Professional Pensions
aop Digital Publisher of the Year 2010

26 May 11

The path to recovery

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TUI Travel talks to Jack Jones about the firm's three-pronged plan to save its schemes

The package of measures TUI Travel has agreed with its pension trustees this month will save as much money as if it had simply shut its six schemes down, the firm believes.

The three-pronged plan to deal with the schemes' £411m deficit will see increases in pensionable salary capped, several smaller schemes merged and the creation of a pension-funding partnership backed by TUI's biggest brands.

The travel firm was forced to take action after the annual costs of running its six schemes spiralled from £50m in 2008 to the current level of £90m.

"It was very clear to the organisation that, at those levels, this was not a sustainable position and we needed to take significant action to contain cost and risk," says TUI Travel group reward director David House.

So in 2009 the firm set about the 18-month process of consulting with the various stakeholders on measures to bring costs under control.

"With six boards of trustees, each with different actuarial, investment and legal advisers, there was a very large number of people to negotiate with," says House.

The first step agreed was to introduce a cap of 2.5% on pensionable pay increases for staff earning more than £30,000. Pay rises above this cap will result in the difference being paid into a defined contribution plan.

"So all employees in the UK that are in a pension scheme continue to have pension provision on their full salary – we're just seeing a slowdown of the defined benefit element and the introduction of a DC element above the cap," House explains.

"Employees below £30,000 per annum remain in the DB scheme on full accrual on their real salary. We believe this is both affordable and socially responsible," he adds.

The figures were agreed with the British Airline Pilot's Association and Unite unions before going to consultation, and both unions balloted their members after the consultation was concluded.

House believes the move will address about a third of the additional £40m in additional funding that was required.

The next phase saw four of TUI Travel's smaller schemes merged into a single fund, leaving the firm with three schemes: the TUI Travel Pension Scheme, Britannia Limited Superannuation and Life Assurance Scheme and the newly formed Thomson Airways Scheme.

House says it hadn't been possible to merge all six schemes because of the unusual governance structure of the Britannia scheme, which allowed two of the three member-nominated trustees to veto any decision taken by the board.

"We didn't believe we could negotiate that provision out so we'd effectively have been putting all of the company's liabilities and assets into an arrangement where two MNTs could veto any board decision. We didn't think that was a sensible thing to do," says House.

He adds that the firm also wanted to maintain separate schemes where the benefit provision was not aligned – which was the case between airline and general staff.
The third element of the recovery plan – the pension-funding partnership that will cover £275m of the deficit – was the most innovative and, according to House, the most difficult to convince trustees over.