


The Actuarial Profession
making financial sense of the future

Survival of the weakest
Antony Miller, Bridge Trustees



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Topics for Discussion

- Typical and Extreme Situations
- Problem indicators
- Balancing the risks
- Case study 1 – reliance on corporate assets
- Case study 2 – compromise
- Case study 3 – regulated apportionment
- Case study 4 – pre pack
- What can go wrong?

Typical Situations

- Triennial Review
- Debate over TPs and recovery plans
- Usually reach agreement
- May look for parental guarantees / contingent assets
- Regulator guidance
 - prudence on TPs
 - Flexibility on recovery payments

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2

Extreme Situations

- Affordable cashflow < expenses plus interest on TPs
 - Over both short and medium term
- Recovery plans > 30 years (well past all cps)
- Lenders threatening withdrawal of facilities unless pensions sorted
- Sponsor struggling with refinancing
- Directors/owners about to walk
- Potential investors will walk unless pensions sorted
- Trying to avoid insolvency and small dividends

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Problem indicators

- Insolvency
- Suspensions of contributions
- Insolvency of competitors
- Insolvency of customers/suppliers
- Profits warnings / press comments
- Increased reporting to banks
- High levels of debt
- Uncovered facilities



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Problem indicators

- Reducing turnover
- Loss of senior staff
- Covenant Review Essential



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Distressed Situations - Risks

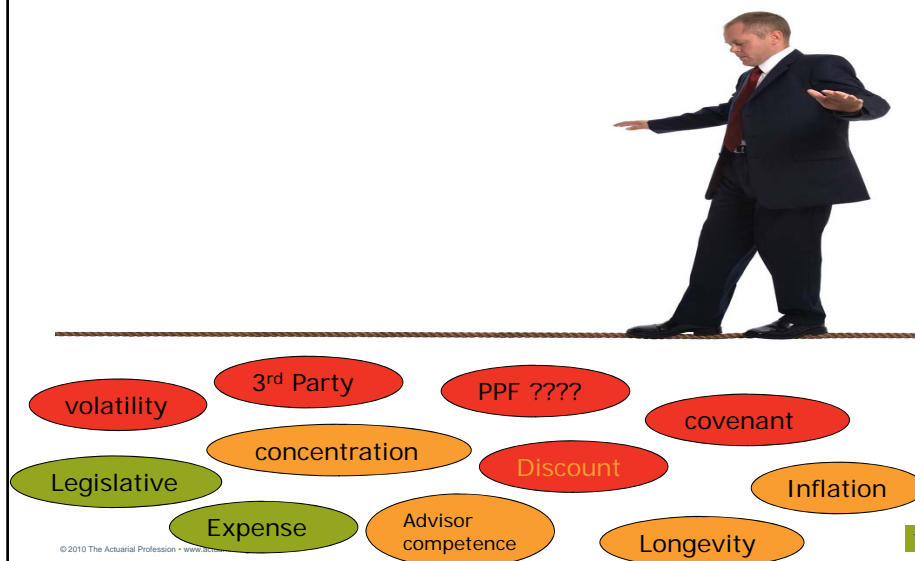
- Which risk do you think is greatest?
- 1. Employer insolvency
- 2. 3rd party non cooperation
- 3. Investment volatility



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Balancing the risks



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Case Study 1 – Corporate Assets

Corporate Position

- Agricultural company
- Privately owned / no parent
- Business turned around in last 2 years
- Loss making elements sold
- Small operation – c300K cashflow/profit pa
- £200K from rental income on land
- Property valued at £8m
- Redevelopment possibilities

Scheme Position

- £15m assets
- PPF deficit £7m
- Best estimate deficit £4m
- Solvency deficit £14m
- TP c£10m deficit
- SoC c£700K pa + expenses
- Up from £150K pa + expenses
- Contribution holiday ends 2011
- Running costs £80K to £120K pa including levy

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Case Study 1 – Corporate Assets

- Would you crystallise the position and make the employer insolvent?
- Yes
- No
- Depends



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Case Study 1 – Corporate Assets

Two ways of looking at this:

