# CONTINGENT ASSETS: WHAT ARE YOUR OPTIONS?

**For Employers, contingent asset solutions can help make the most efficient use of company resources whilst demonstrating long-term financial support for their DB pension scheme.**

**For Trustees focusing on long-term targets, contingent asset solutions can provide protection from downside contingencies. They can also provide a much-needed saving on the PPF levy for schemes facing significant increases as a result of the pandemic.**

**Employers and Trustees should consider their options, even where the cost benefit case has not been made out in the past. Our pensions team can help you identify the solution that works for your business and supports your scheme, commercially and strategically.**

## GUARANTEES

### Company Guarantee

A guarantee from a company to the pension scheme. It improves the covenant immediately without any monetary outlay.

It can allow more flexible funding and investment strategies.

### Letter of Credit

A guarantee from a bank to pay specified amounts to the scheme upon certain trigger events such as insolvency, in return for payment of a premium by the Employer. If the trigger event occurs, the bank pays the specified amount to the scheme and then seeks to recover that amount from the Employer.

### Surety Bond

Similar to a Letter of Credit, but the guarantee is provided by an insurer rather than a bank, and they often involve larger amounts.

A key advantage over a Letter of Credit is that it doesn't affect the Employer's credit lines.

## ASSETS

### Agreement to Transfer

An agreement to transfer certain assets to the scheme on the occurrence of specified trigger events, such as a detrimental change to the sponsor covenant or scheme funding level.

### Charge over Assets

The Employer grants a charge over certain assets in favour of the pension scheme. The Employer retains day-to-day control over the assets and there is no initial monetary outlay. In the event of insolvency, the scheme ranks ahead of other creditors to the value of the charged assets.

### ABF

An Asset Backed Funding arrangement transfers an asset to a special purpose vehicle jointly owned by the Employer and Trustee, which then provides an income stream to the scheme.
It is a complex option, with relatively high set-up and ongoing costs, but it provides an immediate improvement to the scheme's funding position and certain tax advantages.

## CASH

### Contingent Funding

Under a contingent funding agreement, employer contributions are turned on or off on certain pre-agreed trigger events.

Trigger events can be covenant-related, funding-related or a mix of both.

### Escrow Account

The account is set up with a bank or escrow agent in the Employer's name. The money is ring-fenced for the pension scheme. Agreed trigger events lead to funds being transferred to either the scheme or Employer.
Can be used to provide security for contingent funding arrangements.

### Reservoir Trust

Similar to an escrow account but established as a trust. They are more complex to set up, but can provide increased investment flexibility.

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