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making financial sense of the future

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Scottish Limited Partnership Pension

Scheme Funding Structure

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Brodies – An Overview

- The largest law firm solely based in Scotland (CA Magazine 2010)
- UK “Regional/National Law Firm of the Year” (The Lawyer Awards 2011
- 18 practice areas ranked No.1 by independent directories, more leading practitioners than any other firm in Scotland

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Pension Scheme Funding Scottish Limited Partnership Structure – some examples

- GKN plc 2009 / 2010: generated an asset backed instrument valued at in excess of £330 million
- Major European company: structure involved the transfer of approximately £300 million of shares (in a quoted spin out company) from the group to the SLP. Subsequent underwritten share sale in US

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Pension Scheme Funding Scottish Limited Partnership Structure – some more examples

- Advising the pension scheme trustees of a London Stock Exchange quoted company: cash generating assets backing the structure are a portfolio of receivables valued at over £100 million

- Advising the pension scheme trustees of a second London Stock Exchange quoted company: portfolio of real estate used and the investment in the partnership held by the pension scheme was valued at approximately £20 million

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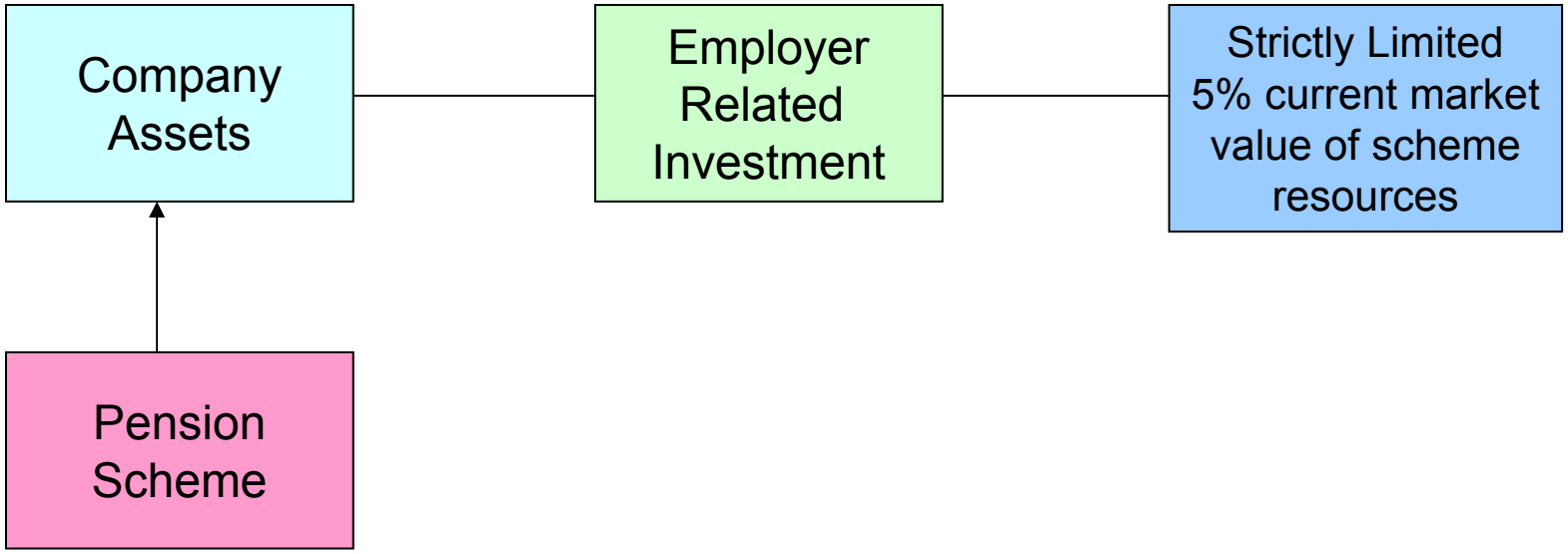
The Basic Idea



