Pearl Group Staff Pension Scheme (formerly the HHG Staff Pension Scheme)

Frequently Asked Questions

What is Pearl Group Limited?

Pearl Group was set up in April 2005 and is owned by Sun Capital Partners and TDR Capital. Pearl Group owns, manages and hence derives its profits from the run off of the blocks of life and pensions business ('closed books') previously sold by Pearl, NPI and London Life.

Sun Capital Partners was formed in 2001 and is a specialist provider of capital and management expertise focused on the long-term restructuring and consolidation of 'out of favour' industries.

TDR Capital is a private equity manager of funds invested primarily by UK & US pension funds and other financial institutions – with particular expertise in three sectors: leisure & hospitality, financial, and business services.

How is the Funding Agreement with Pearl Group Limited affected by the proposed Resolution deal?

The Resolution deal is not expected to have any impact upon the Pearl Scheme arrangements as the financing of that deal is outside the structure which supports the Pearl Scheme. However the Trustees will continue to monitor the situation as it progresses.

How does the Trustee Board maintain independence from the Company?

At least one-third of the Trustee Directors are selected by the active and pensioner members of the Scheme. The remaining Trustee Directors are chosen by the Company. The terms of the agreement state that the Trustee must agree the appointment and removal of any Company Nominated Trustee Directors. These directors cannot be put in place without the Trustee's agreement. This is a requirement for the life of the Company agreement until 30 June 2027.

What is an escrow?

An escrow is a legal arrangement in which an asset (often money) is given to a third party (called an escrow agent) to be held in trust pending an event happening. Upon that event occurring, the escrow agent will deliver the asset to the proper recipient; otherwise the escrow agent is bound by his or her fiduciary duty to maintain the escrow account.

Why has the management of the assets moved and why was Axial selected?

The Trustee decided that a fresh approach to funding was required and, as part of the wider Company agreement and discussions, decided to move the management and oversight of the assets to Axial. The appropriate due diligence on Axial Investment Management was carried out by the Scheme's investment advisers, Hewitt.

What would the surplus have been if the financial assumptions had not changed?

The surplus would have been £164 million if the Trustee had not changed the financial assumptions used at the 31 December 2003 valuation. Changing the assumption is a positive move for the Scheme to ensure the future funding and security of the Scheme.

What is Embedded Value?

A determination of the economic value of Pearl Group. It is an estimate of the value of both its net assets and the income stream expected from its existing insurance policies.

Is our scheme unusual in having a deficit of this size?

It is important to consider the Scheme's deficit in the context of both the size of the Scheme, as the Scheme has significantly more assets and members than most UK schemes, and the conservative basis on which the liabilities of the Pearl Scheme have been calculated.

In September, the Pensions Regulator published an analysis of information provided following the submission of valuations in respect of around 1,300 pension schemes. This showed an average funding level (where a scheme was in deficit) of around 85%, which compares with the Scheme's funding level of 82%. However, the liabilities of the Scheme have been calculated on a more cautious basis than the majority of valuations submitted to the Regulator. The Scheme's liabilities were calculated assuming the assets achieved a return in line with government bond yields. However, based on the Regulator's published information, the average investment return assumed for valuations submitted was around 1% to 1.5% above government bond yields, which represents a less cautious approach to calculating the liabilities.

Are there any changes to AVC funds?

No. All money purchase funds will continue to be kept under review.

What is the Pension Protection Fund (PPF)?

The Pension Protection Fund was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

What is the initial level of benefits provided by the Pension Protection Fund?

If you are a member of an eligible scheme, and you have reached the scheme's normal pension age, the PPF will pay you 100% compensation for what you should have received at the time your employer became insolvent. They will also pay 100% compensation to those who have retired on legitimate ill-health grounds, regardless of age, and to those receiving a pension in relation to someone who has died.

If you have retired but have not yet reached the normal pension age of your scheme, the PPF will pay you up to 90% compensation. The same applies if you are yet to start receiving pension payments. The total level of compensation is subject to an overall cap which is recalculated each year. Between April 2007 and March 2008, the pension cap at the age of 65 is set at £29,928.56 per annum. This equates to £26,935.70 pension per annum for those receiving compensation at the 90% level.

What level of future increases does the PPF provide?

Pensions built up before 6 April 1997 would not receive any increases in payment. Pensions built up after 5 April 1997 would receive increases in line with price inflation (capped at 2.5% per year).

What are the different methods of actuarial valuation?

Accounting valuation
Companies have to include a valuation of pension scheme liabilities based on corporate bond yields in their annual accounts. You will see this basis referred to as FRS17 or IAS19. The funding level calculated using a discount rate based on corporate bond yields (but with all other assumptions the same as the funding valuation) was 96% as at 30 June 2006.

Pension Protection Fund valuation
The amount that would be required to secure PPF benefits (see above for further details). This valuation is based on Gilt (government bond) yields and uses very prudent assumptions. The funding level on this basis is 119%.

Solvency valuation (also referred to as the buy-out or discontinuance basis)
The amount an insurance company would charge to provide the benefits of Scheme members. This valuation is based on Gilt yields adjusted to allow for the additional security the insurance company would need as well as its profit. The funding level on this basis is 75%. However, allowing for the statutory priority order, the assets would have been sufficient to cover 100% of the Pension Protection Fund liabilities (see above) but only around 20% of the Scheme benefits above this level.

Contact details of Scheme Administrators

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