



PENSION JOURNEYS.

HAVE YOU SET THE RIGHT COURSE?

“Trustees and employers should be agreeing a clear strategy for achieving their long term goals, recognising how the balance between investment risk, contributions and covenant support may change over time, particularly as schemes become more mature and potentially better funded.”

The Pensions Regulator, announcing the 2019 Annual Funding Statement



### PLAN THE JOURNEY

Schemes are often over-exposed to the fate of a handful of businesses in their covenant and the volatile returns of their investments. Getting to a place where less reliance is placed on these factors is crucial – this is a long journey for many schemes and requires careful planning.



### STAY ON COURSE

Valuations are formal checkpoints along the journey to ensure risks remain balanced, but key variables need to be monitored continuously and contingency plans put in place, to prepare for expected events and withstand the unexpected.

**In the four roadmaps, we identify tools, resources, and ideas to help you successfully navigate through key phases of your scheme's journey.  
Where is your scheme now?**

# UNEXPECTED EVENTS

## Prepare for and respond to the unexpected; get back on track quickly

What do you do if the road is blocked and you have to take a diversion – or worse, your tyre explodes on the motorway? Unforeseen events can derail any journey. Pension schemes need to be prepared for a wide variety of events, ranging from corporate transactions that impact their sponsor's risk capacity or affordability profile to market shocks that affect a scheme's funding level. Effective governance, good contingency plans, and defence manuals will help you remain focused on protecting members' benefits, even when the unexpected happens.

### STAGE 1 CREATE PROCESSES THAT REACT QUICKLY TO THE UNEXPECTED

#### ESTABLISH CONTINGENCY PLANS & DEFENCE MANUAL

A single document setting out how to respond to unforeseen events, whether they originate from your scheme or sponsor, can reduce valuable decision-making and negotiation time.

- What scenarios might the scheme need to prepare for?
- Do you need to take expert advice?
- Do you need to engage The Pensions Regulator?

#### Unexpected Event

#### FINE-TUNE YOUR GOVERNANCE STRUCTURE

Being able to respond to a new situation in an agile way requires good governance.

- Does your scheme have the ability to consider an unexpected event carefully and in a timely way?
- Can trustees, sponsors, and their advisors flex and respond as needed?
- Does your corporate or trustee board have the knowledge it needs to make confident decisions, or is additional support or training needed?

#### EXECUTE YOUR FIRST RESPONSE

Consult your contingency plan & defence manual to gauge next steps.

- What advisors need to be engaged?
- What member communications are required?
- Will The Pensions Regulator need to be notified or engaged with?

#### ASSESS COVENANT IMPACT

Following a shock, it is key to establish whether the capacity of your sponsor to support your scheme's risks and to make contributions has changed.

- Has there been material economic or legal covenant detriment?
- Can the new covenant structure support your scheme's risks as set out in your agreed journey plan?
- How is future affordability of your sponsor affected?

### STAGE 2 HOW DOES AN UNEXPECTED EVENT IMPACT YOUR JOURNEY PLAN?

#### DETERMINE SCHEME IMPACT

Following an asset or liability shock the new funding level needs to be established.

- How does this setback compare against your journey plan?
- Does your investment strategy remain appropriate, or should it be adjusted to reflect the new circumstances?
- Has scheme maturity been impacted?

#### GETTING BACK ON TRACK

Taken together, what do changes to your covenant and scheme mean for your journey plan?

- Do you need to revisit the balance between covenant support and investment risk set at your last valuation?
- Are additional contributions or security required?
- Should your investment strategy and risk profile change? If you are ahead of target, should you de-risk or keep your foot on the pedal?
- Should you amend your end-game or long-term funding target?
- How does the event impact your scheme's categorisation in The Pensions Regulator's 2019 Annual Funding Statement?
- Are there greater doubts about the viability of scheme and sponsor?

Continued...

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STAGE 3  
GETTING BACK ON TRACK

PREPARE YOUR NEGOTIATION STRATEGY

Further negotiations between the trustees and the sponsor may be required following a shock event.

- The starting point for these discussions should be your agreed contingency plan & defence manual, including any pre-agreed actions.
- Does your scheme understand its negotiation strengths and weaknesses?
- Seek expert advice to ensure a win-win strategy is agreed – remind yourself that it is usually in both the trustees' and the sponsor's interest to help the scheme along its journey.
- Consider involving The Pensions Regulator, for example where Clearance is required.
- How could your covenant support be augmented to better suit the new circumstances?
- What options are available in the event of an impasse?

IMPLEMENT ADJUSTMENTS

Once agreed, any revisions to the covenant support structure, contributions profile, or investment strategy should be implemented swiftly.

- Ensure legally binding documentation is put in place.
- Alter the monitoring schedule and contingency plans to reflect new circumstances.
- Communicate any changes to members.

Covenant Augmentation Implemented

Investment Risk Right-Sized

What next?