Merging Defined Benefit Schemes

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Context

A FTSE250 global manufacturing business operated 3 separate Defined Benefit schemes, all closed to future accrual, with a combined membership of c.25,000 and total assets of £2bn. Each scheme had its own trustee board (with no overlap in membership) and sets of advisers but each scheme shared the same sponsor covenant and were similarly funded.

The Challenge

The sponsor wished to achieve a strong and more cost-effective governance model with the added imperative of delivering this in a timescale prior to the next triennial valuation exercise for each of the schemes to allow a single valuation process. To facilitate this a new scheme needed to be established to which assets and liabilities would be transferred; and a new Trustee Board, governance structure and strategic adviser appointments put in place.

Our Approach

We met and discussed in outline the sponsor's proposal with each of the Chairs of Trustees and then engaged with the wider Trustee boards. A "cross party" working group was established and key issues identified and addressed in order to gain agreement in principle. A detailed project plan was then developed and we worked with and co-ordinated 5 sets of advisers – one for each existing Trustee Board, one to the new Trustee Board and the Sponsor's advisers - to register and establish the new scheme, supporting governance structures and adviser appointments, in order for it to receive the bulk transfer of assets and liabilities.

The Outcomes

The transition to the new structure was achieved in 9 months and in time for one valuation exercise to be undertaken. An annualised saving of c£1m in governance and administration costs was delivered. In addition, a reduction of £1m per annum in investment management fees was realised through immediate rationalisation of some mandates; and further savings anticipated over time when asset reorganisation timing allowed.