Punter Southall
TRANSACTION SERVICES

Adding shareholder value through pensions

Specialist transaction services & corporate pensions advice

Defined benefit pension liabilities are a key driver of stockholder value. For sponsoring employers and investors, it is critical to put in place the right pensions strategy to manage these liabilities using expert knowledge and a wide range of specialist techniques.

Punter Southall Transaction Services (PSTS) is the specialist transactions consulting division within the leading actuarial firm Punter Southall. PSTS advises private equity houses, investment companies and other corporate entities on the acquisition and disposal of organisations with defined benefit pension schemes. PSTS also provide a complete range of services to assist and support corporate entities with the ongoing management of their pension obligations.

Our experience has been gained across a broad spectrum of transactions covering all pension arrangements from large defined benefit schemes to specialist executive plans and international arrangements.

We are able to provide full international pensions due diligence utilising local partners through the Global Benefit Associates International and Asinta networks.

"In difficult situations where others hide behind 'if', 'but' and 'however', these guys always find a pragmatic commercial solution. I've never known them to be outdone."

Jon Moulton, Better Capital

"Punter Southall Transaction Services provide clear and pragmatic advice in this complex area of pensions"

Alister Wormsley, Formerly Managing Partner Vision Capital LLP

Transaction consulting

We offer a whole of ownership approach encompassing a variety of analysis, management and negotiation techniques throughout the acquisition, ownership and exit phases, providing tailored advice at each stage of the investment process.

Our approach

Acquisition

- Full due diligence
- Pricing negotiations
- Negotiations with trustees
- Pensions Regulator clearance
- Establishing new pension arrangements
- Ensuring continued cover for life assurance and other ancillary benefits

In due diligence, we take a focused risk based approach. We quickly identify the key risks, help our clients to understand and quantify those risks, and look for commercial and practicable solutions to manage and control any material risks that cannot be eliminated.

We lead our clients through negotiations with the vendor on the size of any price deduction and where applicable, to negotiate with the pension scheme trustees the level and form of any mitigation which might be appropriate. We also help our clients to assess the merits and implications of applying for Pensions Regulator clearance.

Ownership

- Scheme closure
- Benefit changes
- Liability reduction exercises
- Investment strategy
- Buy-ins and buy-outs
- Valuation negotiations
- Changes in member option terms (e.g. cash commutation factors)

Once the deal completes and the target becomes a portfolio company, the focus switches to the identification and implementation of tailored post-acquisition solutions. A variety of projects may be undertaken, to manage both the risks and costs associated with the provision of defined benefit pension schemes.

Since the advent of the Scheme Specific Funding Requirement, an increasing amount of our work is in relation to valuation negotiations between trustees and companies. Our clients have had considerable success in negotiating contribution schedules that maximise the amount of capital retained within the business.

Exit

- Preparing for disposal
- Vendor due diligence
- Pricing negotiations
- Pensions Regulator clearance

Working towards an exit, we tie up any loose ends to ensure that pensions do not prove to be a stumbling block or detract from the return on the investment. This will include ensuring that accounting disclosures are robust and do not present potential purchasers with any opportunities to price chip. We also assist in the preparation of key deal documentation, negotiations with purchasers and the pension scheme trustees, and assess the merits and potential cost implications of applying for Pensions Regulator clearance.

Corporate advice

We advise a range of corporate entities on the management of their pension liabilities. These clients range from UK listed companies and UK subsidiaries of overseas parents, through to small privately owned businesses. The range of services that we provide to our corporate clients include:

- Pension scheme implications of a refinancing or restructuring of the business
- Valuation negotiations including employer covenant advisory services
- Sponsoring employer investment advice
- Liability reduction exercises including buy-outs and buy-ins consultancy
- Accounting advice on assumptions and preparation of disclosures
- Scheme closure (i.e. switching from defined benefit to defined contribution) and other benefit changes
- Regulatory risk consulting
- Cost management including PPF levies

Our experience across the corporate structure spectrum and in merger and acquisition situations mean that we are able to apply both actuarial and corporate finance expertise for the benefit of our clients.

