Successful Wind-ups

Top tips for pension fund trustees

CAPITAL CRANFIELD TRUSTEES
THE BALANCED VIEW

The Pensions Management Institute

A Capital Cranfield Trustees publication produced in association with the Pensions Management Institute

About Capital Cranfield Trustees Limited

Capital Cranfield provides professional independent trustee services to occupational pension schemes, bringing experience, judgement and the relevant skills that ensure fairness, efficiency and good governance. Today an independent trustee can bring comfort to members, employers and lay trustees. Capital Cranfield strives to work with the scheme's advisers - helping the trustees to get the best possible service and value from them - and always offers the balanced view.

For more information on key issues for trustees visit **www.cctl.co.uk**

About the Pensions Management Institute (PMI)

PMI is the professional body for those working in the field of pensions and employee benefits. With over 5,000 professional practitioners and trustees as its members, PMI establishes, maintains and improves professional standards in every area of pension scheme management and consultancy.

PMI provides a range of study support and examination services leading to nationally recognised qualifications for both pensions professionals and for those for whom pensions is just part of their work.

For further details of PMI services - including seminars and conferences - visit **www.pensions-pmi.org.uk**

About the author

Steve Godson is a Director of Capital Cranfield's Nottingham-based operations. Steve and his colleagues provide high quality trustee services for pension schemes as the trustee in wind-up. They are currently responsible for almost 300 such schemes.

1

Understand why the scheme's winding-up has been triggered

Claim on the PPF?

Understanding the circumstances, options and consequences leading to the closure and triggering of the scheme's winding-up is key. The scheme's termination clause should be checked. Does the power of amendment survive? What other powers do the trustees have? Can they defer the scheme's winding-up? If necessary, legal advice should be obtained.

The sponsoring employer's reasons for withdrawal need to be established. Is this voluntary or involuntary? If the wind-up has been triggered voluntarily, by a solvent company, it must ensure that the scheme has sufficient assets to cover the full buy-out cost of its liabilities.

Where the sponsoring employer has become insolvent, the triggering of wind-up is often inevitable. After April 2005, an underfunded defined benefit scheme can make a claim on the Pensions Protection Fund (PPF). The trustees must familiarise themselves with the guidance available from PPF. Talking with the PPF caseworker assigned to a scheme and understanding that person's approach, is important as these can vary between caseworkers.

2

Investigate the scheme's funding position and look to minimise costs

Question the need for every project

The scheme's current funding position needs to be established. It is likely that the costs of winding-up will be met out of the scheme's assets. Every penny spent will reduce the extent to which members' benefits are covered.

The trustee in wind-up should question whether each project is necessary and whether the depth of it is in proportion to the assets available. All fees need to be transparent, open to scrutiny and capable of standing up to a robust audit. Old fee agreements must be reviewed as these may not match the requirements of a wind-up.

Avoiding duplication of effort - by making sure that everyone understands their individual roles and responsibilities - is critical.

'Every penny spent will reduce the extent to which members' benefits are covered'

3 Communicate

Worried members are a key trustee concern

The trustee must take a lead role in communications with everyone - especially scheme members. The trustee is the decision maker and must deliver any bad news and should be prepared to counsel members. Sensitivity and excellent 'customer care' skills are pre-requisites. The need to ensure that members' concerns are treated with respect and are dealt with in a timely fashion, cannot be overstated.

Where insolvency has occurred, members will be facing an uncertain future. They will likely have lost their jobs and will probably be facing a pensions reduction. The trustee must be cautious about empathising with them.

As member announcements are costly, these may be limited but should be no less frequent than annually. Contact details must be clear and the trustee must be available to answer member queries.

Capital Cranfield offers a web-based – as well as personal – response to member enquiries.

Keeping in close communication with scheme advisers ensures that they - as well as the trustee - understand exactly how far the wind-up process has progressed.

The trustee must talk to the Pensions Regulator (tPR) and other Government departments - they want to support a timely wind-up. In all likelihood they will be prepared to consider a relaxation of certain rules where a well explained, legitimate proposal is presented.