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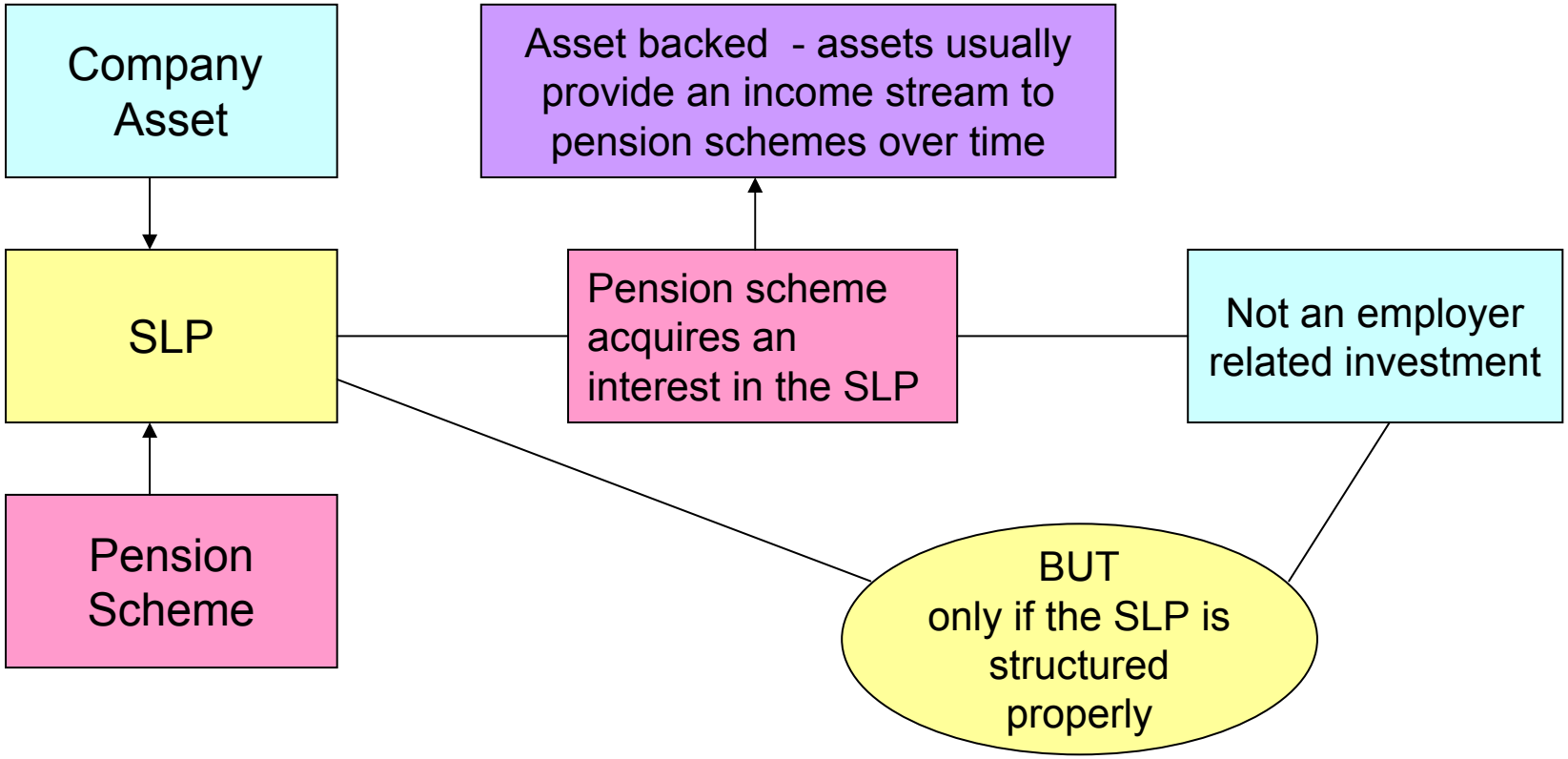
The Concept behind using a Scottish Limited Partnership



