension scheme wind up

Our client

In 2013, IAG decided to sell its UK subsidiaries, one of which was Equity Insurance Management Limited. Equity Insurance Management were the Principal Employer of the Christopherson's Final Salary Pension Scheme (the Scheme), a hybrid scheme with both defined benefit (DB) and defined contribution (DC) sections.

As part of the sale and purchase agreement IAG had agreed to **indemnify the purchaser** for all pension costs relating to its UK subsidiaries and proposed securing all Scheme member benefits with an insurance company buy out policy. The agreement also required the Scheme to be **wound up within two years**. The Scheme Trustees agreed to this proposal.

Punter Southall Governance Services (PSGS) was not a trustee of the Scheme at the time of the sale of Equity Insurance Management Limited.

The issue

Prior to our appointment, the Trustees entered into an agreement with Pension Insurance Corporation (PIC) to secure all the defined benefit liabilities. An initial premium had been paid to PIC, with a final premium due to be paid once data cleansing and agreement on members' final benefit entitlements had been concluded.

Benefits for defined contribution members needed to be transferred to individual policies.

During the early stages of the Scheme wind up, a number of issues were identified. These complicated the data cleansing and calculation of member benefit entitlements, and included:

- **benefits needed rectification** following legal advice in respect of the equalisation of normal retirement ages
- **a complicated Guaranteed Minimum Pension (GMP) equalisation exercise** due to the nature of how GMP revaluation had been administered
- **gaps in the historic membership data**, which lead to difficulties adjusting member benefits for the two equalisation issues

How we managed the issues

Following our appointment, we acted quickly to meet all the Scheme advisers and Trustees to gather background information and understand the issues that needed to be resolved.

Clean data saves money

We felt it was most urgent to understand:

- **the gaps in the membership data**
- **what work had been undertaken to fill the gaps**
- **what actions were required to ensure the Trustees had taken all reasonable steps to clean the data**

This first stage was critical because the reconciliation and rectification (where required) of member benefits could not be completed until the data cleanse was finalised. Our experience of pensions meant we had a clear understanding of the essential data requirements and enabled us to agree with the Scheme administrator how we could **target specific data issues** by contacting the former administrator and individual members directly.

We were able to give our co-trustees comfort that we had made reasonable endeavours with the data cleanse exercise and could make **sensible assumptions** for the small number of minor outstanding data items.

As a result of our work, we were able to confirm to HMRC that four members had either transferred out or trivially commuted their pension and one member's pension had been secured by an annuity previously unknown to the Scheme administrators. Had these benefits been secured with PIC in error, **the insurance premium would have been around £200,000 higher**.

Enabling progress through effective project management

Prior to PSGS's appointment, the regular project calls had not been attended by the Trustees due to work commitments. By ensuring we were always on these calls, we were able to **proactively chase outstanding actions**. We were also available for ad-hoc conference calls at short notice to resolve urgent issues.

This enabled us to progress decisions outside of the regular Trustees' meetings by e-mail correspondence with our co-trustees or by conference call. Our co-trustees were grateful for our input to the decision making process, especially when we were able to **explain complex issues simply** to aid their understanding.

The disinvestment of DC member funds and the transfer to individual policies posed a number of risks. The administrators had previously encountered problems with individual DC transfers due to information from the transferring insurer being delayed, and were concerned similar problems could delay the bulk transfer.

Working closely with advisers, we made contact with senior employees at the transferring insurer to highlight our concerns and agree timescales for the bulk disinvestment and transfer. This preparation led to all parties working together effectively, with the **transfer achieved smoothly with no unexpected delays**.

Thinking ahead to manage potential risks

We always kept one eye on the final deadline and thought ahead for any potential pitfalls that might de-rail the process.

For example:

We knew it was important to plan ahead for the audit of the final accounts. Timescales were extremely tight and we had concerns that the existing auditor would not be able to work to the deadline. Therefore, we agreed with our co-trustees to change to an auditor with whom we had a good working relationship and who we knew could **meet tight timescales without comprising the diligence** required.

Our forward planning proved to be a good decision – the audit **uncovered an historic insured policy that had not been disinvested**. After further investigation we confirmed with the insurer that this policy related to DB benefits and were able to disinvest the assets prior to the deadline for winding up the Scheme.

The result

All members' benefits were secured in full with insurance policies in their own name and the Scheme was wound up at the end of March 2015 within the two year deadline.

By helping all parties build a close working relationship, PSGS ensured:

- **all member data and benefit rectification issues were resolved effectively** – with significant costs being saved in the process
- **the original deadline** (which had looked in some doubt prior to our appointment eight months earlier) **was met**