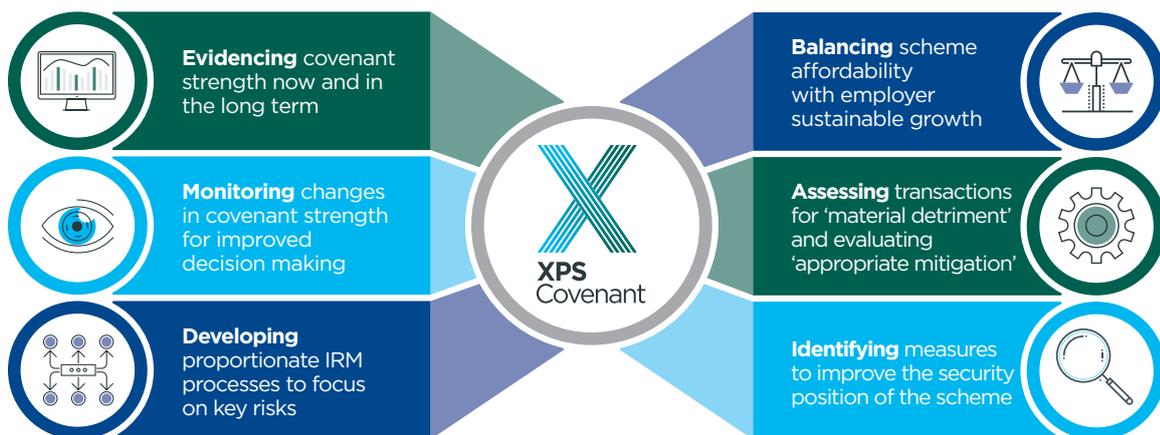


## Proportionate integrated covenant advice for pension scheme trustees and sponsoring employers

Following numerous high profile business failures, the Government and The Pensions Regulator (TPR) are making the biggest changes to defined benefit pension scheme funding since TPR was formed in 2005. Current economic uncertainties, TPR's anticipated new funding code of practice and recent guidance make it more important than ever to obtain and monitor clear insight into the strength of the employer covenant.

Our approach is designed to integrate with key decisions on funding and investment strategy. This includes reflecting emerging requirements of the new funding code of practice and new regulator powers. We have significant insight from the wider XPS pension and investment advisory business and are able to independently apply those insights, working together with your existing actuarial and investment advisers.

### XPS Covenant – Our approach is designed to integrate with key decisions on funding and investment strategy.



The XPS Covenant Team provided comprehensive professional advice with regards to the impact of a restructuring on the strength of the company covenant and also mitigating actions. This advice played a key role in allowing the Trustee reach a successful conclusion to the satisfaction of both the trustee and the company.

Chair of Trustee – £600m+ pension scheme, overseas listed parent

# How we have helped our clients

## Triennial review for a £600m turnover sponsor of a £300m asset scheme

Advised the trustees of a UK based subsidiary with an overseas parent. We quickly understood the transfer pricing issues and where the strength lay in the global group.

As a result of a weakening UK covenant we assisted the trustees in gaining additional security for the scheme by way of a parent guarantee.

We also advised on increasing the parental guarantee at a later date after further covenant deterioration.

## Monitoring for a £80m turnover sponsor of a £60m asset scheme

Provided quarterly covenant monitoring to the trustee which was invaluable in tracking the financial impact of COVID-19 and evidencing ongoing strength of covenant.

Regular monitoring enabled efficient and effective discussions as part of the triennial valuation discussions with the sponsoring employer.

## Transaction review for a £50m turnover sponsor of a £230m asset scheme

Advised the trustees of three schemes with the same UK sponsor which was part of a global engineering group. The wider group had emerged from Chapter 11 insolvency proceedings in the US, with a restructured balance sheet and reduced debt profile.

We analysed the effect of this on both the direct and indirect employer covenant, including the relative security position of the schemes as unsecured creditors.

## Funding test review for a flexible apportionment arrangement (FAA)

As a result of a participating employer exiting a multi-employer pension scheme, we advised the trustees on the transfer of the pension liabilities to another participating employer by way of an FAA to prevent a section 75 debt from becoming due.

We advised the trustees on the funding test requirements, and helped negotiate a support mitigation package that resulted in an enhanced employer covenant for the pension scheme.

**The XPS covenant team quickly understood the critical issues for the sponsoring employer and the impact of COVID-19, and also assisted the trustees with options to strengthen the scheme's position. Their report was key to progressing and completing our actuarial valuation in a timely manner.**

**Ian Forrest** – Chair of Trustee of The Royal Shakespeare Theatre Pension Scheme

**The covenant reviews produced by XPS have been key in assessing risk within an overall integrated risk management framework and, more importantly, helped to significantly improve member security.**

**Professional independent trustee**

## About us

XPS has a national team of dedicated covenant specialists across the UK, based in four locations. We have delivered over 400 covenant reviews for trustee and corporate clients with scheme assets from £5m to £1bn. We pride ourselves in our ability to scale our offering to provide bespoke, pragmatic, proportionate advice to all clients.

For further information, please get in touch with **Elen Watson** or speak to your usual XPS Pensions contact.



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All registered at: Phoenix House, 1 Station Hill, Reading RG1 1NB.

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This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.