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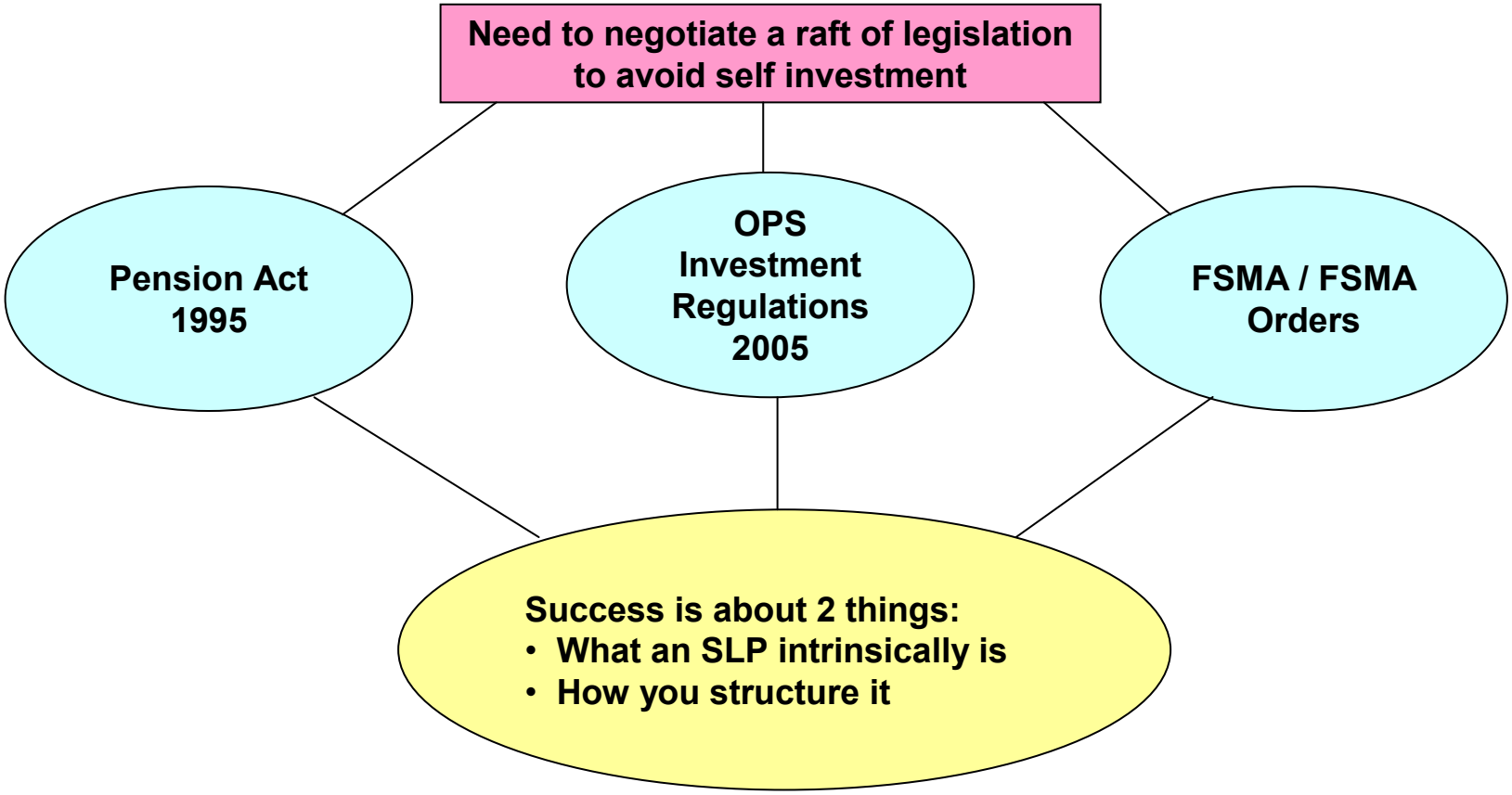
Why does the structure of the SLP matter?



