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XPS Express for Employers

Bringing you the latest pensions news for employers

Actions for employers with 2019/20 funding valuations

At a glance

The Pensions Regulator (TPR) recently published its 2020 Funding Statement, which provides guidance for schemes undertaking funding valuations now

TPR is not allowing schemes to delay their effective valuation date due to COVID-19, but does suggest agreement of assumptions can be delayed until more clarity emerges

Scenario analysis is encouraged to help understand the different ways the economy may recover and impact on funding

TPR stresses the importance of employers and trustees working together to reach reasonable outcomes

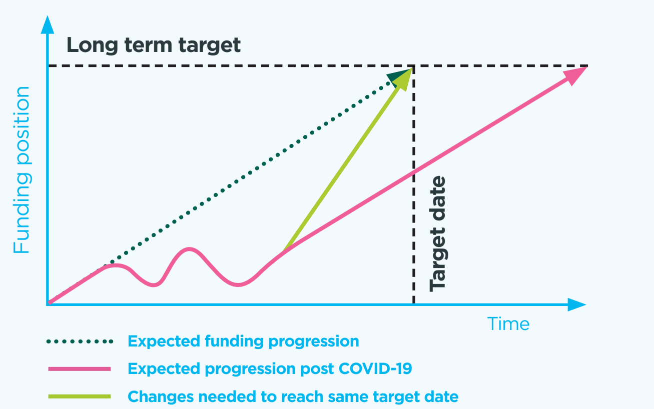
Employers should expect to be asked by trustees about long term funding targets and potential action if the scheme is off-track

Potential scenarios to consider

Scenario	Impact for schemes
Quick recovery: Financial stimulus successfully re-ignites the economy.	• Gilt yields recover reducing liability values • Asset valuations recover • Schemes largely back on track
Global depression: Widespread insolvencies and economic stagnation.	• Inflation rises, increasing liability values • Asset valuations fall • Schemes may need additional support
Demographic impact: 2020 mortality affected by COVID-19.	• Short-term funding gain for some schemes • Speed of economic recovery impacts future longevity

Getting back on track

Many schemes will be behind on their journey to a long term target due to COVID 19. Employers should consider all options available to get back on track, including extending the target date and using contingent support.



Source: XPS analysis.

Actions employers can take

1. **Prepare for upcoming valuations by clearly working out what you can afford. Consider options for contingent support and contributions linked to your business contingency plans.**
2. **Review how the scheme would react to different economic and demographic recovery scenarios.**
3. **Be prepared for more frequent and more detailed covenant monitoring by scheme trustees and set up ways to give them regular information efficiently.**
4. **Check whether your scheme is on track to achieve its long term objective within the target timeframe, and what actions you might take if not.**

Options for managing schemes' journeys

Trustees may ask that some of the following options are considered:

Contingent deficit contributions	Monitor and mitigate risk
e.g. based on scheme's funding level or linked to corporate performance.	e.g. risk management exercises, more frequent monitoring of risks.

Provide non-cash support	Manage covenant leakage
e.g. parent guarantees, fixed or floating charge on company assets.	e.g. dividend share, negative pledges.

Actions for schemes undertaking their valuation now

Schemes **close to completing a valuation**	No requirement to take COVID-19 post valuation experience in assumptions used, but should consider it in recovery plans and employer affordability
Valuation dates **around December 2019**	Should consider taking COVID-19 post valuation experience on assets, liabilities and employer covenant.
Valuation dates **around March 2020**	TPR will challenge schemes that change their valuation date. Consider delaying decisions on assumptions until more clarity emerges.

For further information, please get in touch with Vicky Mullins or Alex Miller or speak to your usual XPS Pensions contact.

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