

The Pensions Trust Growth Plan - Series 3 reclassification

The Growth Plan (GP) is a multi-employer pension arrangement offered by The Pensions Trust (TPT), generally for the charitable and not-for-profit sectors. The GP has several sections or 'Series' that have been established over time, each offering a different type of pension benefit.

“““

Employers with Series 3 liabilities will be subject to a withdrawal debt if they leave after 24 July 2014.

Background

Series 1 and 2 of the GP are defined benefit arrangements. Series 4 of the GP is a money purchase arrangement.

The position with Series 3 is not as clear – the benefits provided in exchange for the contributions paid to Series 3 were originally intended to be 'money purchase' in nature. However, Series 3 includes a capital guarantee that the fund at retirement shall not be less than the contributions paid. A recent change to the legal definition of 'money purchase' by the Department of Work and Pensions means that Series 3 is treated as money purchase prior to 24 July 2014, but after this date Series 3 is instead treated as defined benefit.

What effect will this have?

Currently, employers with Series 1 and Series 2 liabilities pay deficit reduction contributions (DRCs) to meet the shortfall between the Growth Plan's (Series 1 and Series 2) assets and liabilities. The size of these contributions depends on the employer's share of the total liabilities and the assessment carried out by the Scheme Actuary. Employers with Series 3 only liabilities have not previously been required to pay DRCs.

However, following the change in the definition of 'money purchase' and the reclassification of Series 3 as a defined benefit arrangement, Series 3 employers may now find that they are expected to pay DRCs. More detail will no doubt be available in due course when the results of the GP valuation as at **30 September 2014** are available.

This could be good news for Series 1 and Series 2 employers, who will potentially now share the deficit with a larger number of employers and therefore may see a reduction in the DRCs payable.

Aside from DRCs, there is also the withdrawal debt that is payable when an employer decides to leave the GP. This debt is calculated by apportioning the total deficit based on each employer's liabilities in the GP. For withdrawals prior to 24 July 2014, Series 3 liabilities are excluded from this apportionment. However, from 24 July 2014 onwards Series 3 liabilities are included i.e. employers with Series 3 liabilities will be subject to a withdrawal debt if they leave after 24 July 2014.

Again this is good news for Series 1 and Series 2 only employers who (all else being equal) will see a reduction in their withdrawal debt, as the debt is being shared across a larger number of employers. However, this is obviously bad news for Series 3 only employers who are now exposed to a withdrawal debt if they leave the GP.

“”

Employers with a significant proportion of liabilities in Series 1 or Series 2 who have recently triggered a withdrawal debt may wish to contact TPT to see whether this can be rescinded via the re-introduction of another employee.

Employers with a mixture of Series 1, 2 and 3 liabilities are likely to see their withdrawal debt change. They will be affected to varying degrees, for good or for bad, depending on the relative proportions of their liabilities in each Series.

It is noteworthy that Series 4 is money purchase so is excluded from the DRCs and withdrawal debt calculations.

What to do next

Employers with a significant proportion of liabilities in Series 1 or Series 2 who have recently triggered a withdrawal debt may wish to contact TPT to see whether this can be rescinded via the re-introduction of another employee. This would then allow the withdrawal to be triggered again at a later date, with the benefit of Series 3 employers being included in the apportionment. However, whether it is worthwhile doing so depends on a number of factors, including changes in market conditions since the original debt was triggered and the extent to which this offsets the savings from the inclusion of Series 3. Employers in this position should therefore take advice and consider the most appropriate action for their circumstances.

Employers with a significant amount of Series 3 liabilities who are considering a withdrawal from the GP need to carefully consider the impact of these changes. These employers should also take advice to understand what options are available to mitigate or reduce their exposure to a withdrawal debt.

In general all employers in the GP should be aware of their potential liabilities, including their exposure to a withdrawal debt. It is possible to accidentally trigger a withdrawal so it is important for all employers to ensure they do not inadvertently trigger a debt when they would not otherwise choose to do so.

About us

Barnett Waddingham is an independent partnership, wholly owned and managed by its 62 partners with seven offices in the UK and a headcount of over 650. We are a leading provider of administration, actuarial, investment, employee benefits and consultancy services to pension schemes.

Our experience

Across Barnett Waddingham we have considerable experience advising organisations with pension obligations in defined benefit multi-employer arrangements such as The Pensions Trust.

In the past, we have helped employers to understand their pension arrangements further and examine a variety of de-risking and exit options. We have also provided support to many employers in multi-employer schemes where an actuarial valuation is being completed.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

 corporateconsulting@barnett-waddingham.co.uk  020 7776 2200

 www.barnett-waddingham.co.uk



Barnett Waddingham LLP is a body corporate with members to whom we refer as “partners”. A list of members can be inspected at the registered office. Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. BW SIPP LLP is authorised and regulated by the Financial Conduct Authority. Barnett Waddingham Actuaries and Consultants Limited is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.