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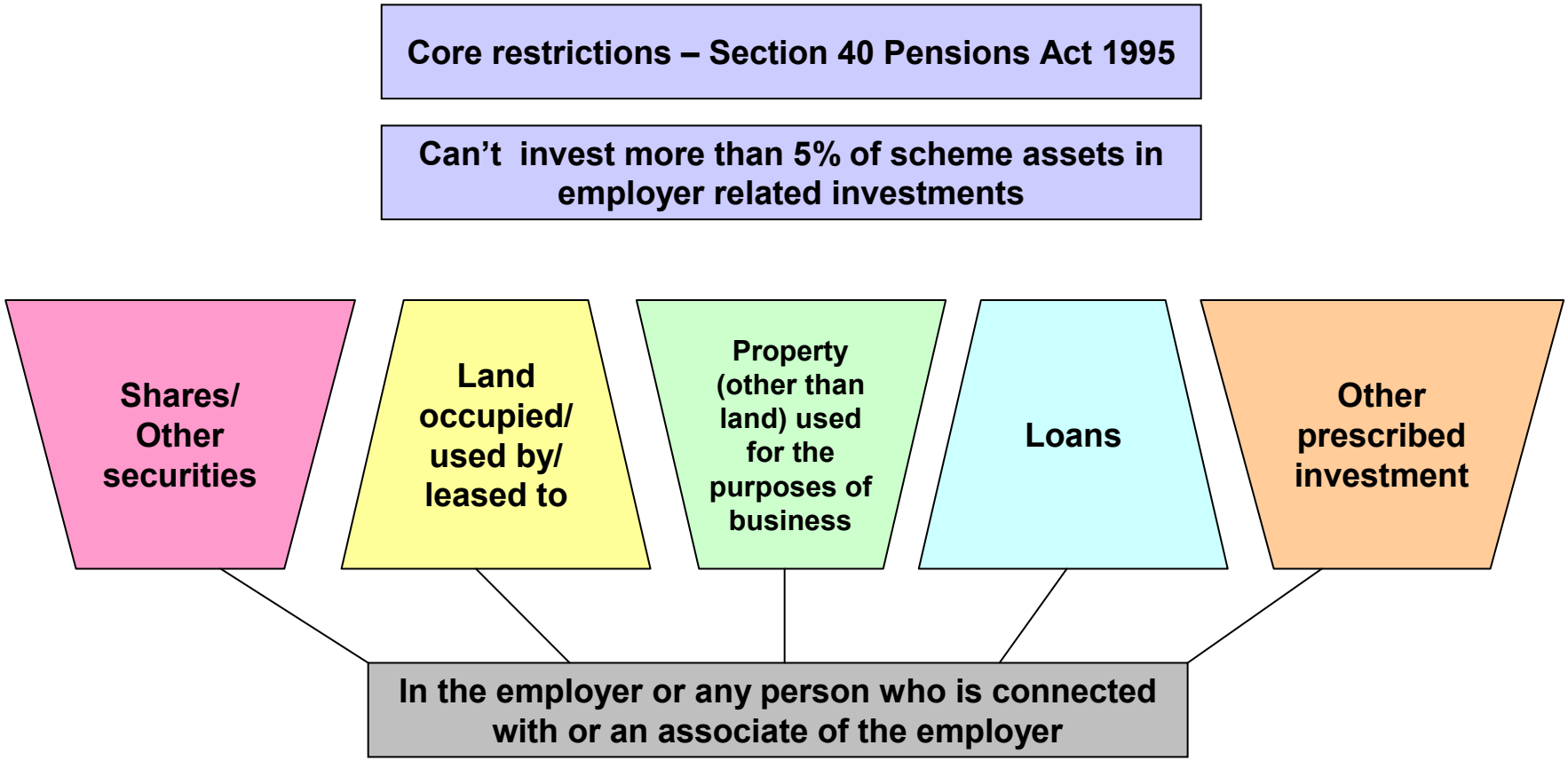
What is prohibited?



