



DB scheme funding and investment: COVID-19 guidance for trustees

This guidance will help trustees of defined benefit (DB) pension schemes to deal with issues that have arisen during the COVID-19 situation. These include dealing with requests to suspend or reduce contributions and making difficult decisions.

This guidance supplements our [Annual Funding Statement](https://www.thepensionsregulator.gov.uk/en/document-library/statements/annual-funding-statement-2020) (<https://www.thepensionsregulator.gov.uk/en/document-library/statements/annual-funding-statement-2020>) published on 30 April 2020.

We appreciate this guidance cannot cover the whole range of issues that trustees are facing. This guidance is designed to support them as they face unusual challenges but does not supersede trustees' fiduciary duties, their obligations under the scheme rules, or the legislation. We are not authorising, encouraging or compelling a particular outcome - we simply expect trustees to do the right thing for their situation and members. This guidance highlights some good practice ideas and outlines our current response to legislative breaches or trustee actions.

Published: 27 March 2020.

Updated: 16 June 2020.

Major rewrite to consolidate previously published guidance, provide an update of our view of the impact of COVID-19, explain how we will continue to adapt our regulatory approach and to provide guidance for trustees dealing with difficult decisions.

Our monitoring of the landscape

Since publishing the original guidance we have been monitoring how trustees and employers have reacted to the economic impact of the last few months. There continue to be a wide range of impacts on funding positions and employer covenants.

Informed by the feedback we received from employers, trustees and advisers, we have consolidated our existing guidance where relevant and provided additional guidance on some of the practical challenges that trustees and employers face. We continue to monitor

the situation but do not anticipate further updates unless circumstances change significantly.

Suspending or reducing contributions

The current landscape

Our evidence suggests that only a small proportion of employers have asked to suspend or reduce contributions (deficit repair contributions (DRCs) or future service payments). We believe that around 10% of schemes have agreed a temporary suspension or reduction of DRCs so far. However, we understand that more trustees and employers are in the process of discussing possible requests to suspend or reduce contributions. Extensions to existing suspensions could also still be needed in the near future as some employers continue to experience significant trading and liquidity pressures.

Furthermore, given the timing of the start of business restrictions and closures due to the pandemic, employer loan and banking covenant tests at 31 March 2020 are unlikely to have been adversely affected. However, 30 June 2020 and future covenant tests may have been significantly impacted. This could result in funders seeking increased protections from employers and lead to further requests of trustees.

We expect that for many schemes there is now greater understanding of the employer financial position including short-term affordability. Discussions with lenders and other creditors are likely to have progressed and employers are now more likely to have financial projections as part of an updated business plan which reflects their view of the likely impacts of COVID-19 (albeit based on a range of scenarios). As such, many trustees should be able to review in more detail the business case for a new or continuing suspension or reduction of contributions to ensure it is appropriate and the scheme is being treated equitably.

Requests to suspend or reduce payments for future service should be treated in a similar way as requests to reduce or suspend DRCs. Trustees should consider whether to take legal advice in these circumstances.

What we expect now

DRC suspensions or reductions may continue to remain appropriate. However, in view of the improved visibility of employers' financial situations, we do not expect trustees to unquestioningly extend their original suspension arrangements on a three-month rolling basis based on limited information and for this to become the new normal. Instead, we now expect that most trustees will be able to undertake due diligence on the employer's financial position before agreeing a new suspension or reduction.

Employer covenant: due diligence

There is a distinction between visibility over short-term liquidity/affordability and visibility over the broader covenant in the medium to long term. Trustees need to decide whether

there is genuine and possibly temporary uncertainty or if there has been a material deterioration in the employer covenant.

If there is good evidence that the covenant has materially worsened and is not expected to recover in a reasonably short timeframe, trustees should consider whether it would be in the best interests of members to update the scheme's funding arrangements (eg calling a new actuarial valuation and/or revising the recovery plan) to more accurately reflect the sponsoring employer's position.

We expect trustees to be open to reasonable requests from the employer, but to make an informed assessment of whether it is in members' best interests to agree, even if a request is part of a larger co-ordinated request across other stakeholders that may appear equitable.

