Dealing with distress:

help for pension scheme sponsors & trustees

Punter Southall Governance Services

Many businesses face significant challenges from the Covid-19 pandemic. Loss of revenue **reduces cash available** to meet commitments, including pension contributions. At the same time, depressed asset values and the increased demand for 'safe' assets such as government bonds have increased the value of a defined benefit (DB) scheme's liabilities and **funding deficits will have increased significantly**.

With many new issues to face, a DB scheme may feel like one challenge too many. Tensions with the trustee board may grow. A finance director who is also a trustee will be **conflicted**.

Interim professional trustee support **helps you find the right solution.** The issues aren't new to us. We understand The Pensions Regulator's viewpoint. We know the options available **to help save both an employer and its scheme.**

What is the appropriate response?

A pension scheme is a long-term investment but, to pay full benefits to all members, the sponsor needs to be there to support it. In the current crisis, many businesses viable during normal trading conditions face **a real risk of insolvency in the short term** from running out of cash.

Suspending employer contributions

Requests to suspend contributions are likely. For trustees, agreeing to this for a limited period is not unreasonable and may be right if the alternative could be insolvency or an employer weakened for the long term. You need to:

- Understand when a request is justified - and the evidence needed in support.
- Develop a catch up plan – appropriately balancing the scheme and other stakeholders (eg shareholders & lenders).
- Know when a report to the regulator is and isn't required - and what justification and supporting evidence is needed.
- Understand mitigations that may be available.
- Know when a revised independent covenant assessment would be beneficial - and how this may allow payments to be better structured to relieve short term pressure.

By sharing our experience, we enable you to **find the balance and reach an agreement** that protects the interests of both sponsor and trustees.

Speak to our experts.

Email Edwin Bruce-Gardner

Email Alex Davies

Read the dealing with distress blogs.

Part 1: keep calm & carry on

Part 2: radical surgery

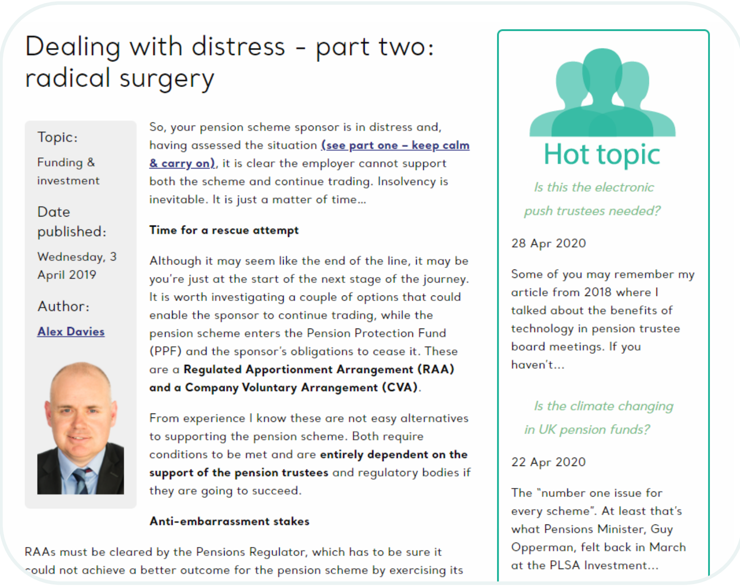
Part 3: PPF assessment

Actuarial valuations

Your valuation date could be very significant. As is knowing when accounting for experience after the valuation may be beneficial. The 15 months allowed to agree the valuation can be used to the sponsor's advantage, provided member benefits are not put at risk.

We help you **understand the risks and navigate the options** to agree a reasonable recovery plan based on covenant and affordability.

If it the sponsor can't both support the scheme and continue trading there are other options to consider, but these aren't quick to implement. See our blog **part 2: radical surgery** to learn more.



Dealing with distress - part two: radical surgery

Topic: Funding & investment

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So, your pension scheme sponsor is in distress and, having assessed the situation (see part one – keep calm & carry on), it is clear the employer cannot support both the scheme and continue trading. Insolvency is inevitable. It is just a matter of time...

Time for a rescue attempt

Although it may seem like the end of the line, it may be you're just at the start of the next stage of the journey. It is worth investigating a couple of options that could enable the sponsor to continue trading, while the pension scheme enters the Pension Protection Fund (PPF) and the sponsor's obligations to cease it. These are a **Regulated Apportionment Arrangement (RAA) and a Company Voluntary Arrangement (CVA)**.

From experience I know these are not easy alternatives to supporting the pension scheme. Both require conditions to be met and are **entirely dependent on the support of the pension trustees** and regulatory bodies if they are going to succeed.

Anti-embarrassment stakes

RAAs must be cleared by the Pensions Regulator, which has to be sure it could not achieve a better outcome for the pension scheme by exercising its

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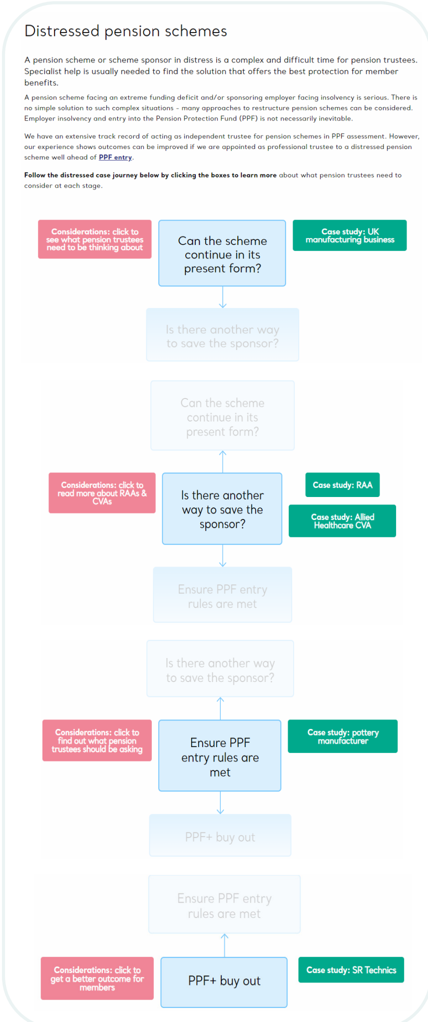
Investment strategy

The extent of any recent deficit increase will depend on a scheme's investment and hedging strategies.

We'll help you **consider whether changes** – such as lower exposure to risk-based assets (for example, equities) or an increase in hedging – **are appropriate** given the sponsor's covenant strength.

PSGS are on the Pension Protection Fund panel for restructuring & pre-insolvency services

View the distressed pension scheme journey online.



Distressed pension schemes

A pension scheme or scheme sponsor in distress is a complex and difficult time for pension trustees. Specialist help is usually needed to find the solution that offers the best protection for member benefits.

A pension scheme facing an extreme funding deficit and/or sponsoring employer facing insolvency is serious. There is no simple solution to such complex situations – many approaches to restructure pension schemes can be considered. Employer insolvency and entry into the Pension Protection Fund (PPF) is not necessarily inevitable.

We have an extensive track record of acting as independent trustee for pension schemes in PPF assessment. However, our experience shows outcomes can be improved if we are appointed as professional trustee to a distressed pension scheme well ahead of PPF entry.

Follow the distressed case journey below by clicking the boxes to learn more about what pension trustees need to consider at each stage.

psgovernance.com
info@psgovernance.com