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## Dented Daimlers and Droopy Daffodils

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### The Background

- Manufacturing business
  - Long-established family-owned company
  - The major employer in a market town
  - Unionised
  - Paternalistic
- Long-standing final salary scheme
  - Very high level of take-up
  - Integral part of employment package
- Very seasonal business

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	FY 2002 £	FY 2003 £	FY 2004 £
Turnover	43.2m	42.5m	38.8m
Profit (loss)**	607,000	(312,000)	(1.0m)
Dividends paid	308,000	196,000	0
Balance sheet	10.7m	10.6m	11.6m
Decrease in cash	(3,000)	(3.2m)	(884,000)
Net debt	9.3m	14.3m	14.6m
FRS17 liability	4.1m	19.4m	12.7m

\*\* SSAP24 losses excluded

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### Early 2004

- Existing Schedule of Contributions
  - Monthly company contributions c. £55,000
  - Spike payment £3.45m looming
- Company's cash position poor despite having just come through peak trading period

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### Company Response

- Spike payment not close to being affordable
- Needed a new schedule quickly, to remove the need for this payment
- Legal advice
  - Company nominated trustee directors too conflicted
  - Need for independent trustee
  - The Dented Daimler

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### The Deal with the Company

- The Actuary who wanted to go home
- “Emergency” schedule agreed:
  - £100,000 per month, plus
  - £2.1m pa, first payment March 2005
  - already clear that £2.1m would be unaffordable, so only buying time to do a deal with the members
  - Debenture in favour of the scheme
- The Actuary who was sent packing

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### The Deal with the Members

- Modifying the scheme for past and future service
  - Changes to accrual
  - Changes to escalation
- Putting the package together for the members
- Role of the MNDs
- Communication, communication, communication
- Win/win

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### Cleaning up the management of the Scheme

- The new, unconflicted, Actuary
- The new administrators
- The new investment consultants
- Problems start to come out of the woodwork
  - Directors' category
  - Early retirements
  - Conflicted advisers
  - Admin errors and poor data

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### Problems in the Business

- New Chairman
- Trading problems
- Board not geared to dealing with tough conditions
- Approach to the pension scheme
  - Take a stake in the business
  - Thick-skinned trustees
  - Uncharted territory, nervous people
  - The big meeting – “How much is the hourly rate??!”

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### The Deal with the Company

- Scheme bought a building off the company
- Scheme effectively buys the business
- Changes to the Board
- Process/process/process – keeping the authorities happy
- Cutting back the Directors' benefits

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### The New Recovery Plan

- Valuation process
  - What benefits to value
  - Significant savings from deal with members
  - How to assess the covenant under the new owners
  - Confused and bewildered Regulator
  - Recovery periods of 28 -  $37\frac{5}{12}$  years considered
  - The end of the road for the company

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### The PPF Assessment Period

- Having the drains up on the deals
- Integration with separate top-hat scheme
- Defining and capping the benefits
- Schedule of benefit adjustments
- Ombudsman
- Litigation

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### Lessons we learned along the way

- Make sure you aren't conflicted
- Make sure your advice reaches its target
- Don't be afraid to be creative
- The Regulator could be wrong...
- Members are the most important issue
- MNTs/MNDs can be your biggest asset

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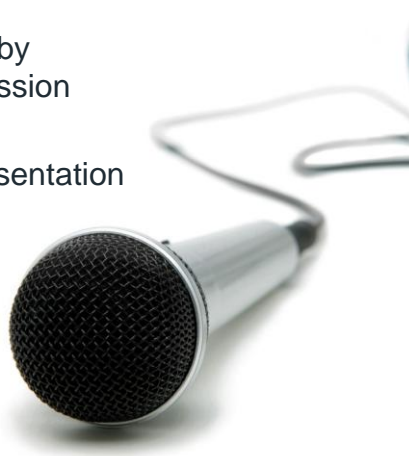
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## Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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