

Making asset-backed partnerships easier

May 2016

Introduction

A number of employers with large defined benefit pension schemes have entered into asset-backed partnerships with their scheme trustees in order to tackle rising pension scheme deficits, and many more are considering this type of project. These partnerships involve assets being transferred to a special purpose vehicle, usually a partnership, in which both the employer and the scheme have an interest. The scheme's interest is treated as an asset of the pension scheme and given a capital value. The scheme and the employer will see a corresponding reduction in the scheme's deficit.

7 steps to making asset-backed partnerships easier

1. **Identify suitable assets** that the employer could use to support the funding of the pension scheme. Traditionally, real property has been used, such as high street or industrial units. However, other types of property may be suitable too.
2. Taking into account the size of the scheme's deficit, the amount the employer can afford to pay under the recovery plan and the nature of the chosen assets, decide on the **terms of the partnership** and the nature of the rights to be granted to the trustees.
3. Establish a **special purpose vehicle** to receive and hold those assets. This may need to be established in another jurisdiction.
4. **The trustee structure may need to be reviewed** to enable the project to proceed.
5. The employer and the trustee will need to take care to ensure that the **employer-related investments legislation** is not breached by the arrangement. Breach of this legislation would be a criminal offence, carrying a potential jail sentence for those convicted.
6. The employer may want to take **accountancy advice** to ensure that the arrangement gets appropriate accounting treatment from the employer's perspective.
7. The employer may want to liaise with HMRC to ensure that any cash movements made as part of the establishment of the arrangement will get the **desired tax treatment**.

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The series is growing; additional copies can be downloaded from
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Current topics include: Employer covenants; Overpayments and Employer debt

Comments and ideas for further topics are welcome...

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