



Punter Southall
TRANSACTION SERVICES



Adding shareholder value through pensions

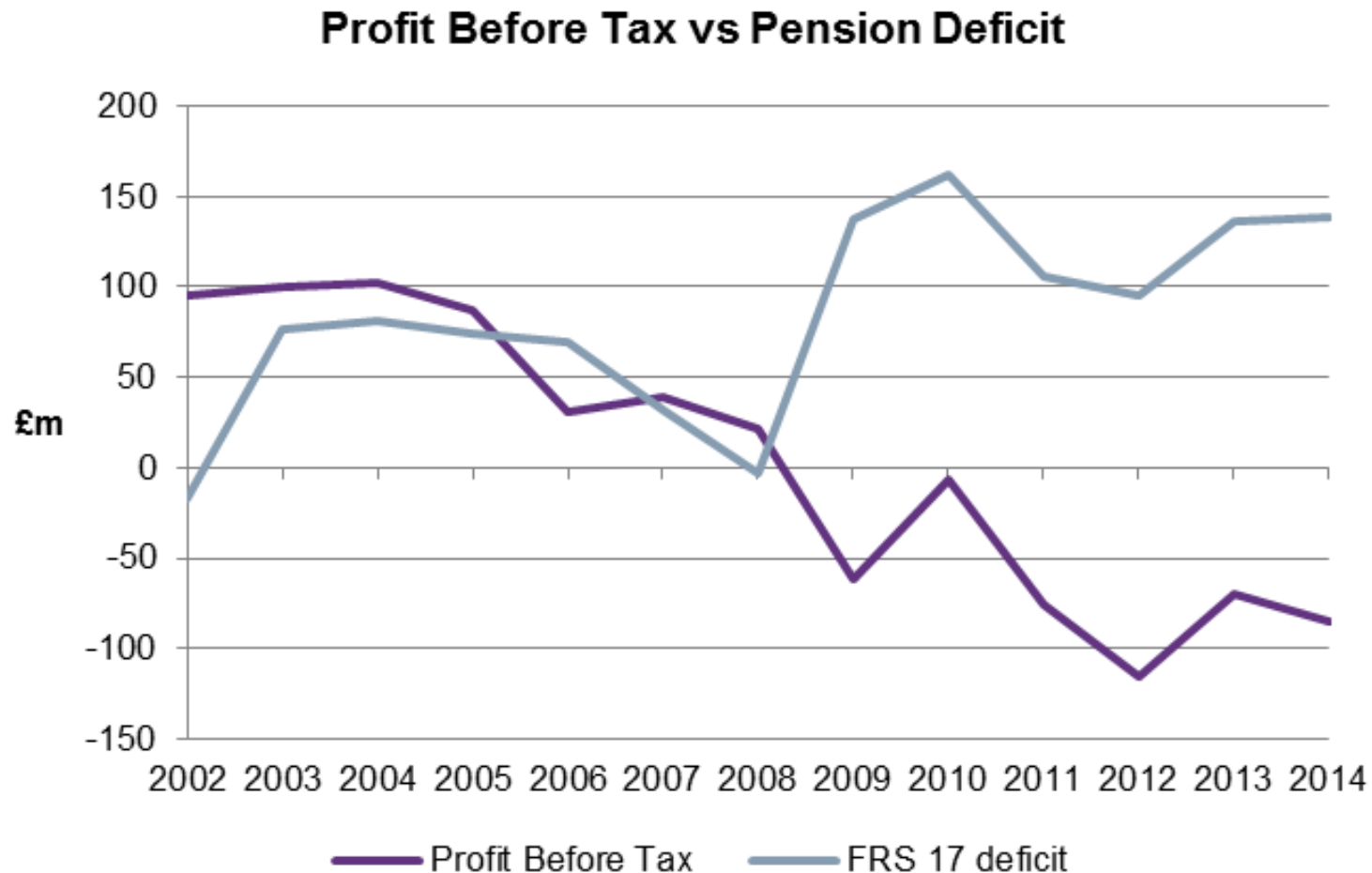


What lessons can we learn from BHS?

