# **The Trustee toolkit** downloadable

## DB recovery plans, contributions and funding principles

## Tutorial five: Agreeing a schedule of contributions

By the end of this tutorial you will better understand:

- what a schedule of contributions is
- the types of negotiations the trustees may have with the employer when agreeing a schedule of contributions

This tutorial is part of **Scenario three**.

**Glossary**

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at **www.trusteetoolkit.com**

The Pensions Regulator

## Time to talk

Iain Curtis is a trustee of the Lighthouse Lighting pension scheme. The effect of the scheme rules is that the schedule of contributions must be agreed with the employer.

As a result of negotiations with the employer, the trustees now have a proposal for the schedule of contributions. This will comprise both the deficit repair contributions of the recovery plan and the contributions for future service. The schedule of contributions formally sets out the amount that the employer will pay into the scheme. The chair has arranged a meeting with Lighthouse Lighting and he wants Iain to accompany him.

This tutorial follows one example of how trustees might approach the negotiations.

## Let negotiations commence

The technical provision calculations are complete and it is clear that the scheme is in deficit. The trustees know what they want. But will Mr Lee, the finance director of Lighthouse Lighting, want the same thing?

### Mr Lee

Mr Lee is hoping to reach agreement with the trustees, but the company is paying off a large mortgage on the company premises. In two years' time, when Lighthouse Lighting is free of mortgage repayments, he would expect to be able to make larger contributions. However, at the moment such large contributions would pose a threat to the business.

He suggests instead that the trustees consider modifying the benefits for future service to reduce ongoing costs and to prevent this situation arising again.

### The trustees

Iain and his fellow trustees would be reluctant to do this. In any case Mr Lee's proposal to cut future benefit accrual would not reduce the deficit relating to the accrued benefits nor would it change the short-term unaffordability of the recovery plan. To change future service benefits the trustees would have to take further advice from their actuary, and Mr Lee would have to consult the employees about the modifications.

The trustees have an alternative suggestion. They could consider adjusting the draft recovery plan so that Mr Lee does not have to pay substantial contributions until after the mortgage is paid off. This is called 'back-end loading'. However, in return the trustees would look for security over company assets to cover the deficit for the timescale in question.

# Negotiations concluded

So how did the negotiations go?

## Reaching an impasse

At one point Iain thought they were stuck. Some of his fellow trustees were very reluctant to agree to any back-end loading. That is, they were unwilling to allow Mr Lee to pay reduced contributions until he had paid off the mortgage even if he made up for it from then on.

If negotiations were likely to continue past the 15 month deadline for agreeing the schedule of contributions the trustees would need to contact The Pensions Regulator.

## Go to ADR?

Things were looking grim. One of the trustees suggested that they should consider alternative dispute resolution (ADR). However, Mr Lee was very unhappy about this suggestion. He was negotiating in good faith and felt they should be able to resolve their own difficulties.

## Reason reigns

Iain pointed out that there would be no advantage in trying to enforce a schedule of contributions that might put the company out of business.

## A better solution

Far better to find a pattern of payment that provided a reasonable balance and suited both parties. There would be a short time frame for the back-end loading as Mr Lee would have paid off the mortgage within two years.

The trustees were comfortable that the back-end loading did not continue for too long. Because Mr Lee agreed to provide security over another company building for the two years remaining in the mortgage, the trustees were confident that they were as protected as possible without hampering the employer's other legitimate obligations. The overall time frame for the recovery period would remain unchanged.

So that is what they did. The schedule of contributions was drawn up, signed by the trustees and employer and certified by the actuary.