

# EMPLOYER COVENANT



## IDENTIFYING, CALIBRATING AND MONITORING THE SCHEME'S MOST IMPORTANT ASSET

### THE TEAM

Our team helped to shape the UK pension regulatory framework at inception. This experience is reflected in our approach and we continue to be at the forefront of developing new solutions. We can draw on our experience from a variety of different clients to identify the right strategy for you; should this require groundbreaking solutions, we have the credentials and expertise to achieve this.

### THE EMPLOYER COVENANT

Our Employer Covenant framework is based on the Pensions Regulator's guidance and focuses on:

- 1. Position:** The Employer's legal obligations to the Scheme and its financial position. Our primary metric is to consider a crash test scenario to estimate the potential recovery by the Scheme following an immediate insolvency of the Employer and, if appropriate, of a Group wide insolvency.
- 2. Prospects:** The future viability of the Employer including the affordability of ongoing payments to the Scheme and the Employer's dependence on the wider Employer Group. We consider the Employer's past performance, forecasts, and business plans, including an analysis of historic and forecast profitability, cash generation and performance against budget.

- 3. Power:** The relative negotiating power of the Employer and the Trustee, and the willingness and ability of the Employer to interact with the Trustee. We consider past and proposed dealings between the parties, the powers conferred on each party under the Trust Deed and Rules, the Pensions Regulator's Moral Hazard powers, and the commercial power of the Employer.

The overall Employer Covenant Score is expressed as a weighted combination of the three individual Employer Covenant scores. The weighting attached to each will reflect the circumstances of the individual Employer (which we will calibrate with the client based on its risk appetite and experience), and will also incorporate the specific concerns of the Trustee so that, for example, different situations will result in Position, Prospects or Power being the most relevant vector to understand, monitor and improve.

**"BDO fulfilled a thorough and professional job, bottom up rigour and top down business sense. I would recommend them as advisors to other parties undergoing a similar process."**

**Jim Green, Finance Director of Burtons Foods**

THE VALUE OF THE EMPLOYER COVENANT is the Employer's legal obligations to a scheme, and its ability to meet them. It underwrites the scheme's risk to underfunding, longevity, investment and inflation.

**"BDO's Employer Covenant methodology and report gave clear, focused communication to the Trustee Board empowering them in their negotiations with the Employer."**

**Paul Picknett, Groupama UK Pension Scheme**

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## THE SERVICE

BDO's Employer Covenant assessment can be used by Trustees, Employers, shareholders, or other relevant stakeholders.

We use our Employer Covenant framework in a number of situations, including:

- **Scheme Specific Funding:** The impact of the Employer Covenant in setting investment strategy and Technical Provisions and in negotiating a Recovery Plan and Schedule of Contributions
- **Pre and Post assessment:** The impact of a corporate event on the Scheme and any mitigation proposed in respect thereof
- **Multi-Employer events:** Assessment of the funding test under a reorganisation of the Employer group via an apportionment or withdrawal arrangement
- **Regulation:** Interaction with the Pensions Regulator in respect of an application for Clearance or in requesting the assistance of the Pensions Regulator in respect of the use of its Moral Hazard powers (Contribution Notices, Financial Support Directions or the setting of Recovery Plans), including an assessment of 'detriment' and 'net benefit'
- **Mitigation and funding solutions:** We have developed a range of proprietary solutions that address both security (via the use of contingent assets and alternative finance structures) and funding (via the use of equity based structures) that can improve the Employer Covenant and the funding position of the Scheme whilst preserving maximum flexibility for the Employer
- **Restructuring:** A consideration of legal and/or funding restructuring options along our proprietary framework, the Pension Control Chevron®, including Scheme compromise with the consent of the Pension Protection Fund
- **Information platform:** Preparation of an information platform to be provided by the Employer on a regular basis to allow the Trustees to comply with the Pensions Regulator's requirement to monitor the Employer Covenant on a regular basis.

We focus on a flexible but pragmatic approach to providing you with a tailored solution for your Employer Covenant requirements.

## FOR MORE INFORMATION

For urgent matters which require an immediate response, or simply for a no obligation meeting to discuss how our Pensions Advisory team can help you, please contact your usual BDO advisers;

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If you would like to see examples of how we have provided services in this area and others please visit <http://www.bdo.co.uk/services/pensions-advisory>.

"We were facing two seemingly insurmountable pension funding obligations when we asked BDO Pension Advisory to give us a strategic solution. BDO gave us a thorough and comprehensive assessment of all the options available to us using their Pension Control Chevron framework, and guided us through the tactical maze of regulatory and trustee governance issues and hurdles. Their understanding of our business issues and opportunities as well as the dynamics of both scheme's assets and liabilities and the regulatory landscape was seamlessly integrated. BDO were key in getting MIRA to the point of being able to run an effective corporate finance process. I can highly recommend BDO to anyone facing a defined benefit scheme that is challenging their employer's prospects of growth, survival or value realisation."

Tim Nathan, CFO, Mira