CASE STUDY

PMI Academy Partner

Clara-Pensions: Debenhams Retirement Scheme

Introduction

April 2024 saw the UKs second ever pension superfund transaction. The £600m transaction between Clara and Debenhams Retirement Scheme saw the c.10,400 Debenhams members exit PPF (the Pension Protection Fund) assessment, where they were receiving PPF benefits. In their first payment from the Clara Pension Trust on 1 May 2024, these members not only experienced an immediate increase in security, but had their benefits fully restored with back payments after exiting the PPF assessment period.

This case study will explain the roles of Clara and the Debenhams Trustees and the journey that led to c.10,400 members receiving enhanced security of their full benefits, and over £4m of back payments made with Clara's first pension payroll payment to the Debenhams section members.

Who is Clara?

Clara is a purpose-built company (Clara corporate) and purpose-built pension scheme (Clara Pension Trust) both of which have a single, clear focus of protecting the interests of and delivering results for its members.

Clara corporate

Clara corporate brings together schemes, replacing existing sponsors and providing capital to give greater security to members on a lower-risk journey to buyout. Clara is the UK's first superfund, providing a new risk transfer solution for defined benefit pension schemes.

Clara Pension Trust

Following a transfer to Clara the Clara Trustee takes over responsibility for ensuring the security and payment of all member benefits including setting the investment strategy.

Assessed by The Pensions Regulator (TPR)

Clara has been assessed by TPR (the Pensions Regulator) and is subject to TPR's ongoing supervision. To date, Clara is the only superfund to have successfully passed the assessment process, which confirmed that Clara's people, processes, governance and financial sustainability met TPR's expectations. The Clara Trustee acts solely in the interest of members and TPR reviews each transfer into Clara.

Clara's model

Once a trustee (working with any sponsor) has transferred their pension scheme assets and liabilities to Clara, the sponsor covenant is removed and replaced by the security of a funded capital buffer — this is funded by Clara's capital providers. The total of the scheme assets and capital buffer need to meet TPR's capital requirements. A one-off contribution from the out-going sponsor may be required and, over time, this one-off payment is often lower than the costs of running the scheme in-house and with much lower risk to the business.

In addition to a higher level of security on Day One, the Clara model provides additional layers of security.

Clara works towards buyout of the section in, typically five to ten years (similar to the journey that many other pension schemes will already be on). Only once member benefits have been fully secured or provided for do any excess assets in the section contribute to return on Clara's capital.

What were the Debenhams Pension Scheme Trustees' key objectives?

The Debenhams Trustees' key objectives were to increase the security of, and ideally restore full member benefits. The Debenhams Trustees considered insurance (buy out) but found this was only affordable by maintaining a level of reduced member benefits. Critically, as part of the transaction, Clara provided £34m of new capital. This injection of capital resulted in an immediate increase in member benefit security, and is entirely ring-fenced, protecting the Debenhams member benefits from day one.

Prior to Clara being a viable option, the Debenhams Trustees would have been left with limited options to secure members benefits and would have resulted in members continuing to receive some form of reduction to their benefits. In this scenario, the Debenhams Trustees were, for the first time in UK history, able to utilise a pension superfund to secure full benefits, plus back payments with interest (where applicable), for all scheme members.

How did the transaction happen?

Following the insolvency of Debenhams, the Debenhams scheme was in PPF assessment but was funded at a level that allowed it to exit the PPF.

July 2023, the Debenhams Trustees formally considered options that were available to them in anticipation of exiting the PPF.

November 2023, it was confirmed that full benefits could be provided by Clara. The pricing indicated that a transfer to Clara was affordable based on an in-specie asset transfer, including illiquid assets, and the Debenhams Trustees locked in the price. Clara was able to provide an additional £34m of new capital to support this transaction.

The Debenhams Trustees started engaging with both the PPF and TPR in relation to transferring to Clara. All parties had regular engagement throughout the period until regulatory assessment was completed.

December 2023, the Debenhams Trustees and their advisers ensured the data was in a good shape and prepare a comprehensive benefit specification. This provided the necessary confidence for all parties to proceed with the transaction.

January to February 2024, all parties completed confirmatory due diligence after which the Bulk Transfer Agreement was signed.

March 2024, the regulatory assessment was completed which cleared the path to start engaging the members. There were several complicated communications in relation to both exiting the PPF assessment and then bulk transferring to Clara. Both trustee boards collaborated to keep communications as clear and concise as possible.

16 April 2024, c.10,400 members transferred to Clara.

1 May 2024, pensioner members received their first pension payment after exiting the PPF and transferring to Clara. This payment included c.£4m of back payments.

