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Building a better working world

Don't overlook pension schemes

Sponsoring companies and pension trustees need to collaborate to ensure resilience and recovery through the pandemic

Covid-19 pandemic

29 April 2020

UK defined benefit pensions:
Collaboration and action needed to ensure resilience and move to recovery

The COVID-19 pandemic is impacting all aspects of our lives including the survival and sustainability of businesses:

- Many of these businesses sponsor financially significant UK defined benefit pension schemes and have committed to make regular payments to address pension deficits.
- Given severe current liquidity challenges, some corporate sponsors are needing to consider suspending such payments to pension schemes.
- At the same time, pension scheme funding positions have worsened materially (assets are down and liabilities up!).
- The outlook is volatile, uncertain and unpredictable – it's not clear what the recovery will look like, and when. And business continuity practices are being tested to their limits, for both corporates running businesses and trustees running pension funds.

While trustees' focus is rightly on the needs of their particular pension scheme and securing promised benefits for their members, corporate sponsors must balance the objectives and needs of a wide range of stakeholders.

To preserve critical liquidity and corporate sustainability, many corporate sponsors are asking their trustees to accept suspension of corporate deficit recovery payments (**to date, almost 20% of our clients are processing such requests**). The UK Pensions Regulator has released guidance for trustees, supporting them collaborating to ensure ongoing financial viability of sponsoring employers. Support includes agreeing that corporates can suspend pension payments to pension schemes provided regulatory guidance is followed.

Where corporates are needing to suspend payments to pension schemes, it's important to ensure that:

- Corporate sponsors treat pension scheme creditors fairly ('equitable treatment') relative to other stakeholders including shareholders, other creditors and executives.
- Contribution suspensions are time limited.
- Justification for decisions are evidenced, supported by appropriate information provided by the corporate.
- Options are considered for providing mitigating security for the pension scheme that might be offered or requested after the deferral period has ended.

In any event, corporate sponsors and trustees are needing to work collaboratively to ensure continuation of critical pension scheme services and operations, and to communicate appropriately with employees and pension scheme members.

See next page for overall summary of recommended actions for both sponsoring corporates and trustees

EY's Pensions Advisory Crisis Team

EY's UK Pensions Advisory Team comprises 100 multi-disciplinary experts based in 8 offices nationally and serving corporate and trustee clients across industry. With an outstanding reputation for successful outcomes through deep insights, highly credible regulatory relationships and wide commercial acumen, the team is often used to help corporates and trustees to quickly and effectively negotiate mutually supportive outcomes to addressing complex pensions challenges.

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UK defined benefit pension schemes through the COVID-19 pandemic

Key actions for sponsoring corporates and trustees to ensure resilience and move to recovery:

Corporates and Trustees:

- Ensure the pension scheme is **not being treated less equitably** than other corporate stakeholders including dividends to shareholders, payments to and terms for other creditors, and payments to executives.
- **Ensure clear channels of communication and protocols for collaboration** between you on (a) changes in the corporate's circumstances and thus to the employer's 'covenant' that is being offered to the pension scheme and (b) resulting decision-making and-implementation.
- Be **as informed as possible on circumstances and outlook** in making any decisions on current actions and negotiations between you covering e.g.:
  - Actuarial valuations and funding agreements.
  - Asset and liability management strategies.
  - Guarantees and other forms of security, including contingent funding structures.
  - Any other compensation for material detriment in employer covenant due to e.g. corporate actions and transactions.
  - Terms and implementation of any insurance-backed or consolidator pension transactions.
- Agree how best to engage **The Pension Regulator** on any material changes in funding and security agreements **if required**.
- Review extent to which **Business Continuity Plans** covering both the business and its pension schemes are aligned and mutually supportive.
- Keep employees and pension scheme members **informed** at regular and appropriate times to **allay unnecessary anxiety** and help them **understand the impact** on each of them

Corporates:

- Don't overlook your UK defined benefit pension scheme and its **trustees as key stakeholders** with whom you need to be engaging. Keep your trustees informed, and do so in a way that is understandable and relevant to their duties.
- Recognise that **trustees must be consulted** on any corporate actions that you need or want to take, and which might be detrimental to the priority currently afforded to your pension scheme.
- In considering the impact of the COVID-19 pandemic and your plans to get through it, **determine whether you need to reduce or suspend payments** to your UK pension scheme(s). On that agenda, decide and action how best to engage your trustees and, if necessary, The Pensions Regulator.

Trustees:

- **Ensure continued critical services such as** payment of monthly pensions to pensioners.
- If asked to suspend receiving employer contributions for a period, follow regulatory guidance including **ensuring 'equitable treatment'.** Consider asking for appropriate mitigation to apply after the deferral period, especially should the then 'covenant' offered to the scheme by the corporate be materially worse than previously.
- Be mindful of whether or not your existing processes and protocols are working functionally and, if not, **what changes should be implemented** for the future. These cover, for example:
  - **Business Continuity Plans.**
  - **Protocols for engaging with the sponsor** on decision-making and -implementation.
  - Robustness of your Long-Term Objective and **Integrated Risk Management** strategy for getting there.
  - Scenario and contingency planning.
  - **Allocation of responsibilities** amongst the trustees and your advisers and suppliers, and alignment of service level agreements.

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