


Case study

Managing a scheme from deficit to buy-out

Our client

Grisewood & Dempsey, a family owned publisher of children's and educational books, was set up in 1973 by Dan Grisewood and Michael Dempsey with financial backing from the British Printing Corporation (BPC). In 1980, Robert Maxwell bought BPC and tried to buy Grisewood & Dempsey but, after a fierce argument with Dan which resulted in a famous fight in Maxwell's office, the BPC share was bought back.

Dan had also set up Kingfisher in 1978 but, as with many publishing houses, both businesses saw many changes in ownership:

1988: Grisewood & Dempsey and Kingfisher were acquired by Larousse to become Kingfisher Publications

1998: Larousse became part of Vivendi

2002: Kingfisher Publications was sold on to Houghton Mifflin, a large and expanding US publishing firm whose growth was being financed through debt, now known as Houghton Mifflin Harcourt (HMH)

2007: HMH were pleased to have the Grisewood & Dempsey brand but, with no other businesses in the UK, decided to sell it on to Macmillan Publishers

The issue

In 1982, Grisewood & Dempsey had established a final salary pension scheme for its staff. 20 years later, in line with other small companies at the time, the scheme was closed to new employees. There were around 100 members, 12 of whom were drawing their pensions.

The formal actuarial valuation of the scheme in 2006 revealed a **deficit of £2.8million**, with assets of £4.4million against liabilities of £7.2million. HMH was a very supportive sponsor, but the **strength of their covenant was weak** – there was a high level of debt in the business and the UK company was reliant on its US parent. In addition, the **majority of the scheme's assets were invested in equities**, a risky strategy for a closed scheme with a weak sponsor.

PSIT
Independent Trustees

How the issue was managed

At the time the UK business was sold to Macmillan in 2007, **the trustees negotiated a special payment of £1.8million from the sale proceeds** to be made to the pension scheme, **as well as a higher level of ongoing annual contributions**.

HMH wanted to close down all UK operations but **the pension scheme deficit was preventing liquidation of the UK Company**. With a buy out in prospect and with a stronger covenant following a successful refinancing of HMH, the trustees were able to adopt more prudent assumptions at the next valuation by using a lower discount rate. Although this meant that the results of the 2009 valuation showed higher liabilities of £10.9million with assets of only £5.6million – a deficit of £5.3million, HMH continued to support the Scheme and, in July 2010, agreed that the trustees could **implement a phased switch from equities into bonds and gilts in order to reduce volatility**.

By June 2011, **the switch to bonds had produced better than expected returns**. Adding this to the higher ongoing contributions, meant assets had increased to £9.7million and **the deficit had substantially reduced**. The trustees felt this was a good time to approach insurers to obtain costs for buying out the scheme's remaining liabilities.

MetLife quoted a cost of £10.3million, a shortfall of only £600,000. HMH agreed to pay this shortfall, enabling the scheme to be wound up. This will be completed in December 2013 at which point HMH can dissolve their UK company.

How PSIT helped

PSIT was appointed in 2010 to act as Chair of the trustees to the Grisewood & Dempsey scheme. In this role, we have been able to **provide professional support to our co-trustees, enabling strategic decisions to be taken** that have ensured the scheme's funding position has been **well managed and the point of wind up could be reached**.

In particular, we helped the trustees:

- negotiate appropriate contributions
- switch equities to bonds and gilts to reduce volatility and better match insurer portfolios
- select the best advisers for actuarial, administration and legal matters
- choose the right consultant to negotiate the best terms for the buy out.

PSIT Independent Trustees

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