

Case Study

Debenhams Pension Scheme transfers to Clara: a groundbreaking transaction

Overview

Following sponsor insolvency, the trustee of the Debenhams Pension Scheme tried to make the most of a tricky situation and suspected that it would be challenging to insure benefits in full.

When we were appointed, the trustee had already tried several times to transact with Clara. The expenses of investigating a superfund transaction risked being a drain on the scheme's finite assets.

Working closely with all stakeholders, we navigated the unique challenges facing this scheme. We're delighted that our work resulted in a groundbreaking transaction with Clara, capitalising on an opportunity to restore and secure full benefits for scheme members.

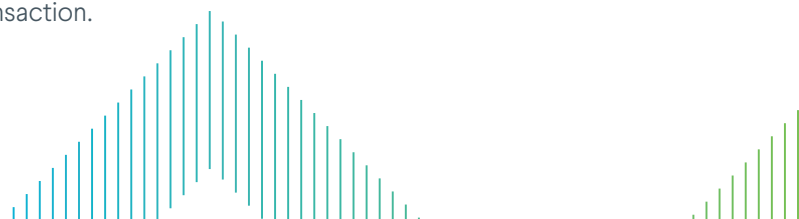
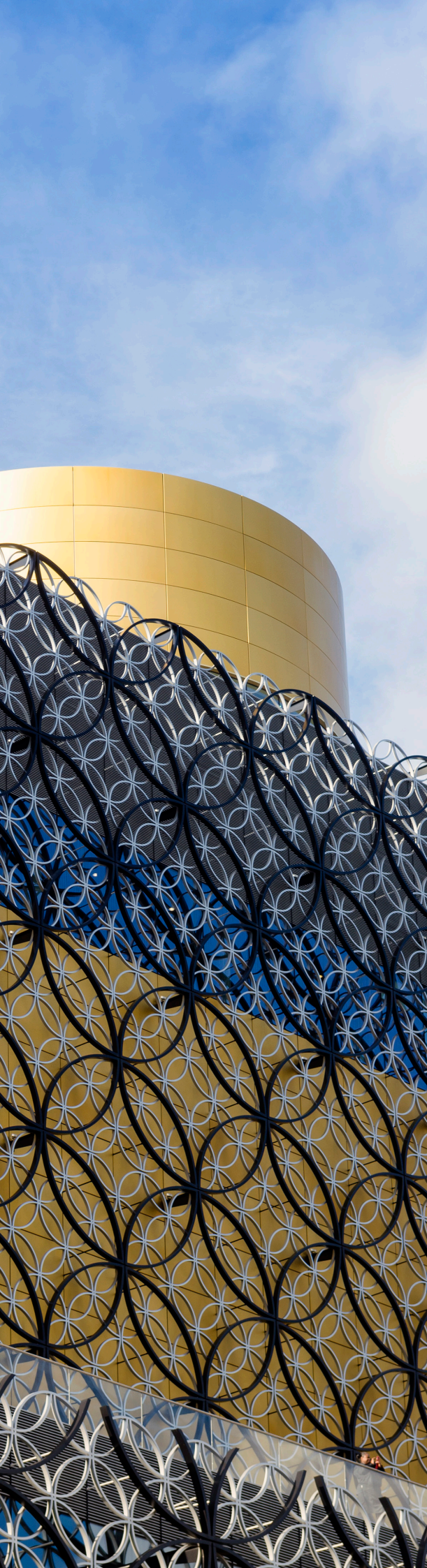
The challenge

Schemes in Pension Protection Fund (PPF) assessment typically have an uncertain future. Members' benefits are reduced to PPF levels on an interim basis, and specialists are brought in from the PPF's preferred panel of advisers.

Within the PPF framework, there is a clear path to either transferring into the PPF or otherwise engaging with the insurance market to secure benefits that exceed PPF level benefits if possible.

We needed to know whether there was value in engaging with Clara, and if so, how. The trustee didn't want to compromise the insurance route, where affordability was likely to be a challenge but where a deal was more likely.

As well as meeting the commercial needs, we had to engage both the Pensions Regulator and the PPF. We had to maintain a positive relationship to ensure they were confident enough not to object to the transaction.





The solution

Working closely with the trustee's other advisers, we first had to paint a clear picture of the likely funding position. We then had to set out the steps necessary for a Clara transaction, and how this compared with an insurance transaction.

A buy-in is an investment decision, whereas a Clara transaction is achieved by a bulk transfer of all the liabilities. The nature of the transactions leads to several differences – for example, the treatment of outstanding data cleansing.

Working with the trustee's requirements, we designed a go-to-market approach with a clear framework to consider insurance or superfunds. We were confident we had a credible path to transact if we received attractive pricing and commercial terms.

After a period of negotiation on the terms, the trustee agreed that they wished to transact with Clara instead of accepting insurance with reduced member benefits.

But there was still a lot of ground to cover to reach a point where a transaction was possible. To minimise execution risk, we first agreed on the scope of the due diligence that we had to do. We sought clarity from Clara on the standard of confidence it needed to transact. The high degree of certainty in this stage of the project let us work quickly and efficiently.

The journey so far

All members have transferred to Clara and are receiving full benefits. The trustee and Clara continue to work closely together on previously agreed actions to transfer some illiquid assets, complete data cleansing and wind up the scheme in an orderly and efficient way.

These actions are all progressing as planned, and all parties continue to be pleased with this transaction. Members have responded positively, and they're glad that their benefits have been restored in full.

“ We're delighted to have worked closely with Hymans Robertson and Osborne Clarke to ensure that member benefits have been secured in full with Clara. These transactions are very different to putting in place insurance with a different range of issues to be considered and advised on. As part of our panel of PPF specialists, we have seen first hand how Hymans Robertson and Osborne Clarke demonstrated a clear detailed understanding of this market and expertly guided all stakeholders through this journey towards an efficient transaction. ”

Dan Collins
Pension Protection Fund

The outcome

The pensions industry works hard to ensure members get their benefits in full. But it's not often that our efforts have such an immediate positive impact. Debenhams Pension Scheme members moved from reduced PPF-level benefits to fully restored pensions in the next payroll and received more than £4m of back-payments. We're delighted to have supported the trustee to achieve this great outcome.

This transaction was an important step for the industry, taking Clara over £1bn in assets under management. Clara is building scale and demonstrating that superfunds have an important role in our industry to support members and other stakeholders in pension schemes.

“ The trustees were delighted with the strategic advice from Iain and Jonathan throughout the whole project. They really understand what trustees care about and were focused on securing a great outcome for members. It was clear that they are already experts in this new area and were confident in getting off the fence and giving clear recommendations, which was key to achieving a great outcome for our members with this groundbreaking transaction. ”

Tom Stockley
Trustee Director for the Debenhams Retirement Scheme

If you want more information about anything covered, don't hesitate to get in touch:



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