Case study.

Papa John's journey: from 49% funded to fully bought out

Our client.

1999	**Papa John's** is a well-known US fast food pizza company. In the 1990s, they decided to expand in the UK and bought Perfect Pizza Ltd in 1999. With this purchase, Papa John's inherited two pension schemes - one defined benefit (DB) and one money purchase. The DB scheme had commenced on 1 January 1996 with a transfer value in respect of members' past service pensions from Whitbread. The name of the scheme was changed to Papa John's (GB) Ltd Pension Scheme, although not until June 2006.
2000	As a relatively small company with all the retail outlets franchised, a DB scheme was not ideal. It was closed from April 2000 and members stopped earning any further pension entitlement – it had been closed to new entrants three years earlier.

The issue.

2006	In common with most UK pension schemes, liabilities had risen faster than assets. The 2006 actuarial valuation showed a deficit of £1.4m and an **ongoing funding level of only 49%**. Papa John's agreed to pay additional amounts starting at £98,000 a year to clear the deficit.
2009	By the 2009 valuation, asset values had reduced slightly but liabilities had increased. The **deficit now stood at £1.5m** and the funding level at 47%.

Papa John's were concerned about the financial risks and the lack of improvement in the funding level.

Investments, top slicing and enhanced transfers.

The trustee board comprised three senior executives who had limited experience of running a pension scheme. PSGS was invited to join the board as an independent trustee. We held discussions with the actuary and the company, which resulted in the company agreeing to pay **higher contributions** of £167,000 a year.

A review of the investment strategy was also carried out. The assets of £1.3m included £450,000 in an insurance policy and £850,000 in managed funds. To **reduce volatility** and **limit the risk of the deficit increasing** again, the trustees decided to move 50% of the managed fund investment into fixed interest.

2011

By April 2011, assets had increased to £1.9m, partly as a result of the extra contributions but also reflecting the growth in value of gilts and bonds. At that time, one member with a significant pension entitlement was not enjoying the best of health and wished to retire. Fortunately, the trustees were able to buy his pension from an insurance company for less than the actuarial reserve so the funding level increased significantly.

The company took separate advice on how to manage the risk of liabilities continuing to rise. They were keen to offer members an opportunity to take an enhanced transfer from the Scheme to an individual policy and asked the trustees for their support.

PSGS helped the trustee board to understand how the project would work and what they could do to support the company in its quest to reduce liabilities. To ensure any proposal was in the members' best interests, the company agreed to provide independent financial advice to all members and to pay the whole amount of the transfer value enhancement. The trustees also imposed a number of conditions in line with the Pensions Regulator's guidelines.

The result.

2012

This project was successful for the company. A number of members accepted the enhanced terms on offer, including some with substantial benefits. In total an amount of £1.069m was paid out in April 2012, including £144,000 from the company for the enhancement. As a result, the Scheme liabilities reduced significantly.

The transfer exercise had reduced the number of members, the value of liabilities and the Scheme assets. In order to match the assets more closely with the cost of buying out the pension liabilities, the trustees decided to switch all remaining managed fund investments into fixed interest.

The trustees asked their advisers to approach insurers to find out what terms might be available for an annuity purchase. The results showed the cost of such a transaction would just about be covered by the assets. The company was very keen to support a buy out and was prepared to fund a shortfall if it arose. Terms were agreed with Legal & General and contracts signed towards the end of the year.

2014

As the benefits of all members would be secure, the company asked the trustees to commence winding up the Scheme. This process involved scrutinising every detail for every member, as well as making sure there was nobody else who might be a potential beneficiary. In addition, the trustees had to reconcile all pensions with HMRC records because most members had been contracted out, as well as undertake a time consuming equalisation exercise. The company remained supportive and ensured sufficient money was available to make all the final adjustments.

2016

By the end of 2016, all the assets had been applied to secure all the benefits, the final accounts were signed off and the lawyers confirmed the trustees could wind up the Scheme. It had been a rough ride but the life of the Papa John's (GB) Ltd Pension Scheme was able to reach a peaceful end.