

Clara-Pensions: Sears Retail Scheme



Introduction

November 2023 saw the UK's first ever pension superfund transaction. The £590m transaction between Clara-Pensions and Sears Retail Pension Scheme saw the c9,600 Sears members benefit from an immediate increase in security.

This case study will explain the roles of Clara, the Sears Trustees and the journey that led to c9,600 members receiving enhanced security to their benefits.



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 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 Sears Retail Pension Scheme Trustees' key objectives?

The Sears Retail Pension Scheme Trustees key objective was to increase the security of member benefits. The Sears Retail Group had been unable to provide any financial support to the Sears Retail Pension Scheme for many years as it had no assets or trading businesses.

Critically, as part of the transaction, Clara provided £30m of new capital. This injection of capital resulted in an immediate increase in member benefit security, and is entirely ring-fenced, protecting the Sears member benefits from day one. It is there to protect the Sears section of the Clara Pension Trust and therefore only the Sears members.



Clara provided:



£30m new capital



Increase in member
benefit security

How did the transaction happen?

Discussions with the Trustees of the Sears Retail Pension scheme started in the second half of 2022 as part of Trustees' considerations on how they could enhance member security. No contributions were available from the sponsor and so options being considered would need to be funded solely by scheme assets.

At that time, the cost of insurance buyout was significantly higher than the scheme assets whereas the cost of transferring to Clara was slightly higher than the scheme assets. It was decided to monitor the Clara price with a view to transacting at the point a transfer to Clara became affordable. In August 2023, the pricing indicated that a transfer to Clara was now affordable based on an in specie asset transfer including illiquids.

August 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 Sears Trustees locked in the price. Clara was able to provide an additional £30m of new capital to support this transaction. The additional capital is ring-fenced to protect the Sears Retail section of the Clara Pension Trust and therefore only available to secure the Sears member benefits.



The Sears Trustee 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.

September to October 2023, all parties completed confirmatory due diligence after which the Bulk Transfer Agreement was signed.

November 2023, Members were notified of the intention to transfer to Clara and regulatory clearance was received. Members were also informed of the impact of GMPe conversion in addition to several transaction communications. Both trustee boards collaborated to keep communications as clear and concise as possible.

28 November 2023, c9,600 members transferred to Clara.

1 December 2023, pensioner members received their first pension payment after transferring to Clara. This payment included c£2m of GMP conversion adjustments.

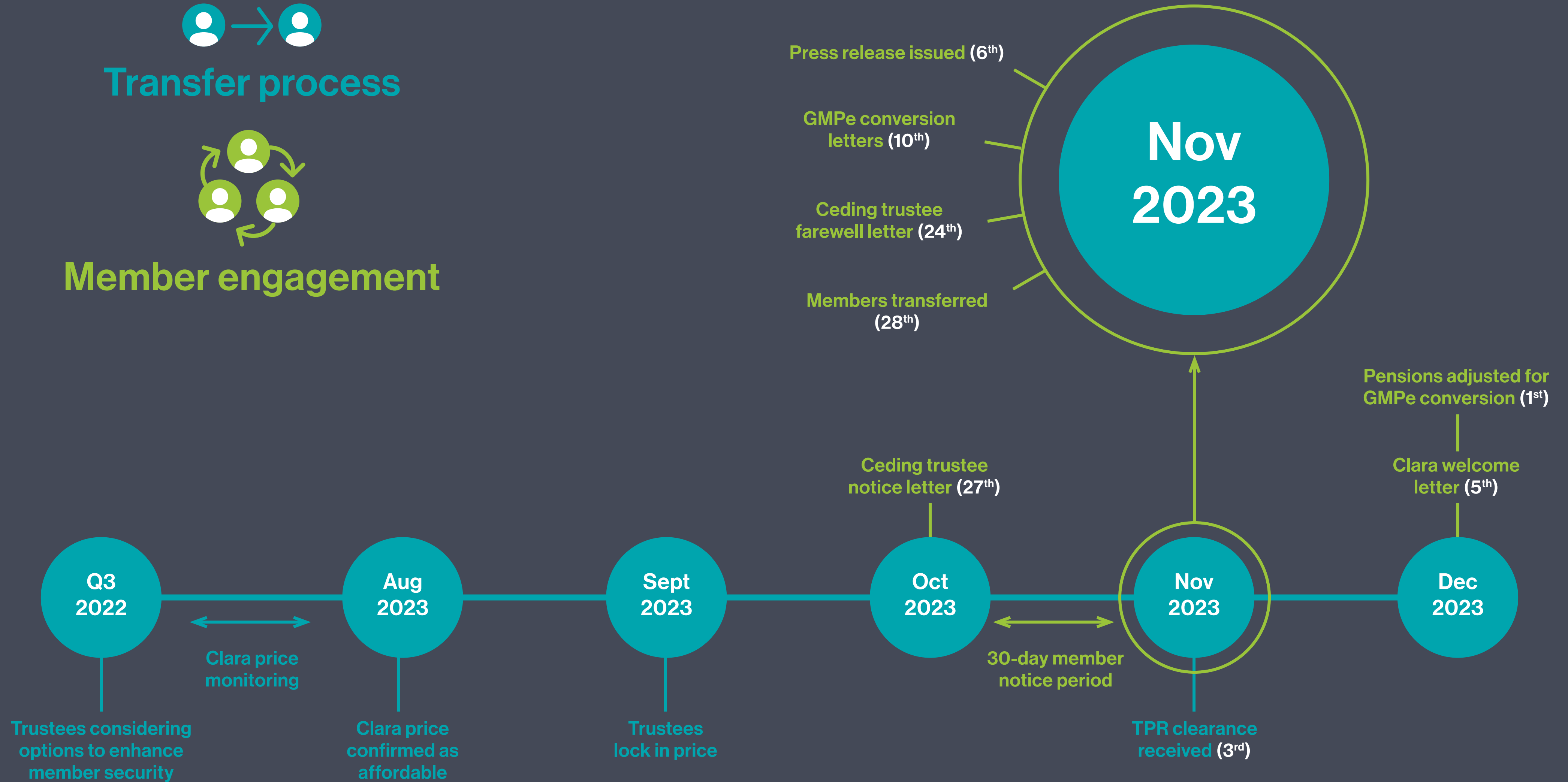




Transfer process



Member engagement



The Member Experience

Once agreement had been reached, members were kept informed of the process. This included communications from the Sears Trustees, informing them of the intention to transfer to Clara, confirmation of when the transfer had been completed and a welcome letter from the Clara trustees, welcoming the members to the Clara community, including detailed Frequently Asked Questions.

Summary

The transfer to Clara and deployment of £30m of capital has been a very significant step in improving security of Sears member benefits. But this is just the start, as Clara will continue this journey by securing members' 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.



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