

XPS Express for Employers

Bringing you the latest pensions news for employers

Employers are increasingly making use of contingent support



At a glance

A recent XPS survey shows nearly 1 in 4 pension schemes are using some form of contingent support

A third have been implemented within the last few years and adoption of contingent contribution frameworks has doubled

This increase is due to the financial pressures of the pandemic and the upcoming changes to funding rules, as employers look for alternative ways to support their schemes

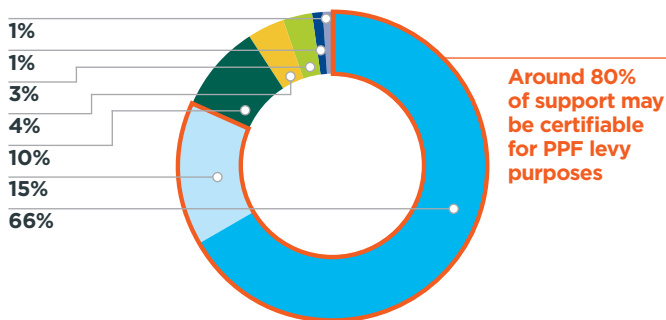
At the same time, the costs and time to implement such solutions have been reducing, with a range of viable options available to schemes of all sizes

Contingent support has helped to reduce contribution requirements by up to 35% and/or enable schemes to sustain higher returns on their investments

Contingent support also helped reduce Pension Protection Fund (PPF) levies

Type of contingent support in place

The most common forms of support are guarantees (66%), charges over assets (15%) and contingent contributions (10%).



Guarantees (e.g. parent company or bank)	Asset backed funding
Charge over assets	Escrow account
Contingent contributions	Negative pledge
	Information sharing

Source: XPS Pensions Group survey



Impact, cost and governance

Whilst these factors vary in each case, a broad comparison between the different types is set out below.

Type	Impact	Costs	Governance
Guarantees			
Charge over assets			
Contingent contributions			
Asset backed funding			
Escrow account			
Negative pledge			
Information sharing			

- Low impact or high costs/governance requirements
- Medium impact/costs/governance requirements
- High impact or low costs/governance requirements

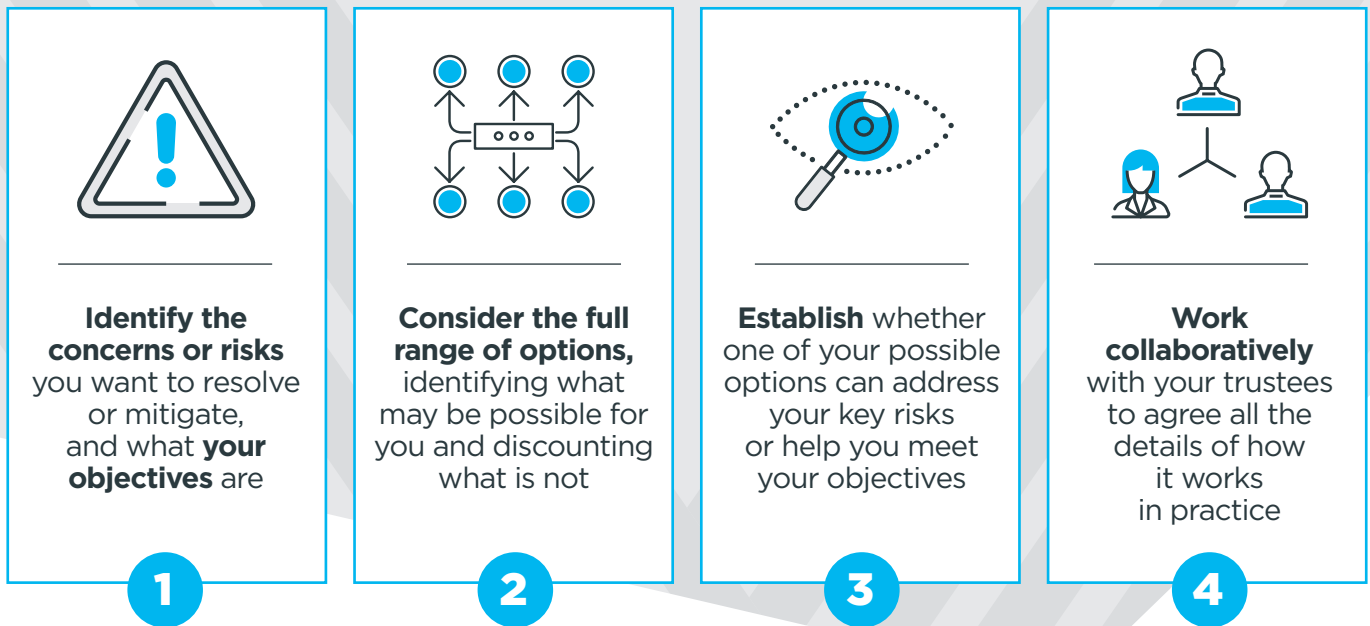


Actions employers can take

1. Assess how contingent support can help you meet your objectives, especially in light of the new funding rules.
2. Consider the full range of contingent support options and which are most appropriate for you.
3. Engage with your trustees early on to ensure the support works for both parties.
4. Investigate whether the use of contingent support could reduce your PPF levy.



How to use contingent support in practice



Different types of support with examples

Contingent asset from employer group	Contingent contributions	Extending/ changing employer covenant	Alternative financing and funding arrangements	Third party support	Engagement/ control/oversight mechanisms
Parent company guarantee	Contributions linked to profit	Add participating employer to scheme	Asset backed funding	Bank guarantee	Negative pledges
Fixed charge over assets, e.g. property	Contingent funding framework	Capital injection from another group company	Issuing bonds	Surety bond	Regular sharing of information and key metrics

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