ACA Sessional Meeting – 23 June 2016

Martin Hunter FIA

BHS Background



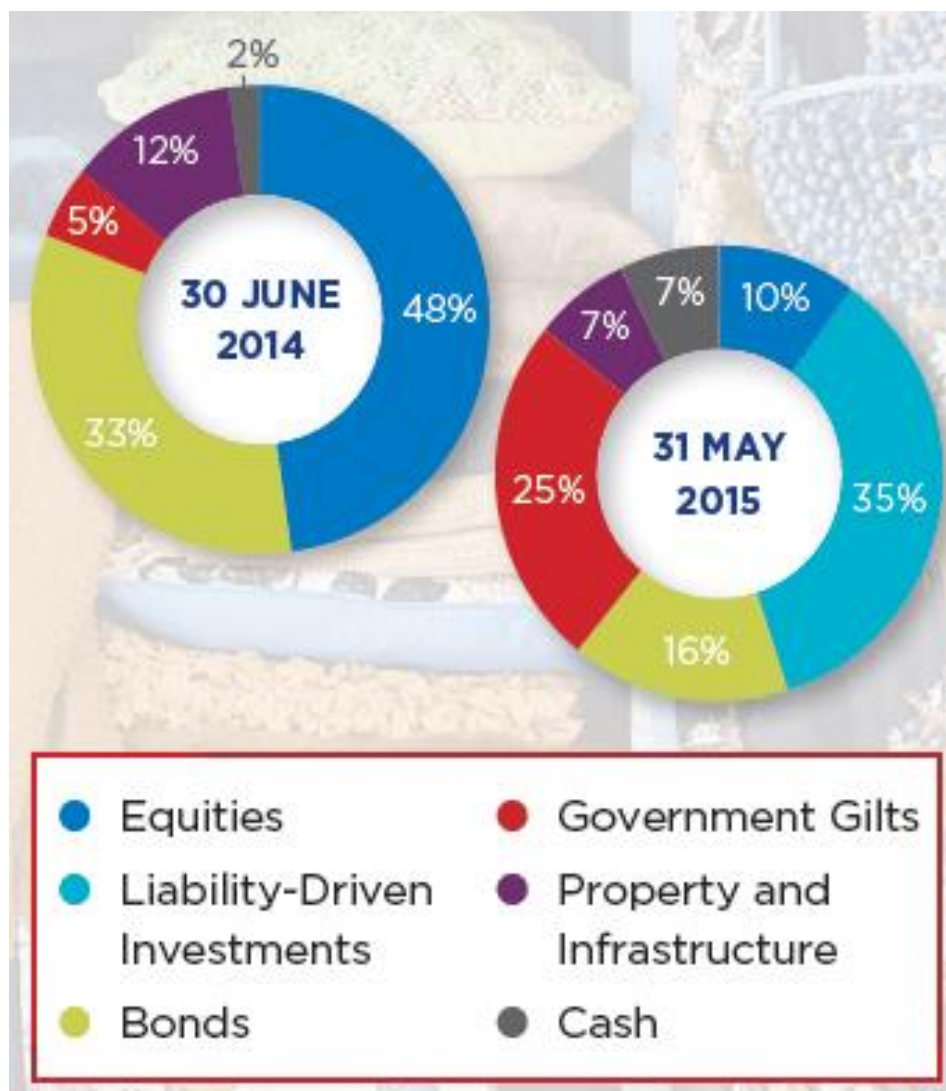
BHS Funding Position

	£m
Deficit at last triennial valuation (31 March 2012)	233
Deficit at last annual funding update (31 March 2014)	225
Deficit on buy-out basis	571
Deficit on Section 179 basis	250 – 300

Recovery plan:

