



LEVERAGED & EQUITY INVESTMENT

DEFINED BENEFIT DEFICIT ELIMINATION

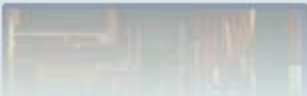
LEVERAGED & EQUITY SOLUTION

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COMMITTED FUNDING



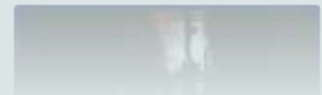
With L&EI the deficit was cleared, but with the cost spread over years.



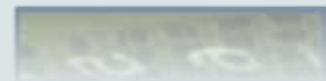
The annual cost was lower than Sponsor and Trustee proposal.



Full scheme funding provided to the Trustees and members.



Sponsor payments flexible to the business cycle.



Leveraged & Equity Investment, bespoke investment and financing solutions.

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Case study – Deficit reduction required - Retail Leisure Group Limited

At the most recent triennial pension scheme valuation it was found that scheme liabilities had grown to in excess of £160 million on an actuarial basis. Over the period since the last formal valuation the deficit had increased to £25 million.

Retail Leisure Group Limited was established at the close of the 20th century after being “spun off” from a listed company. They inherited the defined benefit scheme. The scheme is closed both to new joiners and future accrual. Therefore, there is no ongoing service cost.

Discussions between the sponsor and scheme Trustees quickly established that the deficit must be addressed, whilst keeping cash reductions to a manageable level.

The discussions resulted in agreement to clear the deficit over a ten-year period. Payments would be fixed at £3,200,000 per annum, with the sponsor option to increase payments by the RPI rate from year five with the subsequent reduction in term. Trustees had the same increase option in the event of increased liabilities due to unexpected factors.

Leveraged & Equity Investment working closely with scheme consultants, trustees, sponsor and their professional advisers were able to offer a more cost effective solution. It also cleared the deficit immediately.

The solution provided by Leveraged & Equity Investment was an off balance sheet, revenue accounting structure. This created a more tax and financial ratio efficient solution compared to typical debt options such as bank or private placement.

From a trustee perspective £25 million was provided immediately, the deficit was cleared and they could fully invest. Additionally, sponsor risk was transferred to Leveraged & equity Investment for the £25 million as there was no recourse to the scheme assets.



SUMMARY SOLUTION COMPARISONS

1. The Leveraged & Equity solution payment was just under £3,100,000, saving the sponsor £1.2 million over the ten-year term. It had the same payment flexibility options of the trustee scheme.
2. At commencement of the Leveraged & Equity Investment solution the scheme became fully funded, eliminating the pension cost finance charge. Based upon the discount rate⁽¹⁾ in force on signing, this saved the sponsor nearly £3 million in pension scheme financing costs over the term.
3. The Leveraged & Equity Investment structure creates a full payment tax charge; traditional debt arrangements would only allow for interest to be deductible. The Leveraged & Equity Investment structure was just over £18 million tax advantageous compared to traditional debt.
4. The scheme had an average investment return of 7.45% over the last five years, and 6.4% in the last year. By providing the lump sum of £25 million to the scheme, the actual investment gain over the scheduled annual payments would be over £3.5 million at 6.4%⁽²⁾. Even a prudent return rate of 5%⁽²⁾ shows a gain of £500,000.
5. The Leveraged & Equity Investment solution created projected savings to Retail Leisure Group Limited of £7.5 million⁽³⁾ over the ten-year term, more than 23% of the previously agreed plan. Retail Leisure's net asset value increased by £25 million.
6. The scheme benefited from immediate full funding giving investment return gain projections of between £500,000 and £3.5 million. Unquantifiable gains were likely from reduced administration costs. The security of full funding at commencement.



LEVERAGED & EQUITY INVESTMENT

Contact Leveraged & Equity Investment

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⁽¹⁾ Discount rate 4%, ⁽²⁾ Assumes constant fixed rate of return, ⁽³⁾ Corporation tax rate of 20% assumed.

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