Scheme funding in the time of coronavirus

By Andrew Harper, Associate, Sackers

Don't let the virus spread to your scheme's funding arrangements – What can you do now to protect your scheme?

COVID-19 has had an unprecedented effect on how we live our lives. But no one knows for sure how it will ultimately affect schemes' funding levels over the medium to long-term. Trustees who are currently negotiating a valuation should be considering what they can do to protect their scheme both now and over the coming years.

First things first

Trustees should ensure they are familiar with the Pension Regulator's (TPR's) latest Annual Funding Statement and its COVID-19 guidance.

Remember your duties

Trustees should remember their fiduciary duties to act in the best interests of members and protect the security of their benefits. In times of crisis, it can be helpful to ensure decision-making is grounded in these principles.

Take the right steps at the right times

Many schemes' funding levels will have worsened in recent weeks and the best route forward may not yet be clear. It could be in members' best interests for trustees to take more time to consider the scheme and sponsor's position. TPR's COVID-19 guidance acknowledges this, and offers trustees some flexibility around the submission of valuation documents where a delay is appropriate.

Engage with your sponsor

Now more than ever, trustees should maintain open and frequent dialogue with their sponsor so that they can properly assess the potential consequences of COVID-19 on their scheme. How has the sponsor's business been affected so far, what support do they have in place, and what steps are they taking to mitigate any negative impact? Even more importantly, how does the sponsor expect their business to fare post-crisis?

Some sponsors might seek to suspend or reduce contributions to maintain liquidity in their business. Requests like this need to be considered carefully, with trustees undertaking due diligence, and taking advice on whether such a move would be appropriate and how to achieve it in practice. Think carefully about how the sponsor is acting towards other stakeholders – do they want to suspend contributions but not dividends? When do they propose to repay the scheme?

What TPR expects

TPR's Annual Funding Statement was issued later in the year than usual (on 30 April), due to the pandemic. In it, TPR stresses the need for trustees and employers to work together to manage the impact of COVID-19. However, TPR does not expect this to be at the expense of pension scheme security: trustees should balance the sustainable growth of their employer with deficit recovery and equitable treatment of the scheme. Schemes should still be pursuing their long-term funding targets, but with 'suitable short-term modifications' to reflect the current economic situation.

TPR advises trustees to put increased covenant assessment and monitoring in place, and discuss contingency plans with the employer. It warns it may ask for evidence of these steps.

As the 'duration and impact of the current economic uncertainty evolves', TPR states that it will consider issuing further funding guidance in the autumn, so watch this space.