Links must be maintained with the sponsoring employer, if it still exists, and with key employer personnel.

Establishing a consultative committee can assist in sharing information with former trustees as well as discussing key aspects of the scheme's winding-up. Former trustees may well have a long association with the scheme and have accrued a wealth of knowledge about it.

4 Develop a realistic project plan

Plan for achieving key milestones.

Winding-up a pension scheme demands careful planning. Sufficient time must be set aside to do this properly. The process must be broken down into manageable jobs, which can run independently and/or concurrently.

A project plan is essential; its form can vary from a series of simple actions to a highly sophisticated management tool. All will depend on the complexity involved and the number and nature of conflicts, constraints, dependencies and relationships. Whatever form the plan takes, it must include the tasks to be undertaken, the timescales, responsibilities and the all important costs.

A project manager - preferably the trustee - will be required and progress will need to be evaluated regularly.

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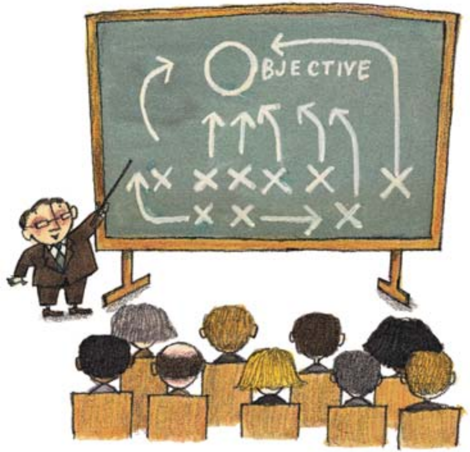

Where significant adjustments are required, the rationale behind any changes must be communicated. That said, a project plan can become overly complex. Wherever possible - simplify it. So long as it includes sufficient detail in relation to the tasks that need to be done, it can take any form.

Key milestones include the reconciliation of membership data, tracing members, estimating the funding position and discharging the liabilities.

5

Adopt a prudent investment strategy

Strong investment performance and monitoring – still important

An investment adviser who offers clear advice must be chosen. Advice needs to be relevant to the scheme's circumstances and include recommendations.

The trustee will need to adopt a prudent investment strategy, as the possibility of any further erosion to the scheme's assets must be avoided.

The end target should be anticipated. If the intention is to discharge the scheme's liabilities through a bulk buy-out, consideration should be given to handing over the management of investments to a bulk annuity provider as soon as possible. A 'transfer in specie' (exchanging equities for bonds with the incumbent investment manager) should be considered to avoid 'out of market' costs.

The scheme's Statement of Investment Principles (SIP) or Statement of Funding Principles (SFP) if this exists, should be reviewed. Properly documented, the decision to change the scheme's investment strategy, by way of a minute at a trustee meeting, may mean that a new SIP/SFP may not be necessary, particularly if an application has been made to the PPF, which can permit up to 25% of the scheme's assets to continue to be exposed to risk. Any change of strategy should be discussed with tPR, PPF and the Scheme Actuary.

Winding-up does not mean that investment performance monitoring and reporting falls away. Regular checks are needed to ensure the investment manager(s) continue to meet the scheme's needs.

6 Manage service providers effectively

Is a serious re-think needed?

The choice of service providers will partly determine the length of the wind-up. Not all incumbent advisers will have the necessary skills and sufficient people to support the trustee throughout the wind-up process. Existing service providers should be reviewed and the right adviser found for each aspect of the wind-up. The tasks to be undertaken by the trustee need to be agreed.

A one-stop shop specialist may seem attractive but may not turn out to be the easy solution it seems.

Existing fee agreements will need to be reviewed as these may not match the scheme's requirements in wind-up. Using experienced firms' pre-defined processes for each project may save time and money.

Good practice suggests that all service providers should be reviewed at least once during the wind-up process. Reviewing even the most experienced practitioners is not out of the question. If they are not fit for purpose, shop around - it is a competitive market.

Budgets must be realistic, agreed, monitored and adhered to by all parties.

