Pensions sponsor advisory
Our highlights from 2023

Our sponsor advisory practice advises both employers and trustees on a range of issues from a scheme sponsor perspective. Our extensive employer client base covers a range of sectors including tech, manufacturing, regulated industries, retail, not for profit and government bodies. While we advise our employer clients on a broad range of pensions issues, our overarching goals are to enable our clients to proactively manage their pensions risk and to ensure pensions are not a barrier to corporate objectives.

A renewed focus on scheme surpluses

Improved funding positions saw many schemes unexpectedly reach a surplus position. While this was in the main positive news, in some cases the treatment of the surplus caused tensions between members, trustees and employers. We have advised employers on their obligations and options; eg negotiate a contribution holiday and / or use the surplus to fund ongoing DC contributions. As more schemes move to buy-out and wind up, and the Mansion House proposals to reduce the tax levy on returned surplus progress, we anticipate the focus on treatment of surplus will only increase in 2024.

Given the difficulties highlighted, employers are obviously keen to avoid trapped surpluses. In 2023, we have worked with our clients to deliver a range of solutions to achieve this:

- Group company guarantees
- Escrow accounts
- Letters of credit
- Contingent funding agreements.

Advising on scheme closures

We advised various employers on the closing of their DB pension arrangements to accrual. This has included advising on appropriate rule amendments and delivering closure through the contractual variation route when needed. In addition to the “legals” we have supported our clients with the member consultation and communication exercises and in successfully negotiating the changes with unionised work forces.

DC transfers to Master Trusts

Removing the governance, administration and cost burden of an occupational DC pension arrangement can be attractive. We are increasingly supporting employers in transferring their DC arrangements to an established Master Trust. Our extensive practical experience in this area means we can provide a streamlined approach to these transfers. Our approach helps to identify and address potential issues early in the process and deliver projects cost effectively.

Focusing on end game planning

We worked with employer clients to enable them to take a more proactive and informed approach to the end-game planning for their DB schemes. While buy-out remains the target for the majority of employers, consolidators, capital-backed journey plans and run-off are options that should at least be considered before settling on a preferred solution and a roadmap to get there. Where buy-out has been pursued, we have supported our clients through the process to ensure appropriate due diligence has been undertaken to establish scheme liabilities, identify and mitigate any residual risks and, where appropriate, advise the employer on its negotiations with scheme trustees.

Advising sponsors on risk benefits

2023 was a year in which life insurance costs fell due to market competition, medical benefit costs rose because of general inflationary increases and treatment advances, and demand grew in response to a post-Covid return and waiting list pressure. A combination of those factors have kept risk benefit advisory work buoyant, with the prospect of a stronger 2024 as new providers enter the market. In addition to those traditional benefit arrangements, we have also been engaged to advise employers on unapproved/unregistered executive pension schemes, share incentive plans and, through contacts maintained by the team, for third party insurers and administrators designing, modernising, delivering (and in two cases, withdrawing) their commercial risk benefit products.

Public Service Pension Schemes

During 2023 we worked with two different central government bodies to establish three new public service pension arrangements. We are drafting the rules for each of the schemes which will be adopted as legislation. In addition, we have advised on how benefit design issues should be addressed, how the relevant consultation and communication processes should operate and provided project management support throughout. In consolidating the rules for two of the schemes we undertook a discrimination review and provide advice on how the identified issues could be addressed.

M&A and restructuring

We supported various clients through corporate disposals, acquisitions and restructurings. We provided specialist due diligence support to identify the pension obligations being acquired including public sector and regulated industry related liabilities. We facilitated transactions by negotiating and implementing Flexible Apportionment Arrangements, and mechanisms to maintain covenant support following a disposal or restructuring, eg group guarantees and other contingent assets.

Complying with the Pension Schemes Act 2021

We provided ongoing support to clients to ensure corporate activity waas not caught by new statutory provisions. Dividend payments, re-financing, mergers and acquisitions and restructurings are all potential triggers for intervention by TPR under the PSA 2021. However, if appropriate governance arrangements are put in place, complying with PSA 21 requirements should not place a significant burden on employers.

DB funding code

It is anticipated that the new DB scheme funding regulations and Code will be in place in April 2024 and effective for schemes with valuations from Autumn 2024 onwards. The new regime will require many employers to undertake a strategic review of how they support their DB pension arrangements. Affordability will be a key factor, but we also expect an increased focus on all forms of non-cash support such as group guarantees and escrow accounts.