

Key Facts

Client :	Wexford based, long established manufacturing company with 200 employees
What they needed help with	Retaining a sustainable DB scheme & help developing and implementing a solution to the issues faced.
Service(s) we provided:	Intensive communications programme with staff Several meetings with staff
Results achieved	Solutions devised and implemented along with company and employee buy-in New DC scheme introduced.

Details of our approach

Background

A long-established manufacturing company. The company employs more than 200 staff at its base in Wexford.

The Challenge

Several years ago, the company's Defined Benefit (DB) pension scheme, in common with many other such schemes, was experiencing funding issues and had failed to meet the minimum funding standard. The latest actuarial valuation had recommended a large increase in funding to meet the funding standard but this had been deemed unaffordable by the Company.

The company wished to retain a sustainable defined benefit scheme for its employees and they asked Invesco for its assistance in developing and implementing a solution to the issues facing the scheme.

The Consultation Process

As a first step Invesco engaged in an intensive consultation and engagement process with staff with a view to explaining fully the challenges which had to be met.

Pension schemes are in general poorly understood by their members and the Invesco team held several meetings with staff to explain the issues faced, such as the minimum funding standard, the size of the deficit to be met, and the different factors affecting scheme valuation.

Options including reduced benefits, redefinition of future benefits and the imposition of caps on pensionable salary were also explored at this stage.

This process resulted in the presentation of a more detailed set of potential options to the Company.

These included:

- No change in benefits with the deficit being funded through increased contributions
- Changes to pensionable salary
- Changes to accrual rates
- A move to a career average scheme
- A move to a cash accrual scheme
- Winding up the scheme and moving to a Defined Contribution scheme

The Solution

Having explored the various options Invesco recommended several changes to the existing scheme which would meet the company's aspiration of retaining a defined benefit scheme for its employees.

The solution involved three elements which comprised:

- changes to the retirement age
- some benefit alterations
- the closure of the DB scheme to new entrants

Retirement ages were changed to align with the new state retirement ages. The company also extended the working age for existing staff and new joiners to align with the state retirement ages.

Under the new arrangement, it is now compulsory to take a lump sum and a reduced pension on retirement. Instead of receiving a pension of 1/60th of final pensionable salary for each year of service members will receive a pension of 1/80th of final pensionable salary as well as a lump sum of 3/80ths of final pensionable salary for each year of completed pensionable service. This has had the effect of significantly de-risking the scheme. For its part, the company agreed to pay the costs of the pension levy, thereby removing a burden from the fund. The changes required a Section 50 application which was approved by the regulator.

The Outcome

The company and its employees now have a sustainable pension scheme for the future. The company made a capital injection that in conjunction with the Section 50 enabled the scheme to achieve solvency. The Defined Benefit scheme has been closed to new entrants and a new Defined Contribution scheme has been established. Members of the Defined Benefit scheme that was now solvent were given the option of transferring into the Defined Contribution scheme. Former employees with a deferred benefit in the scheme were also written to and given the option of early retirement from the scheme.

The perfect solution for your company

Through our Client First approach we provide tailored solutions based on our understanding of your business needs and requirements. Our multi-disciplined team are recognised as thought leaders in their respective fields. They have gained considerable experience, both national and international, helping our clients with their employee benefits programmes.

We pride ourselves on being innovators, with a deep understanding of all aspects of Defined Benefit, Defined Contribution and Hybrid pension plans.