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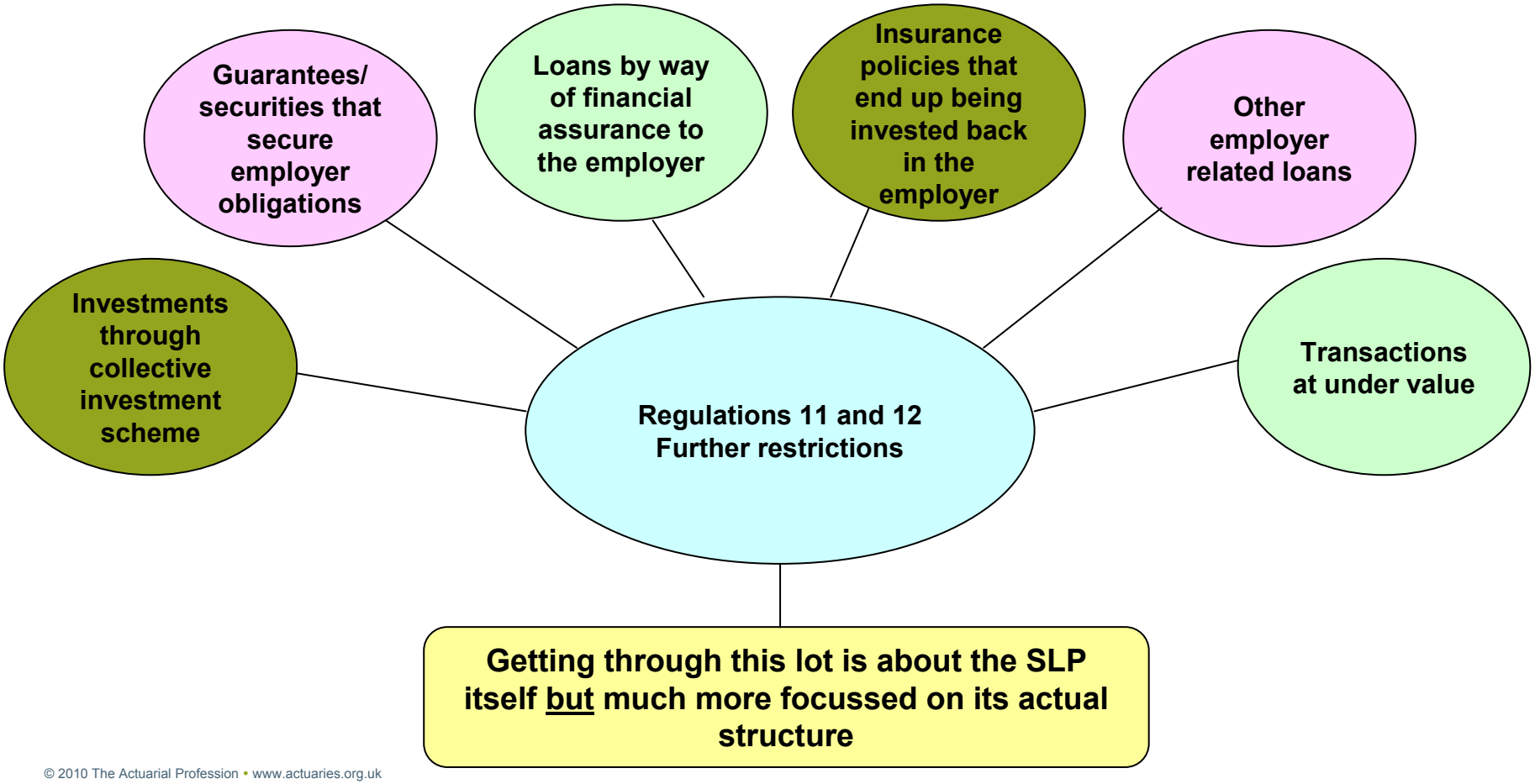
OPS Investment Regulations 2005 – the second layer of restrictions



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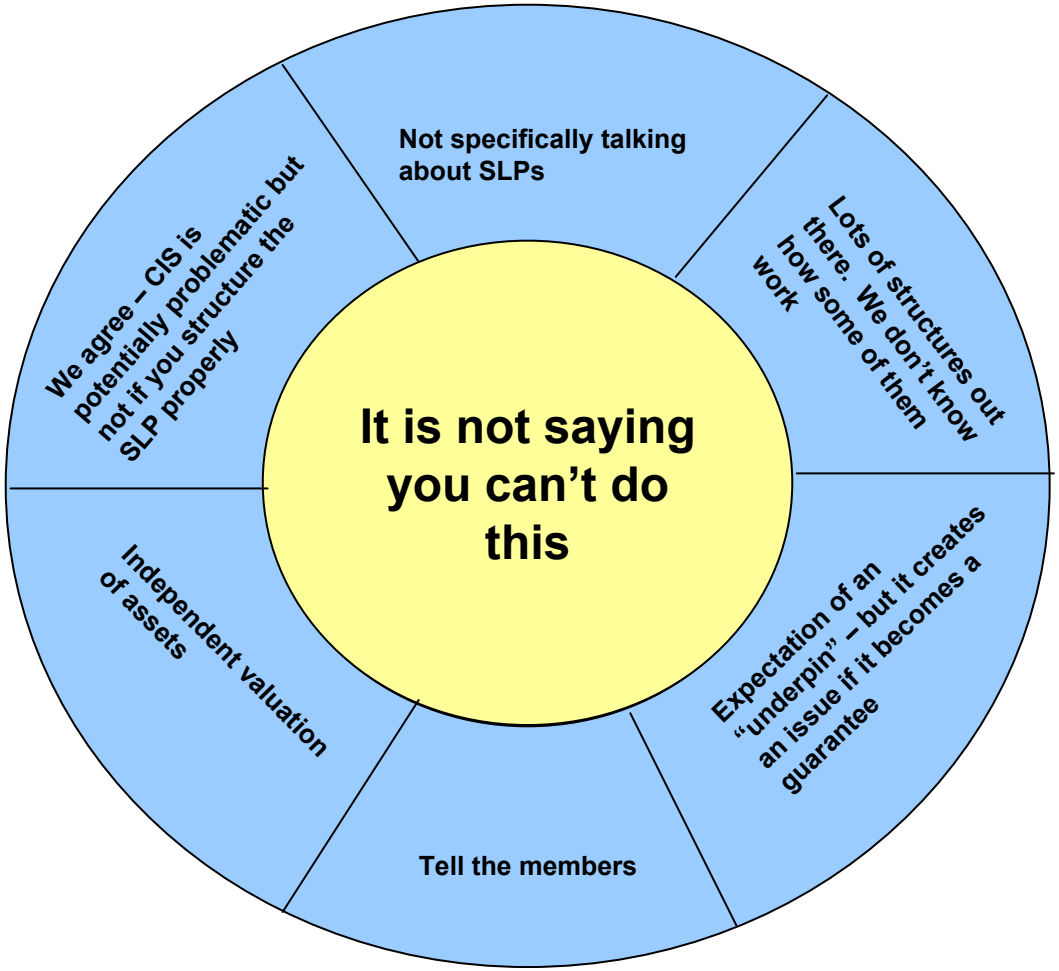
tPR Statement on ERI – November 2010



