Dented Daimlers and Droopy Daffodils

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

** 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

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

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
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

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

Questions or comments?

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

The views expressed in this presentation are those of the presenters.