



Corporate Finance Pensions Advisory *A tailored solution*



The Pensions Act 2004 and guidance issued by the Pensions Regulator has made it critical for stakeholders of defined benefit pension schemes to understand the businesses that support them. This includes assessing the strength of the employer's financial position and prospects as well as its legal obligation to fund the scheme's benefits (known as the 'Employer Covenant'), and the impact of employer or scheme events on the scheme's position.

What we do

We provide a tailored solution ensuring that our clients' specific requirements are fully identified and addressed with the focus on developing a cost efficient approach. We support our client's interest, while recognising the Employer/Trustee relationship is on-going and long term, benefiting from a pragmatic, consensual approach.

Our key services are:

- Employer Covenant Assessment for Trustees
- Employer Covenant Assessment for Employers
- Restructuring Support

How we can help

Our team harnesses the unparalleled breadth and depth of expertise from across Deloitte, encompassing:

- business review and stakeholder outcome analysis from across our restructuring services practice;
- actuarial input from Deloitte Total Reward and Benefits – from linking covenant assessment with benchmark valuation assumptions and investment strategy through to designing deficit financing and reduction solutions; and
- considering the tax efficiency of the scheme's investments and funding solutions.

Our specific broad sector expertise gives us the ability to focus rapidly on the core business and market issues facing the Employer.

Employer Covenant Assessment for Trustees

Market practice and commentary from the Regulator has created an expectation that Trustees will actively monitor the strength of the Employer Covenant. However, Trustees do not necessarily have a background in finance and where they do there may be a perception of a conflict of interests between their roles for the Company and as a Trustee, making assessing and monitoring the performance of the business a challenge.

We help Trustees to navigate this process by providing independent advice covering:

- Employer and Scheme Events
 - understanding the impact of the event on the employer covenant and the Scheme’s position;
 - considering the appropriateness, level and nature of any mitigation required; and
 - providing support through negotiations and, potentially, the TPR clearance process.
- Scheme Funding – the triennial valuation process
 - assessing the strength of the employer covenant, summarising findings in clear, straightforward terms based on our five point scale;
 - considering term and affordability of any recovery plan, including assessing or suggesting alternative mitigation solutions;
 - ensuring the risks being taken within the Scheme’s investment strategy are consistent with the strength of the covenant; and
 - support through funding and recovery plan negotiations.
- Ongoing Monitoring
 - developing a monitoring “dashboard” to simplify and improve the effectiveness of employer covenant monitoring;
 - providing regular or ad hoc update covenant reviews; and
 - designing and delivering training, for example to assist Trustees in becoming “match-fit” to respond rapidly to future events that may impact employer covenant strength.

Case Study

Retained covenant advisor to the trustees of a scheme sponsored by the UK subsidiaries of a European group with a significant funding deficit. We developed a collaborative, cost effective approach, working alongside the trustees and their other advisors. Our work in helping the trustees understand the impact on the covenant assessment of various deficit mitigation scenarios led to a significantly enhanced funding and guarantee package being negotiated with the employer.

We provided full triennial employer covenant assessments, recovery plan negotiation support and annual monitoring updates. We have also considered the impact of several corporate transactions on covenant strength and investigated the suitability of a range of additional asset support.

Employer Covenant Assessment for Employers

We believe that well-run businesses will naturally seek to ensure that their defined benefit pension obligations are met, from facilitating the triennial valuation process to considering the impact of corporate events on the Scheme. We also understand that management will want to focus on the business' key commercial issues without making unnecessary concessions to the Scheme.

We help businesses to control the pensions agenda, timetable and outcome by providing independent advice covering:

- Scheme Funding – the triennial valuation process
 - assessing the strength of the employer covenant on behalf of the Employer; summarising findings in clear, straightforward terms;
 - considering term and affordability of the recovery plan to balance the requirements of the Employer and the Trustees;
 - critiquing and providing analysis of reports produced on behalf of the Trustees;
 - liaising with the Trustees and their advisors to manage expectations and ensure appropriate information flow; and
 - supporting the Employer throughout the funding and recovery plan negotiations.
- Ongoing Monitoring
 - developing a monitoring “dashboard” to simplify and improve the effectiveness of employer covenant reporting to the Trustees; and
 - providing regular or ad hoc support and advice to the Employer to mirror the Trustees monitoring regime.
- Employer and Scheme Events
 - understanding the impact on the employer covenant and the Scheme's position of planned transactions;
 - considering the appropriateness, level and nature of any mitigation to be offered to the Trustees; and
 - supporting the Employer throughout negotiations with the Trustees and, potentially, tPR clearance process.

Case Study

We advised the purchaser of a UK listed business on the key implications of the proposed transaction on the employer covenant provided to the target's defined benefit pension scheme. We successfully identified in advance the key issues raised by the trustees, ensuring our client was fully prepared for discussions and able to complete the transaction with the support of the trustees.

Our work included reviewing the structure of the transaction, the impact of debt funding and the mitigation that was being offered to the schemes in order to mitigate the impact of the transaction.

We identified the likely trustee responses to each area and developed an appropriate mitigation plan and negotiation strategy that resulted in the trustees being able to support our client's proposition.

Restructuring Support

It is often the case that a defined benefit pension scheme is a significant or even the largest creditor when we are called in to look at a business experiencing financial distress. Considered in conjunction with the Pensions Regulator's moral hazard powers, having a strong grasp of the issues and obligations pertaining to the scheme, as well as a range of appropriate solutions, is essential for all stakeholders during a restructuring process.

We have considerable experience providing advice and support to Lenders, Employers and Trustees in a broad range of situations. Our work typically incorporates some or all of the work streams below:

- Innovative approaches to address the Scheme's deficit.
- Preparation for and support during meetings with tPR/PPF.
- Stakeholder analysis.
- Developing estimated outcome analysis to establish potential returns to different creditors in the event of insolvency.
- Assessing affordability of the scheme, funding levels and eligibility for PPF entry.

Case Study

The company had shrunk materially through divestments whilst returning to its core business. It retained a large defined benefit pension scheme that subsequently developed a significant deficit, which greatly exceeded the market value of the company. As covenant advisor to the pension trustee, our review identified that the employer was not able to fund the Scheme and its deficit over any reasonable timeframe.

A Deloitte team comprising restructuring, actuarial and M&A specialists developed a pioneering deficit for equity solvent restructuring solution which maximised value flowing to the Scheme. We facilitated negotiations with stakeholders including tPR, the PPF, UKLA and the Takeover Panel. The deficit for equity swap was a first for a UK company and allowed a solvent solution to a very complex and difficult situation.

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