Where a suspension or reduction in contributions is necessary and appropriate (for example, the employer has an immediate or demonstrable cashflow need for the foregone contributions), trustees should seek protections and other mitigations. These may, for example, include the following:

- All dividends and other forms of shareholder distribution to stop throughout the period of suspension and not to start again until the deferred or suspended contributions have been paid.
- Where contributions have been suspended or reduced, trustees should agree arrangements for contributions to start again or increase based on appropriate triggers. For example, when access to liquidity above a certain level is restored.
- Equitable treatment of the pension scheme compared to other creditors remains a key consideration when accessing increased liquidity. Trustees should ensure the scheme is not unfairly prejudiced by other creditors being inappropriately repaid in priority. They should agree appropriate legally enforceable protections.
- Where a suspension or reduction of contributions is agreed as part of a refinancing or other amendment process from lenders or significant creditors, trustees should fully understand the terms and conditions, costs and enhancements. If possible they should try to seek the same recourse and access to security/valuable assets, for example, with the deferred sums being given the same protections as the new money lending.
- Enhanced monitoring of the employer's and (if applicable) wider corporate group's trading and liquidity position will likely be required over the short to medium term. Therefore, as part of any agreement to concessions, trustees should ensure they will continue to receive appropriate and regular forward looking and actual financial information to identify changes in circumstances of the employer and the position of its funders.
- Where possible, we expect reduced or suspended contributions to be repaid within the current recovery plan timeframe and the recovery plan not to be lengthened unless there is sufficiently reliable covenant visibility available to suggest otherwise. There are

different mechanisms for deferring contributions. We expect trustees to take legal and actuarial advice on this as the consequences and impact will be different for each scheme.

If there is little or no information available

There may be some employers where short-term visibility remains extremely limited and it will be difficult for the employer to provide information required by trustees to make an informed decision. If trustees are satisfied that there is uncertainty and a lack of information, a further short-term suspension of contributions may be appropriate provided that trustees are confident and can explain how the suspension would not be a breach of their fiduciary duties. In particular, trustees need to consider whether the contribution suspension may result in a write-down of scheme assets if the employer is unable to repay them or it would reduce recovery if the employer becomes insolvent.

This should be undertaken alongside other financial creditors agreeing concessions to support the employer. Agreeing to concessions outside of a co-ordinated support package risks leaving trustees without negotiating power if other creditors seek enhanced protections (eg security or preferential access to future cashflows) in exchange for concessions. For example, where lenders seek enhanced protections for breach of covenant tests which would weaken the scheme's position if the trustees were not actively involved in negotiations alongside the financial creditors.

In the absence of covenant and liquidity visibility in the short term we expect trustees to:

- agree only short-term concessions until there is more reliable visibility
- make sure that the less confidence they have of getting access to timely and relevant financial information, the shorter the reduction or suspension should be
- consider carefully how appropriate a suspension is if the contributions due in the proposed suspension period are substantial (eg where a one-off, large, single payment is due or where contributions are paid annually and the next one happens to fall in the suspension period)

Reminder of legal obligations

Even though we are issuing this guidance, it doesn't override trustees' and employers' existing legal obligations. Therefore, if trustees and employers agree to amend their funding arrangements, any new valuations, amended recovery plans and schedules of contributions are to be completed and submitted to us in accordance with the legislation and the [funding defined benefits code of practice](#)

(<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-3-funding-defined-benefits->)

Distressed employers

The impact of COVID-19 and the measures taken to contain it have been swift and severe. The impact on trade, liquidity and debt burden of employers has been varied from those experiencing limited adverse impacts to those that have seen significant deterioration in corporate health. Some employers have been placed in insolvency proceedings. Uncertainty is expected to continue which heightens the need for trustees to understand the corporate health of their scheme's sponsoring employer. We expect trustees will need to enhance the level of covenant monitoring over the short to medium term.

Engaging with the employer will continue to be complicated by the many new demands on their time.

COVID-19 questions for covenant monitoring and contingency planning

The following questions should help trustees understand risks to the scheme's sponsoring employers and assist in covenant monitoring.

- How will the impact of the virus and the measures to contain it affect:
 - demand for the employer's products
 - cashflow - employers should be preparing 13-week cashflows where there is a significant impact on cashflow
 - debt burden
- What are the assumptions and scenarios used to prepare forecasts or projections?
- What financial information is being provided to other key stakeholders?
- Are there any key payment dates in the short term that will affect the business (eg rent quarter dates)?
- Are there any restrictions on using available borrowing?
- When will the banking covenants next be tested and are they or future tests 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?

Trustees should consider the likely significance of the impact on the scheme in line with our guidance on [integrated risk management](https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/integrated-risk-management) (<https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/integrated-risk-management>)

. This should include considering whether contingent assets or other protections may be available to support the scheme, particularly if these are being sought by other creditors or concessions are being sought from the scheme.

