



How do you deal with a significant – and potentially damaging – deficit in a long-established defined benefit scheme and continue to provide benefits to your employees?

It was a major challenge facing Sessions of York. And one which Aspira was more than happy to tackle head on.

“The scheme deficit was becoming an obstacle to our plans for the business. With Aspira’s experience and advice we were able to identify and develop more options for the future than seemed possible before.”

Derek Mottram, Finance Director,
Sessions of York

Managing a deficit in a Defined Benefit scheme

The client

[Sessions of York](#) is a privately-owned labelling and print company based in the city’s outskirts. Operating three divisions - Label, Machine and Ebor Press - it employs just over 100 people.

The company operated a Defined Benefit (DB) pension scheme for many years, but by 2004 funding for pensions through a DB scheme was quickly becoming very expensive and a major problem for many companies. Sessions of York was no exception, so in 2004 Aspira was engaged to advise the company and scheme trustees on the way forward.

The challenge

Modest investment returns coupled with falling investment values and negative actuarial factors were a real danger to the future of the company and needed to be addressed.

It was a difficult situation. Both the trustees and the Company were keen to continue providing pensions benefits to employees, but the costs were increasingly unsustainable and would soon start to undermine the business and its balance sheet.

The Aspira response

Immediate wind-up was considered but deemed too costly. Aspira worked with the trustees to build an understanding of the relationship between risk and reward and true investment diversification.

So on our recommendation, Sessions made these changes:

- The DB scheme was replaced with a contract-based Defined Contribution (DC) arrangement – including face-to-face advice for all employees, thus ending any further accrual of DB benefits.
- The investment strategy for the defined benefits assets was updated, with advice being provided by Aspira.
- A more active management of the scheme assets was put in place, with appropriate risk and asset allocation strategies.
- A communication and advice strategy for members was implemented, managed by Aspira in consultation with Trustees, the employer, employees, lawyers and actuaries.

Building on progress

Having successfully implemented these plans, it then became possible to offer enhanced transfers to the DB scheme members and make available the many benefits that such a move can bring...

- Lower cost to the employer than full buyout
- Risk is transferred from employer to member
- Each member takes individual control of their pension benefits
- Members gain added flexibility that comes with individual control
- Running costs can be reduced
- The scheme becomes more solvent

But before this could happen, key factors had to be considered:

- **Trustees' stance on the company's plans** – this had to be either neutral or positive
- **Fixed costs of the exercise** – certain costs would be incurred irrespective of success. The offer needed to maximise the transfer rates and, as a result, minimise the costs per member.
- **Potential success rates and cost** – Aspira was confident of achieving a success rate of at least 80% with those members still employed in the business, because the enhancements provided by the company were pitched at a level that would produce an acceptable critical yield. Also, each member would be guided through the decision-making process in individual meetings with our advisers.
- **Pensions Regulator and HMRC views** – both agencies had recently published papers on this type of exercise and we were satisfied that everything met their key requirements.
- **Cash or enhancement?** – cash inducements can cloud a member's judgement. They aren't tax efficient, being taxable for the member and assessable for both employer and employee National Insurance, and can still leave the company open to future claims for shortfalls. Instead, a well-constructed enhancement process, where the employer passes on an acceptable level of risk and provides full access to advice, offers the best chance of success.
- **Setting targets** – what was the overall goal? How would success be measured?

- **Future costs of DB legislation, mortality and compliance** – the most significant risk for DB schemes is the uncertain future cost of the benefits. Mortality assumptions are set to increase, and Pension Protection Fund (PPF) levies are also likely to rise as the number of schemes funding the levy reduces and the number of claims goes up.

The result

After thorough planning and research, an enhanced transfer offer was made to all members. The offer differentiated between current and former employees (current staff amounted to 70% of the total potential transfer value). It was also backed by a one-to-one advice process for every member, involving a review of the critical yields required, set against the individual's attitude to risk. The offer was a huge success, closing in February 2008.

But where did it leave Sessions? In a far more healthy situation, as the facts show:

- 90% of members currently employed in the business took the enhanced transfer offer.
- The DB scheme deficit was significantly reduced.
- The trustees were able to adopt a less volatile investment strategy, moving away from equities and into bonds and gilts.
- A nine-year recovery plan has been implemented to eliminate the remaining deficit (previously 15 years) at an affordable annual cost.
- The value of the business has been increased significantly, thanks to the dramatic reduction, and capping, of the scheme liabilities.
- A win-win situation. A win for the company as it succeeded in reducing the risk and potential costs associated with the scheme; and a win for the employees who have been able to make informed decisions about their benefits and achieved a more secure financial future.

“With Aspira’s considerable expertise we have been able to turn around a very difficult situation. Now, with the ongoing advice service they provide to us all, we can look to the future with renewed optimism.”

Mark Sessions, Managing Director, Sessions of York

Contacting Aspira

Want to know what we could do for your business? You can contact us in any of the following ways:

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