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HMRC consultation – 24 May 2011

- Consultation on changing the tax rules around employer asset-backed contributions to defined benefit registered pension schemes
- Objective to ensure that the amount of tax relief given to employers accurately reflects the value of the contributions received by pension schemes
- Preserve flexibility for both employers and pension schemes to use these arrangements to manage pension deficits

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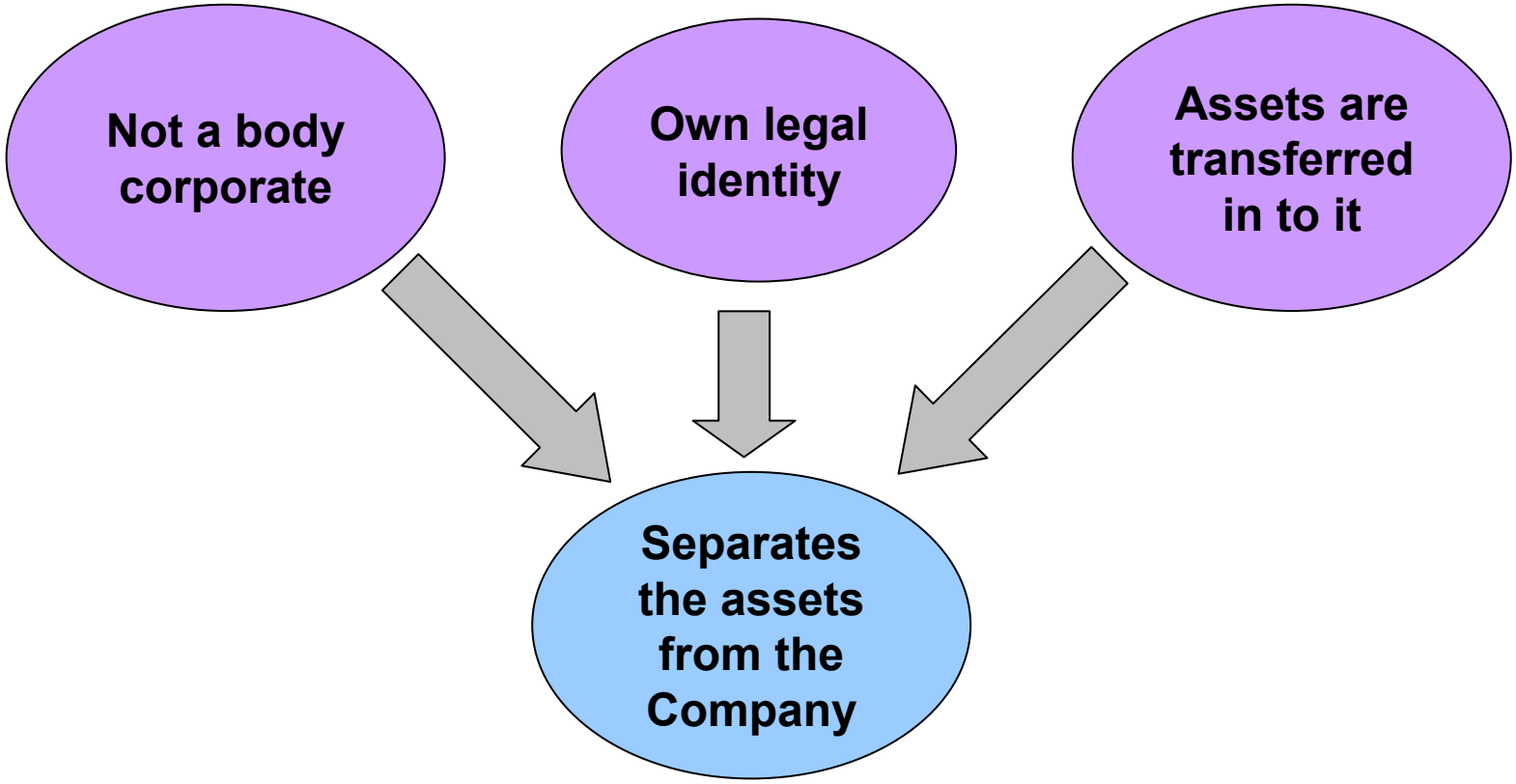
How does an SLP help with this?



