

PREMIER PENSIONS MANAGEMENT

TECHNICAL UPDATE: 03/09

The Regulator's statement to sponsoring employers of DB schemes

The current turmoil in the investment markets has thrown up many challenges for trustees of pension schemes. A quick glance at equity markets shows that the FTSE-100 stood at approximately 6000 12 months ago, whereas it is currently lower than 4000. Diversification into overseas equity markets would not generally have avoided this 33% fall, as adverse market movements have been a worldwide issue which would then have been compounded by the depreciation in sterling over that period.

Pension scheme deficits are, therefore, likely to have grown over the past 12 months. But, with the UK economy officially in recession, sponsoring employers may face difficulties in paying both dividends to shareholders and contributions to pension schemes. In view of the compounding effects of falling asset prices and increasing deficits, The Pensions Regulator has issued a statement to help sponsoring employers of DB schemes in these difficult times. The Pensions Regulator also issued a statement last October in respect of the conditions in investment markets, but that statement was issued to pension scheme trustees.

The statement reassures employers that the current scheme funding regime is flexible enough to cope with an economic downturn. It restates the overriding position that the best outcome for both the scheme and the employer is a viable sponsor that is able to support the scheme. As such, it may be appropriate to renegotiate the recovery plan so that an otherwise viable employer is not pushed into insolvency.

In determining what is affordable, the employer and trustees should try to determine if the financial stresses are temporary and could be accommodated by a back-end loaded recovery plan. The Regulator has also stated that if there is to be an extension to a recovery plan's length, then trustees would normally look for alternative security, such as a contingent asset.

Two key points should be taken from the Regulator's statement:

1. The Regulator must be informed where any changes to a recovery plan are agreed between an employer and the trustees.
2. A recovery plan should not suffer in order that a company can continue to pay dividends to its shareholders.

However the restriction on paying dividends highlighted above may impact adversely on the share price.

The Regulator's statement can be found at:

<http://www.thepensionsregulator.gov.uk/pdf/StatementToEmployersFeb2009.pdf>.

If you would like to discuss any issues arising from the statement, please contact either Paul Couchman or your usual consultant.

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*This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129.
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