Our approach

Our approach to corporate advice is based upon understanding our client's business first and foremost and what it is they are trying to achieve in any given situation. The key drivers are often reducing costs and managing risk, but the parameters set can vary widely, meaning that no two solutions are the same. As a result, we may end up helping one client to tweak the benefit structure and the investment strategy of their existing pension scheme to ensure it remains viable going forward, whilst for another we might propose a closure to future service benefits and a programme of liability reduction exercises.

We are always mindful of the powers that the Pensions Regulator possesses, not only when a transaction is taking place, but when considering other key decisions that affect the pension scheme such as a refinancing or restructuring of the business. Clients value our ability to analyse and to help them understand the risks of regulatory action, by drawing on our experience in the deal market.

About us

A dedicated pensions transaction team was established at Punter Southall in 1998 to build on the firm's already well established reputation in this area and in 2003 this was branded as Punter Southall Transaction Services. Punter Southall Transaction Services is part of the Punter Southall Group of companies, which provides a unique combination of actuarial, consultancy, administration and investment services specifically for pension scheme trustees, scheme sponsors, private clients and institutions.

Punter Southall Transaction Services provide transaction, post-acquisition and overall pensions strategy advice to over a quarter of London-based private equity firms.

Our clients

Our corporate client base is comprised of approximately one third of listed organisations, one third private equity portfolio companies and one third other entities (such as subsidiaries with an overseas parent). The size of the pensions liability ranges from £1 million to in excess of £1 billion. We advise on pension issues in the UK, the US and across Europe.

The PSTS team has undertaken many projects for leading private equity houses including:

3i, AAC Capital, Alchemy Partners, APAX Partners, The Carlyle Group, Principal Investments, Duke Street Capital, Epic, Graphite Capital, HG Capital, Inflexion, Investcorp, JO Hambro Private Equity, Lloyds Development Capital, Montagu Private Equity, Nomura, Nova Capital Management, Oak Hill Capital, Phoenix Equity Partners, The Riverside Company, Rubicon Partners, Rutland Partners and Vision Capital.

Case studies

The two pairs of case studies which follow on investment and future service benefits underline our commitment to ensuring that the solution is tailored to each client's specific circumstances, even if the problems faced by two different clients appear to be fairly similar at first glance.

Investment - case study 1

Background

Our client had to fully fund a pension scheme it was acquiring in order to achieve clearance for the transaction from the Pensions Regulator. Having committed this significant amount of cash, it wanted to ensure that the funding level remained broadly unchanged throughout its expected ownership period (circa 5 years).

Assessment

We proposed an investment strategy that invested the majority of the scheme assets in high quality corporate bonds. A swap overlay was put in place to hedge both inflation and interest rate risks. A small allocation was made to return seeking assets to help generate a return which net of expenses provided a buffer agains unhedged risk. This small, risky asset allocation was achieved through a series of structured equity products which were designed to generate this return whilst removing the possibility of extreme downside risks.

Outcome

At the end of their ownership period, despite the turmoil in the financial markets experienced, the funding of the pension scheme was exactly as expected when the investment strategy was put in place. This reduced pensions issues in any sale discussions.

Investment - case study 2

Background

Our client, an investment company, wished to significantly increase the allocation to UK equities within its pension scheme. Their aim was to increase the likelihood that the assets of the scheme would generate a higher return in the long term, removing the need to pay cash contributions. The Trustees needed to be persuaded to accept less diversification in their investment strategy and sell a significant proportion of their bond portfolio.

Assessment

The company was required to demonstrate to the Trustees that the covenant afforded to the scheme by the company was sufficient to bear the downside risks of a more aggressive investment strategy should the investment performance be significantly worse than anticipated.

- An innovative support arrangement was put in place giving the Trustees security over the investment company's portfolio of assets at little or no cost to the investment company.
- To mitigate the risks of the switch to equities, a cash flow matching strategy was designed that utilised the equity dividend stream expected, alongside corporate bonds, to ensure that the Trustees were not going to be forced sellers of equities at any time over a rolling 15 year period.
- Automatic mechanisms were put in place to ensure that excess equity performance was locked in when it was achieved.