- Stable property business with £300K pa income
- Properties are already scheme assets, business not worth considering, enter wind up
- Trustees duty is to look after the assets and try and provide the benefits promised under the Trust

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Case Study 1 – Corporate Assets

Negotiation – initial corporate offer

- Offered negative pledges
- Two properties worth £2m
- Funding based on 6.5% return
- Recovery plan assumes 8% return
- £100K pa contributions + expenses
- 75% cash commutation (10:1)
- 14 year recovery period

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11

Case Study 1 – Corporate Assets

- Would you accept this offer?
- Yes
- No
- Depends
- Too much risk
 - High covenant risk
 - High investment risk
 - High yield risk
 - Factors



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12

Case study 1 – corporate assets

Negotiation – trustee counter offer

- 1st ranking charges on all properties
- Buyout target (4% return)
- 24 year recovery period
- Recovery plan assumes 7% growth
- £100K pa contributions
- Share of redevelopment super profits
- Regulator involvement – risk focus

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13

Case study 1 – corporate assets

Negotiation – settlement

- 1st ranking charges on all properties (2nd on one)
- Funding based on 4.75% return
- Recovery plan based on 7.25% growth
- 25% commutation
- Very back loaded
- £100K pa contributions
 - 50% of property transferring to scheme at end
 - 20 year recovery period
- With regulator

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14

Case Study 2 – Compromise

Corporate Position

- Engineering company
- Business deteriorated over last 4 years
- Supported by owners
- Loss making elements sold
- Small operation – c150K cashflow/profit pa
- Paying it to the scheme
- Insolvency outcome £0.6 to £0.9m

Scheme Position

- £8m pension scheme
- PPF deficit £1.6m
- PPF buyout £2.7m
- Solvency deficit £7.3m
- Best estimate deficit £1.8m
- PPF levy and expenses c£120K pa
- Estimated TPs c£5m to £6m
- Required conts £400K+expenses

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15

Case study 2 – Compromise

- Potential investor
- Synergies estimated at £200K to £300K pa
- Offering £200k pa to pension scheme for 10 years plus expenses
- Wants certainty through wind up and compromise of S75 debt
- No certainty, no investment
- Covenant reviewer engaged to validate offer was good
- No other offers available
- £150K cashflow projection realistic
- Insolvency statement realistic

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16

Case Study 2 – Compromise

- Would you support the investment?
- Yes
- No
- Depends



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Case Study 2 – Compromise

- Trustees supportive
- Good chance of improving benefits
- S.t. charge on £270K assets
- Investments in corporate bonds
- Closely matched and monitored
- S.t. Clearance application submitted
- + PPF continued support



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18

Regulated Apportionment Arrangements

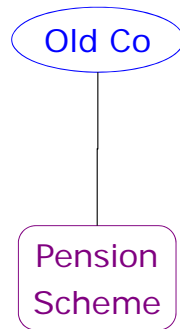
- Definitely only for extreme situations
- Where no other viable routes
- Method of transferring liability to PPF
- Without visible corporate insolvency
- In return for payment and equity
- Insolvency inevitable and usually imminent



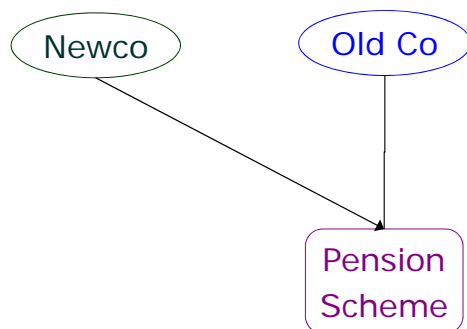
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19