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Key Points

- Key features of an SLP
- Contrast with English LP and LLPs
- Migration risk
- Structure documents governed by Scots law and executed in Scotland
- Registration in Scotland
- Principal place of business in Scotland
- Scottish registered General Partner entity

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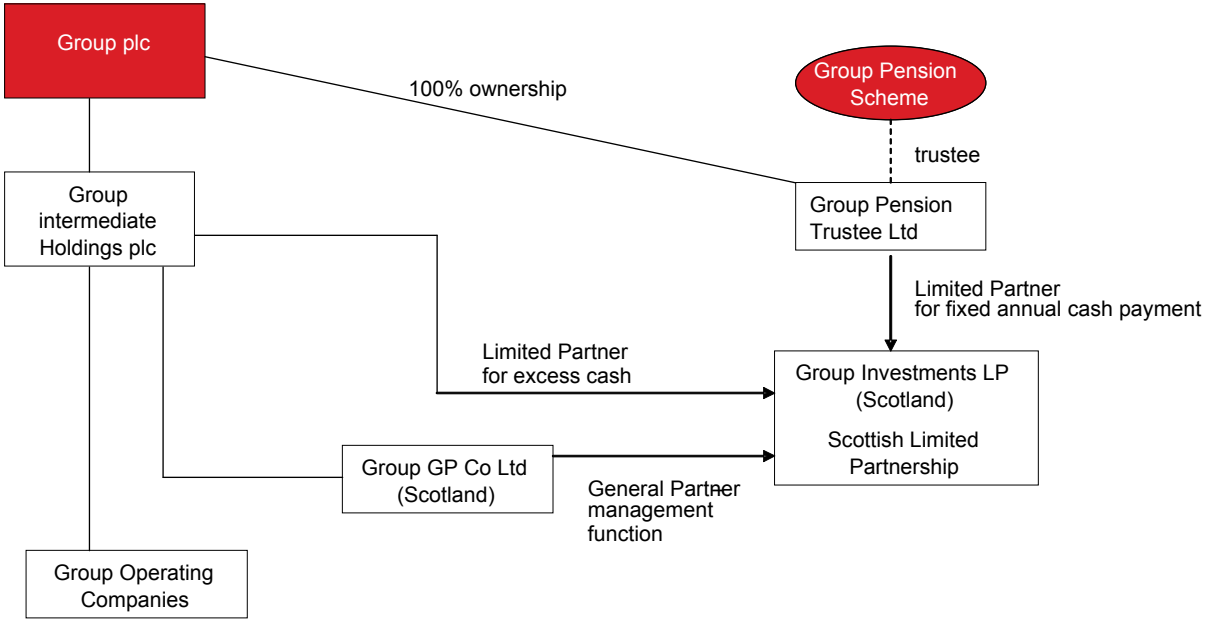
SLP pension scheme funding structure

Typical structure:



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Key Points: benefits for employer

- Cash flow efficiencies
- Accounting treatment: IAS 19, deficit reduction, impact on group balance sheet and other points
- Group control over operations / assets
- Funding conditionality and flexibility of structure generally
- PPF levy reduction
- Tax benefits in practice (and hopefully post HMRC consultation)

