A super step forward for DB

In a ground-breaking superfund transaction – the first involving an active, profitable sponsor – 1,500 defined benefit (DB) members of the Wates Group Pension Fund have transferred to the Clara superfund. Wates Group chief financial officer, Philip Wainwright, and Clara Pensions chief transactions officer, Matt Wilmington, explain what this means for those members and the implications on the wider DB space

Philip Wainwright, Chief Financial Officer, Wates Group

Matt Wilmington, Chief Transactions Officer, Clara Pensions

Congratulations on your recent transaction, which saw DB members of the Wates Group Pension Fund join the Clara superfund. Can you tell us what this means in a nutshell? How many members did this involve and how many assets?

Matt Wilmington: This is our third transaction (and the UK's third overall as well) and our first involving an active, profitable sponsor. So, that marks another big step in Clara's story and in the superfund's model overall.

Around 1,500 defined benefit members of the Wates pension scheme have transferred to Clara, along with roughly £200 million of scheme assets, and it's now our job to guide them towards an insured buyout in five to 10 years. As part of the transaction, Wates injected an additional £19 million in one-off funding which, alongside additional Clara capital, immediately strengthens the security of members' benefits and underlines the commitment we both have towards safeguarding those pensions.

This is an excellent outcome for members.

Why did the Wates Group/Wates Group Pension Fund decide to go down the superfund route?

Philip Wainwright: Wates continually reviews its pension provisions, working closely with the Wates Trustee as part of our joint commitment to protect the interests and benefits of members, and their dependants.

We have been working over many years to reduce risk and improve security in the DB section of the fund. Wates Group and the Wates Trustee reached a joint decision, following a rigorous decision-making process, that transferring to Clara would significantly improve the security of members' benefits. This is important to Wates, especially given the challenges of both an uncertain economy and market conditions.

What interested you in particular about Clara's approach?

Wainwright: Clara's approach of working towards securing pension benefits with an insurance company is intended to significantly improve the financial security of benefits and to fulfil the pension promises made to each member.

We were pleased to be able to facilitate a transfer to Clara with a £19 million contribution to the fund, along with funding from Clara, giving our members greater security for the future.

As mentioned, this is the first superfund transaction with a scheme with an active sponsor. Why is this so significant, and what does this mean for both parties' roles going forward?

Wilmington: It sets a new precedent for UK DB pensions by proving that a profitable sponsor with ongoing operations can also choose consolidation to secure its legacy pension promises – that's a real win-win for members, trustees, and the sponsoring company. At a time when all trustees and sponsors of DB pension schemes are considering their endgame options, this transaction is a demonstration that a superfund transfer is a viable option to enhance member security.

With Clara's robust capital structure, Wates and the fund trustees have found a home that offers extra security for their DB members. Those members benefit from that additional funding, economies of scale in risk management and governance and, most importantly, a clear route to securing their benefits with an insurer at the right time together with a fantastic member experience.

We're in active conversation with several other schemes and sponsors currently, so we should hopefully be able to announce another transaction in the near future too.

How long did the process take, and which other parties were involved along the way?

Wilmington: We'd been talking with Wates and the scheme trustees for a while, given what seemed a strong fit for the scheme with Clara. Once things began in earnest though, the process moved relatively quickly, and we certainly benefitted from learnings from our first two transactions.

As with all our transactions, the agreement was subject to a thorough assessment by The Pensions Regulator (TPR), which confirmed that Clara meets all the regulatory requirements. While it is right that the process is robust, we would still like to see the clearance process sped up further so that more schemes can benefit from consolidation and certainty can be locked in for members and sponsors more quickly.

We are hopeful that when superfunds are put on a statutory footing, as the government is set to do, the process to transfer schemes into Clara's control will be made smoother, allowing members, businesses and the wider economy to benefit from consolidation. This type of transfer requires input from a broad range of advisers, each helping ensure that legal, actuarial and financial safeguards are properly in place.

Clara was advised by Osborne Clarke, Hymans Robertson, LCP, Van Lanschot Kempen, State Street, Eversheds and Sixth Street.

Wates Group was advised by PwC and CMS, and the trustee was advised by LCP, Macfarlanes, Russell Investments and Cardano.

What can the industry learn from this transaction?

Wilmington: The key lesson is that consolidation via superfunds is no longer a niche option, confined to sponsors who are winding down their operations or indeed schemes that have been orphaned or are in distress. This transaction shows that an active sponsor can proactively use a superfund to strengthen member security. The advantages of scale, such as investment efficiencies, also highlight why more schemes might follow suit.

The fact that TPR is satisfied with our financial and operational model suggests the landscape for superfunds is maturing, offering a credible alternative to an immediate buyout. From an industry perspective, this broadens the landscape of de-risking solutions, which means trustees and sponsors have another viable route to securing members' benefits on the journey to buyout.

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What now for the future for Clara and superfunds?

Wilmington: This is not a one-off event. While this is the first superfund transaction with an active sponsor company, there's a strong pipeline of other similar schemes worth over £5 billion in liabilities interested in working with us. In the 12 months since Clara's first transaction, we've seen growing interest from a range of schemes with active sponsors who recognise the value Clara offers – including relieving the burden of managing a DB pension scheme, freeing up resources to focus on core business operations, and providing long-term security for their members. Over the coming months, we can expect to see further announcements of this kind as more schemes and their sponsors discover the tangible benefits of consolidation.

Written by Francesca Fabrizi