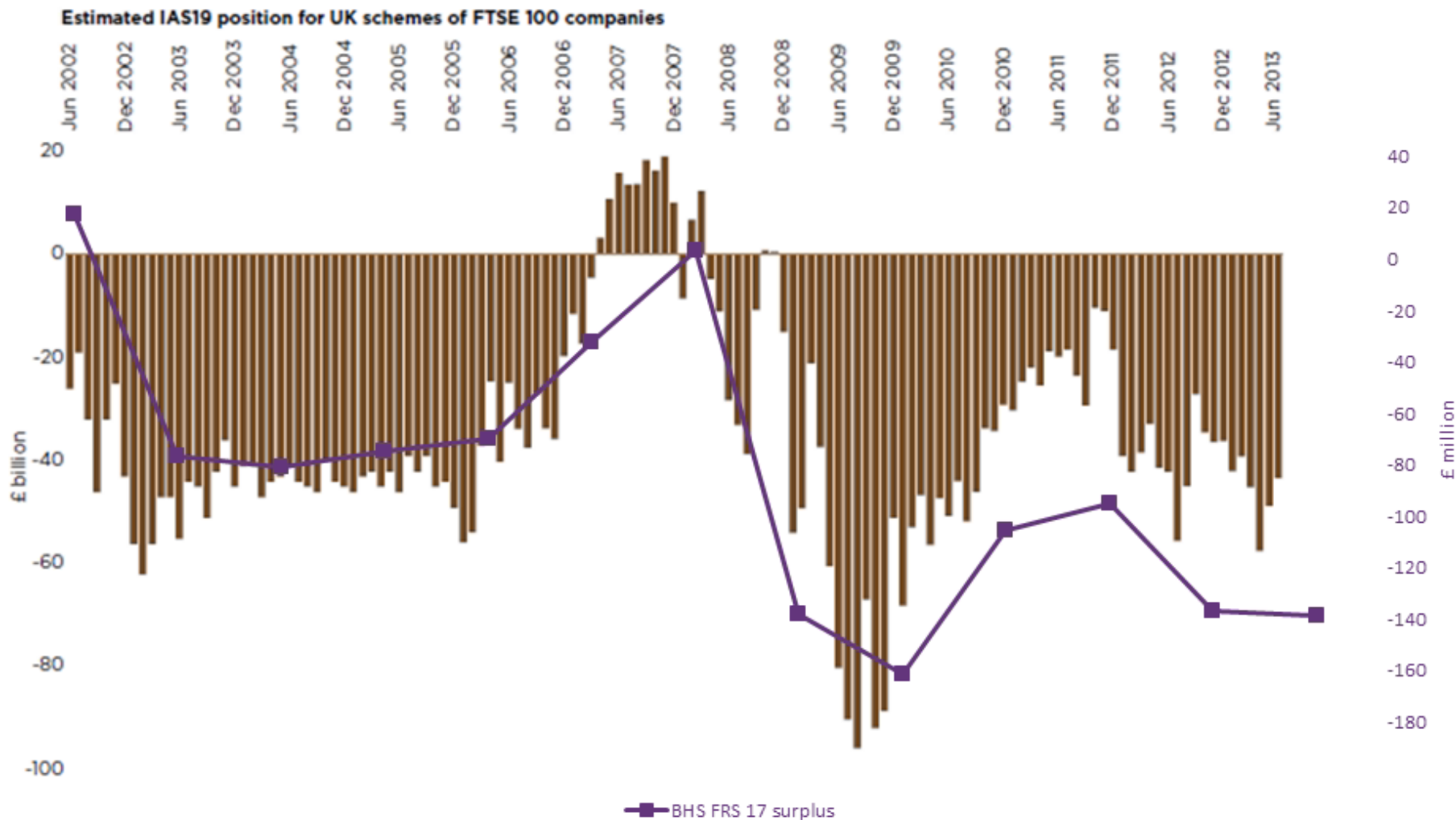
- £10m p.a. for 23 years
- Assets assumed to return 1% p.a. more than TPs discount rate
- Seems likely BHS argued higher contributions not affordable

BHS Investment Strategy



Source: BHS Pension Scheme Newsletter, December 2015

What should BHS Trustees have done differently?



Source for FTSE 100 data: LCP Accounting for Pensions Report 2013

The media's knowledge of pensions

"The PPF is taxpayer backed"

"The pension scheme brought BHS to its knees"

"There is a pensions black hole of £571m"

The Select Committee's knowledge of pensions

Richard Fuller: For good reasons or bad reasons, you do not sound like much of a regulator. You took 17 months to receive a plan. That plan had a 23-year recovery period, which sounds like it is twice the average. Your response was to “open a recovery plan case”. The fund had a £200 million deficit, which was growing, but you did not think it “required proactive response”. When you go after someone who has a fund that does not have enough money in it, your first question is, “How much can you afford?” You are not much of a regulator, are you?

Lesley Titcomb: I do not agree with that statement.

The Select Committee's knowledge of pensions

Sir Philip Green: I had no role. There was a plan put together with the management team at BHS and my finance team. Right?

[Interruption.] This guy who keeps talking to you is disturbing me.

Richard Fuller: He's the Clerk so he is just checking that I am asking questions appropriately.

Sir Philip Green: Whatever. It is just disturbing. He's whispering to you while you are talking to me. It doesn't work.

Richard Fuller: I can manage listening to one person while I'm listening to you.

Sir Philip Green: Good. Well, I can't. I'm getting disturbed.

Chair: It's good corporate governance.

Sir Philip Green: Really? Okay. I'll take that home with me.

Parallels with British Steel Consultation

- Are 11,000 employees of British Steel more important than 11,000 employees of BHS?
- Will Sir Philip Green's proposed solution mirror the proposed solution on British Steel Pension Scheme? Perhaps something like:
 - Provide benefits in line with PPF compensation, but with no haircuts for non-pensioners
 - Loss of non-statutory pension increases
 - Scheme stays out of the PPF
 - Contribution from Sir Philip Green to facilitate and address moral hazard concerns

Possible discussion points

- Do the conclusions of the Work and Pensions Select Committee matter?
- Is the vilification of Sir Philip Green likely to deter investment in companies with DB schemes?
- How might the funding positions of the BHS Schemes have been improved?
- Should the Pensions Regulator have been more actively involved in sale discussions?
 - Clearance not sought by parties involved, primarily because did not want regulatory involvement
- Should the Pensions Regulator be acting more quickly now?
 - Moral hazard investigation not expected to conclude until the end of the year
- Should changes be made to pensions legislation?
 - Does the Pensions Regulator have appropriate powers?



Punter Southall GROUP