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Key Points: benefits for pension scheme

- Increased security / structural preference
- Deficit reduction, impact on group balance sheet and stronger group cash preservation
- PPF levy reduction
- Financial instrument with bespoke contractual protections attached: negotiated specifically with trustees

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Cash payments to Scheme showing difference between 20 year SLP arrangement and standard 10 year recovery plan

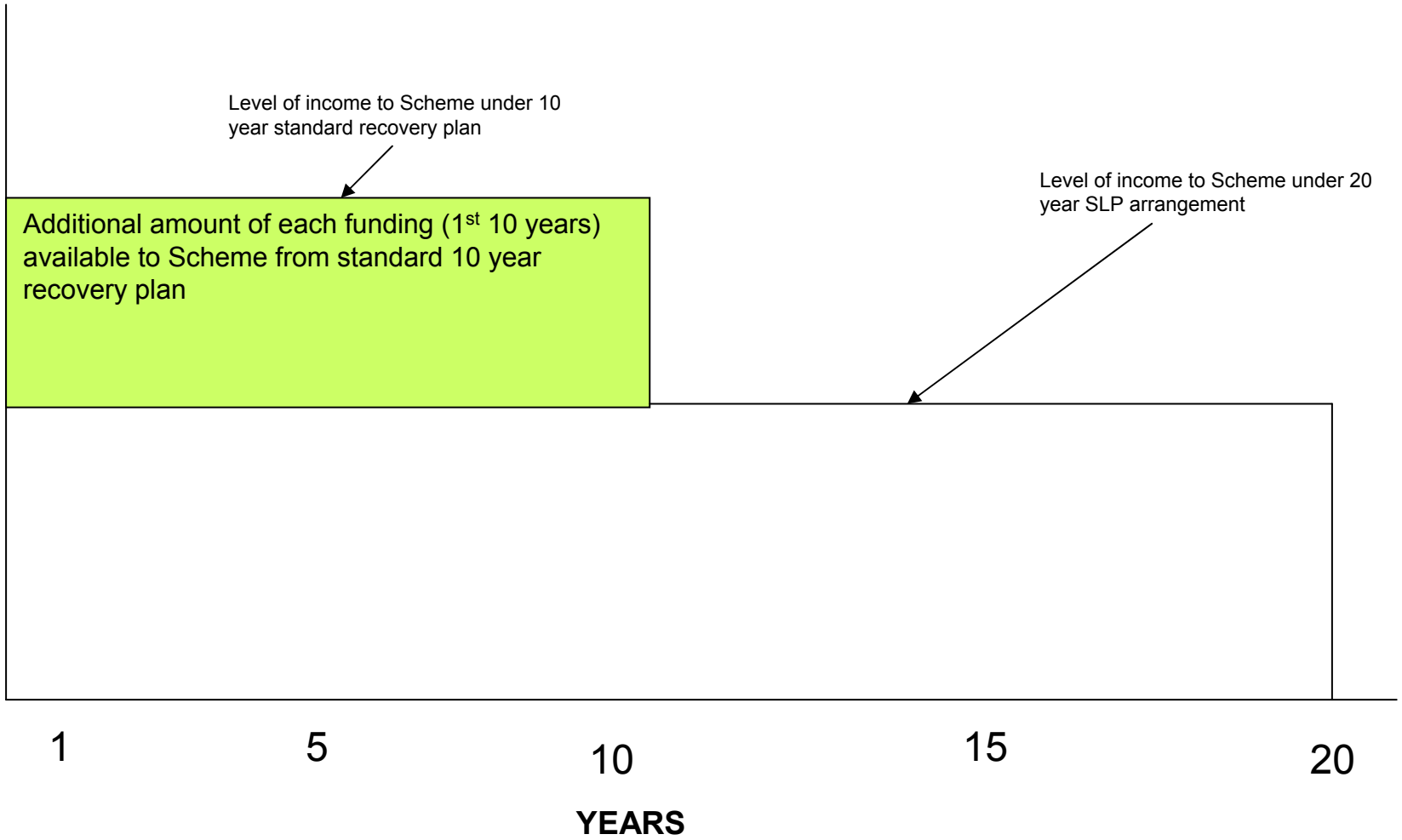

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Illustration of "Security" position for Scheme and contrast with differing amounts of cash receipts in relation to 20 year SLP and 10 year recovery arrangements

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Questions or comments?

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

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