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

Requests to release security

Where employers ask trustees to release security, there is the possibility that if the employer fails to recover, the scheme will have lost access to a potentially valuable asset. It is very unlikely that security release is in members' best interests. Therefore, we expect trustees to carefully consider such a request and obtain full legal and financial advice from specialist advisers.

We expect trustees to be provided with a business plan and forecasts detailing why the request is being made so they can assess the prospects of success to determine whether such action is in the best interests of members. Before agreeing to such requests, trustees should fully understand how relinquishing security would affect the covenant and understand what requests are being made of other secured creditors. Schemes should be treated equitably with other creditors and we do not expect such requests to be limited to them. If possible, trustees should obtain some sort of alternative security or mitigation from the employer.

If trustees have any concerns, they should contact us at customersupport@tpr.gov.uk (<mailto:customersupport@tpr.gov.uk>)

Valuations due to be finalised

We recognise that trustees currently finalising their valuations may still need more time to complete them. The valuation assumptions may have been set under very different conditions than those prevailing today, both in terms of financial markets and the employer covenant. We do not necessarily expect trustees to revisit these assumptions, although some trustees may be advised that it is in the best interests of their members to do so.

For many schemes the current funding position, calculated using consistent assumptions as for the valuation, will be significantly worse and the deficit materially larger. We will not require trustees to allow for relevant experience since the effective date of the valuation in their recovery plan. However, we do expect trustees to consider whether the post-valuation experience is relevant when agreeing the recovery plan in the context that the employer's affordability may now be constrained.

Some trustees may decide that it is in the best interest of their members to take more time to consider the scheme and employer's current situation rather than submit a valuation and associated documents which may need to be renegotiated soon. Our preference is for the

best outcome to be reached for the scheme, rather than one agreed under pressure simply to meet the deadline.

Scheme investments

Pension funds generally have long-term investment horizons and many schemes and employers will have the ability to trade through the current challenging market conditions. Our evidence suggests that there has been a broad range of impacts on scheme funding positions, depending on the scheme's pre-COVID asset allocation, the degree of hedging and trustee risk management and contingency planning. Over the last few months, we have seen high-levels of volatility in investment markets and, as a result, funding positions of many schemes.

Nevertheless, there are some significant short-term risks for all schemes. There are also some significant medium to longer-term risks for schemes both in terms of the uncertainty around economic outlook and investment returns and, for many schemes, the employer's longer-term prospects. Trustees should review the impact on their scheme's investments if they have not done so already and be ready to undertake a further review if the situation changes. Trustees should review with their advisers and consider the following:

- Their expected scheme cash outflows over the short to medium term and where they expect those cash outflows to be met from.
- How their expected scheme cash outflows and inflows might vary. For example, in times of economic stress, member movements (eg retirements, early retirements, transfers and, where funded, death benefits) may increase the requirement for cash. In addition, some trustees may be asked to reduce or suspend expected DRC payments for a period to help with their short-term business cashflows, which could reduce an expected source of cash.
- The investment strategy and investment mandate rebalancing requirements they currently have in place. In some instances, trustees may feel it is appropriate to suspend or refine these requirements.
- The degree of diversification and the extent of any concentrations of risk in specific investments or sectors they currently have through their investment arrangements or investment mandates. In some instances, trustees may feel it is appropriate to consider making changes in relation to certain exposures (or levels of exposures) to specific investments or sectors.
- The appropriateness of the derivative positions and structures they hold, and their collateral management arrangements.
- The extent of their exposures to certain counterparties.
- The timing of any pre-agreed asset transitions, incremental strategy changes or de-risking milestones.

- The terms of reference for any subcommittees to ensure they can continue to function in the event of trustee incapacity or absence. This might include a review of quorate and sign-off/signature requirements.
- The schedule of delegated responsibilities to ensure activities can be carried out in the event of trustee incapacity or absence, for example where the chair of the investment subcommittee or trustee board is required to authorise disinvestments of certain levels.
- Where trustees have serious concerns about the ability of the employer to trade, they should consider whether any investment and risk management actions are needed to help protect their members' benefits.
- Their current integrated risk management policy and monitoring framework.
- Their current investment and risk governance arrangements. Trustees may feel an alternative governance structure might be more appropriate, for example to enable investment and risk management decisions to be made more quickly.