10,400 members

£600m assets

£34m capital

Transfer process

Member engagement

July 2023 – Trustees considering options that would be available after exiting PPF

Nov 2023 – Full benefits can be provided by Clara

Dec 2023 – Trustees lock in full benefits

Mar 2024
- TPR 'no further questions' received (6th)
- Ceding trustee notice letter (11th)
- press release issued (17th)

30-day member notice period

Apr 2024
- Members transferred (16th)
- Ceding trustee farewell letter (17th)
- Clara welcome letter (23rd)

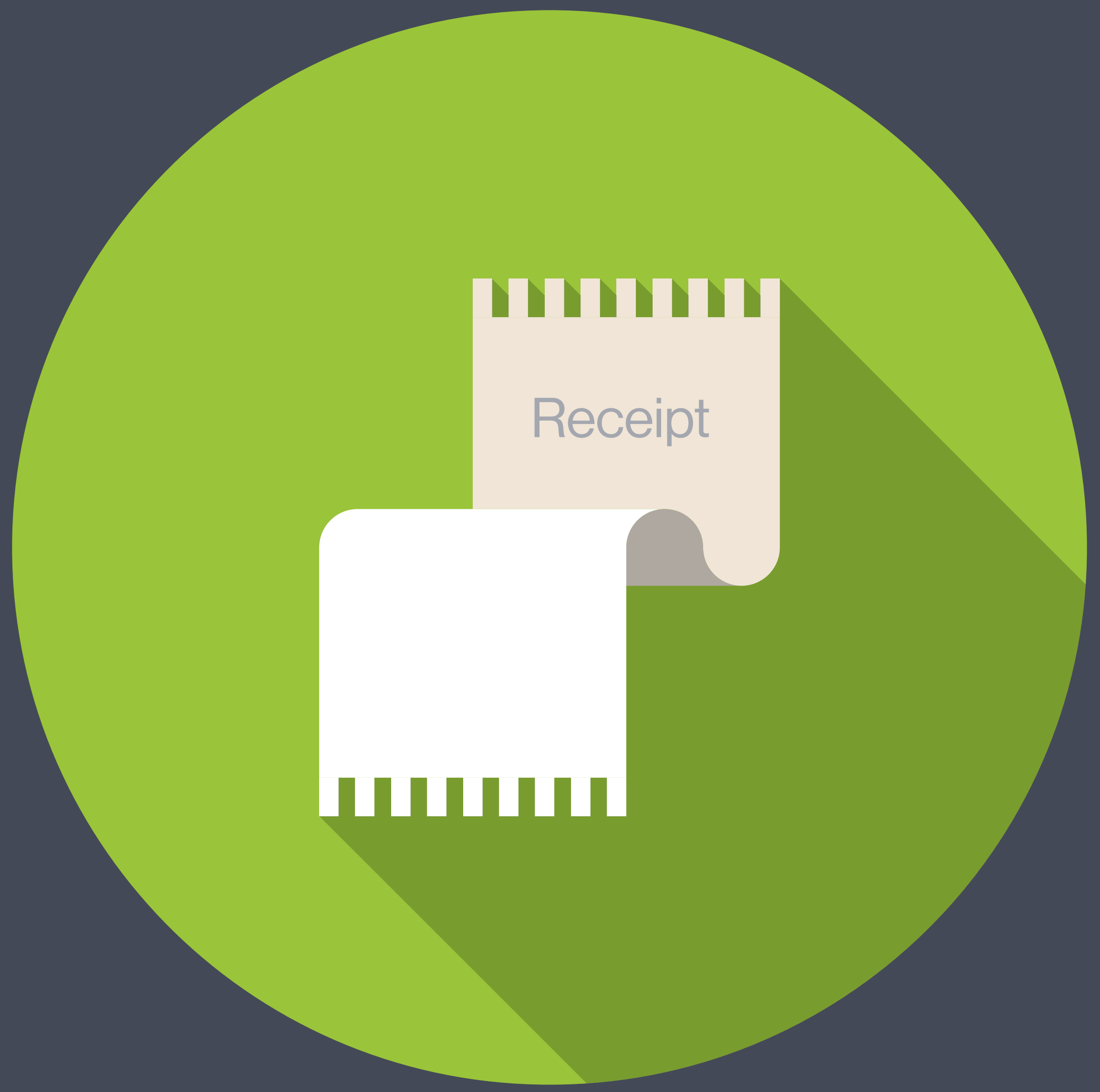
May 2024 – Full benefits restored with backpayments (1st)

The Member Experience

These members were fortunate to have been protected by the PPF for more than 4 years. On transferring to Clara full benefits were restored and back payments with interest, where applicable, were paid on 1 May 2024.

The response received from members after their first pension payment on 1 May 2024 was overwhelmingly positive. Having experienced some uncertainty since the Debenhams insolvency event, many received a lump sum of back payments, with interest, and increased ongoing pension payments.

Both the Debenhams and Clara Trustees have been delighted with the feedback they have received from members, demonstrating how Clara can be used as a bridge to buy out whilst immediately improving member outcomes.



Summary

The transfer to Clara and deployment of £34m of capital has been a very significant step in improving security of Debenhams members' full benefits. But this is just the start, as Clara continues this journey by securing member benefits with an insurance company in the future. Members will be kept informed of this process via regular communications and newsletters, with buy out expected to take place within five to ten years.

"I just want to say thank you and how grateful I am. I'm absolutely over the moon with it"

Amanda – former Debenhams employee, Dorset

PMI Contact Details:

Tel: +44 (0) 20 7247 1452

Registered office:

6th Floor,
9 Appold Street
London
EC2A 2AP

PMI Academy Partner