Outcome

The Trustees were able to accede to the sponsor's request and sell their bonds, reduce diversification and invest significantly in UK equities. The Trustees could, due to the enhanced security against downside risks, allow for a higher discount rate in their funding calculations which resulted in an agreement that the company would not be required to contribute to the scheme.

Future service benefits - case study 1

Background

Our client was acquiring a small division of a highly unionised company which had traditionally provided defined benefit pensions to its employees. Due to the small number of people involved it was apparent that the continued provision of defined benefit pensions would not be cost effective and would present our client with significant financial risks.

Assessment

We designed a generous defined contribution pension arrangement which had different scales of benefits. This structure was proposed to the three unions involved, and we assisted the company through several rounds of negotiation with the unions. We provided detailed analysis and projections of the benefits for our client to be shared with the unions.

In order to make the package more attractive and to allow the unions a "win" we designed two low cost but high impact "concessions". Firstly we costed out giving a ten times lump sum death benefit instead of the standard four times. Secondly we proposed putting a modest lump sum in all the members defined contribution accounts to help kickstart their pension savings.

Outcome

The unions were persuaded that the final package was excellent and recommended the proposals to their members.

The defined contribution scheme is highly valued and was awarded the Pension Quality Mark Plus by the NAPF reflecting its status as one of the highest quality defined contribution arrangements in the country.

Future service benefits - case study 2

Background

Our client had received advice that suggested that, although they could not close to future accrual, due to a previous undertaking given to the scheme, they should instead switch to a career average scheme going forward. Our client wanted a second opinion as to the veracity of this advice.

Assessment

On reviewing the proposal we uncovered a number of surprising issues:

- The level of salary increases for the next few years were expected to be below inflation. Thus switching to career average would have actually cost the company money rather than saving it.
- It was possible to achieve the proposed accounting and funding gains by changing assumptions rather than the underlying benefits.
- It was felt that the change would be seen by the Trustees as a breach of the spirit of the undertaking even if it was within the letter of the undertaking.
- Finally, there was a large pool of people who had the right to join the scheme but had not yet chosen to do so. The consultation required to change benefits was likely to raise awareness of pensions and cause some people to take up their option, thus increasing rather than reducing costs.

Outcome

No changes were made to benefits but both accounting and funding benefits were gained through changing the salary growth assumption. Over the following years salary increases have been significantly below inflation such that substantial real gains, relative to the proposed change to career average approach, have been made.

Get in touch

Richard Jones FIA, Client Principal

+44 (0)20 3327 5290
richard.jones@pstransactions.co.uk

Richard is a Client Principal within Punter Southall Transaction Services.

He has been advising corporate entities on pension and investment issues since 1996 and has been at Punter Southall since 1999, including a period working for Punter Southall in Boston, USA.

Richard has been involved in a large number of international mergers and acquisitions particularly involving UK and US interests, for both corporate buyers and private equity firms. He has significant experience in dealing with the Pensions Regulator in respect of clearance and other related issues., developing innovative solutions to pension issues for clients to optimise value in restructuring amd transaction situations. Richard also provides employer covenant advice to both trustees and sponsoring employers.

Richard has a degree in Business Economics and became a Fellow of the Institute of Actuaries in 2002.

James Saunders FIA, Principal

+44 (0)20 3327 5299
james.saunders@pstransactions.co.uk

James uses his wealth of corporate pensions experience to advise companies on a range of pensions issues.

He has worked in the pensions industry since 1989 and at Punter Southall Transaction Services since 2007. In the past, James has worked for two global pensions consultancies and a big four accounting firm.

James has a wide range of experience, including advising on corporate transactions, post-deal implementation work, management of ongoing/portfolio pensions issues, implementing risk reduction, pension scheme investment strategy and advice around public sector outsourcing. James also sits on the professional affairs sub-committee within Punter Southall.

He has a degree in Mathematics from Cambridge University and became a fellow of the Institute of Actuaries in 1996.

For further information, visit our website at www.pstransactions.co.uk

Punter Southall Transaction Services is a division of Punter Southall Limited and is a member of The British Private Equity and Venture Capital Association
Registered office: 11 Strand, London WC2N 5HR · Registered in England and Wales No. 3842603
A Punter Southall Group company