NICHOLLS STEVENS.

CORONAVIRUS
DEFINED BENEFIT SCHEMES NEWSLETTER

In this worrying time for both Trustees and employers, The Pensions Regulator has issued some guidance for Trustees and we thought it may be helpful to summarise this.

Approach to the employer and the covenant

The first priority is for the Trustees to understand the financial health of the sponsoring employer. The Regulator suggests that a number of key questions are asked – these are listed below and have been taken directly from the guidance:

Trustees should ask their scheme's sponsoring employer the following questions to help focus discussions:

- How have they considered how the impact of the virus and the measures to contain it may affect:
  - demand for the employer's products
  - their business continuity plan (BCP) - including resource availability, including staff and materials
  - cashflow - employers should be preparing 13 week cashflows where there is a significant impact on cashflow
- Are there any key payment dates in the next three months that will affect the business (eg rent quarter dates)?
- What are the positions of lenders?
- Are there any restrictions on using available borrowing?
- When will the banking covenants next be tested and is it expected to be met?
- For how long are current borrowing facilities expected to be sufficient?
- Is the employer discussing further funding facilities?
- Are funders seeking new security and, if so, what is the impact on the scheme?
- What are the positions of key suppliers and creditors? Have they imposed any restrictions on normal credit availability or supply volumes?
- What is the position of trade credit insurers?
- What payments are proposed to associated or connected companies or shareholders in the next six months? Is this appropriate in the context of the directors' primary duties to their creditors where there is uncertainty over the solvency of the employer.
- What support is expected to be available for the employer under the package of measures announced by the Chancellor on 17 March 2020? What is the timescale for this and are any key conditions attached?
- How is this likely to impact the ability to meet commitments to the scheme?

You should consider the likely significance of the impact on the scheme in line with The Pension Regulator's guidance on Integrated Risk Management. This should include consideration of whether contingent assets may be available to support the scheme, particularly if these are being sought by other creditors or concessions are being sought from the scheme.

You should also consider the approach taken by other creditors, shareholders and associated companies to ensure that the scheme is being treated fairly.

Reviewing the investment returns

Trustees will automatically be informed by the investment manager when the value of the pension fund reduces by more than 10%. Trustees may wish to keep the employer and also the Actuary informed of the investment position on a regular basis. Once markets stabilise it is suggested that Trustees work closely with their investment manager to see if investment strategy needs to be revised.

Scheme Members and scams

It is thought that because of employment uncertainties and financial hardship there may be an increase in members asking for transfer values and alongside this there is the potential for an increase in the activity of scammers. The risks need to be pointed out to members in all communications.

Administration

Many administration firms' offices will be closed with employees working from home. This will undoubtedly result in a slowing down of the process of administration of member benefits. It is recommended that members are contacted earlier so that there is a greater opportunity of the member receiving his or her benefits at normal retirement date.

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