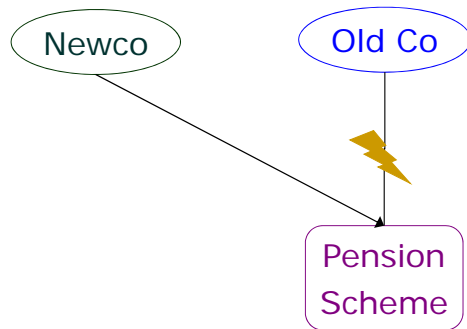
Regulated Apportionment Arrangements



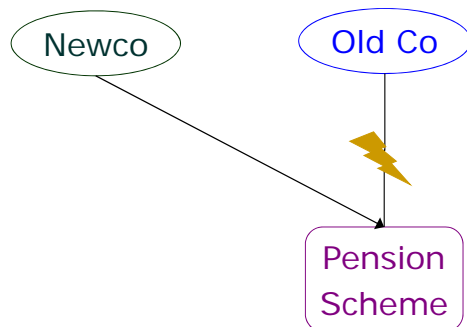
Regulated Apportionment Arrangements



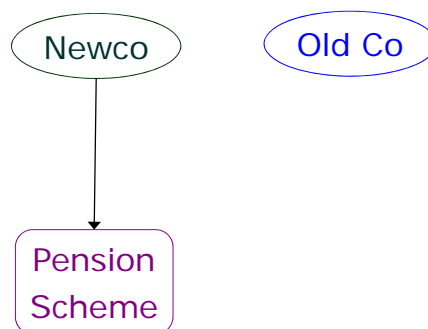
Regulated Apportionment Arrangements



Regulated Apportionment Arrangements



Regulated Apportionment Arrangements



Case Study 3 – RAA

Corporate Position

- Engineering consultancy
- MBO in early 2000s
- Major overseas shareholder
- £2m profit pa, £1m cash held
- Paying £600K pa conts
- Massively dependent on 3
- Unable to pursue contracts
- Owners threatening to leave
- Insolvency outcome £0.3 to £1.2m
- Value nil to £15.4m

Scheme Position

- £23m pension scheme
- PPF deficit £15m
- Solvency deficit £35m
- Best estimate deficit £15m
- PPF levy and expenses c£200K pa
- £600K pa conts set to increase to £2m pa+

Case Study 3 - RAA

- Detailed covenant review
 - Insolvency outcome
 - Dependence on the 3
 - Remuneration of the 3
- Investigated possible options
 - Extended funding
 - Compromise
 - Figures didn't work
- Offer:
 - £750K one off cash
 - 33% equity to PPF
 - In return for RAA
 - Trustees asked to support

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26

Case Study 3 – RAA

- Would you support the RAA?
- Yes
- No
- Depends



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27

Case Study 3 - RAA

- Investigated insolvency outcome
 - £nil to £0.5m
- Trustees Supportive s.t.
 - Increased cash (more than £1.5m)
 - Loan notes (further £1m)
 - 33% equity
- Now with Regulator and PPF

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28

Pre Pack Insolvency

- Involves corporate insolvency
- Buyer found pre insolvency and terms agreed
- Pension scheme left behind
- Risk of CNs/FSDs
- Against all parties including Directors
- Other reasons for insolvency?

- New twist – post pack insolvencies

- Often forced on by lenders (banks)

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Case Study 4 – Pre Pack Insolvency

Corporate Position

- Textile company
- MBO in 2005
- £200K profit pa
- High bank facility
- All assets charged to bank
- Bank at risk for £2m+
- 2008 bank pinch – took cash
- Bank banned contributions
- Stock & brand only assets
- £nil insolvency dividend
- Investor sought

Scheme Position

- £14m scheme
- £14m pension scheme
- 35% PPF funded
- PPF deficit £26m
- Solvency deficit £38m
- Best estimate deficit £28m
- PPF levy and expenses c£2200K pa
- Estimated TPs c£30m to £36m
- Required conts £2m+ +expenses

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30

Case Study 4 – Pre Pack Insolvency

- What do you think is optimal solution?
- Long term funding
- Compromise
- RAA
- Insolvency



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31

Case Study 4 - Pre Pack Insolvency

- Investigated options
 - Extended funding
 - Compromise
 - RAA
- RAA looked possible with one investor
- Bank unwilling to wait
 - considered pre pack optimal
- Company went insolvent
- Scheme entered PPF

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32

Example Pitfall with Extreme Solutions

- Appointed to a scheme being validated by PPF
- RAA 3 months earlier
- Newco insolvent and S120 submitted
- Debt unpaid at insolvency
- PPF rejected all but 2 members

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33

