

Pensions: Fresh idea

Assigning some of its property to the pension fund is a fresh, solid idea from Sainsbury's.

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Deep hole

Pension deficits are, among other things, driven by economic conditions. In times of economic stress, asset values fall and therefore deficits rise. As the pension deficits rise the sponsor is forced to provide additional cash. This adds to the stress on the sponsor at a time when it is least able to withstand it.

Need drives innovation

Pension schemes have traditionally been highly conservative on the surface. The conservatism is definitely on the surface. The traditional investment mix of 60% equities and 40% bonds actually exposed the scheme to greater risks than it might and did not mitigate other risks that a more sophisticated investment strategy might.

Volatile markets and increasing longevity have driven pension schemes to seek new solutions for deficits and with this has come a number of more adventurous and innovative strategies. Boots was a first mover. The company became famous for its de-risking trade when it switched the entire pension trust into bond investments. Since that day it is now almost common practice for a pension plan to invest in inflation linked bonds and loans, or even enter into inflation swaps with banks.

New friends

Times of unpredictability seem to bring unlikely pairings together. Here in the UK we have possibly the most unlikely pairing imaginable in Government where the Conservatives (the most right wing party) are power sharing with the Liberal Democrats (the most left party) – even to the extent where the Liberal Democrat leader is Deputy Prime Minister.

In a similar vein, as the issues have become more acute with pensions, the traditional foes of sponsor and trustees are finding new friendships.

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In "[Come fly with me](#)" the firm commented on the deal between BA and its pension scheme where the pension released some guarantees on BA to allow it to borrow more. There is a simple dilemma for pension trustees as to whether to enforce their rights as debtors of the sponsor company, or to allow the company financial flexibility in times of stress. Ultimately, it is in the interests of the pension trust for the sponsor to survive and prosper.

During the last week Sainsbury's has also announced a fresh idea for its own pension scheme. Sainsbury's has backed some of the deficit of its pension scheme with some of the property assets that it owns.

Fresh thinking

The BRAVE partners applaud the fresh thinking. From the sponsor's point of view, the pension deficit is effectively a senior debt on the company. In the current market senior debt is expensive. The cost of debt cheapens dramatically if collateral is provided and Sainsbury's has oodles of property to use as collateral. Providing the property is therefore cost effective for Sainsbury's. For the pension scheme, the allocation both de-risks the scheme from the sponsor risk, but also provides a well priced, long lived asset whose revenues are linked to inflation – an ideal pension fund asset.

Everyone is a winner

BRAVE Partners applauds Sainsbury's and its pension trustees on a collaborative and effective approach to a tricky issue and urges other sponsors and schemes to seek to follow suit. Naturally the optimal deal will be different for different sponsors – not all businesses are as property intensive as supermarkets. However, the framework has been set – let the innovation begin.

BRAVE Partners' services

BRAVE Partners has a track record of providing innovative solutions. The firm can assist sponsoring companies and scheme trustees in identifying mutually beneficial exchanges of assets in order to provide maximum security to the pension scheme at the minimum cost for the sponsor.

Interaction

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- BA and Sainsbury's are leading the way in innovative transactions with their pension scheme.
- These are win-win transactions that provide maximum financial flexibility to the sponsor, whilst reducing risk for the pension trust.
- BRAVE Partners LLP can advise sponsors and trustees to identify strategies to create a win-win exchange of assets and liabilities.

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