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7 Monitor compliance and assess risk

The basics must not be overlooked

A pension scheme will continue to exist until all its liabilities have been discharged to the extent that the rules may require the execution of a Deed of Termination to determine the trust.

The requirement to continue to manage the scheme and adhere, for example, to the disclosure regulations, also continues to exist.

The formulation of a business plan should be considered to help risk assessment. This plan will need to include a description of each risk, its impact on agreed objectives, the levels of controls in place and the individuals responsible for controlling them.

The trustee needs to keep up to date with legislative developments, although not all will automatically impact upon a scheme in wind-up. Where there is any doubt legal advice should be sought.

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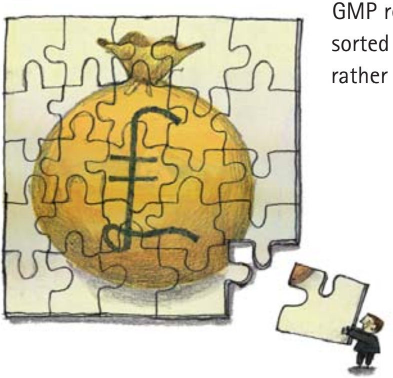
8 Maximise the speed of data reconciliation

Time is money

The longer it takes to wind-up a scheme the greater the erosion of its assets. Tasks must not be allowed to drag on unnecessarily but neither can accuracy be compromised.

A specification of benefits and a schedule of membership data should be drawn up and agreed with advisers at the beginning of the wind-up, not at the end. Remember the aim is to discharge the trust's liabilities as quickly, painlessly and accurately as possible.

If the scheme is contracted out, an open dialogue with NI Services to the Pensions Industry (NISPI) must be established as soon as possible and the thorny issue of GMP reconciliation sorted out sooner, rather than later.



Be alert 9

Flexibility is important

Plans change and alertness and adaptability are key requirements. A winding-up process is being embarked upon that may well take years to complete and thus changes in the pensions industry and the law are to be expected.

That said the key milestones are:

- Reconciliation of member data
- Tracing members
- Establishing the scheme's funding position
- Discharging its liabilities.

The complexity of each will vary between schemes.

10 Insure the future

Cutting corners - is it worth it?

An orderly well managed wind-up will have identified inaccurate and inconsistent data and will have resolved how best to deal with this.

Where there is the probability that members may have been missed - or a preference for insuring against the appearance of unknown beneficiaries - Trustees Indemnity Insurance (TII) needs to be considered.

TII encompasses both Missing Beneficiaries Insurance and Run Off Insurance. The scheme's rules should be checked to see whether the premium(s) can be met out of the scheme's assets. It does not automatically follow that one or other - or both - can be. If they cannot, the trustee should consider whether to pay the premium(s). They can be significant and possibly only within the reach of a professional corporate trustee such as Capital Cranfield, which may well already be covered by its professional indemnity insurance.

Useful contacts

Department for Work and Pensions
Tel: 020 7962 8000 **www.dwp.gov.uk**

The Financial Services Authority
Tel: 020 7066 1000 **www.fsa.gov.uk**

HM Revenue & Customs (Savings, Pensions, Share Schemes)
Tel 0115 974 1600 **www.hmrc.gov.uk**

National Association of Pension Funds
Tel: 020 7808 1300 **www.napf.co.uk**

Pensions Management Institute
Tel: 020 7247 1452 **www.pensions-pmi.org.uk**

The Pensions Ombudsman
Tel: 020 7834 9144 **www.pensions-ombudsman.org.uk**

The Pension Protection Fund
Tel: 0845 600 2541 **www.pensionprotectionfund.gov.uk**

The Pensions Regulator
Tel: 0870 606 3636
Email: **customersupport@thepensionsregulator.gov.uk**

Society of Pension Consultants
Tel: 020 7353 9296 **www.spc.uk.com**

TPAS - the Pensions Advisory Service
Tel: 0845 601 2923 **www.pensionsadvisoryservice.org.uk**

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