Trustees should also consider that market dislocations can present opportunities. They should consider with their advisers how they might evolve their investment strategies or arrangements at an appropriate time. Some of these opportunities may involve:

- value enhancing investment opportunities
- value preservation activities, for example through proactive management of deteriorating risks
- where funding levels permit, risk transfer opportunities through buy-in or buy-out activities

Dealing with difficult decisions

These can be very difficult times for both trustees and employers. Trustees sometimes have to make decisions where there is no obvious right answer or guaranteed outcome, but they have to exercise their judgement as best they can.

Sometimes it can be in the best interests of members to allow the employer some commercial and financial breathing space. However, trustees need to understand how their decision will support the employer and consequently the covenant supporting the scheme, and weigh that against the potential risks to the scheme. In doing so they should, where possible, seek appropriate protections for the scheme.

Conflicting priorities

Managing conflicts continues to be one of the foundations of good trustee decision-making. It is particularly important when facing a challenging situation. Trustees should remind themselves of our [conflicts of interest guidance](https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/conflicts-of-interest)

(<https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/conflicts-of-interest>)

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Value of focused advice

We don't recommend that trustees take professional advice for every decision they make. Trustees can make many of their day-to-day decisions without advice. However, in some situations, particularly where trustees have difficult decisions to make and the decision is material for the scheme or employer, taking advice is the right thing to do.

Professional advice can highlight options or problems that the trustees may not be aware of and, by supporting good decision-making, can help save money in the longer run. It can also protect the trustees from claims of a breach of trust.

Trustees may need to seek advice beyond their usual advisers. For instance, independent advice need not be limited to just covenant, but to understanding the scheme's position in refinancing, restructuring and insolvency scenarios.

Trustees and employers may be concerned about the costs of advice, particularly when the employer is suffering cashflow problems. It may be sensible for trustees to check whether their trust deed and rules allows for expenses to be paid from scheme assets, even if the employer usually pays. If the governing documents do not provide for expenses to be paid from assets, the employer and trustees may wish to consider whether it would be in members' best interests to amend the documents to permit it.

Trustees can manage costs by being proportionate and targeted on key issues and prioritising essential projects. Trustees may decide it is appropriate to obtain targeted real time advice, such as verbal advice backed up by short (email) written advice, rather than to commission detailed reports.

Information sharing

We acknowledge the challenging circumstances and uncertainties faced by many employers. However, it is important that they [provide trustees with the information they need](#)

(<https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/trustee-guidance/#5c915b72b3d6427dbb0656ab196932f3>)

(or at least whatever can reasonably be provided) in a timely manner as per their legal obligations. Equally, trustees should be open with the employer. This will facilitate appropriate and swift decision-making which will benefit the employer and the scheme members.

A seat at the table

If there are competing stakeholders, such as in refinancing or restructuring situations, trustees may find it difficult to ensure their interests are properly addressed. We recommend that trustees in this position take advice (including legal advice) on their negotiation options. They may have more leverage than they realise. For instance, the trust deed and rules may contain a strong contribution power or trustees could commission a new actuarial valuation.

Good decision-making

Trustees may be worried about not having enough information at their disposal or making the 'wrong' decision. Some may be reluctant to engage with employers about contribution suspensions.

We recognise the challenging position many trustees find themselves in. Nevertheless, we expect trustees in these circumstances to do the best they can and follow due process. Trustees facing difficult decisions should be aware that if hindsight proves that they made the 'wrong' call, they will be able to defend their decision if they have:

- obtained as much relevant information as they reasonably could
- ignored irrelevant considerations and taken into account only the relevant factors
- taken professional advice where appropriate
- acted in accordance with the provisions of the trust deed
- made the decision in good faith

Trustees also need to keep full records of the decision-making and how they reached their conclusions.

DB transfers

We expect trustees to be able to report any breaches of their transfer obligations from 1 July 2020. We will continue to take a pragmatic approach to breaches caused by COVID-19 issues.

COVID-19 may cause two problems for trustees of DB schemes:

- calculating cash equivalent transfer values (CETVs) may take more time as trustees may wish to revisit the basis upon which they are calculated
- some schemes may see an increased demand for CETVs at the same time as facing shortages of administrative staff

If COVID-19 presents these issues for trustees, they may consider taking advantage of the existing flexibility in the legislation which provides for additional time (up to three months) to issue CETV quotations for reasons outside their control. Trustees should get advice before taking a decision to delay. Find out how to [apply to us for more time to complete a transfer request](#)

(<https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/db-to-dc-transfers-and-conversions#a1adbea91b154389b27ddad5d6c59998>)

COVID-19 may see savers rush into decisions about their pensions. We don't want them to rush decisions which they may later regret, or worse still become the victim of scammers.

If a member asks for a CETV quotation, you should send them a [letter with their valuation \(PDF, 2 pages, 171kb\)](#)

(<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/cetv-members-letter.ashx>)

warning them such a move may not be in their best interests and urging them to think carefully. The transfer letter, signed by The Pensions Regulator, the Money and Pensions Service and Financial Conduct Authority also shows how savers can be [ScamSmart](https://www.fca.org.uk/scamsmart) (<https://www.fca.org.uk/scamsmart>) and highlights where they can get support.

Read more about [communicating with members when they request a transfer or to access benefits](https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/communicating-to-members-during-covid-19)

(<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/communicating-to-members-during-covid-19>)

Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme provides essential support for workers and employers at the current time. It also supports an employer's ability to make pension contributions. Find more information about the [Coronavirus Job Retention Scheme](https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/automatic-enrolment-and-pension-contributions-covid-19-guidance-for-employers#eff1fd251ecc4af1b8827cadba8c57d4) (<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/automatic-enrolment-and-pension-contributions-covid-19-guidance-for-employers#eff1fd251ecc4af1b8827cadba8c57d4>)

and what this means for employer pension responsibilities.

What you can expect from us

Evidence to date indicates that the current scheme-specific funding regime is flexible enough to cope with the impact of a severe economic downturn. However, we appreciate that schemes will be affected to a larger or lesser extent depending on their circumstances, and some may face significant challenges.

We recognise that trustees may, through no fault of their own, breach some of their legislative requirements. We expect trustees to report such breaches to us in line with their legal duty to report. Trustees should report with the confidence that we will continue to regulate in a reasonable way. [Read about reporting duties and enforcement activity during COVID-19](https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/covid-19-an-update-on-reporting-duties-and-enforcement-activity)

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The Pensions Ombudsman has confirmed it will take into account our guidance on COVID-19 issues if it receives complaints about delays caused by COVID-19 circumstances. [Read The Pensions Ombudsman statement on COVID-19](https://www.pensions-ombudsman.org.uk/coronavirus-covid-19-update)

(<https://www.pensions-ombudsman.org.uk/coronavirus-covid-19-update>)

Our regulatory approach

We believe it is important that we have visibility about how COVID-19 is affecting our regulated community and compliance. Therefore, we will expect trustees, wherever possible, to comply with their reporting requirements from 1 July 2020. We will continue to regulate pragmatically and sympathetically.

Suspension or reduction of contributions

We cannot waive any obligation for trustees to report agreements to suspend or reduce contributions. Depending on the method used to suspend contributions, we will expect either a:

- revised recovery plan to be submitted with an explanation of the reasons for change and revised schedule of contributions
- report of missed contributions explaining the reasons why and how the trustees intend to resolve the breach as it is likely to be of material significance to us in the exercise of our functions: we expect trustees to communicate to members about late payments in line with our [code of practice on reporting late payment of contributions](https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-5-reporting-late-payment-of-contributions-to-occupational-pension-schemes) (<https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-5-reporting-late-payment-of-contributions-to-occupational-pension-schemes>)

In addition to providing a short explanation for the change and the contribution suspension, we encourage trustees to provide further information when submitting the above. For example:

- confirming what advice the trustees have sought
- whether they have received sufficient information
- the timescales for repaying missed or deferred contributions
- whether mitigations have been obtained
- details of how the trustees have ensured that the scheme is being treated equitably

We may ask more questions to understand the context for the agreed suspension and how the guidance has been applied.

We will take a practical approach to late reporting breaches caused by COVID-19 issues, provided that they are reported to us within three months of the breach.

Ongoing valuations and recovery plans not agreed

We cannot waive trustees' obligation to provide us with a copy of the recovery plan within 15 months of the valuation date. However, we will continue to take a reasonable approach to late submission caused by COVID-19 issues. We will support trustees if they cannot agree a valuation for valid reasons.

Schemes in relationship-managed supervision

Many relationship-managed schemes will have already spoken with their named supervisor. In light of the current exceptional events, we have refocused our relationship-managed supervisory activity, focusing more on near-term risks rather than the standard activities in our supervisory cycle. We will continue to speak to trustees and employers of relationship-managed schemes to better understand their position and the risks and issues that have arisen.

Please continue to contact your named supervisor to discuss any issues.

Other schemes

Our event and rapid response supervision teams will lead for those schemes who are not in relationship-managed supervision. We will continue to take a risk-based approach in our supervisory activity, reviewing and assessing incoming requests against a range of risk indicators.

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